

Public Hospitals: Results of the 2013–14 Audits

Tabled 25 February 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector. The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 25 February 2015, the Auditor-General tabled his financial audit report, *Public Hospitals: Results of the 2013–14 Audits*.

Background

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Report covers 110
Victorian health
entities:

- 87 public hospitals
- 23 associated entities.



This presentation describes the results of the annual financial audit of the 87 public hospitals in Victoria, and their 23 associated entities for the 2013-14 financial year.

The report covers a review of their financial results, financial sustainability, and aspects of their internal control framework.

This report would normally be tabled in November each year, however due to the 2014 election it was carried over to February this year.

Background – *continued*

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Clear audit opinions issued to all 110 entities.

- All financial reports finalised within statutory time frames.
- Time lines for reporting—took on average 7.3 weeks compared to 12 week statutory deadline.
- Quality of financial reports—improvement from 2012–13.



Clear audit opinions, or unqualified audit opinions, are positive written expressions provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period, in accordance with the requirements of the relevant legislation and Australian Accounting Standards.

Clear audit opinions were issued on the financial reports of all 110 entities for 2013–14. As such, Parliament can have confidence overall in these financial reports.

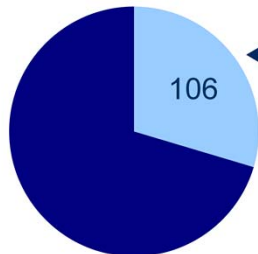
There was an improvement in the timeliness of the completion of the financial reports when compared to last year—with the average time taken to finalise financial reports this year being 7.3 weeks, compared to just over 9 weeks for last year. This was a commendable turnaround. This also compares favourably to the statutory deadline of 12 weeks.

There was also an improvement in the quality of the financial reports produced from the prior year, which is a good result.

Internal control weaknesses

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Unresolved internal control weaknesses:



← 30% of the 358 internal control issues reported to public hospital boards in 2012–13 or earlier have not yet been resolved.

Effectiveness of control frameworks at these entities is not as good as it could be.

- Management should address all audit issues on a timely basis.

During the 2013–14 financial audits, it was identified that public hospital management teams had not resolved 30 per cent (or 106) of the 358 internal control weaknesses that were reported to—and also accepted by—public hospital boards during the 2012–13 audits, or earlier.

These issues included items which were assessed as having a high, medium and low risk in terms of the impacts on the reliability, accuracy and timeliness of financial reporting.

Whilst it may appear that the low-risk issues would not have a significant impact on the reliability of the financial reports, if these issues are not resolved in a timely manner, they could—in aggregate—lead to more significant issues over time.

This lack of timely resolution for all issues means that the control frameworks in place at these entities are not as effective as they should be, and this can increase the risk of fraud or error going undetected.

Management should seek to address all issues raised by VAGO on a timely basis.

Financial sustainability results

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Hospitals collectively spent \$12.6 billion in 2013–14.



Financial sustainability risk for the whole sector = medium.



At 30 June 2014:

- 12 public hospitals could only fund up to seven days of operations from available cash-holdings.
- 32 public hospitals required a 'letter of comfort' from the former Department of Health.

Over the 2013–14 financial year, the 87 public hospitals and 23 associated entities, were collectively responsible for 12.6 billion dollars of expenditure in delivering public health care services.

We have conducted an assessment of the sector's overall financial sustainability risk, with reference to five key indicators.

We have assessed the sector as a whole, to have a medium financial sustainability risk this year. This is consistent with the overall findings from the prior year. Nevertheless, many are showing signs of financial stress.

Public hospitals continue to face challenges in delivering quality health services to the public, due to increasing demand, an ageing population, and limited funding streams.

To be financially sustainable, hospitals need to be able to meet their current and future expenditure requirements as they fall due, and to maintain and replace their assets as required.

Our assessment of public hospitals at 30 June 2014, indicated that many had significant financial sustainability risks.

These risks in part arise from the tight cash position in which many public

hospitals operate. This is illustrated by 12 public hospitals only holding enough cash at 30 June 2014 to fund their operations for seven days or less.

If these hospitals did not receive a grant payment within this period, they would be required to access other funding sources, which include seeking a recallable grant from the former Department of Health.

Whilst we note that this assessment was conducted at a particular point of time in the year—as at 30 June—we are currently in the process of reviewing our focus areas as part of our annual planning process, and we are considering a review of the cash management practices of a select number of hospitals during the 2014–15 reporting cycle.

We also found that 32 public hospitals showed signs of financial stress, compared to 28 in the prior year. These hospitals had a material uncertainty about their ability to continue as a going concern for financial reporting purposes. This required them to obtain a letter of comfort from the former Department of Health in order to be able to report as a going concern.

Those letters of comfort stated that the department would provide them with adequate cash flows to meet their obligations to September 2015.

Financial sustainability

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Impacts of the funding model on sustainability:

- Issue has been raised in previous reports.
- Current funding model results in a mismatch between:
 - boards' responsibilities for sustainable management and provision of public health services
 - the boards' ability to control the funding they receive, particularly from the department, to enable them to do this.

