



Aboriginal and Torres Strait  
Islander Health Practice  
Chinese Medicine  
Chiropractic  
Dental  
Medical  
Medical Radiation Practice  
Nursing and Midwifery

Occupational Therapy  
Optometry  
Osteopathy  
Pharmacy  
Physiotherapy  
Podiatry  
Psychology

Australian Health Practitioner Regulation Agency

## Finance, Audit and Risk Management Committee Annual Report 2014-15

### Chairs Introduction

The work of the Finance, Audit and Risk Management Committee during the 2014-15 financial year focused on AHPRA's financial budgeting and reporting processes (including the National Boards budgets), the review of high level risks including serious incidents and the rigour of AHPRA's audit processes, system of internal control and risk and assurance.

A number of key areas have remained core to the Committees agenda including regular assessment of AHPRA's financial responsibilities, together with oversight of AHPRA's payment of \$4.5m to the [Office of the Health Ombudsman](#) (OHO) in Queensland, on behalf of the National Boards.

I believe the work undertaken by AHPRA's management team together with the background and experience of FARM Committee members has led to an effective performance from the Committee over the past financial year.

### **Barbara Yeoh, Chair, Finance, Audit and Risk Management Committee**

#### **Role of the Committee**

The Finance, Audit and Risk Management Committee (FARMC) is the principal committee of the Agency Management Committee which provides oversight of finance, audit and risk at the enterprise level. It is responsible to the Agency Management Committee (AManC) for leadership, strategy and assurance in relation to:

- the financial strategy, financial performance and sustainability of AHPRA and National Boards;
- providing recommendations on the integrity and acceptance of the financial statements by the Agency Management Committee;
- assuring an effective and independent audit and risk assessment function for AHPRA;
- providing independent advice and assurance to the Agency Management Committee on processes of governance, risk management and internal control in line with leading practice;
- internal processes and controls for ensuring compliance with statutory and regulatory requirements, codes of conduct and reasonable community expectations.

#### **Powers and Responsibilities of the Committee**

The Committee has the authority from the Agency Management Committee to request any information it requires from AHPRA or any employee and to discuss any matter with both the internal and external auditors and is able to seek independent, professional advice, as it considers necessary.

The Committee has no executive powers, supervisory functions or decision-making authority in relation to the operations of AHPRA or the National Boards. Committee members are responsible for ensuring the efficient and effective operation of FARMC and with support from AHPRA, for taking appropriate steps to ensure they have the requisite knowledge and training to undertake their role.

#### **Membership**

Membership is appointed by the Agency Management Committee and consists of 7 members.

In combination, its members need:

- A sound understanding of NRAS governance issues (including Agency Management Committee and health practitioner board perspectives) and effective strategic and communication linkages with Agency Management Committee.

- Professional and independent advice on finance, audit and risk (including IT risk) at an enterprise level. This may require the recruitment of external members to the committee when appropriate.

The following capabilities are deemed requisite for the Committee as a whole, and members should demonstrate at least two of the following.

- A sound understanding National Registration and Accreditation Scheme governance and the core functions of AHPRA.
- Financial literacy and commercial acumen.
- Management of internal audit programs and external auditors.
- Experience and competence in advising on the treatment of enterprise risk.
- A sound understanding of IM&IT enterprise strategy and risk.

Members will normally be appointed for a minimum term of two years but no more than five years. The Agency Management Committee will review the membership on an annual basis.

During the 2014-15 financial year the Finance, Audit and Risk Management Committee replaced the Audit and Risk Committee, who held its last meeting on 28 August 2014. Membership included:

#### Internal membership and attendees

Name	Membership Status for 2014/15 financial year
Barbara Yeoh, Chair	AManC member: November 2014
Con Michael	AManC member: July 2014
Prudence Ford	MBA member: July 2014
David Taylor	AManC member: November 2014
Michael Gorton	AManC member: July 2014; last meeting: August 2014
Merrilyn Walton	AManC member: July 2014; last meeting: August 2014
Martin Fletcher, CEO	AHPRA attendee: July 2014
Sarndrah Horsfall	AHPRA attendee: November 2014
Anthony DeJong	AHPRA attendee: July 2014
Barry Bennett	AHPRA attendee: July 2014

