Health 2018

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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The Legislative Council
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Sydney NSW 2000

In accordance with section 52A of the *Public Finance and Audit Act 1983*, I present a report titled **'Health 2018'.**

Margaret Crawford
Auditor-General
12 December 2018

audit office
OF NEW SOUTH WALES

audit.nsw.gov.au

contents

Health 2018

Section one

Health 2018

This report analyses the results of our audits of the Health cluster agencies for the year ended 30 June 2018.

Executive summary

This report analyses the results of our audits of financial statements of the Health cluster for the year ended 30 June 2018. The table below summarises our key observations.

1.   Financial reporting

Financial reporting	The financial statements of NSW Health and all 30 health entities received unqualified audit opinions before the legislative deadline.
	Complex asset valuations caused significant errors in some health entities' financial statements, which were corrected before the financial statements were approved. These matters should be resolved earlier in the reporting cycle to reduce the likelihood of the errors occurring.
	The most significant errors resulted from lack of evidence to support the methodology, inputs and assumptions used to estimate the fair value of the assets of three health entities.
Financial performance	Overall, NSW Health recorded an operating surplus of $378 million in 2017–18. Eight of the 17 local health districts and specialty networks recorded operating deficits in 2017–18, three fewer than 2016–17.
Excess annual leave	Managing excess annual leave is a continual challenge for NSW Health, with 34 per cent of the workforce having excess balances.
	Recommendation: Health entities should further review the approach to managing excess annual leave in 2018–19, and:
	• monitor current and projected leave balances to the end of the financial year on a monthly basis
	• agree formal leave plans with employees to reduce leave balances over an acceptable timeframe
	• encourage staff that perform key control functions to take a minimum of two consecutive weeks' leave a year as a fraud mitigation strategy.
Overtime payments	NSW health entities are generally managing overtime well. However, the Ambulance Service of NSW's overtime payments of $74.8 million (8.8 per cent of total salaries), remain significantly higher than other health entities.
	Recommendation: The Ambulance Service of NSW should further review the effectiveness of its rostering practices to identify strategies to reduce overtime payments.

Time and leave recording practices	NSW Health has implemented a new state-wide staff rostering system, 'HealthRoster'. This has reduced the number of roster related internal control issues, which included unapproved timesheets and salary overpayments needing retrospective adjustments.
	Despite improvements in internal controls, employee time recording continues to be a problem for some health entities. We found unapproved timesheets, timesheets approved before work was performed and reports indicating 'force approval' of timesheets to process payrolls.
	As health entities complete their transition to HealthRoster, NSW Health expects regular escalation of HealthRoster reports and exceptions to senior managers will further strengthen controls over timesheet approvals.
	Recommendation: Health entities should, as part of the benefits realisation of HealthRoster, continue to rectify time and leave recording control weaknesses to reduce the risk of error and timesheet fraud.

2.   Audit observations

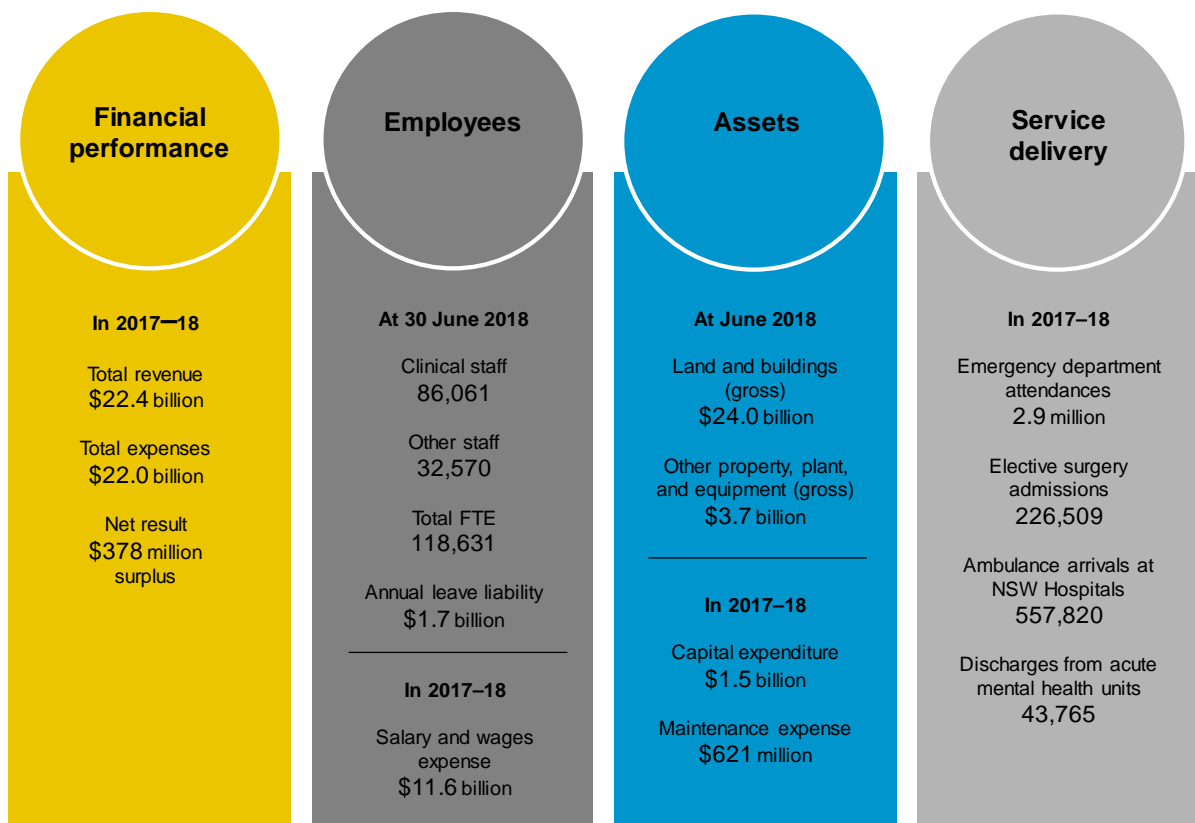|	
Internal control deficiencies	The number of internal control deficiencies identified in 2017–18 decreased. However, the number of repeat issues from prior years remains high with more than one quarter of issues previously reported. 16 out of the 98 deficiencies we identified related to information system controls.
Revaluation of property, plant and equipment	NSW Health recorded an increase in the fair value of its assets of $856 million in 2017–18. Three of the eight health entities that revalued their assets had to revise those valuations and made significant changes to their financial statements after submitting them for audit. Opportunities exist to improve revaluation processes at health entities.
Capital projects	Significant revisions to planned completion dates and budgeted costs impact the ability to assess the timeliness and cost effectiveness of projects. We reviewed three significant on-going capital projects with a total spend to date of $746 million. Initial and revised project budgets were properly approved.
Asset maintenance	Health entities maintained $16.6 billion of assets at a total cost of $621 million in 2017–18. We reviewed the asset maintenance practices of the five entities with the highest maintenance expense. These entities are complying with NSW Treasury guidelines for planning maintenance. One entity adopted a more consultative and detailed approach to estimating their maintenance needs. Input from operational staff allowed more accurate budgeting of their maintenance spend.

1. Introduction

This report provides parliament and other users of the Health cluster's financial statements with the results of our audits, our observations, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations.

1.1 Snapshot of NSW Health

A snapshot of NSW Health is shown below.

