Health: 2017–18 results of financial audits

Report 13: 2018–19

Queensland Audit Office
Better public services

Queensland Audit Office
Better public services

Your ref:
Our ref: 12066

26 February 2019

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Speaker

Report to parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Health: 2017–18 results of financial audits (Report 13: 2018–19).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

Brendan Worrall
Auditor-General

Contents

Summary

This report summarises our financial audit results of entities in the Queensland public health sector.

This includes entities within the Minister for Health and Minister for Ambulance Services' portfolio of responsibility, being:

- the Department of Health (DoH) and 16 hospital and health services (HHSs) (referred to collectively in this report as Queensland Health entities)
- three health statutory bodies and their controlled entities
- 12 hospital foundations.

We also provide summaries of the results of other audits performed for the Queensland Health entities.

Appendix B lists the Queensland public health sector entities and their responsibilities.

Results of our audits

We issued unmodified audit opinions for all Queensland public health sector entities' financial statements. In doing so, we confirm that readers can rely on the audited financial statements. All audits were completed within legislative timeframes.

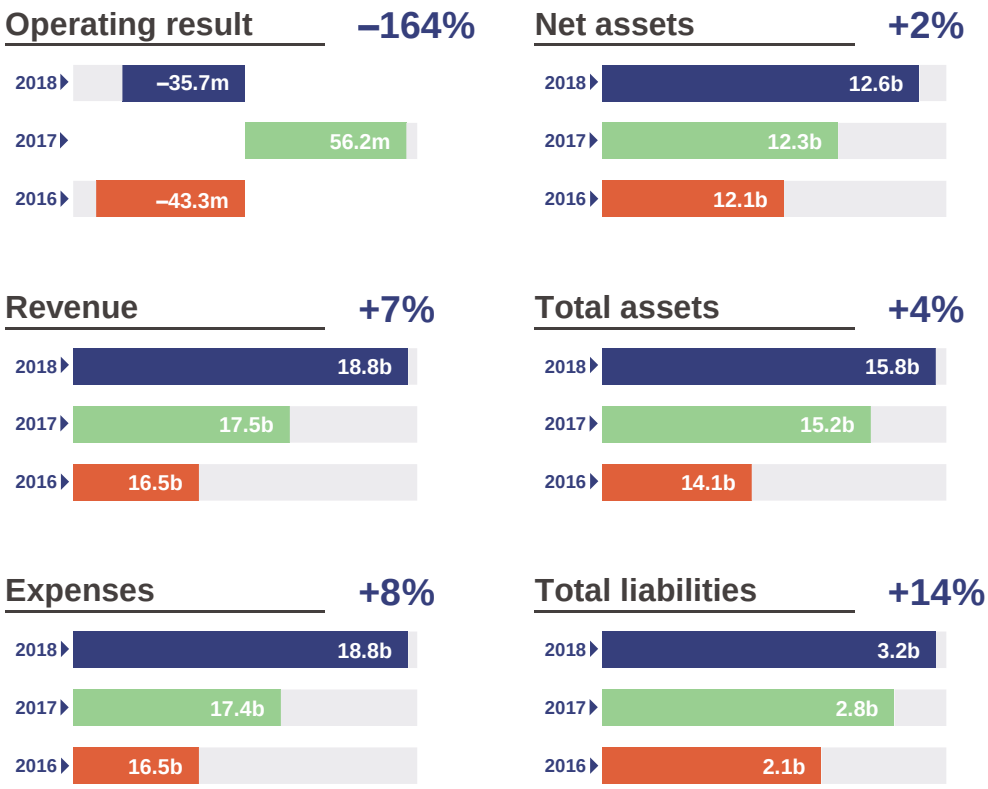
For Queensland Health entities (the DoH and the HHSs only), we evaluated the processes that support accurate and timely preparation of draft financial statements. We found that they have improved the timeliness of year end processes and draft financial statements. We also found that, this year, fewer entities adjusted their financial statements prior to audit certification.

We express an ***unmodified opinion*** when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

We express a ***modified* opinion** when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.

Financial performance, position, and sustainability

Figure A
Queensland Health entities' financial snapshot



Source: Queensland Audit Office from Queensland Health entities' audited financial statements.

Understanding financial performance

Queensland Health entities (HHSs and DoH) achieved a collective deficit of $35.7 million in 2017–18 (2017: $56.2 million surplus), which is approximately 0.2 per cent of expenses. Compared to budget, the deficit was lower than the forecasted balanced result, but the result is net of DoH returning approximately $194.0 million to Queensland Treasury. This was primarily due to additional Australian Government funding for activity relating to prior financial years.

The collective operating result of the HHSs has declined over the last year; however, it was a better result than the budgeted deficit of $50.9 million The actual result for the HHSs was a deficit of $37.2 million (2017: $45.9 million surplus). HHSs used their retained surpluses to digitise their hospitals, fund expansion at Sunshine Coast University Hospital or deliver clinical activity. This year, HHSs delivered a 2.8 per cent growth in clinical activity.

DoH, after returning approximately $194.0 million to Queensland Treasury, achieved an actual surplus of $1.5 million against a budgeted surplus of $50.9 million.

Queensland Health entities' increase in revenue and expenses during 2017–18 was primarily driven by Queensland and Australian Government funding to deliver services. However, revenue and expenses growth was at a faster rate than the increase in activity.

Growth in expenses was primarily driven by the increase in HHSs' staff costs (seven per cent). This increase corresponded with the increase in the number of full-time equivalent employees (six per cent). Another driver of cost was depreciation expense and other expenses, which increased by 31 per cent collectively. Depreciation expense increased by 19 per cent, with half of this increase reflecting the first full year of depreciation for the Sunshine Coast University Hospital. Other expenses increased by 50 per cent, primarily due to DoH returning unspent funds to Queensland Treasury.

The growth in expenses in excess of the growth in activity cannot be sustained in the medium to long-term. Queensland Health entities will need to constrain their costs or find alternative funding sources.

Understanding financial position

Net assets for Queensland Health entities increased by $277 million (two per cent). This increase was primarily driven by the increase in the value of existing land and building assets, offset by the increase in accumulated depreciation for recently commissioned facilities.

A current risk for Queensland Health entities is the growth in backlog maintenance. Backlog maintenance currently stands at $600 million. Unless HHSs increase their expenditure on preventative maintenance, the volume of backlog maintenance will continue to grow, shortening the useful lives of assets and, in certain instances, affecting their service delivery capability.

Internal controls

This year, we identified seven significant deficiencies at Queensland Health entities. Five of these seven significant deficiencies related to information and communication controls at two HHSs—Central Queensland HHS and North West HHS.

We found that North West HHS and Central Queensland HHS did not have effective controls over the preparation of financial statements, resulting in material adjustments to their statements. Central Queensland HHS resolved two significant deficiencies raised in the prior year by implementing controls over their asset valuations.

We found that North West HHS did not manage the complex process of accounting for land and buildings effectively, and provided poor oversight of the valuation process and results.

One significant deficiency was identified at a DoH service centre where they were not reviewing one HHS's rosters. This increased the risk of inaccuracies in staff rosters. DoH have implemented corrective action to mitigate this risk.

Otherwise, we assessed the internal control systems of the remaining Queensland Health entities as effective, which meant we were able to rely on the internal control systems used to produce financial statements.

Last year, we recommended that Queensland Health entities take prompt action to address and resolve long-outstanding internal control deficiencies. This year, the number of unresolved prior year issues has reduced. This means that management is acting more promptly to address individual recommendations. Audit and risk committees are taking an active role in monitoring the resolution of internal control deficiencies.

1. Sector overview

This chapter provides a sector overview to help readers to understand the audit findings and conclusions.

This report summarises the results of our financial audits of the Department of Health (DoH) and the hospital and health services (HHSs) (referred to collectively in this report as the Queensland Health entities), as well as other health statutory bodies and hospital foundations. This year, the primary health networks are not included in this report as they are no longer public sector entities within the auditor-general's mandate.

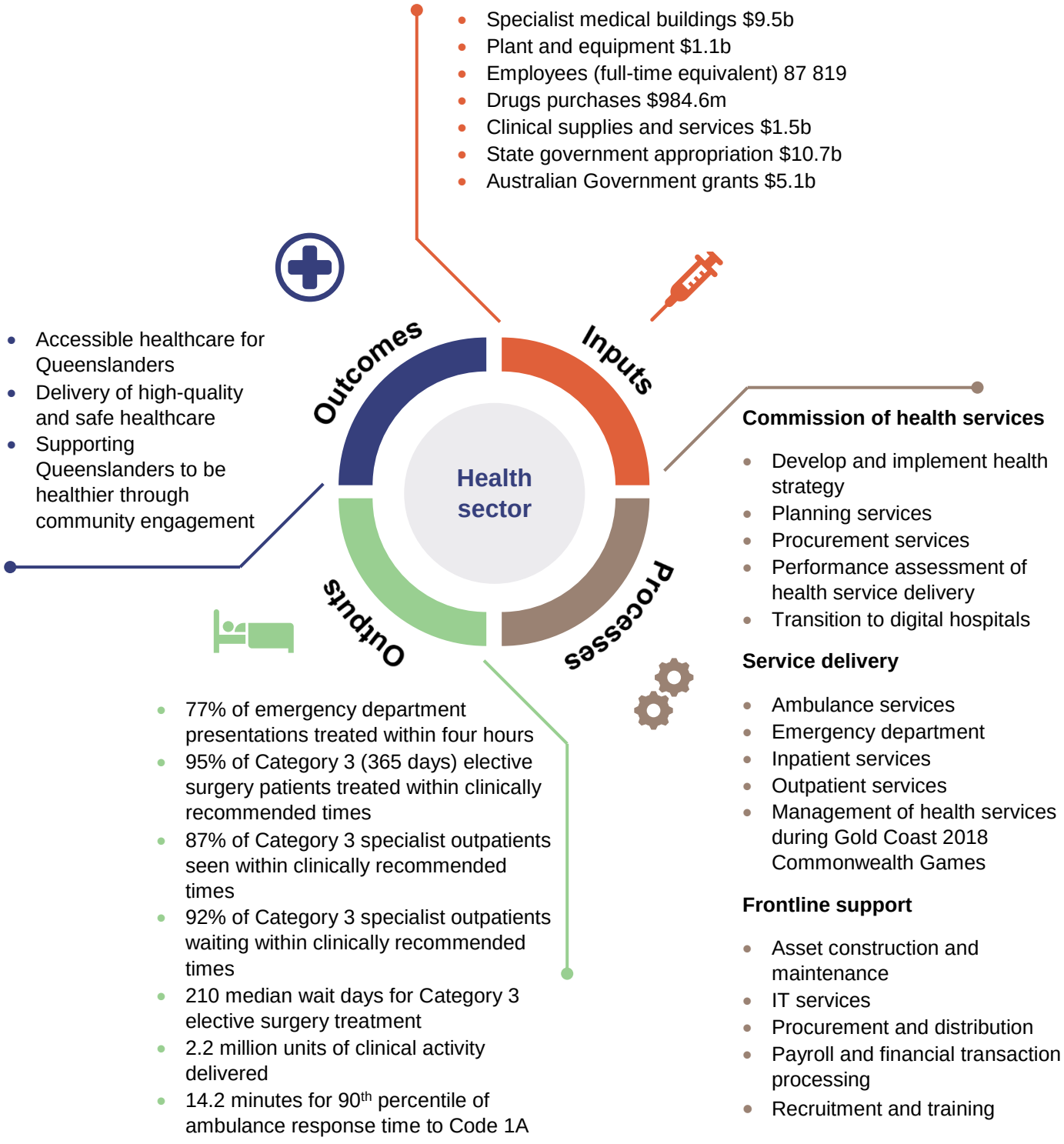
The *Hospital and Health Boards Act 2011* (HHB Act) establishes the responsibilities and functions for DoH and the HHSs. DoH is responsible for the overall management of the public health system in Queensland (the system manager). The HHSs are responsible for the delivery of public hospital and health services within a defined geographic area or area of responsibility. Each HHS has a governing board that is accountable to the Minister for Health and Minister for Ambulance Services. Appendix C shows the geographic location of each HHS.

DoH and the HHSs work together to plan, develop, and deliver health services in Queensland. DoH is responsible for setting the strategic direction of the health system, planning and delivering major infrastructure works, monitoring the performance of the health system, and purchasing public hospital and health services from the HHSs and other healthcare organisations. DoH also supports the HHSs by providing statewide services such as information systems, pathology, and ambulance services.

HHSs provide hospital and health services as set out in their service agreement with DoH. These services and their funding are negotiated annually. The service agreements also set out the key performance measures for quality, efficiency, and effectiveness, against which DoH monitors and assess HHSs' performance. These service agreements are publicly available.

The Queensland Health entities' supply chain is made up of a wide range of services and uses significant resources. Figure 1A details the main inputs, activities, outputs, and outcomes.

Figure 1A
Function level inputs, processes, activities, outputs, and outcomes

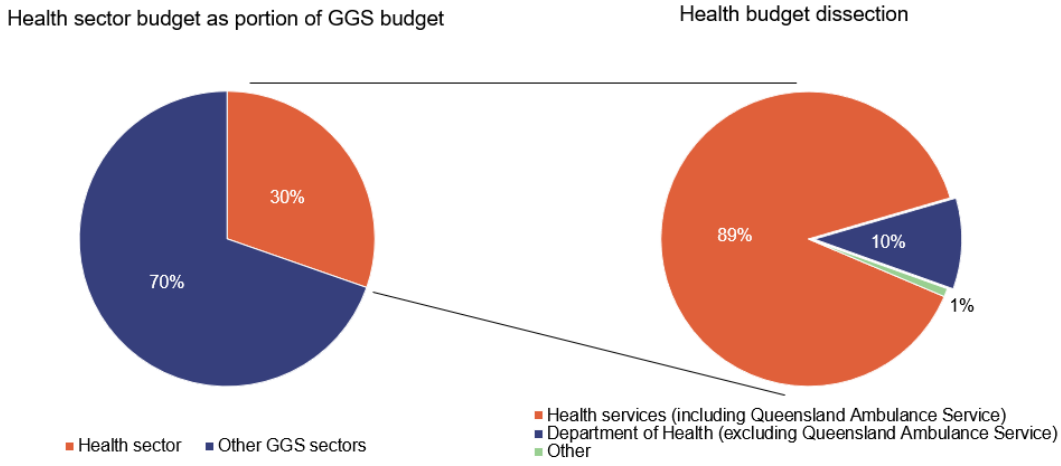


Source: Queensland Audit Office using data from a variety of sources as at 30 June 2018.