#### External membership and attendees

Name	Membership Status
David Balcombe	Member since: June 2015
Geoff Linton, Chair	Member since: July 2014; last meeting: August 2014
Grant Thornton representatives (internal audit)	Attendee since: July 2014; last meeting: March 2015
Deloitte representatives	Attendee since: June 2015
Victorian Auditor General's Office (external audit)	Attendee since: July 2014

#### Meetings

Meeting dates	Attendance
28 August 2014	Geoff Linton, Chair Prudence Ford, Michael Gorton, Con Michael, Merrilyn Walton
20 November 2014	Barbara Yeoh, Chair, David Taylor, Prudence Ford Con Michael
16 March 2015	Barbara Yeoh, Chair, David Taylor, Prudence Ford Con Michael
15 June 2015	Barbara Yeoh, Chair, David Taylor, Prudence Ford David Balcombe

## Committee Objectives and Terms of Reference

The Committee has broad responsibilities, which include;

- External Audit
- Internal audit and risk management
- Information security and governance
- Investment management
- Financial management

The specific Terms of Reference FARMC has received from the Agency Management Committee include;

### External Audit

- Make recommendations to the Agency Management Committee as to the appointment, re-appointment or replacement of the external auditor and rotation of the auditor's engagement partner.
- Review with the external auditor the scope and timing of the annual audit, and the proposed audit fee and make recommendations to the Agency Management Committee.
- Review the annual financial statements of AHPRA, meet with the external auditor, and recommend the approval or otherwise to the Agency Management Committee.
- Review all external audit reports together with the appropriateness of AHPRA's management responses to any issues raised in the auditor's management letters. Monitor the implementation of findings.
- Monitor the quality and effectiveness of the audits conducted by the auditors.
- Require the external auditor to disclose any relationship that may impact on its objectivity or independence, and recommend any appropriate action to confirm the auditor's independence.

### Internal audit and risk management

- Advise Agency Management Committee on the effectiveness of the internal audit function and that it meets all mandatory requirements and provides appropriate independent assurance to the FARMC, Chief Executive and Agency Management Committee.
- Review and recommend approval of the Internal Audit Strategy, the annual Audit and Risk Assessment Plan and any detailed program of reviews to ensure that they are consistent with the audit needs of AHPRA. This evaluation is to include the auditor's costings through the tender process.
- Consider the major findings of internal audit reports and AHPRA management responses.
- Receive regular reports of progress with implementation of agreed internal audit recommendations and any other actions associated with internal control, and satisfy itself that effective and timely management action has been taken.
- Review the performance of the Internal Auditor annually and make recommendations to the Agency Management Committee,
- Provide assurance that risk is properly controlled and treated through the Risk Management Framework and annual plan.
- Advise Agency Management Committee on emerging or untreated enterprise risk and propose treatments, including clarifying accountabilities where risk is shared.
- Establish protocols for escalation of risk from management to Agency Management Committee and from National Boards to Agency Management Committee.
- Review insurance coverage and provide assurance on the appropriateness of coverage in place.
- Monitor and review AHPRA's financial governance including financial reporting frameworks, financial controls and counter fraud policy and measures.
- Review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.
- Monitor any instance discovered, or affecting AHPRA, of fraud or financial misdemeanour and obtain assurance that satisfactory management action has been taken.
- Monitor the effectiveness of AHPRA's policies and practices in complying with laws, regulations, and accounting standards.
- Review and monitor related party transactions.
- Advise on the scope and conduct of special reviews or audits
- Review and advise on AHPRA's process for assessing and improving the effectiveness of its audit and risk assessment functions.

## Information security and governance

- Provide assurance that policies and procedures for information governance and information security are maintained.

## Investment management

- Advise Agency Management Committee as required on investment management, including investment policies and procedures, investment objectives and expected rates of return.
- Review investment performance.

