



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

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### Chair's introduction

#### Executive summary

This annual report of the Finance, Audit and Risk Management Committee (FARMC) for 2016-17 is provided to the Agency Management Committee (AManC) in accordance with the Committee's Terms of Reference.

This past financial year saw FARMC members deliberate on a number of critical policies arising from changes in accounting standards and the legislative environment. Policies included;

- whistleblowers;
- financial delegations;
- related party disclosures and;
- revenue recognition.

Testament to the commitment of members, there was vigorous debate particularly around the new whistleblowers policy which was triggered by the introduction of a new piece of government legislation. The policy, which is now in place, gives staff a pathway to raise concerns about corruption or malpractice – representing a significant step forward in the support of AHPRA staff and better practice.

On the financial front, the interpretation of revenue recognition and related party disclosures accounting standards were also debated at length. Both policy positions had the potential to significantly impact how we report to the general public our income and the possibility that our income is affected by the existence of relationships with Key Management Personnel. While the debate on revenue recognition continues, I am pleased to advise that related parties has been successfully resolved.

Members worked diligently to strengthen the National Registration and Accreditation Scheme's control framework through:

- Practitioner Conditions Management Audit Review
- Immediate Actions (IA) Follow Up
- Quality Assurance Audits for Pulse and Digital House and
- Work Health and Safety (WHS) Management System Review.

These audits are instrumental in maintaining the overall health of the National Scheme by ensuring that we deliver against our responsibilities to practitioners and AHPRA's staff.

During 2017, corporations and government agencies were targeted internationally by one of the most aggressive ransomware cyber-attacks in history – WannaCry. It was reassuring to see the work that AHPRA had already implemented in the Cyber Security space ensure our systems were not affected by these attacks. Building on this solid base, members endorsed a work schedule for further cyber security planning and testing to detect any potential vulnerabilities in our defences with a plan to close these gaps.

The 2016-17 reporting period also saw members review the merits of a \$12 million strategic investment in Digital House. This initiative will increase automation of tasks that are currently highly manual in nature. Greater automation will provide faster and more accurate information to members of the public and over time, help to reduce operating costs to alleviate pressure on registrant fees.

As part of the evolution of the Five Year Financial Plan, further work was done on the Boards' equity positions as part of a broader strategy to transition to a new equity model. While this work remains in progress going into 2017-18, FARMC members will continue to support plans for a more unified National Scheme in line with the intent of the objectives of the National Law.

Despite making significant progress in 2016-17, there is still a great deal more to be done. I commend FARMC members for a productive year and would like to thank them for their dedication and careful deliberation on all matters relating to finance, audit and risk.

I present the 2016-17 FARMC Annual report to AManC for consideration.

**Barbara Yeoh**

**Chair**

**Finance, Audit and Risk Management Committee**

# 2016-17 Annual Report

## 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 year, Prudence Ford, David Taylor and Dr Peggy Brown retired from the Committee and the Committee welcomed new members, Kim Jones and Ian Smith PSM.

During 2016-17, membership included: See table below: Peggy, Prudence and David Taylor were also members for part of the year.

Name	Membership status
Barbara Yeoh AM, Chair	Member AManC
David Taylor	Member AManC
David Balcombe	Independent member
Ian Smith PSM	Member of AManC
Kim Jones	Member of Dental Board of Australia

During 2016-17, attendees included:

Attendees	Position
Martin Fletcher	CEO, AHPRA
Sarndrah Horsfall	Executive Director, Business Services, AHPRA
Anthony DeJong	National Director of Performance and Innovation, AHPRA
Barry Bennett	Director, People Programmes, Risk and Compliance
Phil McAloon	Corporate Counsel, AHPRA
Victorian Auditor General's Office	Director
Internal Auditors, Deloitte	Partner

During 2016-17, meeting dates and attendance were as follows:

Meeting dates 2016-17	Attendance
25 August 2016	Barbara Yeoh David Balcombe Peggy Brown Prudence Ford David Taylor
14 November 2016	Barbara Yeoh David Balcombe Prudence Ford Ian Smith David Taylor Kim Jones
6 April 2017	Barbara Yeoh David Balcombe Ian Smith Kim Jones
15 May 2017	Barbara Yeoh David Balcombe David Taylor Kim Jones
19 June 2017	Barbara Yeoh David Balcombe Ian Smith Kim Jones

### 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 as 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.

### Governance

Observed best practice corporate governance through:

- Annual review of the Committees Terms of Reference
- Assessment of FARM activities against relevant ANAO and professional better practice guides on an ongoing basis

- Standing invitation to the external and 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
- Receiving regular advice on significant changes to legislation (such as the introduction of mandatory privacy breach reporting) and AHPRA activities to ensure compliance.
- Annual meeting between Chair and internal audit providers

## Committee activities for reporting period 1 July 2016 – 30 June 2017

### Significant Issues

- There were no significant issues considered during the 2016-17 financial period which could not be handled through routine Committee procedures.
- Matters of note considered by the Committee included:
  - Digital House Business Case
  - Cyber Security Planning and Testing
  - Development of the Five year Financial Strategy including further work on the National Boards equity positions.
  - Quality Assurance program in relation to PULSE and Digital House
  - Financial Delegations
  - Revenue recognition
  - Related party disclosures
  - Equity and related financial arrangements for the National Scheme.
  - Results of, and response to, Office of the Australian Information Commissioner audit of AHPRA handling of personal information
  - Whistle-blower policy implementation

### Major policy recommendations to Agency Management Committee

Policies Considered	Policies recommended to Agency Management Committee
Financial delegations	Approved by AManC
Related party disclosures	Approved by AManC
Revenue recognition	In progress
Whistle-blowers	Approved by AManC

The committee also considered the major assumptions and judgments which are applied in the annual financial statements which is a standard annual agenda item each year. The judgments and assumptions considered related to the following areas:

- Provision for doubtful debts
- Make good provision
- Long service leave provision
- Office of the Health Ombudsman (OHO) accounting treatment
- Paramedicine accounting treatment

The financial delegations were amended during the year reflecting a need to ensure consistency with system changes in Unit4 Business World (UBW).

## Financial reports for 2016-17

During the year standing reports on financial performance, budget and cash flow reports were presented to FARMC.

Work on the 5 year financial plan and equity approach were also presented in to the Committee during the year.

## 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 has also commissioned a review of AHPRA'S overall Assurance Framework to maximise the use of the resources available to the assurance programme and capitalise on identified opportunities to improve the programme.

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.

Periodically, the Committee reviewed significant operational risks at a Directorate level which included the opportunity to discuss that level of risk with Executive Directors.

Serious Incidents are managed through the Critical Incident Management Framework. A register of serious incidents is maintained. The Committee reviewed the status of serious incidents quarterly.

## Cyber security

The cyber security program consolidated the significant enhancements made during 2015-16 through the 2016-17 financial year. The program included:

- self-assessment of AHPRA's preparedness against the Australian Cyber Security Centre's revised 37 Strategies to Mitigate Cyber Security Incidents
- penetration testing
- Independent Information Security Risk Assessment (including validation of self-assessment)

The overall results of the assurance programme were to re-confirm the significant level of effort that has been applied to AHPRA's cyber security, including;

- a continued high level of compliance with the ACSC's strategies for mitigating targeted cyber intrusion
- continued improvement in AHPRA's cyber security control maturity, including penetration testing

The observations and recommendations from the assurance program have again informed the composition of the ongoing cyber security programme of work, the status of which is regularly reported to the Committee.

This work is routinely put into effect through Privacy Impact Assessments (PIA) of new projects that involve the collection, use or disclosure of personal information, and the implementation of recommendations arising from those PIAs through practical and contractual measures.

## Internal Audit Program

Deloitte's Touche Tohmatsu provided internal audit services to AHPRA during the 2016-17 financial year. The agreed internal audit plan included:

## Practitioner Conditions Management

Assess the adequacy and effectiveness of the system of internal control governing Health Assessments (Drug and Alcohol) and Conduct (Chaperone).

### IA Actions Follow up

Follow-up of the adequacy and effectiveness of the implementation of priority internal audit actions.

In addition to the assurance delivered by the primary internal audit provider, some specialist reviews were undertaken to complement the internal audit plan. They included:

### QA Audits for PULSE Project

PULSE project relates to the implementation of an Enterprise Resource Planning (ERP) system, which will replace at least six existing systems including the HR, payroll, and finance systems. The objective for the ongoing series of reviews was to:

- identify the status and progress made to address previous recommendations.
- review the identified business risks and project risks.
- focus on upcoming critical topics and issues for the project.
- highlight any possible areas of concern.

### WHS and Injury Management

Assessed Work Health and Safety compliance against ISO4801: 2001 Safety Management Systems and evaluate compliance with relevant WHS Acts, Regulations and codes of practice and assess injury management and return to work services against system requirements and relevant Workers Compensation legislation.