Health budget

In 2018–19, the budgeted expenses of Queensland Health entities and the three health statutory bodies (Office of the Health Ombudsman, Queensland Mental Health Commission, and The Council of the QIMR Berghofer Medical Research Institute (QIMR)) accounts for 30.4 per cent of the budgeted expenses for the Queensland Government's general government sector (GGS). Approximately $15.5 billion (or 89 per cent) of the Queensland Health entities' budget is used to fund the health services provided by HHSs, Queensland Ambulance Service, and other organisations, including Mater Health Services. Figure 1B shows the significance of the health budget to the Queensland state budget, and the split of actual health expenses between the HHSs and Queensland Ambulance Service, the DoH (excluding Queensland Ambulance Service) and other Queensland public sector health entities.

Figure 1B
Significance of health budget to the Queensland budget



Source: Queensland Government Budget Papers 2018–19.

This report primarily focuses on our audits of Queensland Health entities, as they represent 99 per cent of total sector expenses.

2. Results of our audits

This chapter delivers the audit opinion results and evaluates the timeliness and quality of reporting.

Conclusion

We issued unmodified audit opinions for the financial statements of each health sector entity. Readers can rely on the results in the financial statements. All audits were completed within the legislative timeframe.

This year, Queensland Health entities (including the Department of Health (DoH) and the hospital and health services (HHSs)) improved their year end close processes, allowing them to produce high-quality financial statements in a timely manner. More Queensland Health entities completed their asset valuations and prepared draft financial statements by the dates agreed with us. Fewer Queensland Health entities made amendments to the values reported in their draft financial statements.

Audit opinion results

This year, we issued unmodified audit opinions for all entities within the legislative timeframe. The audit opinions issued on their financial statements are listed in Appendix E.

Emphasis of matter

In 2017–18, we included an emphasis of matter paragraph with two unmodified audit opinions on general purpose financial statements to draw attention to:

***Emphasis of matter**:* a paragraph included with the audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.

- the basis of financial statement preparation for Q-Pharm Pty Ltd (Q-Pharm), which was prepared for the purpose of addressing its directors' financial accountability responsibilities. Last year, we included an emphasis of matter about the ability of Q-Pharm to continue as a going concern and its dependency on continuing support from its parent entity (QIMR Berghofer Medical Research Institute (QIMR)). This year, Q-Pharm reported an operating surplus and is likely to generate future profits from its activities, resulting in the removal of the prior year emphasis of matter.
- the de-registration and dissolution of the HIV Foundation Queensland on 15 June 2018.

Other opinions

In 2017–18, we issued opinions for other audits and assurance engagements performed in the Queensland public health sector. Other audits performed were:

- compliance engagements (which provide assurance of an entity's level of compliance with statutory or regulatory requirements)
- assurance engagements (which provide assurance over an entity's internal controls)
- grant acquittals (which audit the funding and expensing activities of a specific grant, performed as condition of the grant)
- the preparation of special purpose financial statements including:
  - National Health Funding Pool—Queensland State Pool Account, which was prepared to fulfil Queensland's reporting obligations under the *Hospital and Health Boards Act 2011* and the *National Health Reform Act 2011*
  - Sunshine Coast Health Institute, which was prepared to fulfil the reporting obligations of an unincorporated public sector entity.

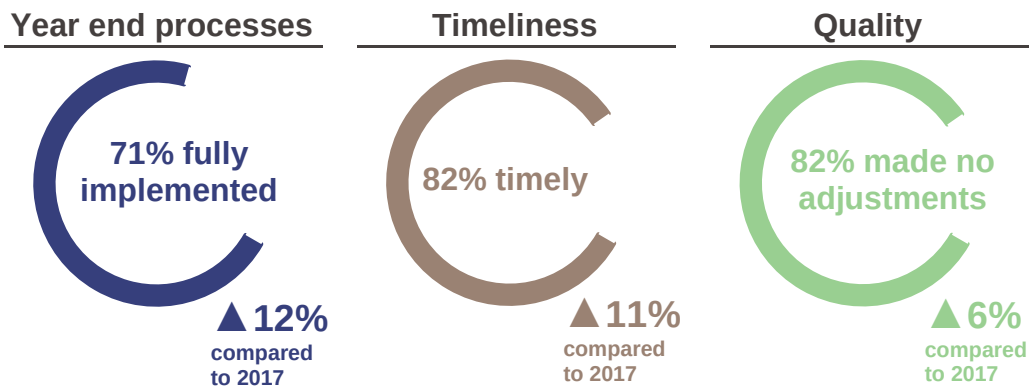
Appendix F lists these audits and the audit opinions issued for them.

During the year, three primary health networks that we had audited the previous year ceased being state public sector agencies. This was due to a change in composition of their boards and membership. Accordingly, we resigned as auditor.

Financial statement preparation

More Queensland Health entities prepared timely and high-quality financial statements this year. This improvement is attributable to effective year end close processes.

Figure 2A
Effectiveness of financial statement preparation processes



Source: Queensland Audit Office.

Appendix G includes a description of our assessment criteria and our detailed assessment of each entity.

Year end close process

Twelve of the 17 Queensland Health entities completed all year end close processes by the target date (71 per cent). This was an improvement from 10 entities in 2016–17.

Central Queensland HHS and North West HHS did not meet the asset valuations target date of 31 May 2018. The late review by management of asset valuation results contributed to the delay in preparing draft financial statements by the agreed date. Central Queensland HHS and North West HHS also made significant adjustments to their draft financial statements. One undertook a comprehensive revaluation and the other indexed existing values, demonstrating that each approach has its own risks and complexities.

We found no improvement in the year end close process of Central Queensland HHS and North West HHS as they also did not complete their asset valuations on time in 2016–17. We raised significant control deficiencies on the financial statement preparation processes for both HHSs. These are discussed in Chapter 4.

Property, plant, and equipment represents the largest single item in Queensland Health entities' balance sheets. Valuing it requires significant judgement and estimation, as there is no active market for public sector health buildings. The early completion of asset revaluations allows more time for internal and external review of valuation results and reduces the potential for management and audit committee adjustments to draft financial statements.

Timeliness and quality of draft financial statements

Meeting agreed upon deadlines for providing draft financial statements reduces the cost of preparing and auditing financial statements and allows entities to return to business-as-usual activities faster. Quality financial statements also reduce costs and improve timeliness as fewer versions are required to be prepared and audited.

This year, 14 of the 17 Queensland Health entities (82 per cent) completed draft financial statements on time, compared with 12 entities (71 per cent) in the previous year. The entities that did not meet the timeliness milestone were Central Queensland HHS, North West HHS, and Sunshine Coast HHS.

All three HHSs that did not meet their timeliness milestone also made adjustments to their financial statements, meaning these entities did not have effective processes for identifying and correcting errors in their financial statements.

No audit opinions were issued outside the legislative timeframe.

The Minister for Health and Minister for Ambulance Services granted an extension to all entities within his portfolio, except for the Department of Health, from having their annual reports tabled in parliament by their legislative deadline of 30 September.

Key audit matters

The Australian Auditing and Assurance Standards Board standard AS*A 701 Communicating Key Audit Matters in the Independent Auditor's Report* applies to the audits of listed entities. We voluntarily adopted this standard for all Queensland Health entities from the 2016–17 financial reporting year onwards.

Key audit matters include areas that, in our professional judgement, pose a higher risk of material misstatement. (A misstatement is material if it has the potential to influence the decisions made by users of the financial statements.) For the last two years, the valuation of specialised buildings was the only key audit matter for all HHSs. This is because hospital buildings are high value and their valuation at current replacement cost is complex, involving significant judgment and estimates. In our independent auditor's reports, we explained why this key audit matter was significant and the procedures we performed to address it.

Entities not preparing financial statements

Not all Queensland public health sector entities produce financial statements.

There are two small companies controlled by QIMR that meet specific criteria under the *Corporations Act 2001* and do not have to prepare financial statements. Figure D1 in Appendix D lists these entities and explains why they don't need to prepare financial statements.

Health entities exempted from audit

The auditor-general may exempt a public sector entity from audit by the auditor-general for a financial year. Exempted entities are still required to engage an appropriately qualified person to conduct an audit of their financial statements.

Nine hospital foundations were exempted from audit by the auditor-general in 2017–18, due to our initial assessment that they were small and of low risk. Appendix E provides details of the audit results.

The exemptions have expired, and we will perform the audits of all hospital foundations from the 2018–19 financial year onwards. This is consistent with a recommendation from the 2016 Strategic Review of the Queensland Audit Office.

3. Financial position, performance, and sustainability

This chapter analyses the financial position, performance, and sustainability of Queensland Health entities.

The information in an entity's financial statements describes its main transactions and economic events for the year. Over time, financial statements also help users to understand the sustainability of the Queensland public health system.

Our analysis helps users understand and use the financial statements by clarifying the financial effects of significant transactions and events in 2017–18. We also analyse relevant financial ratios to highlight organisational performance issues.

Additionally, our analysis alerts users to future challenges, including existing and emerging risks the entities face.

Conclusion

Collectively, hospital and health services (HHSs) achieved an operating result that was better than budgeted. However, the financial performance of HHSs declined in 2017–18 compared to the prior year. Seven HHSs reported operating deficits, five more than last year. This year, HHSs used retained surpluses to provide clinical activity or deliver major projects, such as digitising their hospital or transitioning towards providing full services at a new hospital.

Demand for healthcare services continues to increase. HHSs and the Mater Health Services delivered 2.8 per cent more clinical activity than last year. Revenue and expenses for delivering health services also grew, but the rate of growth, at 7.4 per cent, was higher than the rate of clinical activity growth. The increase in revenue was primarily driven by an increase in health service funding and grants for specific programs. Expense growth was primarily driven by employee expenses and depreciation expense.

This year, five HHSs—one fewer than last year—achieved an average cost per activity that was lower than the price the Department of Health (DoH) paid for the activity. This result is consistent with the decline in the financial performance of Queensland Health entities.

The increase in the value of property, plant, and equipment is driven by revaluations, not by reinvestment into maintaining and renewing facilities. Queensland Health entities have an increasing pool of fully depreciated assets across all asset classes and a large growth in backlog maintenance, now at approximately $600 million.

Queensland Health entities are preparing for four new accounting standards covering revenue from contracts with customers, income for not-for-profit entities, leases, and service concession arrangements. These new accounting standards will have varying effects on their financial reports and Queensland Health entities are at various stages of being prepared for their introduction.

Understanding financial performance

The overall 2017–18 operating result of the HHSs was a combined deficit of $37.2 million, compared with a budgeted deficit of $50.9 million (2016–17: $45.9 million surplus). The collective result including DoH was a deficit of $35.7 million (2016–17: $56.2 million surplus).

It is often not a concern if, over the short term, a HHS plans for a deficit. However, when a deficit is not planned for or is larger than planned, this indicates that the HHS may be financially stressed.

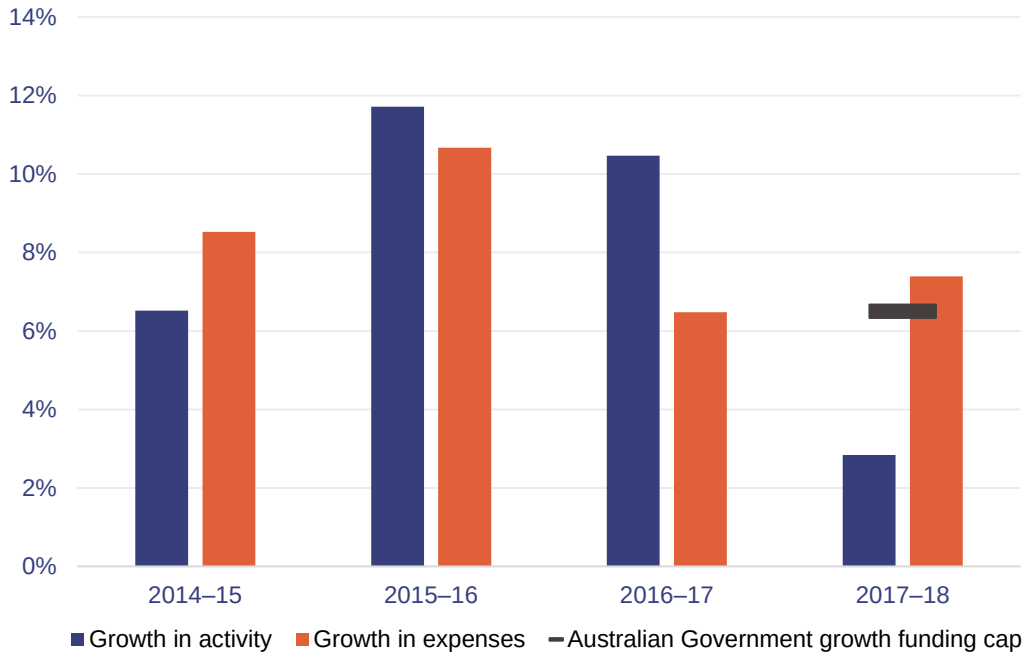
Three HHSs planned for a deficit in 2017–18 and another four had unplanned deficits. Of these seven HHSs:

- two HHSs delivered a deficit to provide clinical activity. Cairns and Hinterland HHS's actual deficit was less than planned as it was able to constrain its costs and also received increased funding from DoH.
- four HHSs used retained surpluses to deliver major projects such as establishing services at a new hospital or digitising their hospitals.
- One HHS recognised a one-off expense due to a decrease in land values.

Although the HHSs made a combined deficit, DoH, as the system manager, recorded a $1.5 million operating surplus in 2017–18 (compared to a budgeted surplus of $50.9 million). This was after returning approximately $194.0 million, primarily due to prior year activity funding, to Queensland Treasury at the end of the financial year. If this transfer had not occurred, DoH's actual surplus would have been $195.5 million.

Figure 3A shows the annual growth in clinical activity over the last four years, measured in Queensland weighted activity units (QWAU—refer to glossary) and the annual growth in HHSs' expenses. In 2017–18, HHSs and Mater Health Services delivered over 2 million QWAU—an increase of 2.8 per cent compared with the prior year. At the same time, the HHSs' expense increased by 7.4 per cent to $14.1 billion. Sunshine Coast HHS accounted for the majority of the increase in both activity and expenses, with the first full year of operation of Sunshine Coast University Hospital contributing approximately one percentage point to the overall growth in HHS expenses. From 2017–18, the Australian Government imposed a national funding cap of 6.5 per cent growth per year. HHSs will need to find other sources of revenue to meet their expenses if their activity growth exceeds this cap.