Financial performance

In 2017–18

Total revenue
$22.4 billion

Total expenses
$22.0 billion

Net result
$378 million surplus

Employees

At 30 June 2018

Clinical staff
86,061

Other staff
32,570

Total FTE
118,631

Annual leave liability
$1.7 billion

In 2017–18

Salary and wages expense
$11.6 billion

Assets

At June 2018

Land and buildings (gross)
$24.0 billion

Other property, plant, and equipment (gross)
$3.7 billion

In 2017–18

Capital expenditure
$1.5 billion

Maintenance expense
$621 million

Service delivery

In 2017–18

Emergency department attendances
2.9 million

Elective surgery admissions
226,509

Ambulance arrivals at NSW Hospitals
557,820

Discharges from acute mental health units
43,765

Source: Financial data is from the audited financial statements of the Ministry of Health. Non-financial data was provided by the Ministry of Health (unaudited).

1.2 Snapshot of the Health cluster

The cluster is responsible for:

- providing health care services to patients and the community
- promoting wellness and illness prevention
- developing health care policy and planning
- managing, monitoring and reporting health system performance
- building healthy communities by working with other parts of the NSW Government.

The commentary in this report covers the following cluster entities.

Ministry of Health

Principal department/Lead agency

Local health districts and specialty health networks

Central Coast	Western NSW	South Eastern Sydney
Far West	Murrumbidgee	South Western Sydney
Northern NSW	Northern Sydney	Nepean Blue Mountains
Illawarra Shoalhaven	Hunter New England	Sydney Children's Hospitals Network
Mid North Coast	Western Sydney	Justice Health and Forensic Mental Health Network
Sydney	Southern NSW	

Pillar agencies

Agency for Clinical Innovation

Bureau of Health Information

Cancer Institute NSW

Clinical Excellence Commission

Health Education and Training Institute

Shared state-wide services

Health Administration Corporation, comprising the following divisions:

- NSW Ambulance
- Health Infrastructure
- HealthShare NSW
- eHealth NSW
- NSW Health Pathology
- Health System Support Group

Other entities

Albury Base Hospital

Albury Wodonga Health Employment Division

Graythwaite Charitable Trust

Independent agencies

Health Care Complaints Commission

Mental Health Commission of NSW

NSW Health Foundation

Health Professional Councils#

\# Health Professional Councils are the Psychology, Podiatry, Physiotherapy, Pharmacy, Osteopathy, Optometry, Occupational Therapy, Nursing and Midwifery, Medical Radiation Practice, Medical, Dental, Chiropractic, Chinese Medicine, and Aboriginal and Torres Strait Islander Health Practice Councils.

Note: The table above excludes the 28 special purpose service entities and staff agencies controlled by health entities.

1.3 Service agreements in NSW Health

In 2017–18, NSW Health reported revenue of $22.4 billion. Appropriations from NSW Treasury ($12.2 billion) and National Health Reform funding grants from the Australian Government ($6.1 billion) are the primary sources of health funding in NSW.

The following figure illustrates funding sources and their flow through NSW Health.
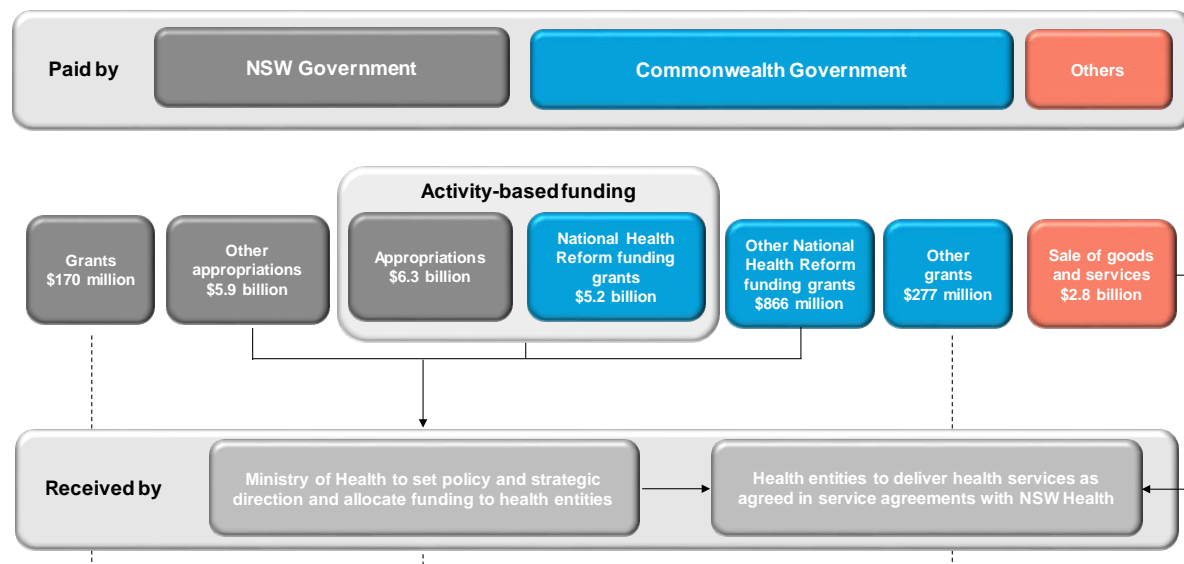
Source: Audited financial statements of the Ministry of Health.

The Ministry of Health sets expectations for the quality and volume of health services delivered by health entities

The Ministry of Health negotiates service agreements annually with each health entity. This articulates direction, responsibility and accountability across NSW Health, and promotes delivery on the State and Premier's Priorities. The National Health Reform agreement between NSW Health and the Australian Government requires these agreements.

The key components of service agreements are:

- the mix and level of services to be delivered by the health entity
- the budget for the health entity for the year
- the performance and service delivery expectations to be met by the health entity.

2018–19 service agreements were due to be signed by 31 July 2018. 17 out of 26 health entities signed their agreements by the due date (13 in 2016–17). 11 health entities signed their agreements earlier than last year.

There are 68 KPIs and 131 improvement measures in place for health entities

The service delivery part of this report provides important contextual information about the cluster's operation for 2017–18. The data on activity levels and performance against key performance indicators (KPIs) is provided by the Ministry of Health. The Audit Office does not have a specific mandate to audit performance information. Accordingly, performance information in this introduction is unaudited.

In our recent performance audit, Progress and measurement of Premier's Priorities, we identified 12 limitations of performance measurement and performance data. We recommended the Department of Premier and Cabinet ensure that processes to check and verify data are in place for all agency data sources.

Health entities' performance is assessed against KPIs and improvement measures. Improvement measures are not part of service agreements but are additional measures health entities regularly report to the Ministry of Health.

1.4 Service delivery in 2017–18

There are 42 KPIs for local health districts and speciality networks, and 131 improvement measures. The Ambulance Service of NSW has 26 distinct KPIs.

