



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 2015-16

### Chairs Introduction

This annual report of the Finance Audit and Risk Management Committee for 2015/16 is provided to the Agency Management Committee in accordance with the Committee's Terms of Reference.

The Committee undertook a program of work covering its Terms of Reference, with a particular focus during the year on AHPRA's financial budgeting and reporting processes which included a review of accounting policies and accounting estimates, cyber risk and IT security, serious incident reporting and risk and assurance frameworks and reporting.

### **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

Members are appointed by the Agency Management Committee and consist of up to 7 members.

The following capabilities are deemed requisite for the Committee as a whole, and Committee 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.

During the 2015-16 financial year, membership included:

### Membership

Name	Membership Status 2015/16
Barbara Yeoh, Chair	Member AManC
Con Michael	Member AManC to August 2015
Prudence Ford	Member MBA
David Taylor	Member AManC
Dr Peggy Brown	Member AManC
David Balcombe	Independent member

### Attendees

Name	Position
Martin Fletcher	CEO
Sarndrah Horsfall	Executive Director, Business Services
Anthony DeJong	National Director, Finance and Procurement
Barry Bennett	Manager, Corporate Risk and Compliance
Phil McAloon	Corporate Counsel
Deena Jones	Manager, Executive Secretariat
Deloitte	Internal Auditors
Victorian Auditor General's Office	External Auditors

### Meetings

Meeting dates	Attendance
14 August 2015	Barbara Yeoh, Chair, David Balcombe, Con Michael, David Taylor
16 November 2015	Barbara Yeoh, Chair, David Balcombe, Prudence Ford David Taylor
15 February 2016	Barbara Yeoh, Chair, David Balcombe, Prudence Ford David Taylor
16 May 2016	Barbara Yeoh, Chair, David Taylor, 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, AHPRA's 5 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 2015 – 30 June 2016

#### 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 2015-16 financial period which could not be handled through routine Committee procedures.
- Matters of note considered by the Committee included:
  - Development and implementation of the Information Governance and Assurance Framework
  - Business case for the Pulse (Enterprise Resource Planning) Project
  - Development of the Public Interest Disclosure (Whistleblower) Policy
  - Cyber Security Planning and Testing
  - Refinement of AHPRA's financial policies
  - Development of the 5 year Financial Strategy including further work on the National Boards Equity positions.

#### Major Policy Recommendations to Agency Management Committee

Key Policies considered	Key Policies recommended to Agency Management Committee
Public Interest Disclosure (Whistleblower) Policy	May 2016 The AManC is awaiting further advice prior to the approval of the Whistleblower Policy.
AHPRA's Capital Expenditure Policy (Property plant & equipment, Intangibles, leases, impairment and depreciation)	June 2016

Receivables Policy	June 2016
Income Recognition Policy	Further accounting advice, from a third party provider, has been requested about the impact of the proposed AASB changes to income recognition rules for registration fees.
Indexation Policy	The FARMC recommended the indexation policy be used for planning purposes only, with consideration to be given to adopting the Commonwealth forward estimates for inflation.

## Financial Reports for 2015-16

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

Deloitte Touche Tohmatsu provided internal audit services to AHPRA during the 2015-16 financial year. The agreed internal audit plan included;

- **Payroll and Leave Management**
  - Assess the adequacy and effectiveness of the processes and controls for the end-to-end payroll process and leave management process.
- **Cyber Security Health Check**
  - Provide management with a gap assessment of AHPRA's cyber risk management, looking holistically at how cyber security is managed using a top-down approach focused on AHPRA's cyber risk strategy, the components of cyber risk work currently in progress and how this affects cyber risk operations and threat levels.
- **Maturity of IT Services**
  - Assess the readiness of the current IT service model to meet the planned changes to business demands resulting from major IT projects.
- **IA Actions Follow up**
  - Follow-up of the adequacy and effectiveness of the implementation of priority internal audit actions.

## Cyber Security

Throughout 2015-16, a significant assurance program was undertaken in relation to AHPRA's cyber threat preparedness. The program included:

- a self assessment of AHPRA's status against the Australian Cyber Security Centre's thirty five strategies for mitigating targeted cyber intrusion;
- penetration testing
- Independent Information Security Risk Assessment (including validation of the self assessment)
- Cyber Risk Health Check internal audit

The overall result of the assurance program was to confirm the significant level of effort that has been applied to AHPRA's cyber security, including:

- a high level of compliance with the ACSC's strategies for mitigating targeted cyber intrusion
- penetration testing showed no external vulnerabilities.
- A significant and continuing improvement in AHPRA's cyber security control maturity
- The need to remain continuously vigilant to the ever evolving threat of cyber intrusion.