## Financial management

- Review direction and advise on financial policy parameters for the financial sustainability of NRAS entities, including key performance indicators and financial parameters, three year financial strategy and investment strategy, appropriate and financial delegations.
- Review draft operating and capital budgets and cash flow forecasts to ensure they align with the Agency's corporate plan and financial strategy.
- Provide oversight of the financial performance of NRAS entities, including ensuring the annual budget objectives align with strategy and that the process is transparent. Monitor the accounts to ensure alignment with financial parameters.
- Commission short, analytical, executive reports based on KPIs and financial parameters, key risks and risk treatments.
- Provide advice to the Agency Management Committee on risks to the financial performance and sustainability of the enterprise (including co-regulatory arrangements and their cost) and recommend risk treatments.
- Review and recommend to the Agency Management Committee all significant changes to AHPRA's accounting policies;
- Determine the appropriate form of financial risk management necessary for NRAS Boards other than Agency Management Committee, including the role of NRAS Boards in financial management.
- Review business cases that require Agency Management Committee to enter into contracts that are above the CEO's delegations and recommend action to Agency Management Committee.

## Reporting to the Agency Management Committee

- The draft minutes of the FARMC should be considered at the subsequent Agency Management Committee meeting after they have been reviewed by the FARMC Chair. In addition, the FARMC should report at least annually on its overall program of work.
- The FARMC must and any member of the FARMC may report to the Agency Management Committee any significant matters of concern which may impact on the operations of AHPRA or the National Boards and their committees.
- Review and provide advice on key financial performance indicators.
- Provide the Agency Management Committee with an annual report on the activities and operations of the FARMC and the achievements against its charter and the annual Audit and Risk Assessment Plan.
- The Executive Director will meet informally with the Chair of the FARMC in advance of each meeting.

## Committee activities for reporting period 1 July 2014 – 30 June 2015

### Governance

Observed best practice corporate governance through

- Annual review of the Committees Terms of Reference
- Assessment of FARM activities and internal audit function against relevant ANAO and professional better practice guides on an ongoing basis
- Standing invitation to internal auditors to attend the duration of all meetings
- Meeting in camera at each meeting with auditors in the absence of the CEO, executive and management
- Declaration of conflicts of interest at commencement of meeting by all members and all others present
- Annual meeting between Chair and internal audit providers

## Significant Issues

- There were no significant issues considered during the 2014-15 financial period which could not be handled through routine Committee procedures.
- Matters of note considered by the Committee included:
  - Development and implementation of the Fraud and Corruption Control Program
  - Strategic pause of the Regulatory Compliance System
  - Development of the Corporate Assurance Framework and Policy
  - Legislative Compliance Test and the Privacy Impact Assessment

## Major Policy Recommendations to Agency Management Committee

Key Policies considered	Key Policies recommended to Agency Management Committee
Corporate Assurance Policy	March 2015
AHPRA's Investment Policy	March 2015
Corporate Assurance Framework	June 2015
AHPRA's Governance Charter	June 2015
Financial Delegations	November 2014

## Financial Reports for 2014-15

The committee reviewed the quarterly, half-year and annual financial reports and projections with management, focusing on the integrity and clarity of disclosure, compliance with relevant legal and financial reporting standards and the application of accounting policies and judgements.

## Internal Audit Program

Grant Thornton Australia provided internal audit services to AHPRA during the 2014-15 financial year. The agreed internal audit plan included;

- **Operational**
  - review specific elements of the registration and renewals functions
- **Information Technology**
  - Post implementation review of the payroll system
- **Governance**
  - controls in relation to interest (and conflict of interest) disclosures for the Agency Management Committee and Board members

## Internal Audit providers

Grant Thornton was the incumbent AHPRA auditor during the 2014-15 financial year completing a five year service period. During the year AHPRA considered its position regarding its auditing requirement and it was considered appropriate to tender for the internal audit services early in 2015. A full procurement process was undertaken and following a detailed assessment and an evaluation committee, Deloitte Touche Tohmatsu Limited was appointed AHPRA's new internal audit service provider. They will commence from 1 July 2015, although some work did commence slightly earlier as part of appropriate transition arrangements including the attendance at the FARMC meeting held in June 2015.