NSW Health reported that, on average it met targets for triage and emergency department treatment times
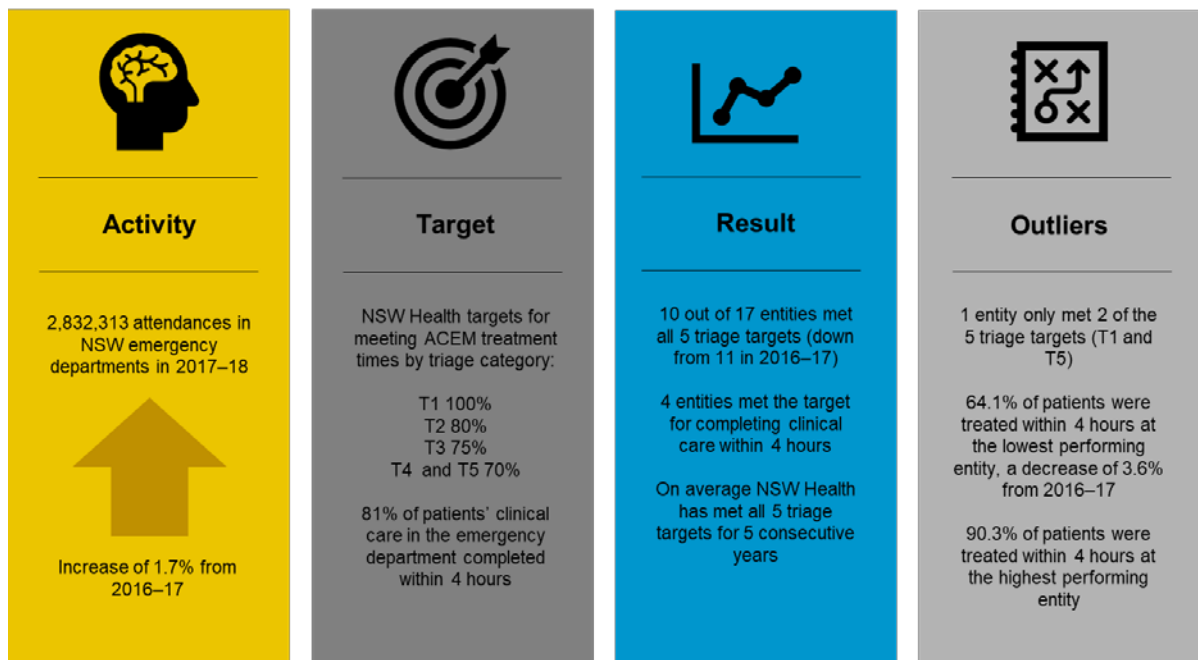
To better understand the operations and objectives of emergency departments we selected two KPIs relevant to emergency departments and we:

- obtained data from the Ministry of Health on the level of activity and performance of emergency departments
- compared the performance of emergency departments to targets set by NSW Health
- compared the level of activity and the level of performance in 2017–18 to 2016–17
- analysed the results by emergency department to understand whether significant differences exist in the performance of emergency departments.

Emergency departments allocate patients into one of five triage categories to ensure patients receive care in clinically appropriate timeframes. Triage categories are recommended by the Australasian College for Emergency Medicine (ACEM). NSW Health has set targets for the percentage of presentations treated within the ACEM guidelines.

NSW Health also measures the percentage of patients whose clinical care in emergency departments is completed within four hours. The measure is used as an indicator of access to public hospital services and patient satisfaction.

The following figure summarises the level of activity and performance NSW Health reported against the selected KPIs in 2017–18.
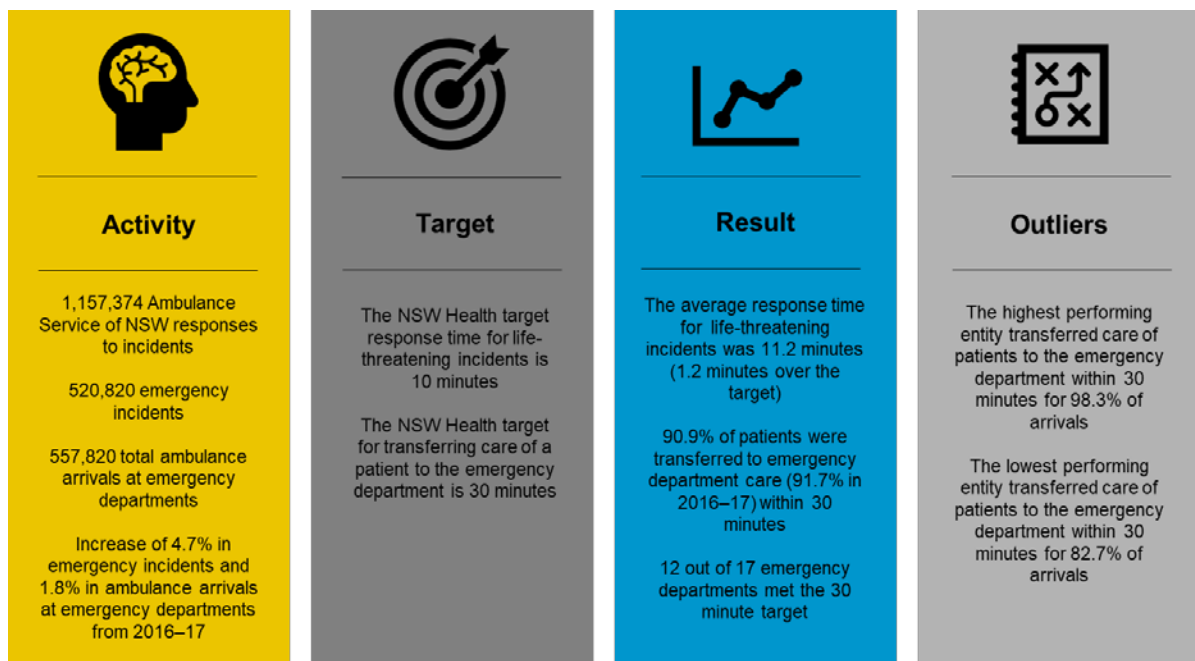

Activity	Target	Result	Outliers
2,832,313 attendances in NSW emergency departments in 2017–18 Increase of 1.7% from 2016–17	NSW Health targets for meeting ACEM treatment times by triage category: T1 100% T2 80% T3 75% T4 and T5 70% 81% of patients' clinical care in the emergency department completed within 4 hours	10 out of 17 entities met all 5 triage targets (down from 11 in 2016–17) 4 entities met the target for completing clinical care within 4 hours On average NSW Health has met all 5 triage targets for 5 consecutive years	1 entity only met 2 of the 5 triage targets (T1 and T5) 64.1% of patients were treated within 4 hours at the lowest performing entity, a decrease of 3.6% from 2016–17 90.3% of patients were treated within 4 hours at the highest performing entity

Source: NSW Ministry of Health (unaudited).

NSW Health reported that the Ambulance Service of NSW transferred patient care to emergency departments for 90.9 per cent of emergency department arrivals

We obtained and compared data on the activity levels and performance of the Ambulance Service of NSW and emergency departments for two KPIs relating to ambulance services. The Ambulance Service of NSW measures:

- the median ambulance response time for potentially life-threatening incidents in New South Wales. Time is recorded from when a triple zero call is recorded to when the first ambulance resource arrives. Target response times vary depending on the priority allocated to the incident

- the percentage of patients arriving by ambulance whose care is transferred from the ambulance to the emergency department within 30 minutes of the ambulance arriving at the emergency department.