Figure 3A
HHSs' and Mater Health Services' growth in activity and expenses



Notes: Activity is measured using the applicable QWAU calculator in 2017–18—Phase Q19B. Excludes Surgery Connect activity and costs administered and funded from the Department of Health.

Source: Queensland Audit Office.

Short-term financial sustainability

We assess hospital and health services against three short-term financial sustainability measures:

- operating result, which compares revenue and expenses. Over the medium term, all HHSs should achieve a balanced position or small surplus to ensure they are sustainable and can re-invest into their services. We have also measured the number of HHS delivering better deficits than budgeted for.
- current ratio, which is the ability to pay existing short-term debts with current assets. A ratio of one or more indicates a HHS has sufficient current assets to meet its short-term debts as they fall due.
- cash available (days) ratio, which measures the number of days a HHS has cash available to cover cash outflows. The desired benchmark is greater than 14 days, in line with the fortnightly timing of funding received from DoH.

Figure 3B shows the number of hospital and health services achieving the benchmark for each of these short-term measures.

Figure 3B
Hospital and health services' short-term financial sustainability ratios

Short-term financial sustainability measures	Benchmark	Number of entities above benchmark 2018	Number of entities above benchmark 2017
Operating result	Balanced or in surplus	9	14
	Deficit equal to or less than planned deficit	1	–
Current ratio	Greater than 1	14	13
Cash available (days) ratio	Greater than 14 days	10	12

Source: Queensland Audit Office calculated from hospital and health service's audited financial statements.

The results show that the performance of hospital and health services has declined. This year, five entities met the benchmark for all three financial sustainability measures (2017: nine entities). Although these five entities performed above the financial sustainability benchmarks, we found that each entity had at least one measure that was lower compared with last year.

Three entities planned for a deficit this year (compared to one in 2016–17). Sunshine Coast HHS and Mackay HHS had a higher than planned deficit. Sunshine Coast HHS used retained surpluses in transitioning towards providing full planned services at the Sunshine Coast University Hospital, and Mackay HHS completed their digital hospital transformation project. Cairns and Hinterland HHS delivered a better result this year, achieving a deficit of $19.6 million compared with a budgeted deficit of $29.5 million. In 2018–19, Cairns and Hinterland HHS expects a deficit of $15.8 million as it continues to implement its operational sustainability plan. Two other HHSs are also planning to deliver deficits in 2018–19.

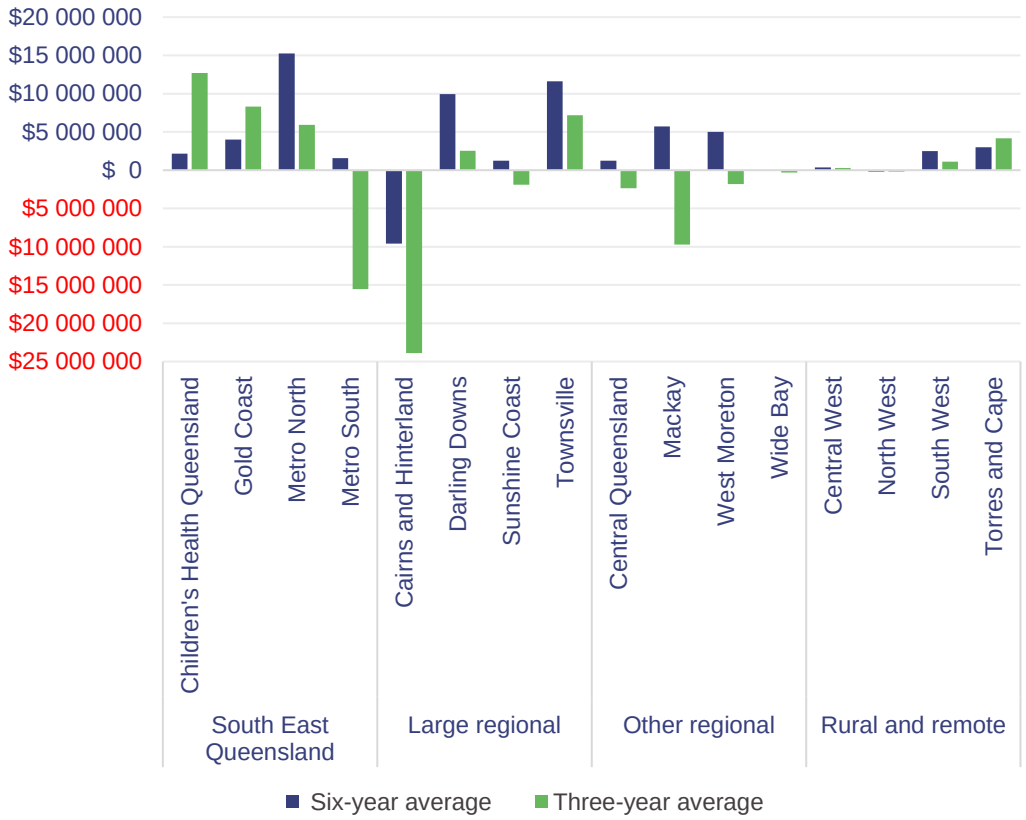
Four of the seven entities that did not achieve a balanced or surplus result this year had not planned for their deficits. The financial sustainability measures for these entities declined, with at least one measure falling below the benchmark.

Long-term financial sustainability

We assess the long-term financial sustainability of hospital and health services by calculating their operating surplus as an average over time. The operating surplus measures the amount of revenue remaining after deducting operating expenses. A positive average result indicates that an entity's revenue consistently exceeds its expenses.

Figure 3C shows hospital and health services' average operating surplus for the last six years (since their inception) and the three most recent years (2015–16 to 2017–18). The average operating surplus ratio for 13 HHSs declined in the last three years compared to the long-term average. This decline is a result of HHSs continuing to invest their surpluses in health services or in transformation projects. The use of surpluses to fund additional services or program delivery is sustainable if it occurs sparingly. However, continuing to deplete retained surpluses for operational expenses puts pressure on HHSs' long-term financial sustainability.

Figure 3C
Hospital and health services' average operating surplus



Source: Queensland Audit Office from hospital and health service's audited financial statements.

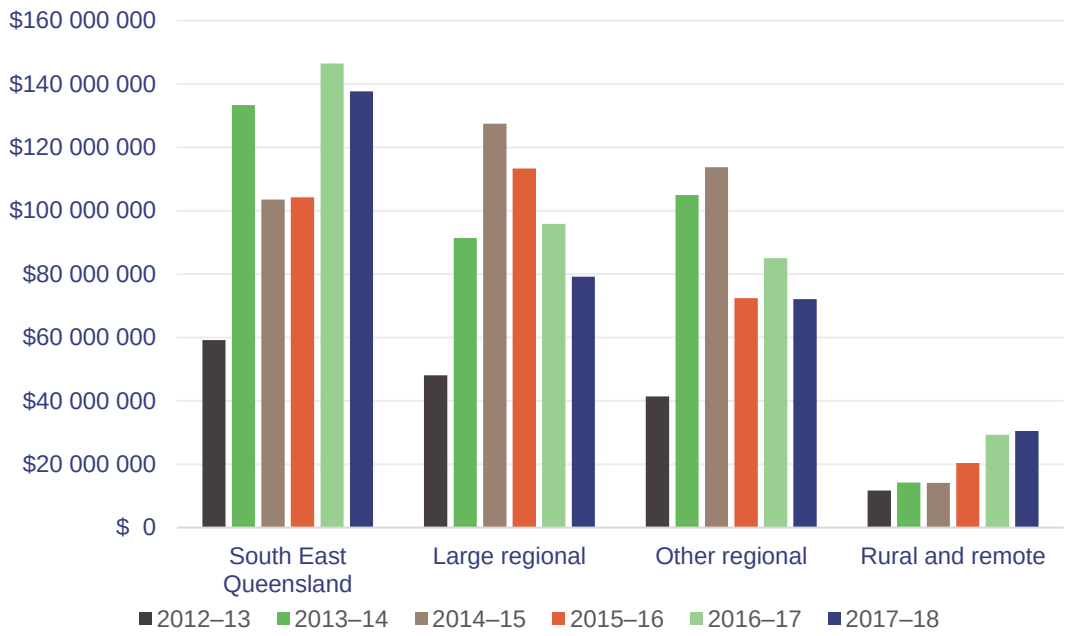
Retained surpluses

Retained surpluses are the accumulation of an entity's operating surplus or deficit at a particular point in time. Queensland Health entities reported total retained surpluses of $1.62 billion (2017: $1.65 billion). The decrease reflects the impact of the combined hospital and health services' deficit of $37.2 million discussed earlier. HHSs' share of retained surpluses is $319.4 million (2017: $356.6 million).

Figure 3D shows the six-year trend in retained surpluses for HHS regions. We found that retained surpluses for large regional HHSs declined over three consecutive years, falling by 38 per cent from their peak in 2014–15. The primary contributor is Cairns and Hinterland HHS, which had challenges constraining costs in a period of rapid growth but achieved a better than planned deficit in 2017–18.

Retained surpluses for the South East Queensland HHSs and other regional HHSs reflect a save-and-spend pattern, where the HHSs build their surpluses in some years and spend these surpluses in other years. Two HHSs, Darling Downs HHS and Mackay HHS, are planning to use a portion of their surpluses in 2018–19 on patient flow programs, digitising hospital transformation, or infrastructure repairs and maintenance.

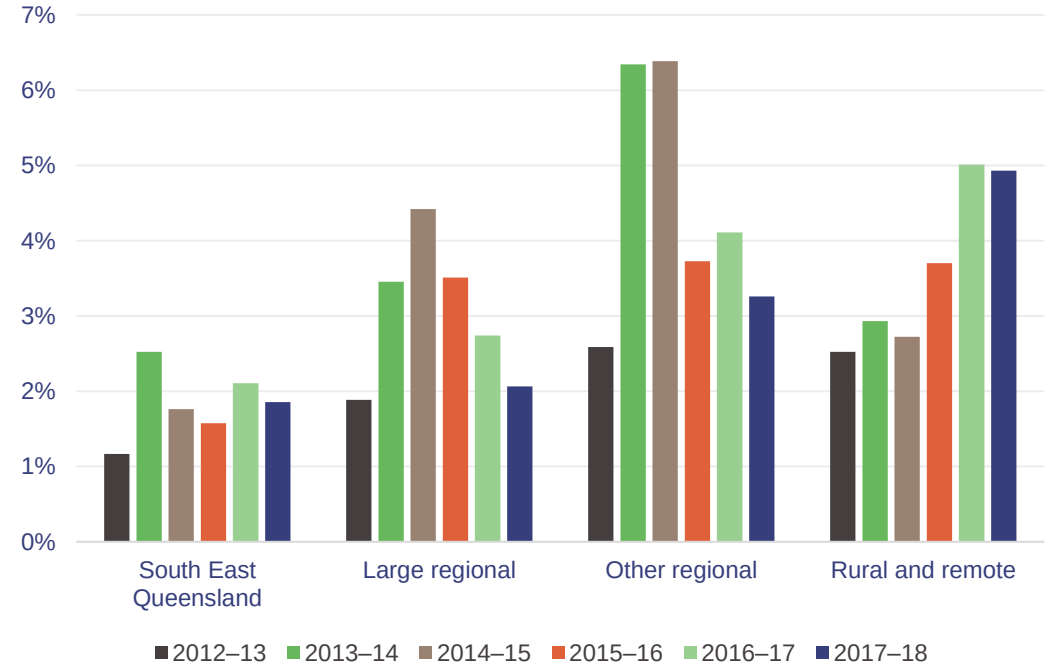
Figure 3D
Retained surpluses by HHS region



Source: Queensland Audit Office from hospital and health service's audited financial statements.

Figure 3E shows the six-year trend in the proportion of retained surpluses to total expenses for the HHS regions. This shows that while the rural and remote HHSs have the lowest retained surpluses by dollar value, they currently have the highest proportion when compared to their total expenses.

Figure 3E
Proportion of retained surpluses to total expenses by HHS region



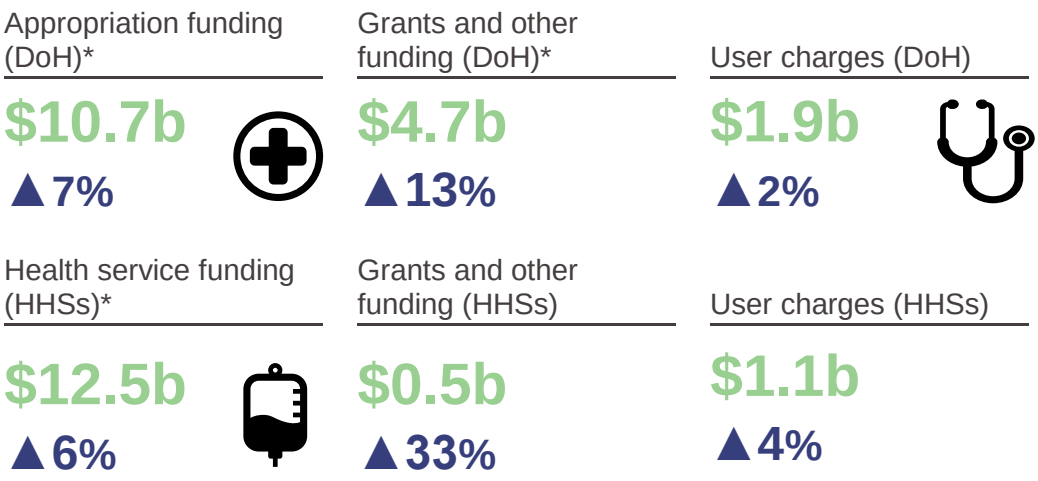
Source: Queensland Audit Office from hospital and health service's audited financial statements.

Revenue

In 2017–18, Queensland Health entities reported total revenue of $18.8 billion. This is disaggregated in Figure 3F. DoH receives most of its funding as appropriations from Queensland Treasury and grants from the Australian Government under the National Health Reform Agreement. The main revenue streams for HHSs are:

- health service funding from DoH
- user charges from patients and private health insurers, and reimbursements from the Pharmaceutical Benefits Scheme and other entities.

Figure 3F
Major revenue sources for Queensland Health entities by type in 2017–18



* Health service funding to HHSs includes a flow through from DoH of $8.4 billion of appropriation funding from the Queensland Government and $4.0 billion of grants and other funding from the Australian Government.

Source: Queensland Audit Office from Queensland Health entities' audited financial statements.