### Internal audit recommendations

The committee monitored the management responses in relation to High and Medium internal audit recommendations. Management was responsible for monitoring low and better practice (opportunity) recommendations.

						Recommendations outstanding at commencement of 2016-17				Recommendations made for current period				Recommendations completed this FY				Recommendations Outstanding			
	FY2013	FY2014	FY2015	FY2016	FY2017	High	Medium	Low	Opportunity	High	Medium	Low	Opportunity	High	Medium	Low	Opportunity	Significant	Important	Minor	Opportunity
Information Management*	◆					1	1	0	0	0	0	0	0	0	0	0	0	1	1	0	0
Notifications Handling*		◆				0	5	0	0	0	0	0	0	0	0	0	0	0	5	0	0
Operational Management Reporting*		◆				1	2	0	0	0	0	0	0	0	0	0	0	1	2	0	0
Registrations and Renewals																					
(1) Revenue Recognition			◆			0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Payroll Services and Leave Management*				◆		0	0	8	0	0	0	0	0	0	0	0	0	0	0	8	0
Cyber Risk Health Check*				◆		2	3	0	0	0	0	0	0	0	0	0	0	2	3	0	0
Maturity of IT Services				◆		0	0	0	0	0	0	4	0	0	0	4	0	0	0	0	0
Practitioner Conditions Management				◆		0	0	0	0	0	6	2	0	0	5	2	0	0	1	0	0
WHS and Injury Management				◆		0	0	0	0	0	15	4	0	0	3	1	0	0	12	3	0
PULSE Project QA Audit				◆		0	0	0	0	26	1	1	0	22	0	0	0	4	1	1	0
TOTAL (Prior Period)						2	9	0	0	0	0	0	0	0	0	0	0	2	9	0	0
Total (This Period)						2	3	8	0	0	0	4	0	0	0	4	0	2	3	8	0
TOTAL						4	12	8	0	0	0	4	0	0	0	4	0	4	12	8	0

\* NOTE: A majority of aged outstanding recommendations are dependent on systems upgrade which are due in the 2017-18 Financial Year.

**FARMC workplan**

The Committee commissioned a work plan addressing non-specific audit areas including:

- Corporate Governance
- Corporate Policy Framework
- Information Governance and Assurance
- Corporate Assurance Framework
- Financial Management
- PULSE Project
- Procurement Strategy
- Accommodation Strategy
- 5 Year Financial Strategic Plan
- Cyber Threat
- Digital House Project

The distribution of effort of the Committee for 2016-17 against key governance categories is outlined in the pie chart below:

External Audit	4 %
Internal Audit (incl Project QA)	19 %
Governance (incl Farm W/P)	9 %
Risk Management / Compliance	19 %
Information Governance	7 %
Finance Reporting	16 %
Finance Strategy (incl DH Bus Case)	24 %



**External audit**

VAGO provided external audit services during the year conducting planning, interim and final audit services. The responsible Director was Charlotte Jeffries.

VAGO were also provided their views to the committee in relation to related party and revenue recognition positions proposed to the committee by AHPRA.

**Committee performance self-assessment**

A committee performance review was conducted in 2016-17. The review was based on a survey format provided by the Australian National Audit Office’s better practice guide for Public Sector Audit Committees.

Areas of focus arising from the review will be considered in the Committee’s future work plan including where appropriate more deep dive reviews and suggestions for further committee training.

**Audit reports**

During the year, there were occasions when there was misunderstanding regarding the scope of some audits. The cause related to a variation between the short description of an audit contained in the Annual Internal Audit Plan, which were known to FARMC, and the detailed Terms of Reference which were ultimately agreed between Internal Audit and management.

To avoid that confusion and to ensure that each audit delivered meaningful outcomes, the internal audit plan has been amended to ensure that the Terms of Reference for each audit is finalised and presented to FARMC for endorsement prior to the audit commencing.

Limited resourcing of the Internal Audit Team, particularly from January to August of 2017 when the team was without an account manager, presented additional pressure on the delivery of the program. Since that time, a permanent account manager has been appointed.

### **Management responses**

A number of audit recommendations have not yet been completed. These include recommendations from prior period audits.

The majority of those incomplete recommendations relate directly to issues associated with the outcomes of the PULSE project or Pivotal replacement (now Digital House).

With the PULSE project in the later stages of implementation, the majority of these outstanding issues will shortly be addressed. Those related to Digital House have been taken into consideration in the development of project plans.