The following figure summarises the level of activity and performance reported by the Ambulance Service of NSW against these KPIs in 2017–18.
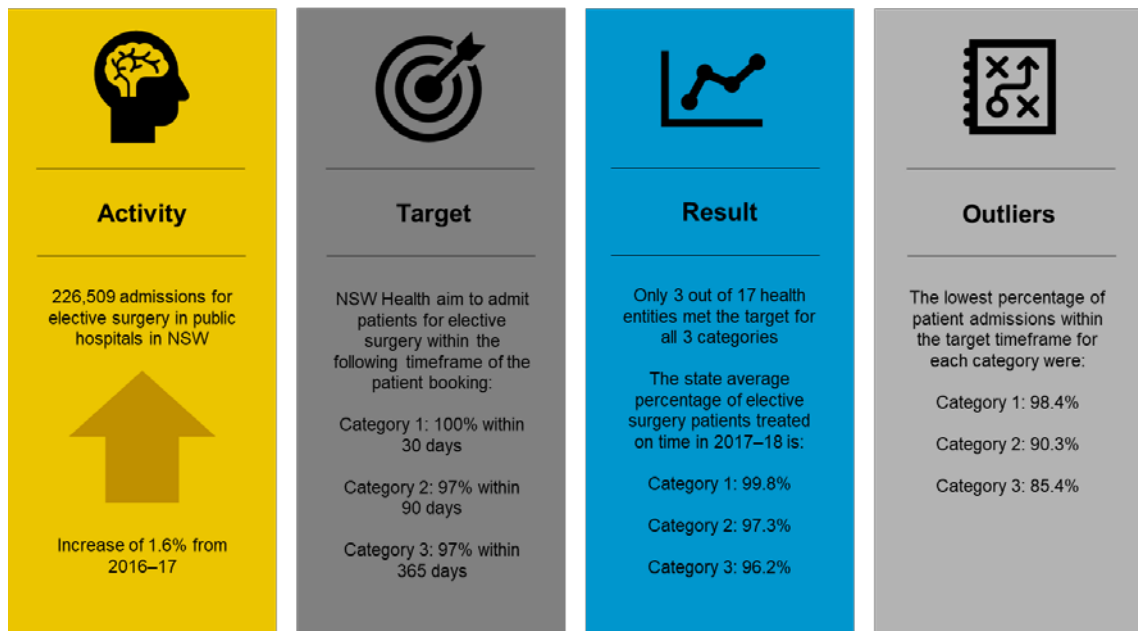

Activity	Target	Result	Outliers
1,157,374 Ambulance Service of NSW responses to incidents	The NSW Health target response time for life-threatening incidents is 10 minutes	The average response time for life-threatening incidents was 11.2 minutes (1.2 minutes over the target)	The highest performing entity transferred care of patients to the emergency department within 30 minutes for 98.3% of arrivals
520,820 emergency incidents	The NSW Health target for transferring care of a patient to the emergency department is 30 minutes	90.9% of patients were transferred to emergency department care (91.7% in 2016–17) within 30 minutes	The lowest performing entity transferred care of patients to the emergency department within 30 minutes for 82.7% of arrivals
557,820 total ambulance arrivals at emergency departments		12 out of 17 emergency departments met the 30 minute target	
Increase of 4.7% in emergency incidents and 1.8% in ambulance arrivals at emergency departments from 2016–17			

Source: NSW Ministry of Health (unaudited).

Thirteen out of seventeen health entities did not quite meet targets for elective surgery wait times

We obtained and compared data on the activity levels and performance of health entities for one KPI relating to elective surgery waiting times.

Elective surgery patients are allocated into three priority categories based on the clinical urgency of their surgery. NSW Health measures the percentage of elective surgery patients who are admitted for treatment within the timeframe recommended for the priority category.

The following figure summarises the level of activity and performance NSW Health reported against this KPI in 2017–18.
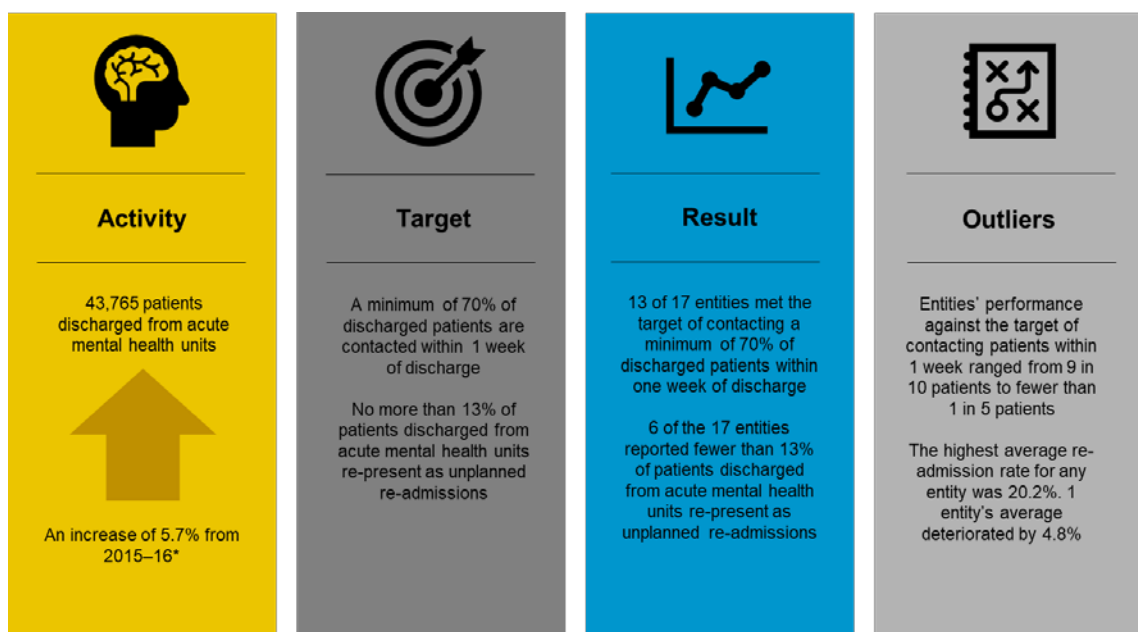
Activity

226,509 admissions for elective surgery in public hospitals in NSW

Increase of 1.6% from 2016–17

Target

NSW Health aim to admit patients for elective surgery within the following timeframe of the patient booking:

Category 1: 100% within 30 days

Category 2: 97% within 90 days

Category 3: 97% within 365 days

Result

Only 3 out of 17 health entities met the target for all 3 categories

The state average percentage of elective surgery patients treated on time in 2017–18 is:

Category 1: 99.8%

Category 2: 97.3%

Category 3: 96.2%

Outliers

The lowest percentage of patient admissions within the target timeframe for each category were:

Category 1: 98.4%

Category 2: 90.3%

Category 3: 85.4%

Source: NSW Ministry of Health (unaudited).

NSW Health reported fewer adverse outcomes for mental health patients

We obtained and compared data on the activity levels and performance of health entities for two KPIs used by NSW Health to monitor post discharge care and adverse outcomes for mental health patients. NSW Health monitors:

- the percentage of discharged patients who are followed up by a community mental health contact within seven days of the patient's discharge
- the percentage of discharges that are followed by an unplanned overnight re-admission to any NSW acute mental health unit within 28 days of the patient's discharge.

The following figure summarises the level of activity and performance NSW Health reported against the selected KPIs in 2017–18.

Activity

43,765 patients discharged from acute mental health units

An increase of 5.7% from 2015–16*

Target

A minimum of 70% of discharged patients are contacted within 1 week of discharge

No more than 13% of patients discharged from acute mental health units re-present as unplanned re-admissions

Result

13 of 17 entities met the target of contacting a minimum of 70% of discharged patients within one week of discharge

6 of the 17 entities reported fewer than 13% of patients discharged from acute mental health units re-present as unplanned re-admissions

Outliers

Entities' performance against the target of contacting patients within 1 week ranged from 9 in 10 patients to fewer than 1 in 5 patients

The highest average re-admission rate for any entity was 20.2%. 1 entity's average deteriorated by 4.8%

* We have reported the increase from 2015–16 as changes to care types and administrative processes reduced the comparability of data about the number of patients discharged in 2016–17.