Events and transactions affecting revenue this year

The Australian Government has various agreements in place with the states and territories. This includes the National Health Reform Agreement, which governs the way public hospitals are funded and operated. The national framework for public hospital funding includes activity-based funding (ABF), block funding, teaching, training and research funding, and public health funding. The Australian Government funds efficient growth in public hospital activity.

This year, Australian Government funding increased by 15 per cent to $4.6 billion. The actual amount of growth funding accrued by DoH from the Australian Government relating to 2017–18 activity was 4.7 per cent, below the new national cap of 6.5 per cent growth funding under the National Health Reform Agreement. This year, DoH also recognised $205 million in growth funding for 2014–15 and 2015–16 activity as the Australian Government and the Queensland Government reached agreement on the amount to be paid. DoH did not previously recognise this growth funding due to uncertainty over the amount that would be paid by the Australian Government. The Queensland Government may receive additional growth funding from the Australian Government for 2016–17 and 2017–18. DoH discloses uncertain growth funding in its financial statements as an unquantified contingent asset.

Achieving activity targets

In 2017–18, DoH set a combined target of approximately 1.76 million national weighted activity units (NWAU–refer to glossary) from HHSs that receive activity-based funding and from Mater Health Services. These entities collectively delivered on that target with all entities individually achieving between 1.5 per cent above or below their target.

Future challenges and emerging risks

Queensland Health entities are acutely aware of the challenges presented by the rising demand for their services. All are looking for ways to increase capacity in public hospitals, while also improving the quality of care. Over the past five years, HHSs have collectively increased the volume of clinical activity they deliver by 34 per cent. Funding for health services has kept pace with this increase, growing by 33 per cent over the same period.

Changes in public hospital funding from the Australian Government

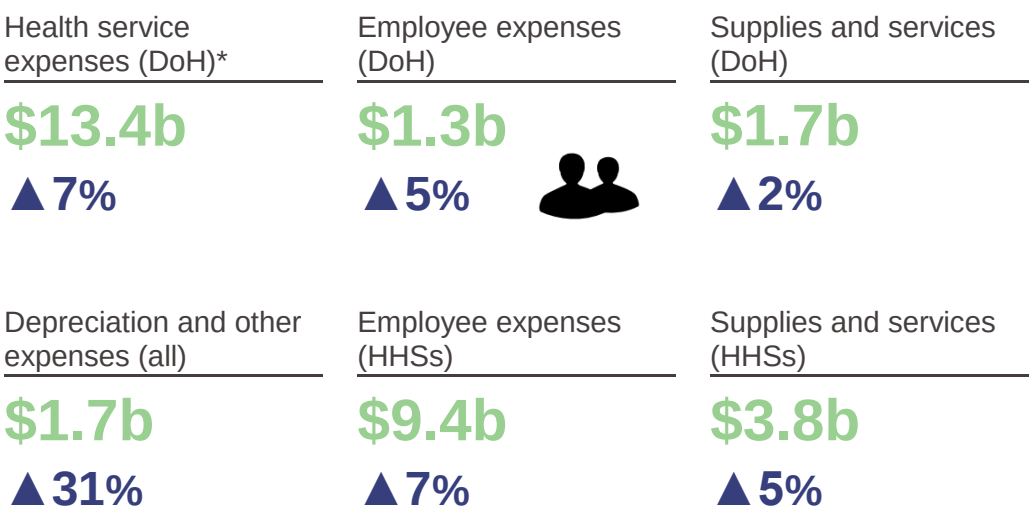
From 1 July 2017 until 30 June 2020, the Australian Government will fund 45 per cent of efficient growth in public hospitals, subject to a new national cap of 6.5 per cent growth per year. Growth above this rate may need to be funded by other means, such as reprioritising funds from existing budget allocations. This means that, from 2017–18, there is a financial disincentive to provide services to patients above 6.5 per cent in growth.

However, where the national growth in activity does not exceed 6.5 per cent, the Australian Government will proportionally redistribute the remaining available funding to high growth jurisdictions once final activity numbers for the year are known.

Expenses

In 2017–18, Queensland Health entities expended $18.8 billion purchasing goods and services and employing people to provide health services to Queenslanders. Expenses included $13.4 billion spent by DoH purchasing health services from the HHSs and other organisations.

Figure 3G
Major expenses for Queensland Health entities by type in 2017–18



* Health service expenses includes DoH payments of $12.5 billion to HHSs and $0.9 billion to other providers.

Source: Queensland Audit Office from Queensland Health entities' audited financial statements.

Events and transactions affecting expenses this year

Cost of HHS activity

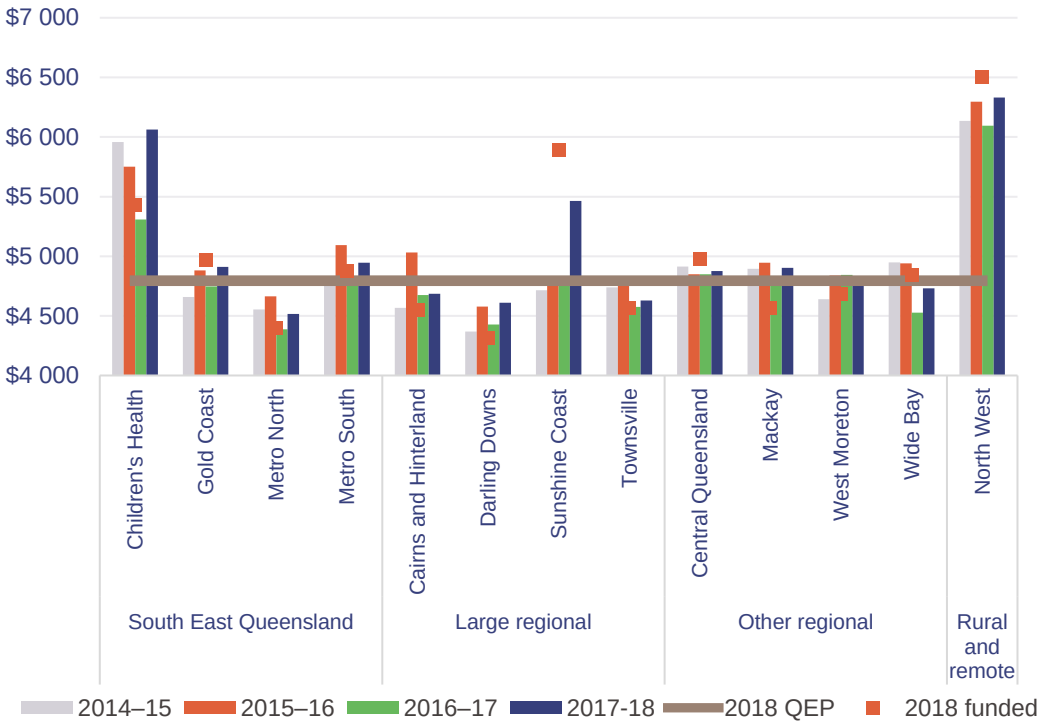
DoH measures HHSs that receive activity-based funding against the average cost of delivering one unit of clinical activity (Queensland weighted activity unit or QWAU) to determine the level of funding provided.

The Queensland efficient price (QEP) is a benchmark of the efficient cost of providing public hospital services, excluding the cost of teaching and training. The 2017–18 QEP was based on the average cost to deliver a QWAU using 2015–16 costs indexed for two years. The average cost per QWAU of an efficient HHS should be at or below the funded rate per QWAU.

Health services are funded based on the activity they deliver and how efficient they are. Funding is reviewed with service agreement renewals. Health services are not funded at the QEP as HHSs would either accumulate large surpluses or become financially unsustainable.

Figure 3H shows the actual average QWAU cost for each activity-based-funded HHS over the last four years, compared with the 2017–18 QEP and the funded rate. Eight HHSs had costs that were higher than the amount of their activity-based funding compared to seven in 2016–17. In 2017–18, the QEP was set at $4 795 per QWAU (2017: $4 755).

Figure 3H
Cost per QWAU for activity-based-funded HHSs



Note: The 2017–18 figures are based on HHS QWAU activity data compiled in October 2018 and cost data compiled in September 2018. For comparative purposes, the 2017–18 model has been applied to prior year figures.

Source: Queensland Audit Office.

In 2017–18, the cost per QWAU increased by an average of three per cent across the sector, compared with the prior year. Only one HHS, West Moreton, achieved a decrease in its cost per QWAU.

Two HHSs historically have the sector's highest average cost per activity, Children's Health Queensland HHS and North West HHS.

Children's Health Queensland HHS delivers care in a specialised paediatric hospital with increased nurse-to-patient ratios, which increases costs. This year, their cost per QWAU increased by 14.2 per cent from the prior year, primarily due to the cost of implementing the digital hospital program.

North West HHS services patients in a remote location with proportionally higher co-morbidities. These circumstances increase the cost of care, and delivering services in remote locations has a higher cost structure.

Sunshine Coast HHS's cost per QWAU increased by 13.5 per cent this year. This resulted from the expansion of costs quicker than the expansion of services at the Sunshine Coast University Hospital (which operated for a full year in 2017–18 compared with only three months in the prior year). There was a continued roll-out of services at Sunshine Coast University Hospital and the mobilisation of its digital hospital program.

Employee expenses

HHSs employed an average of 74 000 employees in 2017–18, an increase of 5.7 per cent compared with the prior year. Employee expenses represent approximately two-thirds of HHSs' total expenses. HHSs employed 82 per cent of staff in frontline positions, with the remaining 18 per cent providing operational and administrative support. Figure 3I compares the average change in employee numbers (frontline employees and total) with the change in QWAU activity between 2016–17 and 2017–18.

Figure 3I
Change in activity compared to change in employees

Source: Queensland Audit Office.

Half the HHSs show a growth in the average number of frontline and all employees that exceeds the growth in activity. Last year, we reported that Sunshine Coast HHS did not achieve growth in activity above employee growth as it brought additional employees online for the opening of the Sunshine Coast University Hospital (SCUH) in March 2017. This year, the gap between activity growth and employee growth continued because the HHS employed more staff to gradually open more services at SCUH. Staff are brought on in advance of delivering care to the public to establish the service.

During 2016–17, Darling Downs HHS discharged long-stay patients from the Baillie Henderson Hospital into community care units. This was equivalent to 16 per cent of the HHS's entire clinical activity in 2016–17. These patients are not included in activity counts in 2017–18. This gives the appearance that less activity was delivered by the HHS.

Understanding financial position

The financial position of Queensland Health entities is measured by their net assets—the difference between total assets and total liabilities. Over time, the financial position can indicate whether financial health is improving or deteriorating. As at 30 June 2018, the combined net asset position totalled $12.6 billion, which is slightly higher than the $12.3 billion reported at 30 June 2017. The increase was driven by a rise in asset values.

Queensland Health entities do not hold borrowings directly in their own names. Their liabilities are trade creditors and accrued employee benefits, and the interest-bearing liability arising from the public–private partnership arrangement for the Sunshine Coast University Hospital.

Assets

In 2017–18, Queensland Health entities reported total assets of $15.8 billion, of which 78.0 per cent is property, plant, and equipment.

Figure 3J
Total assets for Queensland Health entities by type in 2017–18

Department of Health

Land and buildings	Plant and equipment	Intangible assets	Cash and other assets*
$0.6b	$0.3b	$0.3b	$2.0b
▲19%	▼6%	▲19%	▲22%

Hospital and health services

Land and buildings	Plant and equipment	Intangible assets	Cash and other assets*
$10.3b	$0.9b	$0.05b	$1.4b
▲1%	▲4%	▲14%	▲6%

* Cash and other assets includes capital work-in-progress. Intangible assets includes software work-in-progress.

Source: Queensland Audit Office from Queensland Health entities' audited financial statements.

Events and transactions affecting assets this year

Measuring the value of assets

Queensland Health entities must ensure that the reported carrying value of the assets reflects their fair value. Queensland Health entities measure the fair value of assets in one of two ways—market value or current replacement cost. Using the market value approach, fair value is determined by what a buyer would be willing to pay for an asset. This approach is used for valuing land and non-specialised buildings such as residential properties. Current replacement cost, adjusted for obsolescence, is used to measure the fair value of specialised buildings such as hospitals, because there is no active market to buy and sell such assets.

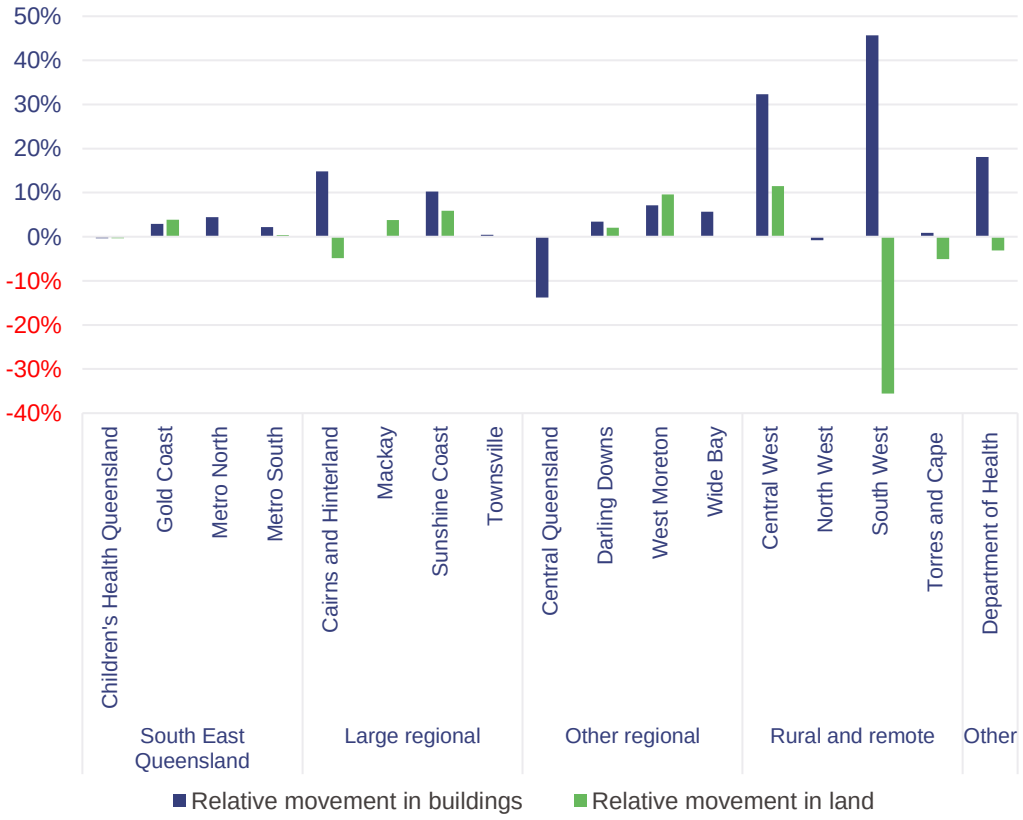
Queensland Health entities reported $1.3 billion in land at 30 June 2018, which is consistent with the prior year. The value of buildings increased by $237 million to $9.7 billion. This result was primarily driven by increases in asset valuations.