## Fraud and Corruption Control Framework

Following a review of the existing Fraud Control Policy, a new Fraud and Corruption Control Policy, Fraud and Corruption Control Framework and Conflict of Interest Procedure for AHPRA staff have been developed. The Framework and Conflict of Interest Procedures have been approved by National Executive and will be shortly submitted to FARMC for recommendation to AManC. The FARMC has monitored the status of the development of the framework and associated procedure as part of the Internal Audit Recommendation process.

## Work Health and Safety

The committee received a report from a specialist WHS external auditor who conducted a Work Health Safety Management System (WHSMS) Audit through May and June 2014 (report submitted in July 2014) in

compliance with the Australian Standard AS/NZS4801:2001. The audit was undertaken following the implementation of a comprehensive WHS Improvement Plan throughout 2013-14.

The results confirmed that there has been substantial improvement in all areas of WHS performance across AHPRA. The introduction of a consistent and compliant WHS Committee structure; uniform data collection and regular and consistent reporting have all contributed to a much more transparent and robust audit framework with a corresponding higher level of confidence in the results.

### Internal Control, Risk Management and Serious Incidents

The Committee reviewed AHPRA's system of internal control and risk management over the year including discussing key audit findings and management actions to remedy significant issues. The Committee reviewed the scope, activity and effectiveness of AHPRA's audit function

The Committee also considered the Corporate Assurance Framework for AHPRA, which comprises of three elements; a risk register, a risk mitigation plan and assurance of delivery and effectiveness of the control contained in the mitigation plan. The Committee received extracts from the Corporate Assurance Plan for those risks rated High (12) or above or for any other material changes to the plan. The report included the status of identified mitigating actions.

### Internal Audit reports

The Committee received quarterly reports on audits undertaken against the agreed internal audit plan.

The effectiveness of the audit process will in the future be evaluated by Committee members through a survey of both members and those impacted by it, covering the robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service and value added advice.

### Internal Audit recommendations

The Committee monitored the management response in relation to Significant and Important recommendations and management was responsible for monitoring low and better practice (opportunity) recommendations.

	Audit Period				Original Recommendations				Recommendations C/F				Current Period Recommendations				Recommendations Completed (current period)				# Outstanding			
	FY2012	FY2013	FY2014	FY2015	Significant	Important	Minor	Opportunity	Significant	Important	Minor	Opportunity	Significant	Important	Minor	Opportunity	Significant	Important	Minor	Opportunity	Significant	Important	Minor	Opportunity
Business Continuity	◆				0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Financial Controls	◆				2	2	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Risk Management Framework	◆				1	4	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Information Management	◆				2	3	0	0	1	2	0	0	0	0	0	0	0	0	0	0	1	2	0	0
Legislative Compliance	◆				1	5	0	0	0	3	0	0	0	0	0	0	0	3	0	0	0	0	0	0
IT General Controls	◆				0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Payroll	◆				0	3	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts Payable	◆				0	4	0	0	0	2	0	0	0	0	0	0	0	2	0	0	0	0	0	0
Notifications Handling	◆				0	7	3	0	0	7	3	0	0	0	0	0	0	1	0	0	0	6	3	0
Operational Management Reporting	◆				1	2	0	0	1	2	0	0	0	0	0	0	0	0	0	0	1	2	0	0
Fraud Framework	◆				0	0	0	9	0	0	0	9	0	0	0	0	0	0	0	0	0	0	0	2
<b>PRIOR PERIOD TOTALS</b>					<b>7</b>	<b>36</b>	<b>6</b>	<b>9</b>	<b>2</b>	<b>18</b>	<b>3</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>7</b>	<b>2</b>	<b>12</b>	<b>3</b>	<b>2</b>
Registrations and Renewals																								
(1) Revenue Recognition	◆				0	2	4	0	0	0	0	0	0	2	4	0	0	0	0	0	0	2	4	0
(2) Criminal History Check	◆				0	3	1	0	0	0	0	0	0	3	1	0	0	0	0	0	0	3	1	0
(3) Data Extraction	◆				0	0	0	3	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0	3
<b>CURRENT PERIOD TOTAL</b>					<b>0</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>3</b>
<b>TOTAL</b>					<b>7</b>	<b>41</b>	<b>11</b>	<b>12</b>	<b>2</b>	<b>18</b>	<b>3</b>	<b>9</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>7</b>	<b>2</b>	<b>17</b>	<b>8</b>	<b>5</b>