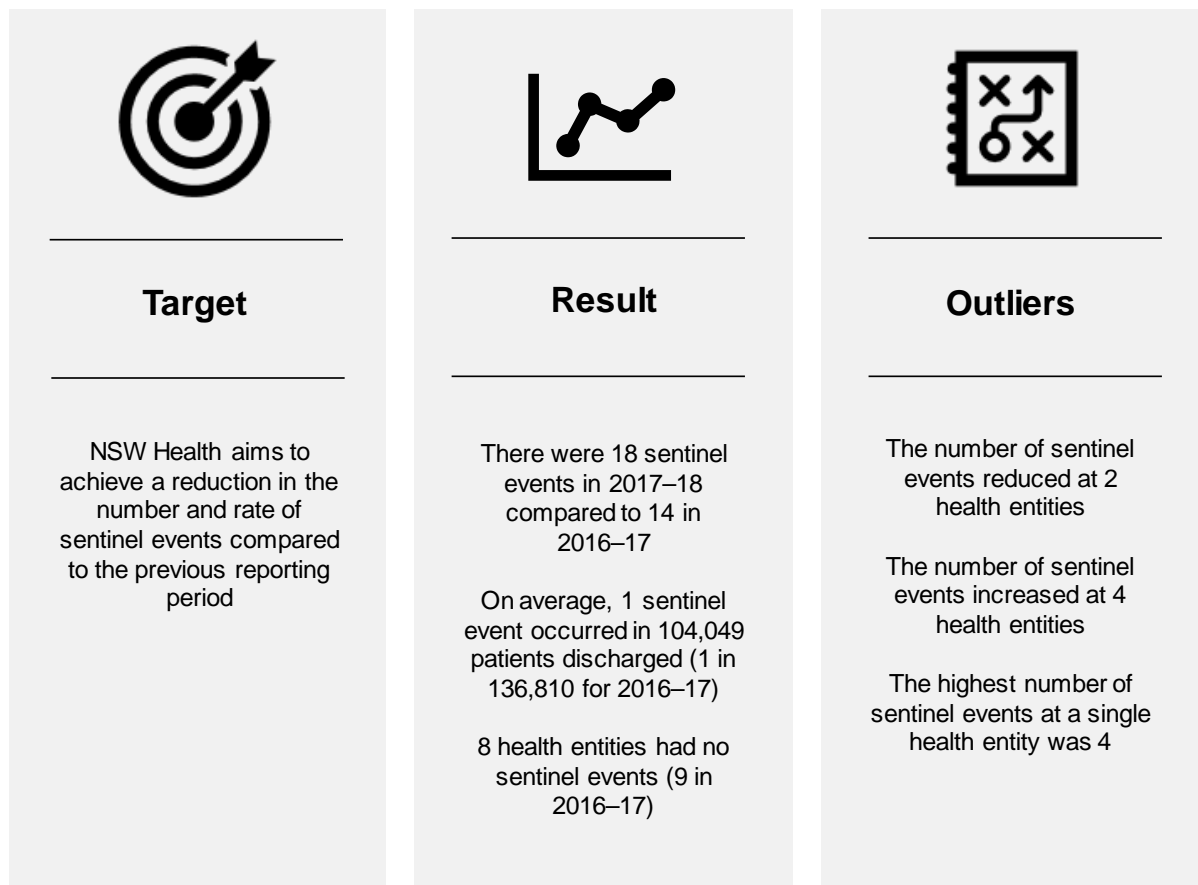Source: NSW Ministry of Health (unaudited).

NSW Health reported 18 sentinel events in 2017–18

We obtained and compared data on the activity levels and performance of health entities for one improvement measure used by NSW Health to monitor sentinel events.

A sentinel event is an adverse event related to a public hospital admission that results in death or very serious harm to a patient. Of the eight nationally agreed sentinel events the two most common over the last four years are:

- instruments or other materials retained in the patient after surgery requiring a further operation or surgical procedure
- the suicide of a patient in an inpatient unit.

The following figure summarises NSW Health's targets and the results and outliers it reported relating to sentinel events.

Target	**Result**	**Outliers**
NSW Health aims to achieve a reduction in the number and rate of sentinel events compared to the previous reporting period	There were 18 sentinel events in 2017–18 compared to 14 in 2016–17 On average, 1 sentinel event occurred in 104,049 patients discharged (1 in 136,810 for 2016–17) 8 health entities had no sentinel events (9 in 2016–17)	The number of sentinel events reduced at 2 health entities The number of sentinel events increased at 4 health entities The highest number of sentinel events at a single health entity was 4

Source: NSW Ministry of Health (unaudited).

Other adverse outcomes decreased in 2017–18

We obtained and compared data on the activity levels and performance of health entities for three KPIs used by NSW Health to monitor adverse outcomes other than sentinel events. NSW Health measures:

- the percentage of patients with unplanned re-admissions to hospital within 28 days of being discharged
- the percentage of unplanned and emergency re-presentations to an emergency department within 48 hours of leaving the emergency department
- the number of staphylococcus aureus bloodstream infections (SA-BSI) cases per 10,000 bed days, as a measure of hand hygiene compliance of health workers.

The following figure summarises the level of activity and performance NSW Health reported against the selected KPIs in 2017–18.

Activity	Target	Result	Outliers
1,918,319 patient discharges from NSW hospitals 2,832,313 attendances in NSW emergency departments 7,220,798 hospital days in NSW hospitals	Decrease in the number and percentage of unplanned re-admissions Decrease in the number and percentage of unplanned emergency department re-presentations Fewer than 2 SA-BSI per 10,000 bed days	14 health entities' unplanned re-admissions decreased and emergency re-presentations decreased for 13 The state averages decreased by 0.2% to 4.7% and 0.5% to 5.9% respectively All health entities SA-BSI rates were below the benchmark. The NSW average was 0.71	The highest percentage of unplanned emergency department re-presentations at a single health entity was 8.4% Unplanned re-admissions for all entities fell within a 3% range

Source: NSW Ministry of Health (unaudited).

2. Financial reporting

Financial reporting is an important element of good governance. Confidence and transparency in public sector decision making are enhanced when financial reporting is accurate and timely.

This chapter outlines our audit observations related to the financial reporting of agencies in the Health cluster for 2018.

Observation	Conclusions and recommendations
2.1 Quality of financial reporting	
We issued unqualified audit opinions for all health entities. We identified fewer misstatements than last year, but they were more significant.	The Ministry of Health sets significant accounting policies centrally and provides a template for the preparation of health entities' financial statements. These processes promote consistent quality in the financial reports of health entities. Significant errors identified in 2017–18 predominantly related to revaluations of property, plant and equipment.
2.2 Timeliness of financial reporting	
Entities' continue to bring forward financial statement procedures to 31 March where possible. All entities submitted their financial statements on time.	Health entities continue to meet statutory deadlines.
2.3 Financial and sustainability analysis	
NSW Health recorded an operating surplus of $377.7 million in 2017–18. Fewer health entities recorded operating deficits in 2017–18.	The operating surplus was $123 million less than budgeted, and $29.0 million less than the surplus recorded for 2016–17. NSW Health budgets for surpluses to help it invest in new facilities, upgrades and redevelopments.
Expenses across NSW Health increased by 5.5 per cent in 2017–18 (4.4 per cent in 2016–17).	The expense growth rate for NSW Health is 0.5 percentage points lower than the projected long-term annual expense growth rate of six per cent.
The capital replacement ratio (investment in new assets divided by depreciation) for NSW Health is 2.0.	NSW Health's high capital replacement ratios for ten health entities in 2017–18 is driven by its substantial ongoing investment in hospitals and other assets.
2.4 Performance against budget	
This year, four out of 17 (ten out of 17 in 2016–17) local health districts and specialty networks reported a budget variance outside of performance expectations.	Health entities' budgets are revised frequently throughout the year by the Ministry of Health. In 2017–18 the budgeted expenses of health entities were incrementally increased throughout the year by a total of $807 million. The Ministry of Health expects health entities not to exceed their revised budgeted expenses by more than 0.5 per cent. Four of the local health districts did not meet this requirement.

