This presentation provides an overview of the Victorian Auditor-General’s report *Results of 2016–17 Audits: Public Hospitals.*
This report outlines the results of our financial audits of the public hospital sector and our observations for the year ended 30 June 2017.

We have analysed their financial results, outcomes and sustainability risks and also reviewed their compliance with the Health Purchasing Victoria procurement framework.
We issued 108 clear audit opinions to Victoria’s 86 public hospitals and 22 of their 23 controlled entities. This positive outcome, consistent with last year, means the financial reports of the sector continue to be materially correct and reliable.

This year just one report, for Bendigo Health Care Group, was not finalised within legislated time frames, largely because it needed to finalise the complex accounting treatment and disclosures related to its new hospital. A clear audit opinion was issued.

One audit opinion remains outstanding. We are conducting an ongoing review of the Royal Children’s Hospital Foundation Trust funds’ audit reporting requirements.
This year the sector had operating revenues of $14.3 billion and expenditures of $14.2 billion. This translates to an operating surplus of $54.7 million.

The sector generated a combined net surplus of $493.9 million. This surplus was largely because of the significant capital income received by the Bendigo Health Care Group for its new hospital.

As shown by the graph there is an upward growth trend for both revenue and expenditure that have largely matched over the last five years.
We have assessed the sector on two financial sustainability risk indicators. The first is net result.

The funding model is set up so that the cost of providing services is constrained to the funding provided. This break-even model means that the net result—the difference between income and expenditure—will typically be close to zero.

Over the past five years, the net result has been within 5 per cent of break-even. This indicates that the funding model is operating as intended, as the sector is working within its means.

The average net result indicator across the past five years is 0.57 per cent. Although this is positive, results can vary considerably between hospitals. The results are shown in the graph on this slide.

In 2016–17, 55 public hospitals nearly broke even, but 20 hospitals generated a deficit of more than 5 per cent of revenue.

The high positive of the regional hospital was due to the capital funding received
by Bendigo Health Care Group for its new hospital.
The second indicator we have used to assess financial sustainability is physical asset replacement.

The sector needs to fund the renewal and replacement of its physical assets in a timely way. Run-down assets may affect the quality of service that patients receive and can result in higher long-term costs.

In 2016–17, the sector held $14.2 billion worth of physical assets and acquired $1.5 billion worth of new or replacement assets. Over the past five years, the sector spent on average $1.59 on new or replacement assets for each $1 of recorded depreciation. This indicates that the sector has a low financial sustainability risk when it comes to its assets.

This ratio includes all asset additions and does not separately identify the costs of replacement of assets. We are seeking and collecting additional data that will address this in future reports.
In our financial audits, we assess whether entities have appropriate controls to manage the risks that their financial reports will not be complete and accurate.

Overall, hospitals’ internal controls remain adequate, however, we found 34 new issues that we rated as extreme or high risk.

Key area of weakness were related to:

• information technology (IT) systems.
• payroll, expenditure and accounts payable.
We also monitor weaknesses identified in previous years to ensure entities are resolving them promptly.

At the start of 2016–17, there were 151 unresolved issues across the sector. During the year, hospitals resolved 69 per cent of these, but there are still 47 prior-year issues unresolved, with seven of these considered high risk.

The graph shows the breakdown of unresolved issues by area.
This year, public hospitals spent $2.3 billion on supplies and consumables.

Due to the large volume of similar types of items purchased by different hospitals, savings can be made through collective purchasing arrangements. In 2014, Health Purchasing Victoria implemented the Health Purchasing Policy (HPP) framework.

We assessed whether the 76 affected hospitals complied with each of the five HPP framework policies. Overall, they comply with most policies. However, the rate of compliance was higher on some policies than others.
We have created four data dashboards, which are interactive visualisation tools summarising the financial statement data for all Victorian public hospitals. You can find the dashboards on our website.

In summary, the financial reports for the sector are reliable and the sector is operating within its funding envelope.
For further information, please see the full report of this audit on our website, www.audit.vic.gov.au.