Most delays have occurred as a result of re-evaluation of majors projects (RCS and EPR) but have been factored in to the plans for the replacement projects.

## FARMC Work Plan

The Committee commissioned a work plan addressing non-specific audit areas indicated in the table below;

Finance, Audit and Risk Management Committee - allocation of agenda time

Financial Reporting	15 %
External audit, auditor engagement and policy	8 %
Internal audit and controls	21 %
Financial reporting control framework and financial reporting developments	23 %
Risk Management and Compliance	23 %
Others including governance, treasury and investments.	10 %



## Corporate Governance

AHPRA reviewed a number of key initiatives during the year including;

- AHPRA's Governance Charter
- Information Governance and Assurance framework and associated work plan
- AHPRA's Business Planning and monitoring of progress
- Development of a procurement strategy
- Development of an Accommodation strategy
- Development of an overall efficiency plan for AHPRA

## External Audit

The Victorian Auditor's General Office (VAGO) has been appointed by AHPRA to conduct the external audit on the 30 June financial statements, consistent with the requirements of the National Law.

VAGO provided AHPRA with an unqualified opinion of the financial statements at the meeting in August 2014 relating to the 30 June 2014 financial year.

VAGO commencing their planning for the 2014-15 audit in January 2015 with site visits and returned in April and June for interim audits with a final audit to conclude in July 2015.

The Committee received updates during the year on the audit process and had the opportunity to meet the external auditors in private

The Committee reviews the fee structure, resourcing and terms of engagement for the external auditor annually. Fees paid to the external auditor for the year were \$151k and the Committee was satisfied that this level of fee is appropriate in respect of the audit services provided and that an effective audit can be conducted for this fee.

## Committee Performance self Assessment

A committee performance review was not scheduled during 2014-15m, however this will occur during 2015-16. A feedback look has been implemented commencing in the June 2015 meeting.

## Better practice audits

During the 2014-15 financial year AHPRA used the Victorian Government's model financial statements as a basis for preparation for the 2014-15 annual financial statements, noting that AHPRA is exempt from the relevant Financial Management Acts in each jurisdiction, as outlined in the National Law.

## **Audit reports**

From the June 2015 FARM meeting members assess the value of each report received. This will form part of every meeting during 2015-16.

During 2014-15 there was a larger focus on operational audits rather than traditional financial control audits and involved engaging a broader group of people across AHPRA.

There were learnings in relation to this, including being very clear on scope up front and being mindful of the considerations around the future direction of the organisation to ensure appropriate value is obtained from the audit process.

## **Management responses**

As shown in the table contained in "Internal Audit Recommendations" above, a number of audit recommendations are not yet completed. These include recommendations from the prior audit period.

The majority of those recommendations are directly related to issues associated with the RCS and HRIS projects, both of which were paused to enable a more complete and integrated approach to both regulatory and business services systems. The audit recommendations that relate to those projects have been taken into consideration and are included in the new project plans for both RCS and ERP.

## **Looking Ahead**

The Committee will be developing its overall strategic plan in the coming months, however the Committee have highlighted the following key areas for AHPRA and Deloitte to begin work on;

- AHPRA's internal audit strategy
- AHPRA's financial strategy
- A review on National Board Equity position

## **Committee review**

The Committee will undertake an annual evaluation of its performance and effectiveness. In June 2015 the committee considered a survey, which includes governance issues such as committee processes and support, the work of the committee and priorities for change.

Areas of focus arising from these reviews will be then incorporated into the Committees future work plan including where appropriate more deep dive reviews and suggestions for further committee training.