All Queensland Health entities have a revaluation policy where, over a maximum of five years, all assets are comprehensively revalued. Comprehensive revaluations require an inspection of land and buildings, including, for example, inspecting the condition of components in buildings such as lifts, air conditioners, and electrical systems. The valuation specialist also conducts market research or obtains industry-based cost data to estimate the value of land and buildings.

Assets not selected for comprehensive revaluation are revalued using market or industry indices relevant to the asset. We found that, typically, significant movements in value occur when assets are comprehensively revalued. This is because entities are not recognising yearly changes in asset values estimated using indices. This is generally due to the indices movement being assessed as immaterial.

Figure 3K shows the change in the value of land and buildings for each Queensland Health entity. This year, 14 Queensland Health entities completed comprehensive asset revaluations. Central West and South West HHSs refined their valuation methodologies in 2017–18 to better align with industry practice. This resulted in one-off, large adjustments to their building valuations. South West HHS recognised a large decrement to the value of their land due to the continued decline in mining activity and impact of droughts on agricultural land values.

Figure 3K
Relative movement in Queensland Health entities' buildings and land asset values 2017–18

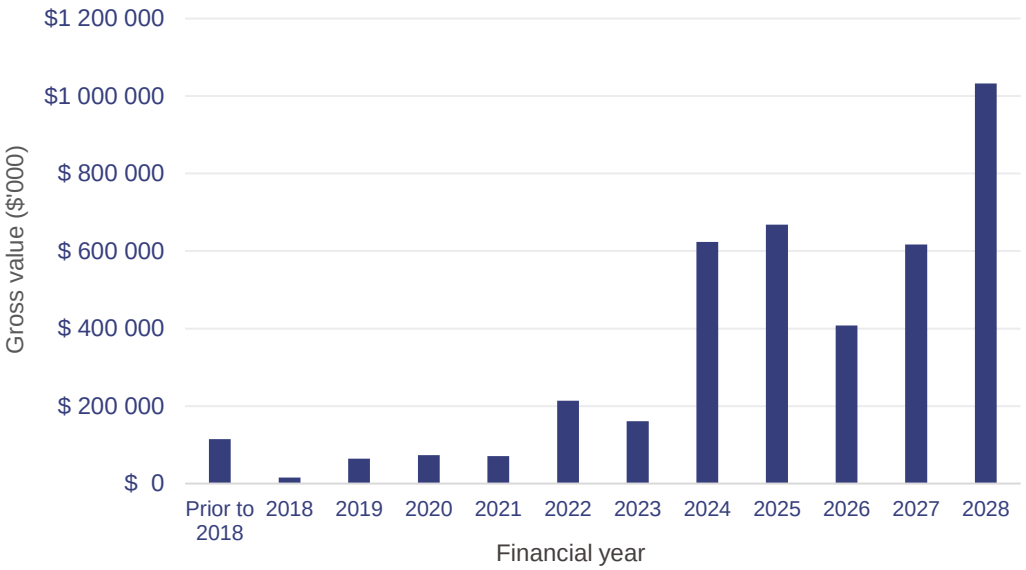


Source: Queensland Audit Office from Queensland Health entities' audited financial statements.

Maintaining buildings

Figure 3L shows that Queensland Health entities had $130 million of fully depreciated buildings in their asset registers as at 30 June 2018. Over the next 10 years, another $3.93 billion will be fully depreciated, with $850 million attributable to the Royal Brisbane and Women's Hospital in 2028. This means that the Queensland Government needs to plan for the replacement or refurbishment of these buildings to ensure the continued delivery of health services.

Figure 3L
Gross value of Queensland Health entities' buildings due to be fully depreciated to 2028

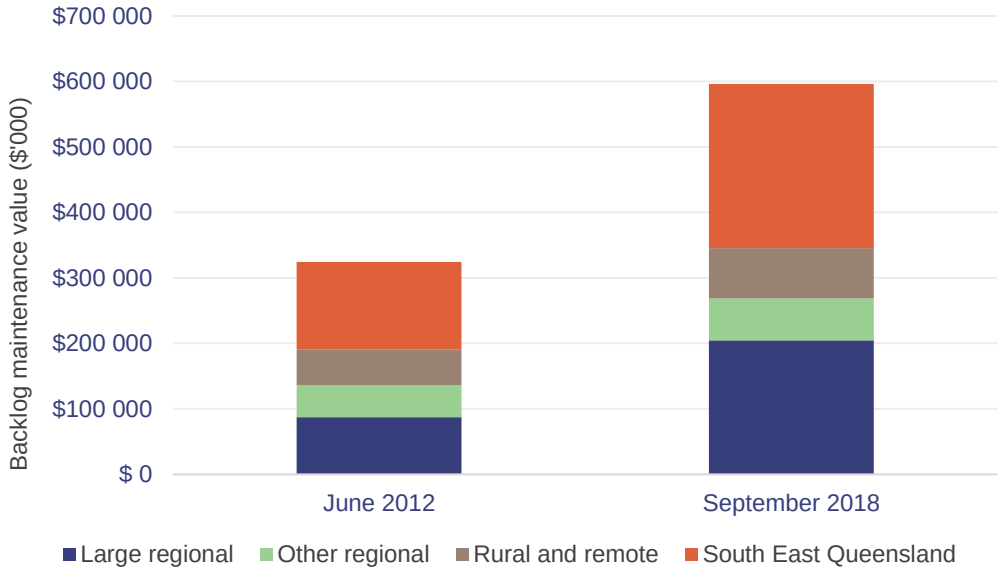


Source: Queensland Audit Office from Queensland Health entities' asset registers.

In June 2012, the Commission of Audit Interim Report identified that Queensland Health entities had a backlog maintenance liability of $324 million for buildings and infrastructure. To address this issue, the Queensland Government funded a four-year backlog maintenance remediation program that ceased in 2017.

Figure 3M shows that the current level of backlog maintenance has nearly doubled compared with the level before the backlog maintenance remediation program commenced. The most significant increases are within the large regional (134 per cent) and south east Queensland HHSs (88 per cent).

Figure 3M
HHSs' backlog maintenance



Source: Queensland Audit Office from data supplied by the Department of Health and answer to Question on Notice No. 1186.

If the HHSs do not invest in repairing and maintaining ageing infrastructure, their buildings will deteriorate at a quicker rate than planned. In certain instances, this will affect their service delivery capability. Assets deteriorating quicker than expected are an added cost to HHSs due to the increased depreciation expense, and higher reactive unplanned repair and maintenance costs.

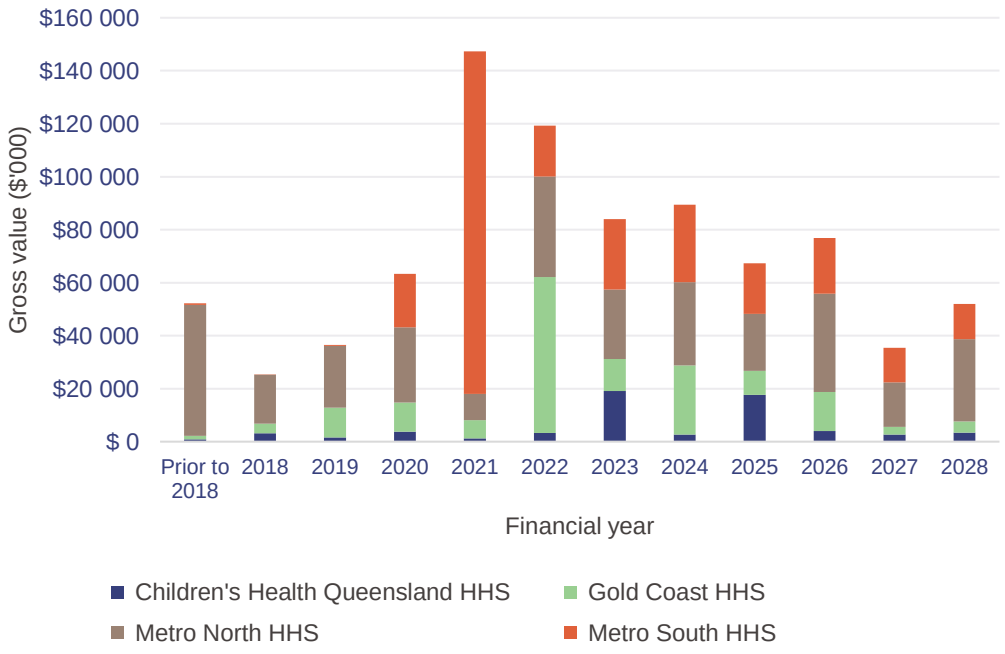
Repairs and maintenance expenditure for the HHSs has remained constant over the past three years. This means that HHSs are not spending enough on preventative maintenance and repairs to decrease their backlog maintenance.

Replacement of plant and equipment

As at 30 June 2018, the total net book value (NBV) of HHSs' plant and equipment was $0.9 billion. The most significant asset class within plant and equipment is medical equipment, which accounts for 71 per cent of the total NBV of HHSs' plant and equipment.

The total gross value of medical equipment already fully depreciated or due to be fully depreciated in the next 10 years totals $1.7 billion. Of this total value, 50 per cent is attributable to HHSs in south east Queensland, with approximately 73 per cent of this equipment held by Metro North HHS and Metro South HHS. Figure 3N shows the gross value of medical equipment to be fully depreciated over the next ten years for HHSs in South East Queensland. These HHSs have identified the investment in new or replacement equipment in their asset management plans over the next 10 years; however, government has not committed to this as it is outside the normal budget window.

Figure 3N
Gross value of South East Queensland HHSs' medical equipment due to be fully depreciated to 2028

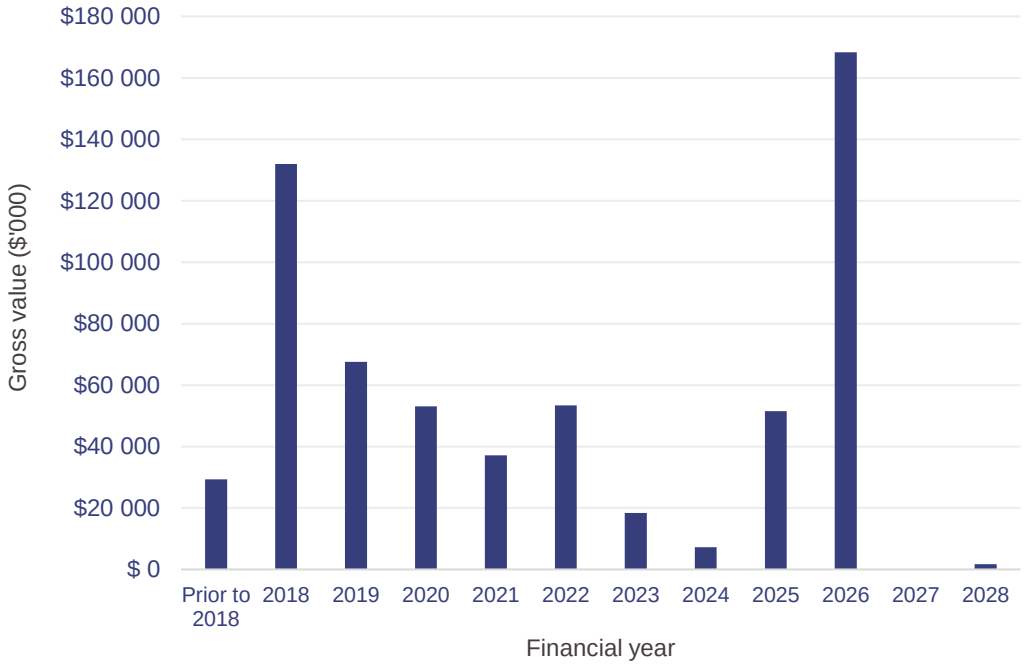


Source: Queensland Audit Office from Queensland Health entities' asset registers.

Investment in software assets

As at 30 June 2018, $161 million of Queensland Health entities' intangible assets were fully depreciated. Of these, $24 million is attributable to SAP FAMMIS (finance system) and $68 million is attributable to the patient administration system. Figure 3O shows that, over the next 10 years, another $458 million of intangible assets will be fully depreciated. The electronic medical records system (iEMR) accounts for $164 million of this value in 2026.

Figure 3O
Gross value of Queensland Health entities' intangible assets due to be fully depreciated to 2028



Source: Queensland Audit Office from Queensland Health entities' asset registers.

Payroll receivables

DoH recognises $111.4 million (gross) in loan receivables for salary overpayments and pay date loan transition arrangements. This is down from $131.5 million in the prior year, partly due to writing off $11.4 million in low-value salary overpayments during the year. This was already provided for as bad debts and did not have an impact on the DoH's financial performance. DoH has recognised an impairment allowance of $17.0 million at 30 June 2018 for payroll receivables. They are undertaking a process to recover payroll overpayment debts by working with the individuals affected.

Future challenges and emerging risks

Queensland Health entities are investing in modernising information systems and digitising hospitals to improve patient care outcomes and reduce risks. However, investment in information systems carries both financial and operational risk, including risks to patient safety. Planned benefits may not be fully realised if risks are not identified and treated.

Patient administration system replacement program

DoH operates the patient administration system for all the Queensland Health entities. This system is used to capture and manage patient, clinical, and administrative data for both admitted and non-admitted patients. The current system is over 26 years old. The department has paused the current replacement project.

Impact of new accounting standards

Queensland Health entities will adopt up to four new Australian Accounting Standards in the next few years. It is important that Queensland Health entities are ready for these new standards. Comparative information will be needed on their first-time adoption and in subsequent years.

New revenue accounting standards

From 2019–20, two new Australian accounting revenue standards will impact Queensland Health entities:

- AASB 15 *Revenue from Contracts with Customers* will affect the revenue and income of health entities. This standard is more complex and includes more judgements than the current equivalent standards.
- AASB 1058 *Income of Not-for-Profit Entities* removes the concept of reciprocal and non-reciprocal transactions and replaces it with an assessment of enforceability and performance obligations. This may lead to changes in the timing and recognition requirements of income that is not from customers.