Observation	Conclusions and recommendations
2.5 Financial impact of health entity employees	
Thirty-four per cent of NSW Health's workforce has excess annual leave balances, compared to 35 per cent in 2016–17.	Managing excess annual leave continues to challenge health entities. **Recommendation:** Health entities should further review the approach to managing excess annual leave in 2018–19, and: • monitor current and projected leave balances to the end of the financial year on a monthly basis • agree formal leave plans with employees to reduce leave balances over an acceptable timeframe • encourage staff that perform key control functions to take a minimum of two consecutive weeks' leave a year as a fraud mitigation strategy.
The Ambulance Service of NSW reported an average sick leave rate of 88.9 hours per FTE in 2017–18, an increase from 85.2 hours per FTE in 2016–17.	Managing sick leave continues to challenge the Ambulance Service of NSW. **Recommendation:** The Ambulance Service of NSW should further implement and monitor targeted human resource strategies to address the high rates of sick leave taken.
The Ambulance Service of NSW reported overtime payments of $74.8 million **(**$74.6 million in 2016–17**)**. This continues to be significantly higher than other health entities.	**Recommendation:** The Ambulance Service of NSW should further review the effectiveness of its rostering practices to identify strategies to reduce excessive overtime payments.
Weak timesheet approval controls mean unapproved employee timesheets continue to be a problem for health entities.	**Recommendation:** Health entities should, as part of the benefits realisation of HealthRoster, continue to rectify time and leave recording control weaknesses, to reduce the risk of timesheet errors and fraud.

2.1 Quality of financial reporting

Audit results

We issued unqualified audit opinions on the financial statements for all entities in the cluster.

Quality of financial reporting continues to improve

Although we identified fewer misstatements this year, the errors identified were more significant. In 2017–18 eight errors exceeded $5.0 million (three in 2016–17). Six out of the eight errors identified were corrected (one in 2016–17) before the final accounts were signed. The errors mainly related to the valuation of property, plant and equipment and transfer of assets between health entities.

While the errors identified were significant, health entities processed sufficient corrections that their financial statements were not materially misstated. This allowed users of the financial statements to rely on them as an accurate representation of the health entities' performance and financial position.

Number of misstatements

Year ended 30 June	2018 ✅	2018 ❗	2017 ✅	2017 ❗	2016 ✅	2016 ❗
Less than $50,000	--	6	3	3	15	3
$50,000 to $249,999	--	--	2	3	1	3
$250,000 to $999,999	--	--	1	3	--	5
$1.0 million to $4,999,999	--	2	1	5	--	3
$5.0 million and greater	6	2	1	2	--	5
Total number of misstatements	**6**	**10**	**8**	**16**	**16**	**19**
Key ✅ Corrected misstatements			❗ Uncorrected misstatements			

Source: Statutory audit reports issued by the Audit Office.

2.2 Timeliness of financial reporting

Financial statements were submitted on time

Timely financial reporting is essential for sound financial management, effective decision making and improving public accountability. In 2017–18, with the exception of one entity, all health entities met their statutory deadlines for completing financial statement procedures brought forward to 31 March. All health entities submitted their financial statements well ahead of the statutory deadline.

Three health entities could improve their financial statement procedures for revaluation of property, plant and equipment

Bringing forward some financial statement procedures allows early resolution of issues that can impact the quality and timeliness of financial reporting.

Procedures brought forward to 31 March were substantially completed across all Health cluster entities, but three could improve their procedures for revaluing property, plant and equipment.

NSW Health's assets include land, which is often subject to zoning restrictions, and buildings of specialised nature. The valuations of these assets involve significant judgement because of the subjectivity of the unobservable inputs. To mitigate the risks associated with the valuations, health entities are required to complete their valuations as part of their financial statement preparation procedures at 31 March, and:

- use external, professionally qualified valuers to perform revaluations
- revalue their land at least every three years, and all other classes of property, plant and equipment every five years
- determine whether fair value differs materially from carrying value in the years between valuations by considering indices prepared by a professionally qualified valuer
- assign responsibility within the entity for the valuation process
- ensure the valuation approach is sufficiently documented, supported and reviewed by senior management.

Better management of valuation processes would have reduced the number of errors we identified in the financial statements and improve the timeliness of the finalisation of the financial and audit reporting.

Appendix three of this report provides information on the timelines of Health cluster entities' financial and audit reporting.

2.3 Key financial information

	2018 $m	2017 $m	Variance %
Total expenses	22,040.1	20,888.2	▲ 5.5
Employee related expenses	13,397.2	12,413.1	▲ 7.9
Total revenue	22,417.8	21,295.6	▲ 5.3
Net result	377.7	407.4	▼ 7.3
Total assets	20,138.4	18,612.4	▲ 8.2
Total liabilities	5,143.0	4,851.0	▲ 6.0

Source: Audited financial statements.

Increased employee related expenses accounted for 82 per cent of the increase in expenses

On 1 July 2017 employees in all Health cluster award classes received a 2.5 per cent wage increase. This was the primary driver of the increase in employee related expenses of $984.1 million. The increase in the provisions for health entities' employees long service leave also increased by $120 million, due to actuarial adjustments.

Additional funding from the NSW State and Federal Governments increased revenue by $1.1 billion

Appropriation and grants and contributions increased by $446.3 million and $498.5 million respectively. Commonwealth National Health Reform funding increased by $338 million, as a result of increased activity in acute emergency departments, sub-acute care and non-admitted patient care. Grants from other NSW state government entities increased by $110.8 million. This included grants of $75.0 million from Infrastructure NSW and $35.0 million of grants from the Department of Ageing Disability and Homecare.

Assets increased because of expenditure on capital works and an increase in fair value

The value of assets held by the Ministry of Health increased from $18.6 billion at 30 June 2017 to $20.1 billion at 30 June 2018. This was mainly due to significant capital expenditure on new facilities, upgrades and redevelopments across NSW Health. In accordance with NSW Health's revaluation plan, eight health entities revalued land, buildings and infrastructure assets in 2017–18. adding $856 million to the recorded value of the assets.

An actuarial adjustment to the long service leave provision increased liabilities

Total liabilities increased from $4.9 billion to $5.1 billion at 30 June 2018. Increases in long service leave on-costs and the 34 per cent of staff with excess annual leave balances were the key driver of the increases in employee provisions and total liabilities.

Appendix four of this report summarise key financial results for entities in the cluster.

2.4   Financial and sustainability analysis

NSW Health has 15 local health districts and two specialty networks that operate public hospitals and institutions, and provide health services to communities. Each has its own management structure and governing board.

The Ministry of Health agree key financial indicators with these entities in service agreements. We analysed the performance of the local health districts and specialty networks against the key financial indicators. These indicators are the financial result for the year, expense growth rate and capital replacement ratio.

Financial results

More health entities reported a surplus in 2017–18

Eight out of 17 local health districts and specialty networks recorded operating surplus in 2017–18, one more than in 2016–17.

Increased surpluses were mainly due to recurrent funding received to implement the NSW State Health Plan and capital funding recorded as income. The associated expenditure has, or will be, capitalised when spent on new facilities, upgrades and redevelopments.

NSW Health's expense growth rate increased in 2017–18

NSW Health projected an expected long-term annual expense growth rate of six per cent in the 2016 NSW Intergenerational Report. The projected increase reflects higher expected healthcare costs as NSW's population ages. However, since the release of the 2016 report, expense growth for the cluster has remained below this benchmark (5.5 per cent in 2017–18 and 4.4 per cent in 2016–17).