The financial sustainability risks of public hospitals have been highlighted in previous reports from this office.

These reports have consistently shown that the current funding model has resulted in a mismatch between:

- public hospital boards' responsibilities for the sustainable management and provision of health services,
- and the boards' limited ability to control the funding they receive, particularly from the department, to enable them to do this.

This mismatch needs to be addressed, as it blurs accountability for the financial performance of public hospitals.

We also note that the financial outcome for the provision of individual treatments at public hospitals varies, whereby some hospitals can make surpluses or losses from similar procedures, for example, imaging.

Internal audit functions

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Non-compliance with the Minister for Finance's Standing Direction.

Two hospitals do not have an internal audit function:

- Dunmunkle Health Service
- Casterton Memorial Hospital.

Internal audit is a key mechanism available to the board of a public hospital to support the discharge of its governance and oversight responsibilities.

We reviewed the operations of internal audit in public hospitals during 2013–14.

We found that Dunmunkle Health Service, and Casterton Memorial Hospital did not have an internal audit function. This is a breach of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, and a significant shortcoming in internal control.

Internal audit functions – *continued*

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Internal audit functions at the other public hospitals:

- Generally operate effectively.
- Internal audit plans need to be better aligned to the risk registers of each hospital.
- Internal audit coverage of some control frameworks could be improved.
- Policies around potential conflicts of interest could be improved.

Of the remaining 85 public hospitals, we found that the internal audit function generally operated effectively.

However, there were still some areas for improvement noted. In particular, we found that whilst detailed and approved audit plans were in place at many public hospitals, they did not align well with their respective risk registers.

This means internal audit may be less effective at highlighting potential control weaknesses or poor processes in those areas of **greatest risk**.

We also found that not all key business activities had been reviewed by internal audit over the last three years. This includes:

- **controls over cash management** had not been reviewed at 34 public hospitals
- **data security** had not been reviewed at 34 public hospitals
- **data quality** had not been reviewed at 37 public hospitals, and
- **controls over asset management** had not been reviewed at 44 public hospitals.

Public hospital boards should ensure they have adequate assurance over the control frameworks in these areas.

Further, we also found that the policies that these hospitals maintain to mitigate against any actual or perceived conflicts of interest for internal auditors could be improved. This could be achieved through the implementation of better practice internal audit charters.

Focus areas 2013–14 – asset maintenance functions

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In 2013–14:

- Public hospitals held \$11.9 billion of fixed assets.
- \$232 million spent on maintaining these assets.



Our report also comments on public hospital asset maintenance.

In 2013–14, public hospitals held 11.9 billion dollars of assets, and these hospitals spent 232 million dollars on maintaining these assets.

Focus areas 2013–14 – asset maintenance functions

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Improvements need to be made:

- 48 hospitals did not have strategies or policies in place regarding asset maintenance.
- Lack of information to make informed decisions.
- Poorly maintained assets could pose a risk to the efficient provision of health services.

Overall we found that public hospitals can make improvements to their asset maintenance strategies, procedures and oversight arrangements, which would enable them to make better informed decisions regarding the level and type of asset maintenance required.

We found that 48 public hospitals did not have a policy or strategy in place that addressed asset maintenance. Of these 48 public hospitals, the majority do not have regular or detailed internal reporting that addresses the adequacy of maintenance spending, risk management, funding plans or life cycle maintenance and costing.

The scope of this review was centred around the framework in place at public hospitals, for the management and planning of asset maintenance. We did not assess the adequacy of hospital spending on asset maintenance, particularly given the sometimes specialised and complex nature of some items of major medical equipment. Finding generally accepted maintenance benchmarks for this equipment was beyond our audit scope.

Poorly maintained assets could mean that a public hospital would be at risk of not being able to efficiently provide services to the public.

Key recommendations

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		Accept	Page
That public hospital boards and management:			
3.	through audit committees, implement appropriate monitoring mechanisms to ensure audit findings are resolved by management on a timely basis	✓	14
4.	maintain good cash management processes to ensure that they are able to meet their financial obligations as they fall due, particularly for those public hospitals assessed as having a high liquidity risk	✓	29
5.	work with the Department of Health and Human Services to ensure they are able to renew ageing assets as required to prevent any loss of service to the public.	✓	29

The report makes a total of fourteen recommendations.

Our recommendations, which request action by public hospital boards and management, have all been supported by the Department of Health and Human Services.

The recommendations on the slide are some of the most significant recommendations that were made, and have been addressed throughout this presentation.

Key recommendations – *continued*

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		Accept	Page
That public hospital boards and management:			
9.	work with their internal audit function to develop and implement a three-year audit plan that is approved by the audit committee, and which aligns with the risks identified in the hospital's risk register	✓	39
14.	maintain comprehensive and appropriate information regarding asset maintenance requirements to assist in strategic asset management planning.	✓	49
That Dunmunkle Health Service and Casterton Memorial Hospital:			
6.	establish and maintain an internal audit function.	✓	38

All recommendations have been accepted by the relevant agencies, and can be read on pages xiii and xiv of the report.

Contact details

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For further information on this presentation please contact:

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