Queensland Health entities have various sources of revenue and income. These mainly include health service funding from the Queensland and Australian Governments, fees and charges, and grants and contributions. As at 30 June 2018, 15 of the 17 Queensland Health entities have commenced their initial assessment. Work is still required to finalise accounting policy changes and updates to the financial management practice manuals. We will work with Queensland Health entities to ensure they are on track to implement the new standards.

Lease accounting

From 2019–20, the introduction of the new accounting standard AASB 16 *Leases* will introduce a single lease accounting model for lessees. This will result in almost all leases being recognised in the statement of financial position, as the distinction between operating and finance leases will be removed. Under the new standard, most leases previously not reported as assets and liabilities will be included in the future. The timing of recognition of expenses will also change.

Most HHSs had not quantified the impact of this standard in their 2017–18 financial statements and many identified their current commitments disclosed in their notes. There is a risk that this is either incomplete (due to right-to-use assets not being identified as a commitment) or overstated (due to commitments that don't meet the definition of a lease being included).

Queensland Health entities should assess their contracts for qualifying leases and determine the financial impact, including transitional provisions, by 30 April 2019 to ensure they are suitably prepared for the introduction of the standard.

Service concession arrangements

New accounting standard AASB 1059 *Service Concession Arrangement: Grantors* will introduce a new control concept to the recognition of service concession assets and related liabilities.

Some off-balance-sheet arrangements, such as car parks on HHS land, may be recognised as several-million-dollar assets and liabilities. The impact on financial statements may be significant for some Queensland Health entities.

The Australian Accounting Standards Board proposes to defer the application date of this standard for annual reporting periods beginning on or after 1 January 2020 instead of 1 January 2019. Most Queensland Health entities are yet to commence a detailed assessment of each public–private agreement.

4. Internal controls

This chapter assesses the effectiveness of the internal controls designed, implemented, and maintained by Queensland Health entities as they relate to our audit.

Through our analysis, we aim to promote stronger internal control frameworks. We also aim to mitigate financial losses and damage to public sector reputation by initiating effective responses to identified control weaknesses.

Conclusion

We concluded that the control environment was suitably designed and implemented for Queensland Health entities. Consequently, we were able to rely on their internal control systems. While we identified some weaknesses in Queensland Health entities' internal controls, these weaknesses did not affect the reliability of reported financial results.

The Department of Health (DoH) is responsible for processing the payroll and accounts payable financial transactions of the hospital and health services (HHSs), and for managing the financial information systems that HHSs use. HHSs rely on their own controls and those of DoH to minimise the risk of fraud and error in their financial statements. In assessing the effectiveness of the HHSs controls, we also consider the controls of DoH as the shared service provider.

This year, we reported five new significant internal control deficiencies, three more than last year. Two significant deficiencies related to control activities and five related to information and communication processes. Of the seven reported significant deficiencies, two resulted in material adjustments to the HHSs' draft financial statements.

Queensland Health entities made considerable effort to resolve 55 of the 82 prior year issues, with 27 (33 per cent) remaining unresolved at year end. Where internal control deficiencies are not addressed within agreed timeframes, the entities expose themselves to a higher risk of fraud or error.

Two HHSs, Children's Health Queensland HHS and Metro North HHS, had no unresolved issues at year end.

Our audit of internal controls

We assess internal controls to ensure they are suitably designed to:

- prevent, or detect and correct, material misstatements in the financial report
- achieve compliance with legislative requirements
- use public resources effectively.

Where we identify controls that we plan to rely on, we test how effectively these controls are operating to ensure they are functioning as intended.

We are required to communicate to management any deficiencies in internal controls.

Our rating of internal control deficiencies

Our rating of internal control deficiencies allows management to gauge relative importance and prioritise remedial actions.

We increase the rating from a deficiency to a significant deficiency when:

A *deficiency* arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.

- we consider immediate remedial action is required
- there is a risk of material misstatement in the financial statements
- there is a risk to reputation
- the non-compliance with policies and applicable laws and regulations is significant
- there is potential to cause financial loss including fraud
- management has not taken appropriate, timely action to resolve the deficiency.

Control deficiencies categorised by COSO component

We categorise internal controls using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework identifies five components that need to be present and operating together for a successful internal control system. These components are explained in Appendix H.

Figure 4A shows the 106 categorised control deficiencies reported to Queensland Health entities for the 2017–18 financial year.

This year, we identified three new significant deficiencies in information and communication and two new significant deficiencies in control activities.

Figure 4A
Queensland Health internal control deficiencies reported in 2017–18

Control environment	Risk assessment	Control activities	Information and communication	Monitoring activities
Structures, policies, attitudes, and values that influence daily operations	*Processes for identifying, assessing, and managing risk*	*Implementation of policies and procedures to prevent or detect errors and safeguard assets*	*Systems to capture and communicate information to achieve reliable financial reporting*	*Oversight of internal controls for existence and effectiveness*
27 deficiencies	Six deficiencies	49 deficiencies and two significant deficiencies	12 deficiencies and five significant deficiencies	Five deficiencies

Source: Queensland Audit Office adapted from Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework.

Control environment

Control environment
27 deficiencies

Of the 27 deficiencies identified, 21 were prior year issues. During 2017–18, Queensland Health entities resolved 14 prior year issues.

In 2017–18, six HHSs had not formally finalised their service-level agreements with Health Support Queensland, and seven HHSs had not formalised their service-level agreements with eHealth Queensland (both Health Support Queensland and eHealth Queensland are business units of DoH). Service-level agreements detail the service level (including type, range, and standards of services delivered) and reporting requirements for DoH-provided services. The absence of a current formal agreement may result in a lack of accountability and responsibility by both parties relating to the services provided and limit recourse actions should an adverse event occur.

Our report to parliament, *Delivering shared corporate services in Queensland* (Report 3: 2018–19), made recommendations to customers and providers of shared services and drew out the benefits to both parties of having a current service-level agreement.

Last year, we reported that five HHSs did not have tailored financial management practice manuals. All HHSs now have board-endorsed manuals in place.

Control activities

Control activities

49 deficiencies and two significant deficiencies

We identified one new significant deficiency at North West HHS, where HHS staff authorised the payment of vendor invoices in advance of the receipt of goods or services. This weakness increases the risk of fraud or error, and could result in a financial loss to the HHS from paying for goods or services that were never received. We also identified a significant deficiency at one DoH service centre, in their role as service provider to one HHS.

In 2016–17, we reported that, across Queensland Health entities, more than half of the deficiencies identified were procurement-related issues, including non-compliance with procurement policies, inadequate processes for assessing contractors' performance, and insufficient monitoring of actual expenditure against contract values. This trend has continued in 2017–18, and we reported similar findings in *Digitising public hospitals* (Report 10: 2018–19). The existence of these deficiencies continues to make it difficult for Queensland Health entities to demonstrate that they have achieved value for money in their procurement activities. It also increases the risk of fraud or error.

Of the 49 deficiencies identified, 38 were prior year issues. During 2017–18, Queensland Health entities resolved 26 of the 38 prior year issues. Of the 12 unresolved issues, three relate to issues identified in 2013. These three entities are undertaking action to meet the revised dates for resolution.

Service provider

The DoH delivers a range of services to HHSs as a shared service provider from a series of service centres. These services include accounts payable, payroll, and information system services. Shared service providers can deliver cost efficiencies and provide an effective layer of control. They also present risks to the participating entities due to the lack of visibility and influence over controls at the service provider level.

DoH engaged us to prepare two assurance reports on their controls. Figure 4B shows the scope of these reports and their period of coverage.

Figure 4B
Service provider assurance report

Scope of report	Coverage period	Opinion
Assurance over the design, implementation, and operating effectiveness of controls. It highlights the rate of deviations in the transactions tested. (Type 2 report)	01.07.17 to 31.03.18	Unmodified
Assurance over the design and implementation of controls. It highlights matters identified through observation and inquiry. (Type 1 report)	As at 30.06.18	Qualified

Source: Queensland Audit Office.

We issued a qualified opinion on the Type 1 report as one service centre did not have an independent officer performing checks for rosters they processed for one HHS from the first pay period in April until we identified the deficiency in early July. This was assessed as a significant deficiency as the control objective could not be achieved with this control deficiency. DoH has implemented action to resolve this deficiency. DoH also resolved two deficiencies reported in the prior year. HHSs cannot solely rely on our assurance reports for the adequacy of their internal controls. Typically, HHSs need controls:

- when the transaction is initiated—such as approval by an HHS officer with the appropriate financial authority
- after transactions are processed—such as reviewing cost centre reports.

These complementary HHS controls are required to monitor performance of the service provider and ensure the overall strength of internal controls is maintained.

Information and communication

Information and communication

12 deficiencies and five significant deficiencies

This year, we reported five significant deficiencies. Three new significant deficiencies were identified for North West HHS and Central Queensland HHS. During the year, Central Queensland HHS resolved two significant deficiencies raised in the prior year relating to their asset revaluation process.

North West HHS and Central Queensland HHS had significant deficiencies due to ineffective quality controls over their financial statement preparation processes. Both HHSs provided several versions of the draft financial statements for audit, without sufficient review of their completeness and accuracy. Early versions of their financial statements had incomplete or missing elements. Our feedback on their proforma financial statements was not fully incorporated into their draft financial statements. We rated both HHSs as ineffective when we assessed the timeliness and quality of their financial statements.

We reported an additional significant deficiency for North West HHS this year relating to their ineffective processes over the governance and management of property, plant, and equipment. As a result, North West HHS did not finalise their asset valuation processes in a timely manner and made material adjustments to their financial statements after providing their draft statements for audit.

During the year, Queensland Health entities made an effort to resolve prior year issues. Six entities resolved eight prior year issues. Four prior year issues remain unresolved at year end at Central West HHS, Sunshine Coast HHS, and Torres and Cape HHS. The issues relate to the review of asset valuation assumptions and estimates, processes to monitor and manage strategic assets and the lack of an overarching internal financial management reporting framework.

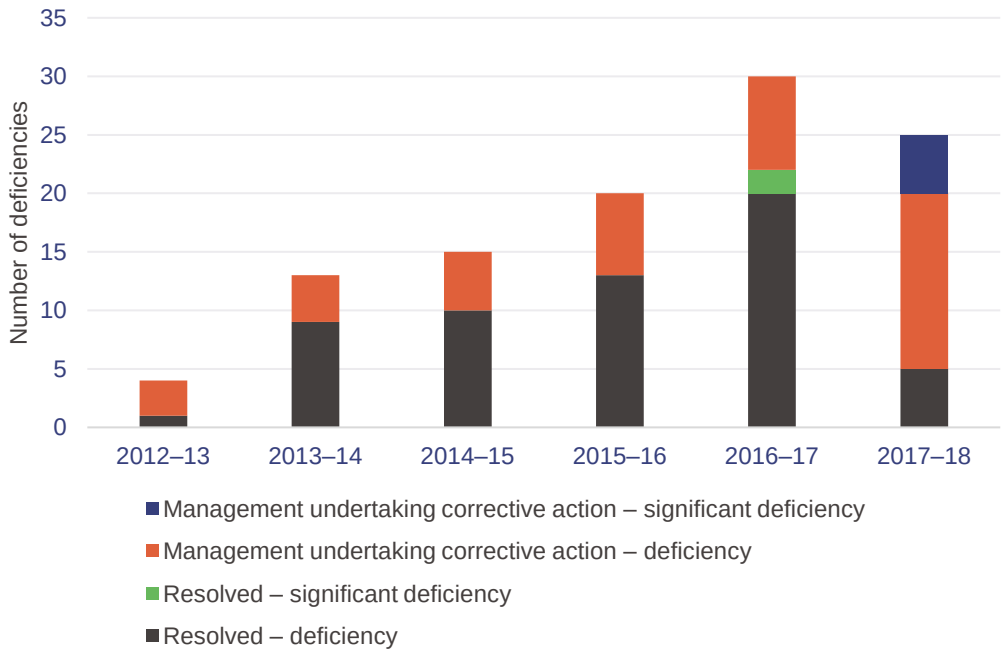
Status of internal control deficiencies

Management and those charged with governance are responsible for the efficient and effective operation of internal controls. An audit committee must be established under section 31 of the Hospital and Health Boards Regulation 2012 and section 35 of the Financial and Performance Management Standard 2009, to assist those charged with governance to obtain assurance over internal control systems. An audit committee is responsible for a variety of actions including:

- monitoring the entity's compliance with its obligation to establish and maintain an internal control structure and system of risk management
- considering audit findings and the entity's actions taken in response to the findings.

We analysed the timeliness of remedial action undertaken to resolve internal control deficiencies identified during 2017–18. Figure 4C outlines the status of the issues raised during 2017–18, by the year in which the issue was initially identified. Across the Queensland Health entities, 27 control deficiencies raised in prior years remain unresolved as at 31 August 2018; another 19 control deficiencies that were identified in 2017–18 remain unresolved. Queensland Health entities resolved 55 control deficiencies during 2017–18.

Figure 4C
Status of internal control deficiencies raised at Queensland Health entities as at 31 August 2018



Source: Queensland Audit Office.

Where corrective action is underway, we urge audit committees to monitor whether management is meeting the agreed milestone dates for all issues reported and their proposed resolution in addressing the underlying cause of the issue. Appropriate and timely resolution of control deficiencies indicates a strong control environment.

Impact of financial system renewal

The replacement of Queensland Health's finance system with SAP S/4 HANA will require DoH and the HHSs to re-align their processes and internal controls frameworks to the new system. DoH has established a project team to map key system functions and their related processes and controls.

The current financial system is a manual workflow-based system. S/4 HANA will introduce electronic and automated workflow controls. The Queensland Health project team is undertaking role mapping and defining system user roles, which are important for achieving strong segregation of duty controls over automated workflows.

DoH, as a shared service provider, will need to update its system descriptions for the internal controls it will implement and rely on for processing the HHSs' transactions. There will be a flow-on impact on the service-level agreements between DoH and the HHSs to reflect the changes in functionality, processes, and internal controls.

S/4 HANA was initially planned to go live around 1 November 2018; it is now planned to go live in the first quarter of 2019–20. The delay allows for change management processes to be implemented and better integration between other systems and S/4 HANA.

Queensland Health entities need to plan and manage the impact of change on their people and processes. There are many activities to be considered, including:

- re-alignment of processes and internal controls
- data cleansing and migration
- staff training.

Appendices

A. Full responses from agencies

As mandated in section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to all Queensland public health sector entities.

The agency heads are responsible for the accuracy, fairness and balance of their comments.

This appendix contains their detailed responses to our audit recommendations.