Eleven of the 17 local health districts and specialty networks contributed to the increased expense growth rate. Expenses at five of the 17 entities grew by more than the six per cent in 2017–18.

Justice Health and Forensic Mental Health Network had the largest increase in expenses (13.4 per cent) due to the implementation of a program to make a new Hepatitis C drug available to the State's increasing prison population. The program was fully funded by the Australian Government.

Actuarial adjustments to long service leave provisions was the main driver behind increases in expenses at several local health districts. Increases in expenses in excess of the six per cent benchmark were recorded at Southern NSW (8.7 per cent), Murrumbidgee (8.0 per cent), South Western Sydney (7.4 per cent), and The Sydney Children's Hospital Network (7.3 per cent).

Three-year average expense growth rate

A State Priority target is for agencies' expense growth rates to be lower than the long-term revenue growth rate of six per cent. Agencies will need to continue monitoring expenditure closely to achieve this target.

Over the past three years, on average expenses increased 5.3 per cent each year across NSW Health. Justice Health and Forensic Mental Health Network had the largest average increase (14.4 per cent). Five other health entities' expenses increased by more than 6.0 per cent, including Murrumbidgee (7.8 per cent), Southern NSW (7.6 per cent), Nepean Blue Mountains (6.5 per cent), South Western Sydney (6.3 per cent) and Illawarra Shoalhaven (6.1 per cent) local health districts.

Nine of the 17 local health districts/specialty networks recorded lower annual expense growth rates than their three-year averages.

Capital replacement ratio

The capital replacement, or asset sustainability ratio, measures the rate at which physical assets managed by health entities are being replaced. It compares the rate of spending on renewing or growing capital assets against depreciation. A ratio greater than one indicates capital expenditure is greater than the rate of depreciation.

The overall capital replacement ratio for NSW Health increased to 2.0 in 2017–18 (1.8 in 2016–17) despite a slight increase in depreciation expenses.

Ten health entities had capital replacement ratios higher than one

This indicates most health entities are investing in their capital assets at a higher rate than their assets are being depreciated.

The highest ratio reported was 5.8 in the Central Coast Local Health District, mainly due to capital expenditure on the Gosford Hospital redevelopment.

The Western Sydney Local Health District's capital expenditure was 4.6 times greater than depreciation due to capital expenditure at the Blacktown and Mt. Druitt Hospital Expansion project and Westmead Redevelopment project.

South Eastern Sydney Local Health District's capital expenditure was four times greater than depreciation due to capital expenditure for St George Hospital redevelopment acute service building, Sutherland Hospital Expansion and the Randwick Campus Reconfiguration and Expansion.

Six health entities had capital replacement ratios less than one

In contrast, six health entities had capital replacement ratios less than one and five of these entities had an average ratio of less than one over the past three years. This means assets may not be replaced at the rate they are wearing out. The lowest average ratio recorded was 0.5.

Although the capital replacement ratio is a long-term indicator and capital expenditure can be deferred in the short-term, entities with ratios lower than one over the long-term may be under-investing in the assets they require for service delivery.

Appendix five details the health entities performance against each of the key financial indicators as at and for the year ended 30 June 2018.

2.5   Performance against budget

The Ministry of Health monitors individual health entities' performance against budget. Health entities' budgets are updated by the Ministry of Health frequently throughout the year to reflect transfers of functions, employee award changes and supplementations received after the initial budget.

Local health districts disclose their adjusted budget in their financial statements despite the Australian Accounting Standard requiring budgetary reporting not applying to local health districts. Also, the local health districts depart from the requirement the Australian Accounting Standard by presenting adjusted budget information instead of the original budget information. Neither the original or adjusted budget information, nor the assumptions used in formulating the budget information are audited.

All health entities' expense budgets were revised and increased in 2017–18

At the start of 2017–18, budgeted expenses for the local health districts and specialty networks, in total were $17.6 billion ($40.0 million more than actual expenses in 2016–17). This was progressively revised by the Ministry of Health to $18.4 billion during the year (an increase of $807 million).

The following health entities reported the most significant budget revisions.

| Far West | ▲ $12m 11% | Contributing factors were higher than expected depreciation and amortisation, actuarial adjustments to leave provisions and patient transport costs. |

| Sydney Children's Hospital Network | ▲ $68.6m 9% | Contributing factors were higher than expected depreciation and amortisation, actuarial adjustments to leave provisions and increased expenditure on high cost drugs and increased winter activity also contributed. |

| Justice Health and Forensic Mental Health Network | ▲ $77.5m 36% | Contributing factors were higher than expected expenditure on high cost hepatitis C drugs and actuarial adjustments to leave provisions. |

Source: NSW Ministry of Health (unaudited).

Appendix six shows the following details by health entity:

- original budgeted expenses, excluding losses, at the beginning of the financial year
- final budgeted expenses after budget revisions during the year
- actual expenses reported by each local health district/specialty network
- variances between the actual reported expenses and the original and final budgets.

Despite budget revisions, four health entities' actual expenses exceeded their final budgeted expenses by more than 0.5 per cent

Unfavourable variances to the adjusted budget occur when health entities incur additional expenditure without having obtained a supplementary budget allocation from the Ministry of Health.

In 2017–18, ten health entities recorded unfavourable variances between actual and final budgeted expenses. Of the ten, the following entities had a variance of more than 0.5 per cent.

| Western Sydney Local Health District | ▼ $12.1m 0.7% | Contributing factors were higher than planned winter activity, acute care admissions and emergency department presentations. |

| Illawarra Shoalhaven Local Health District | ▼ $11.6m 1.2% | Contributing factors were higher than planned acute care admissions and emergency department presentations. An increase in the annual leave provision also contributed to the result. |

| Murrumbidgee Local Health District | ▼ $18.6m 2.9% | Contributing factors were higher than expected activity, bed days and emergency department presentations particularly in the fourth quarter. Nursing agency costs continue to impact employee benefit expenses |

| Southern NSW Local Health District | ▼ $12.3m 2.8% | Contributing factors were inflated employee benefits expenses as a result of visiting medical officers, overtime, and agency costs. |

Source: NSW Ministry of Health (unaudited).

Appendix six details the health entities' performance against budget for the year ended 30 June 2018.

The Ministry of Health is currently undertaking an internal review of its processes for allocating budgeted revenue to health entities.

2.6 Financial impact of Health cluster employees

Employee benefits expense is the most significant expense for the Health cluster. In 2017–18, NSW Health employed around 118,600 full time equivalent employees. This represents 36 per cent of NSW public sector's full time equivalent employees. 72.5 per cent of health employees are clinical staff. This year, employee related expenses represented 61 per cent of total Health cluster expenses.

Many health employees are remunerated under a complex award structure. This presents risks to NSW Health because:

- changes in award rates of pay creates volatility in the financial results of health entities
- achieving consistency in processes for recording time and monitoring entitlements is difficult
- implementing appropriate systems with the capacity to deal with the size and complexity of the health workforce is challenging and costly
- control deficiencies can expose health entities and NSW Health to significant risk due to the potential scale of errors or fraud.

We have noted four ongoing issues relating to employees.

Thirty-four per cent of NSW Health's workforce has excess annual leave balances

The health and wellbeing of staff can be adversely affected where staff do not take sufficient leave. Patient care can also be compromised when the health and well-being of clinical staff declines.

Excess leave entitlements negatively impact the cash flow of an organisation, as the amount that will eventually be paid out to meet leave liabilities increases in line with salary and award increases in effect with the leave is eventually taken.