An improvement strategy has been developed from the observations and recommendations provided by the consolidated assurance program. AHPRA's management will include those recommendations in its planning both for interim improvement and also future state planning.

## 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 is evaluated by Committee members through a survey of both members on an annual basis and those impacted by the audit for each individual audit. The survey covers 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.

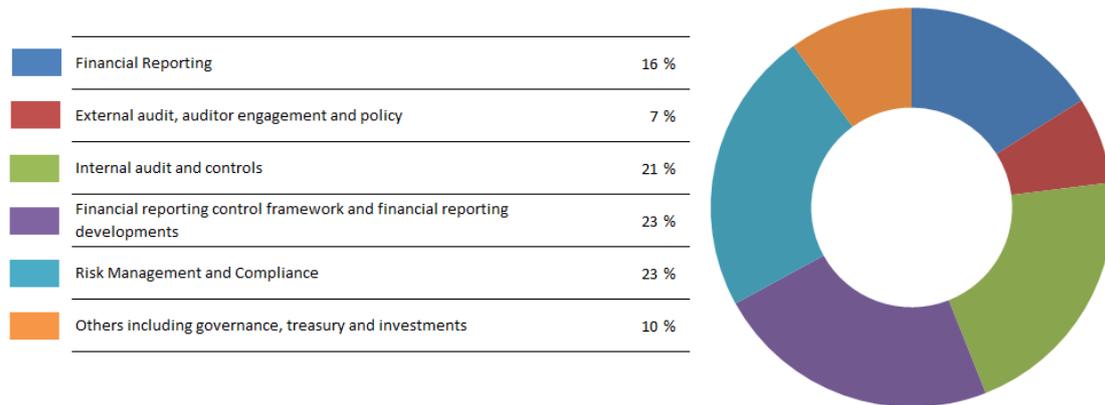
	Audit Period					Recommendations outstanding at commencement of 2015-16				Recommendations made for current period				Recommendations completed this FY				Recommendations Outstanding			
	FY2012	FY2013	FY2014	FY2015	FY2016	Significant	Important	Minor	Opportunity	High	Medium	Low	Opportunity	Significant	Important	Minor	Opportunity	Significant	Important	Minor	Opportunity
Information Management		◆				1	2	0	0	0	0	0	0		1			1	1	0	0
Notifications Handling			◆			0	6	3	0	0	0	0	0		1	3		0	5	0	0
Operational Management Reporting			◆			1	2	0	0	0	0	0	0	1	2			0	0	0	0
Registrations and Renewals																					
(1) Revenue Recognition				◆		0	2	4	0	0	0	0	0	0	1	4	0	0	1	0	0
(2) Criminal History Checks				◆		0	3	1	0	0	0	0	0	0	3	1	0	0	0	0	0
(3) Data Extraction				◆		0	0	0	3	0	0	0	0	0	0	0	3	0	0	0	0
Payroll Services and Leave Management					◆	0	0	0	0	0	8	0	0	0	0	0	0	0	8	0	0
Cyber Risk Health Check					◆	0	0	0	0	9	8	0	0		0	0	0	9	8	0	0
Maturity of IT Services					◆	0	0	0	0					0	0	0	0	0	0	0	0
TOTAL (Prior Period)						2	15	8	3	0	0	0	0	1	8	8	3	1	7	0	0
Total (This Period)						0	0	0	0	9	16	0	0	0	0	0	0	9	16	0	0
TOTAL						2	15	8	3	9	16	0	0	1	8	8	3	10	23	0	0

Most delays have occurred as a result of re-evaluation of majors projects (RCS and ERP) 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



## 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
- Directorate level Assurance Plans for Business Services and Regulatory Operations
- Development of a procurement strategy
- Development of financial systems requirements for inclusion in the Pulse (ERP) Project
- Development of Financial Policies and Judgements

## 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 2016 relating to the 30 June 2016 financial year.

VAGO commencing their planning for the 2015-16 audit in January 2016 with site visits and returned in April and June for interim audits with a final audit to conclude in July 2016.

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 has been conducted for 2015-16. A feedback loop has been implemented commencing in the June 2015 meeting.

## Better practice audits

During the 2015-16 financial year AHPRA used the Victorian Government's model financial statements as a basis for preparation for the 2015-16 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 2015-16 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:

- AHPRA's internal audit strategy
- Regulatory Operations Audits including Practitioner Conditions Management , Registration Renewal Process and Register of Health Practitioners
- The finalisation of a 5 year strategy, and
- Development of agreed strategy on management of equity.

### **Committee review**

A review process has been established which included:

- a self assessment by the Committee in relation to its performance and effectiveness; and
- a review process by the Committee of the performance and effectiveness of the internal audit process.

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