Comments received from Director-General, Queensland Health

Queensland Government

Enquiries to: Mr Alistair Luckas
Senior Director
Statutory and Advisory Services
Finance Branch
Corporate Services Division
Telephone: 3199 3494
File Ref: C-ECTF-19/730

7 February 2019

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
Level 14, 53 Albert Street
BRISBANE QLD 4000

Email: qao@qao.qld.gov.au

Dear Mr Worrall

Thank you for your letter dated 17 January 2019, regarding the Queensland Audit Office's (QAO) proposed report to Parliament titled *Health: 2017-18 results of financial audits*.

I acknowledge receipt of the report and the contents proposed to be included in this report. I am responding on behalf of the Department of Health (the Department) and the 16 Hospital and Health Services (HHSs) to provide a single Health system response to your report.

It is pleasing to note that all Health entities received an unmodified audit opinion on their financial statements for 2017-18 within the statutory deadline of 31 August 2017. I note that Health entities have implemented more robust financial year-end processes with the Department and an increased number of HHSs receiving green lights on all assessment criteria in relation to the financial statement preparation process compared to last year.

The report notes the use of retained earnings by Health entities to support the rollout of the Digital Hospital program. It has also been challenging for Health entities in relation to the significant lag in delivering activity and receiving Commonwealth funds after the Commonwealth Government makes a funding determination. The most recent determination has also applied a retrospective adjustment. This uncertainty has impacted on the ability for Health entities to accurately forecast revenue, manage their expenditure and level of activity, and use retained earnings.

2017-18 Financial performance, position and sustainability

In 2017-18, the Health system reported a combined deficit of $35.7 million, with HHSs reporting a combined deficit of $37.2 million. Whilst there was a decline in the operating result from the prior year ($45.9 million surplus), it was a better result than was budgeted. This outcome is reflective of some HHSs using retained surpluses and delivering deficits to provide clinical activity and investing in major projects such as digitising hospital transformation.

The Department and HHSs are working together to identify opportunities that can be taken to improve efficiency of health services. In 2018, an exercise to benchmark health services intrastate and interstate to identify key areas of cost variation was completed. The subsequent report has been shared with all entities to provide insight into further opportunities.

Office Level 37, 1 William Street, BRISBANE QLD 4000
Postal GPO Box 48, BRISBANE QLD 4001
Phone 3708 5990
Email: DG_Correspondence@health.qld.gov.au

Queensland Treasury Corporation has also been working with the Department and HHSs on the sustainability of health services and financial viability.

In response to the QAO observation that the current level of backlog maintenance, I note that the Queensland Health Decision Support System reported that the building maintenance backlog was $596.48 million as at 31 August 2018, a figure that includes $55.379 million of maintenance backlog where works are planned but were not completed at the time of the report. Over the past five years, plus this financial year to date, Queensland Health has spent $1.152 billion on maintenance across its 2,587 buildings and structures.

Backlog maintenance activities can often be deferred without immediately having any noticeable effect on the functionality of the building. All backlog maintenance items are risk assessed to identify any potential impact on services, and to ensure all facilities are always safe. In the health context, a balance needs to be maintained between spending on maintenance and investment in new infrastructure and better clinical services.

In 2018, an exercise to benchmark maintenance funding was undertaken and the findings will support proposed changes to the HHS service agreements. A standardised condition assessment framework is currently in development that will be used in conjunction with a third-party asset lifecycle management tool and the proposed service agreement amendments, to ensure the backlog maintenance and future replacement needs are more proactively addressed.

The draft QAO report also observes that the Royal Brisbane and Women's Hospital will be fully depreciated 2028. It does not necessarily follow that the hospital building will need to be substantially refurbished or replaced once fully depreciated. Book depreciation does not mean the asset has reached the end of its useful life. Built assets at the Royal Brisbane and Women's Hospital campus will be managed in accordance with the Total Asset Management Planning cycle and state infrastructure planning priorities, informed by clinical service planning.

Significant internal control deficiencies

I note that QAO identified seven significant deficiencies in internal controls across the Department of Health (one), Central Queensland (three) and North West (three) HHSs. Of these there were five new deficiencies and two prior year deficiencies that were resolved relating to Central Queensland HHS's asset revaluation process. Otherwise QAO assessed the internal control systems were operating effectively.

For the Department of Health, the one new significant deficiency related to three instances where rosters at one service centre impacting one HHS had not been reviewed by an independent person. The Department of Health has reviewed and reinforced the existing controls around the roster review activities with staff in the service centres following identification of the deficiency and reported to management as part of the Department of Health Type 1 ASAE 3402 Assurance Report. In addition, management has also put in to place additional activities to further strengthen the controls already in place.

The proposed report identifies a significant deficiency in both Central Queensland and North West HHSs relating to those HHSs' financial statement preparation processes. I can report that Central Queensland has taken significant steps to address the issues identified. It has developed a financial improvement plan which under the oversight of the Board, is in the process of being implemented and will improve financial sustainability, financial governance, reporting and associated year end processes. Central Queensland also has in place financial governance improvements to address other deficiencies identified by QAO and preparation of financial account closure has been strengthened. North West HHS is working on resolving the significant deficiencies in the identified areas. Whilst it experienced significant change in senior positions within its finance team in the 2017-18 financial year, it recognises the need for improvement in their financial statement preparation processes and action has been taken to address this issue with amendments being made to Finance Annual Work Plans and processes being reviewed for further improvements.

A further two new significant deficiencies were identified by QAO for North West HHS in relation to authorisation of vendor invoices prior to receipt of goods and services and their governance and management of property, plant and equipment. I can report that North West HHS has taken action to resolve the deficiency around the payment of vendor invoices and has amended its Financial Management Practices Manual to clarify the treatment of prepayments and has also reviewed and amended various internal processes to strengthen controls. The HHS is also focusing on improving processes around the governance and management of property, plant and equipment including amending its Financial Management Practices Manual (FMPM), strengthening processes around changes to assets and training staff.

Prior year unresolved internal control deficiencies

The Department and HHSs are continuing to ensure the closure of QAO recommendations, with a strong focus on prior year recommendations yet to be resolved. Audit and Risk Committees and Hospital Boards will continue to play an active role in this regard. It is positive to note QAO's recognition of the improvements in this area for 2017-18.

In prior years the report has cited the following long outstanding deficiencies:

- Tailored Financial Management Practice Manuals (FMPMs) – All HHSs now have in place board endorsed FMPMs.
- Procurement related issues – The HHSs continue to focus on addressing procurement related deficiencies. Work continues to improve the robustness of contract management frameworks that are in place currently.

Impact of new accounting standards

The Department of Health and the 16 HHSs are aware of the new accounting standards that will come in to effect for the 2019-20 financial year. Activities to collate and review data to be able to understand impacts arising to each entity from application of the standards has been underway over the past year.

Work will continue throughout the 2018-19 financial year to complete final assessments of the impacts and to agree these positions with QAO.

Should you or officers of your Department require further information, the Department of Health's contact is Mr Alistair Luckas, Senior Director, Statutory and Advisory Services, Finance Branch, Corporate Services Division, on telephone 3199 3494.

Yours sincerely

Michael Walsh
Director-General
Queensland Health

3

B. Queensland public health sector

Minister for Health and Minister for Ambulance Services

Agencies under the responsibility of the Minister for Health and Minister for Ambulance Services

Department of Health

Responsible for overall health system stewardship and management on behalf of the minister as well as the provision of statewide public health and support services including:

- Strategy, Policy and Planning
- Clinical Excellence
- Prevention
- Health Purchasing and System Performance
- Corporate Services
- Health Support Queensland
- eHealth Queensland
- Queensland Ambulance Service

Hospital and health services

Provide the frontline delivery of a variety of hospital and health services throughout the state

- Cairns and Hinterland
- Central Queensland
- Central West
- Children's Health Queensland
- Darling Downs
- Gold Coast
- Mackay
- Metro North
- Metro South
- North West
- South West
- Sunshine Coast
- Townsville
- Torres and Cape
- West Moreton
- Wide Bay

A range of services are also provided by the Mater Misericordiae Health Services Brisbane Ltd (Mater Health Services) through an arrangement with the Department of Health

Other statutory bodies and their controlled entities

Provide specific and specialised health services to the State of Queensland

- Office of the Health Ombudsman
- Queensland Mental Health Commission
- The Council of the QIMR Berghofer Medical Research Institute (QIMR)
- Q-Pharm Pty Ltd*
- Q-Gen Pty Ltd*
- Vaccine Solutions Pty Ltd*
- genomiQa Pty Ltd*

*Controlled entity of QIMR

Hospital foundations

Broad objective is to raise money to fund clinical research, purchase vital equipment, and enable training of health professionals

- Bundaberg Health Services
- Children's Hospital Foundation Queensland
- Far North Queensland
- Gold Coast
- Ipswich
- Mackay
- PA Research
- Royal Brisbane and Women's
- Sunshine Coast
- The Prince Charles
- Toowoomba
- Townsville

C. Queensland HHS areas

Health and hospital services (HHSs) provide health services across metropolitan, regional, and rural areas of Queensland. We group HHSs into the following regions:

South East Queensland	Large regional	Other regional	Rural and remote
Children's Health Queensland HHS	Cairns and Hinterland HHS	Central Queensland HHS	Central West HHS
Gold Coast HHS	Darling Downs HHS	Mackay HHS	North West HHS
Metro North HHS	Sunshine Coast HHS	West Moreton HHS	South West HHS
Metro South HHS	Townsville HHS	Wide Bay HHS	Torres and Cape HHS

D. Legislative context

The Department of Health (DoH) and the hospital and health services (HHSs) prepared their financial statements in accordance with the *Financial Accountability Act 2009* and the Financial and Performance Management Standard 2009. The financial statements certification deadline is 31 August 2018. The HHSs are established by the *Hospital and Health Boards Act 2011*.

Other health statutory bodies and their controlled entities

Three statutory bodies within the health sector are established by their own enabling legislation. They all prepare financial statements in accordance with the *Financial Accountability Act 2009* and the Financial and Performance Management Standard 2009. The financial statements certification deadline is 31 August 2018. Figure D1 identifies the enabling legislation and the controlled entities for each of these bodies.

Figure D1
Health statutory bodies

Entity name	Enabling legislation	Controlled entities
Queensland Mental Health Commission (QMHC)	*Queensland Mental Health Commission Act 2013*	—
Office of the Health Ombudsman (OHO)	*Health Ombudsman Act 2013*	—
The Council of the QIMR Berghofer Medical Research Institute (QIMR)	*Queensland Institute of Medical Research Act 1945*	genomiQa Pty Ltd* Q-Pharm Pty Ltd Q-Gen Pty Ltd* Vaccine Solutions Pty Ltd*

* These entities did not prepare financial statements for the 2017–18 financial year for the following reasons:
- genomiQa Pty Ltd—not a reporting entity
- Q-Gen Pty Ltd—dormant entity
- Vaccine Solutions Pty Ltd—not a reporting entity.

Source: Queensland Audit Office.

The controlled entities of QIMR prepare their financial statements in accordance with the *Corporations Act 2001* and Corporations Regulations 2001. Their financial statement certification date is 31 October 2018.

Hospital foundations

There are 12 hospital foundations established under the *Hospital Foundations Act 2018*. Hospital foundations raise revenue through fundraising activities and investment activities. Some foundations receive research grants from the Australian Government or Queensland Government. Monies are spent on hospital research programs and equipment purchases.

Four hospital foundations were audited by us in 2017–18 (including HIV Foundation Queensland). The remaining nine hospital foundations were exempted from audit by the auditor-general under the *Auditor-General Act 2009,* but must appoint an appropriately qualified person to undertake their audits. This exemption expired at the end of 2017–18 and none were renewed.

HIV Foundation Queensland was dissolved during the year.

Figure D2
Legislative framework

Entity type	Entity	Legislative framework	Legislated deadline
Statutory body	Bundaberg Health Services Foundation Children's Hospital Foundation Queensland Far North Queensland Hospital Foundation Gold Coast Hospital Foundation Ipswich Hospital Foundation Mackay Hospital Foundation PA Research Foundation Royal Brisbane and Women's Hospital Foundation Sunshine Coast Health Foundation The Prince Charles Hospital Foundation Toowoomba Hospital Foundation Townsville Hospital Foundation HIV Foundation Queensland*	• *Financial Accountability Act 2009* • Financial and Performance Management Standard 2009	31 August 2018

* dissolved during 2017–18.

Source: Queensland Audit Office.

Accountability requirements

The *Financial Accountability Act 2009* requires entities to:

- achieve reasonable value for money by ensuring the operations of the statutory body are carried out efficiently, effectively, and economically
- establish and maintain appropriate systems of internal control and risk management
- establish and keep funds and accounts that comply with the relevant legislation, including Australian accounting standards.

Queensland state government financial statements

Each year, Queensland state public sector entities must table their audited financial statements in parliament.

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, and users of government services. For these statements to be useful, the information reported must be relevant, accurate, and timely.

The auditor-general's audit opinion on these entities' financial statements assures users that the statements are accurate and in accordance with relevant legislative requirements.

We express an unmodified opinion when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We modify our audit opinion when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.

Sometimes we include an emphasis of matter in our audit reports to highlight an issue that will help users to better understand the financial statements. An emphasis of matter does not change the audit opinion.

E. Audit opinion results

Queensland health entities

Entity	Auditor	Date audit opinion issued	Type of audit opinion issued
Department of Health	Auditor-General	29.08.2018	Unmodified
Cairns and Hinterland HHS	Auditor-General	29.08.2018	Unmodified
Central Queensland HHS	Auditor-General	31.08.2018	Unmodified
Central West HHS	Auditor-General	31.08.2018	Unmodified
Children's Health Queensland HHS	Auditor-General	29.08.2018	Unmodified
Darling Downs HHS	Auditor-General	30.08.2018	Unmodified
Gold Coast HHS	Auditor-General	24.08.2018	Unmodified
Mackay HHS	Auditor-General	30.08.2018	Unmodified
Metro North HHS	Auditor-General	29.08.2018	Unmodified
Metro South HHS	Auditor-General	24.08.2018	Unmodified
North West HHS	Auditor-General	29.08.2018	Unmodified
South West HHS	Auditor-General	31.08.2018	Unmodified
Sunshine Coast HHS	Auditor-General	30.08.2018	Unmodified
Torres and Cape HHS	Auditor-General	29.08.2018	Unmodified
Townsville HHS	Auditor-General	30.08.2018	Unmodified
West Moreton HHS	Auditor-General	13.08.2018	Unmodified
Wide Bay HHS	Auditor-General	27.08.2018	Unmodified

Source: Queensland Audit Office.

Other health statutory bodies and controlled entities

Entity	Auditor	Date audit opinion issued	Type of audit opinion issued
Office of the Health Ombudsman	Auditor-General	31.08.2018	Unmodified
Queensland Mental Health Commission	Auditor-General	03.08.2018	Unmodified
The Council of the QIMR Berghofer Medical Research Institute (QIMR)	Auditor-General	31.08.2018	Unmodified
Q-Pharm Pty Ltd (controlled entity of QIMR)	Auditor-General	31.08.2018	Unmodified—Emphasis of matter

Source: Queensland Audit Office.

Hospital foundations

Entity	Auditor	Date audit opinion issued	Type of audit opinion issued
Children's Hospital Foundation Queensland	Auditor-General	30.08.2018	Unmodified
HIV Foundation Queensland	Auditor-General	22.08.2018	Unmodified—Emphasis of matter
Royal Brisbane and Women's Hospital Foundation	Auditor-General	28.08.2018	Unmodified
The Prince Charles Hospital Foundation	Auditor-General	31.08.2018	Unmodified
Bundaberg Health Services Foundation	Levert Audit Pty Ltd	29.08.2018	Unmodified
Far North Queensland Hospital Foundation	BDO Audit (NTH QLD) Pty Ltd	28.08.2018	Unmodified
Gold Coast Hospital Foundation	Dickfos Dunn Adam	10.09.2018	Qualified
Ipswich Hospital Foundation	Ramsey & Associates	29.08.2018	Unmodified
Mackay Hospital Foundation	Brown & Bird	05.09.2018	Unmodified
PA Research Foundation	KPMG	28.08.2018	Unmodified
Sunshine Coast Health Foundation	Focus Professional Group AH Pty Ltd	21.08.2018	Unmodified
Toowoomba Hospital Foundation	Tim Davis	13.08.2018	Unmodified
Townsville Hospital Foundation	Coutts Redington Chartered Accountants	30.08.2018	Unmodified

Source: Queensland Audit Office.

F. Other audit and assurance opinions

In 2017–18, we issued the following opinions for other audits and assurance engagements performed in the Queensland public health sector.

Entity	Type of engagement	Title	Date opinion issued	Type of opinion issued
Department of Health	Audit of a special purpose financial report	National Health Funding Pool Queensland State Pool Account	14.09.2018	Unmodified—Emphasis of matter
Department of Health	Compliance audit	Annual Prudential Compliance Statement	31.10.2018	Qualified
Department of Health	Assurance audit	ASAE 3402 Assurance Report for the period 1 July 2017 to 31 March 2018 (type 2)	01.06.2018	Unmodified
Department of Health	Assurance audit	ASAE 3402 Assurance Report as at 30 June 2018 (Type 1)	27.07.2018	Qualified
Children's Health Queensland	Audit of statement of outgoings and outgoings contributions	Statement of outgoings and outgoings contributions for research building costs shared with four other entities	13.12.2018	Unmodified—Emphasis of matter
Children's Hospital Foundation	Audit of grant acquittal	Acquittal for Golden Casket funding from Children's Health Queensland HHS	05.10.2018	Unmodified—Emphasis of matter
Darling Downs HHS	Audit of grant acquittal	Grant acquittal for Evolve Therapeutic Services from the Department of Child Safety, Youth and Women	12.11.2018	Unmodified—Emphasis of matter

Entity	Type of engagement	Title	Date opinion issued	Type of opinion issued
Metro South HHS	Audit of grant acquittal	Grant acquittal for Motor Accident Insurance Commission	11.10.2018	Unmodified—Emphasis of matter
Sunshine Coast Health Institute	Audit of a special purpose financial report	Sunshine Coast Health Institute annual report	13.04.2018	Unmodified—Emphasis of matter

G. Our assessment of financial statement preparation

In assessing the effectiveness of financial statement preparation processes we consider three components—the year end close process, the timeliness of financial statements, and the quality of financial statements.

We assess financial statement preparation processes under the following criteria.

Year end close process

State public sector entities should have a robust year end close process to enhance the quality and timeliness of the financial reporting processes. This year we assessed processes for year end financial statement preparation against the following key targets:

- prepare pro-forma financial statements by 30 April
- resolve known accounting issues by 30 April
- complete non-current asset valuations by 31 May
- complete early close processes by 31 May
- conclude all asset stocktakes by 30 June.

These targets were developed based on advice previously issued by the Under Treasurer in 2014, which was reconfirmed in 2018, and on better practice identified in other jurisdictions.

Rating scale	Assessment criteria—year end close process
Fully implemented	All key processes completed by the target date
Partially implemented	Three key process completed within two weeks of the target date
Not implemented	Fewer than two key processes completed within two weeks of the target date

Timeliness of draft financial statements

We assessed the timeliness of draft financial statements by considering whether entities prepared financial statements according to the timetables agreed with management. This includes providing auditors with the first complete draft of financial statements by the agreed date. A complete draft is one that management is ready to sign and where no material errors or adjustments are expected.

Rating scale	Assessment criteria—timeliness of draft financial statements
Timely	Acceptable draft financial statements received on or prior to the planned date
Generally timely	Acceptable draft financial statements received within two days after the planned date
Not timely	Acceptable draft financial statements received more than two days after the planned date

Quality of draft financial statements

We assess the quality of financial statements in terms of adjustments made between the first draft of the financial statements and the final version we receive. This includes adjustments to current year, prior year, and other disclosures. This is an indicator of how effective review of the financial statements is at identifying and correcting errors.

Rating scale	Assessment criteria—quality of draft financial statements
No adjustments	No adjustments were required
No significant adjustments	Immaterial adjustments to financial statements
Significant adjustments	Material adjustments to financial statement components

Result summary

This table summarises our assessment of the financial statement preparation processes for Queensland Health entities.

Queensland Health entities

Entity	Financial statement preparation		
	Year end close process	Timeliness of draft financial statements	Quality of draft financial statements
Department of Health	●	●	●
Cairns and Hinterland HHS	●	●	●
Central Queensland HHS	●	●	●
Central West HHS	●	●	●
Children's Health Queensland HHS	●	●	●
Darling Downs HHS	●	●	●
Gold Coast HHS	●	●	●
Mackay HHS	●	●	●
Metro North HHS	●	●	●
Metro South HHS	●	●	●
North West HHS	●	●	●
South West HHS	●	●	●
Sunshine Coast HHS	●	●	●
Torres and Cape HHS	●	●	●
Townsville HHS	●	●	●
West Moreton HHS	●	●	●
Wide Bay HHS	●	●	●

Source: Queensland Audit Office.

H. Our audit of internal controls

Internal controls are designed, implemented, and maintained by entities to mitigate risks that may prevent them from achieving reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

In undertaking our audit, we are required under the Australian auditing standards to obtain an understanding of an entity's internal controls relevant to the preparation of the financial report.

We assess internal controls to ensure they are suitably designed to:

- prevent, or detect and correct, material misstatements in the financial report
- achieve compliance with legislative requirements
- use public resources appropriately.

Our assessment determines the nature, timing, and extent of the testing we perform to address the risk of material misstatement in the financial statements.

Where we believe the design and implementation of controls is effective, we select the controls we intend to test further by considering a balance of factors including:

- significance of the related risks
- characteristics of balances, transactions, or disclosures (volume, value, and complexity)
- nature and complexity of the entity's information systems
- whether the design of the controls addresses the risk of material misstatement and facilitates an efficient audit.

Where we identify deficiencies in internal controls, we determine the impact on our audit approach, considering whether additional audit procedures are necessary to address the risk of material misstatement in the financial statements.

Our audit procedures are designed to address the risk of material misstatement, so we can express an opinion on the financial report. We do not express an opinion on the effectiveness of internal controls.

Internal controls framework

We categorise internal controls using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework identifies five components for a successful internal control system. These components are explained in the following paragraphs.

Control environment

- Cultures and values
- Governance
- Organisational structure
- Policies
- Qualified and skilled people
- Management's integrity and operating style

The control environment is defined as the structures, policies, attitudes, and values that influence day-to-day operations. As the control environment is closely linked to an entity's overarching governance and culture, it is important that the control environment provides a strong foundation for the other components of internal control.

In assessing the design and implementation of the control environment we consider whether:

- those charged with governance are independent, appropriately qualified, experienced, and active in challenging management. This ensures they receive the right information at the right time to enable informed decision-making
- policies and procedures are established and communicated so people with the right qualifications and experiences are recruited, they understand their role in the organisation, and they also understand management's expectations regarding internal controls, financial reporting, and misconduct, including fraud.

Risk assessment

- Strategic risk assessment
- Financial risk assessment
- Operational risk assessment

Risk assessment relates to management's processes for considering risks that may prevent an entity from achieving its objectives, and how management agrees risks should be identified, assessed, and managed.

To appropriately manage business risks, management can either accept the risk if it is minor or mitigate the risk to an acceptable level by implementing appropriately designed controls. Management can also eliminate risks entirely by choosing to exit from a risky business venture.

Control activities

- General information technology controls
- Automated controls
- Manual controls

Control activities are the actions taken to implement policies and procedures in accordance with management directives and ensure identified risks are addressed. These activities operate at all levels and in all functions. They can be designed to prevent or detect errors entering financial systems.

The mix of control activities can be categorised into general information technology controls, automated controls, and manual controls.

General information technology controls

General information technology controls form the basis of the automated systems control environment. They include controls over information systems security, user access, and system changes. These controls address the risk of unauthorised access and changes to systems and data.

Automated control activities

Automated controls are embedded within information technology systems. These controls can improve timeliness, availability, and accuracy of information by consistently applying predefined business rules. They enable entities to perform complex calculations when processing large volumes of transactions. They also improve the effectiveness of financial delegations and the segregation of duties.

Manual control activities

Manual controls contain a human element, which can provide the opportunity to assess the reasonableness and appropriateness of transactions. However, these controls may be less reliable than automated elements as they can be more easily bypassed or overridden. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, and segregation of incompatible duties. Manual controls may be performed with the aid of information technology systems.

Information and communication

- Non-financial systems
- Financial systems
- Reporting systems

Information and communication controls are the systems used to provide information to employees, and the ways in which responsibilities are communicated.

This aspect of internal control also considers how management generates financial reports, and how these reports are communicated to internal and external parties to support the functioning of internal controls.

Monitoring activities

- Management supervision
- Self-assessment
- Internal audit

Monitoring activities are the methods management uses to oversee and assess whether internal controls are present and operating effectively. This may be achieved through ongoing supervision, periodic self-assessments, and separate evaluations. Monitoring activities also concern the evaluation and communication of control deficiencies in a timely manner to effect corrective action.

Typically, the internal audit function and an independent audit and risk committee are responsible for implementing controls and resolving control deficiencies. These two functions work together to ensure that internal control deficiencies are identified and then resolved in a timely manner.

I. Glossary

Term	Definition
Accountability	Responsibility of public sector entities to achieve their objectives in reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.
Auditor-General Act 2009	An Act of the State of Queensland that establishes the responsibilities of the Queensland Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the auditor-general with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Australian accounting standards board (AASB)	An Australian Government agency that develops and maintains accounting standards applicable to entities in the private and public sectors of the Australian economy.
Cash available (days) ratio	The number of days available to cover cash outflows.
Co-morbidities	The occurrence of two or more diseases in a person at one time.
Current ratio	The ability to pay existing short-term debts with current assets.
Depreciation	The systematic allocation of an item of property, plant and equipment's capital value as an expense over its expected useful life, to take account of normal usage, obsolescence, or the passage of time.
Emphasis of matter	A paragraph included with the audit opinion to highlight an issue which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.
Financial sustainability	The ability to meet current and future expenditures as they arise and capacity to absorb foreseeable changes and emerging risks.
General government sector	The group of legal entities established by political processes that have legislative, judicial, or executive authority over other institutional units within a given area. The primary function of these agencies is to provide public services that: • are non-trading in nature and that are for the collective benefit of the community • are largely financed by way of taxes, fees and other compulsory charges • involve the transfer or redistribution of income.

Term	Definition
Going concern	An entity that is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations.
Material misstatement	A misstatement is material if it has the potential to influence the decisions made by users of the financial statements.
Misstatement	A difference between what is reported and what is required to be reported in accordance with the applicable financial reporting framework. These differences can be in the amount, classification, presentation, or disclosure of a reported financial report item and can arise from error or fraud.
Modified audit opinion	A modified opinion is expressed when: • financial statements do not comply with the relevant legislative requirements and Australian accounting standards, and are not accurate and reliable • service providers' system descriptions do not represent the system as designed and implemented, controls are not suitably designed, or controls did not operate effectively.
Net assets	Total assets less total liabilities.
Operating result	Revenue less operational expenses.
Operating surplus ratio	The extent to which revenue covers operational expenses.
Public–private partnership	Cooperative agreements generally entered into with private sector entities for the delivery of government services.
Queensland efficient price (QEP)	The price paid by the Department of Health for each unit of activity purchased from HHSs.
Useful life	The number of years an entity expects to use an asset (not the maximum period possible for the asset to exist).
Weighted activity unit (WAU)	A unit of measure used to compare different health services based on the level of resource use. The Independent Hospital Pricing Authority (IHPA), an Australian Government body, determines the value of a national weighted activity unit (NWAU). The Queensland Department of Health determines the value of a Queensland weighted activity unit (QWAU). There are differences in the calculation of a NWAU to a QWAU, such as treatment of private patients, pharmaceutical benefits scheme costs and other Queensland localisations and initiatives to incentivise the delivery of efficient and effective care.

Auditor-General reports to parliament

Reports tabled in 2018–19

1. Monitoring and managing ICT projects
   Tabled July 2018
2. Access to the National Disability Insurance Scheme for people with impaired decision-making capacity
   Tabled September 2018
3. Delivering shared corporate services in Queensland
   Tabled September 2018
4. Managing transfers in pharmacy ownership
   Tabled September 2018
5. Follow-up of Bushfire prevention and preparedness
   Tabled October 2018
6. Delivering coronial services
   Tabled October 2018
7. Conserving threatened species
   Tabled November 2018
8. Water: 2017–18 results of financial audits
   Tabled November 2018
9. Energy: 2017–18 results of financial audits
   Tabled November 2018
10. Digitising public hospitals
    Tabled December 2018
11. Transport: 2017–18 results of financial audits
    Tabled December 2018
12. Market-led proposals
    Tabled December 2018
13. Health: 2017–18 results of financial audits
    Tabled February 2019

Report cost

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QUEENSLAND
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T: (07) 3149 6000
M: qao@qao.qld.gov.au
W: qao.qld.gov.au
53 Albert Street, Brisbane Qld 4000
PO Box 15396, City East Qld 4002

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