Having staff take leave, particularly managerial and administrative staff performing key control functions reduces fraud risks. Fraud is more likely to be detected when staff members are on leave, and their duties are performed by other people.

The table below shows the number of employees in NSW Health with excess leave.

At 30 June	2018	2017	2016	2015
Number of employees with excess leave*	45,084	44,985	45,541	45,240
Percentage of workforce	34.1%	35.0%	35.9%	36.4%

* Figures based on 30 days or more.
Source: NSW Ministry of Health (unaudited).

At 30 June 2018, South Western Sydney Local Health District once again was the local health district the highest percentage of employees with balances exceeding 30 days (46.9 per cent). The Bureau of Health Information was the health entity with the lowest percentage (2.8 per cent).

We have noted two key contributing factors to excess annual leave balances:

- Clinical employees who work a seven-day roster can accrue up to seven weeks per year.
- An increasing number of employees are not taking annual leave (6,036 in 2017–18, up from 5,835 in 2016–17). The percentage of employees who took no annual leave in 2017–18 increased at nine of the local health districts and specialty networks.

While most health entities report they monitor current and projected leave balances monthly and measure excess leave balances as part of their service agreements with the Ministry of Health, our audits identified more health entities without formal leave plans in place for employees to reduce their balances to acceptable levels.

The chart below shows the percentage of employees who took no annual leave during the financial year by entity.

Employees who took no annual leave during the financial year
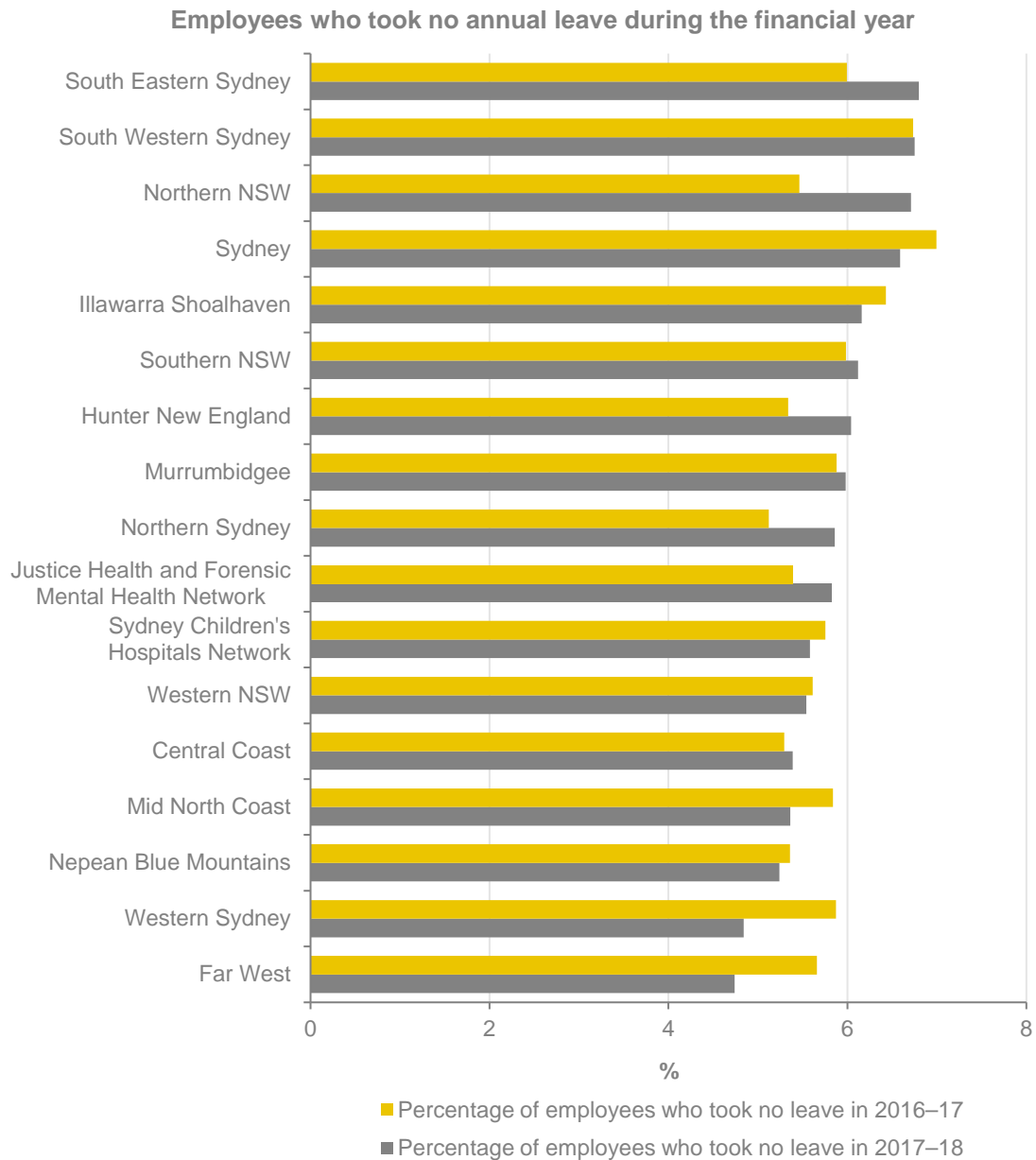
Source: NSW Ministry of Health (unaudited).

Recommendation (repeat issue)

Health entities should further review the approach to managing excess annual leave in 2018–19. They should:

- monitor current and projected leave balances to the end of the financial year each month
- agree formal leave plans with employees to reduce leave balances over an acceptable timeframe
- encourage staff that perform key control functions to take a minimum of two consecutive weeks' leave a year as a fraud mitigation strategy.

The Ambulance Service of NSW's overtime payments remain significant

Overtime is paid at premium rates and, if not effectively managed, can result in higher costs and work, health and safety issues, particularly when fatigued employees perform high-risk tasks.

The Ambulance Service of NSW's overtime continues to be significantly higher than other health entities. The average overtime paid to employees is also the highest in NSW Health. We noted:

- while overtime payments increased to $74.8 million ($74.6 million in 2016–17), overtime payments as a percentage of salary and wages expense decreased by one per cent
- 8 employees were each paid more than $100,000 in overtime (six in 2016–17)
- 97.8 per cent of employees received overtime payments (93.7 per cent in 2016–17)
- employees were paid an average of $14,500 for overtime ($15,600 in 2016–17).

The Ambulance Service of NSW has different categories of overtime including:

- **Call out** – planned overtime used to maintain service delivery in regional and remote NSW where there is low demand, a 24-hour roster is not economically viable or for additional supervisory support. This is the most significant category of overtime for the Ambulance Service of NSW.
- **Drop shift** – unplanned overtime to cover staff absences.
- **Extension of shift** – unplanned overtime when paramedics are on an active incident beyond their rostered finish time.

The table below shows the breakdown of overtime for the Ambulance Service of NSW.

Ambulance Service of NSW overtime payments

Year ended 30 June	2018		2017	
	Overtime payments $m	Percentage of salary and wages expense%	Overtime payments $m	Percentage of salary and wages expense%
Call out	39.3	8.8	38.6	9.1
Drop shift	18.4	4.1	19.8	4.7
Extension of shift	14.9	3.3	14.7	3.5
Other	2.2	3.5	1.5	0.4
Total overtime payments	**74.8**	**16.7**	**74.6**	**17.7**

Source: Trial balance and audited financial statements.

In December 2017, we tabled a performance audit report on managing demand for ambulance services. We concluded that although the Ambulance Service of NSW has done extensive planning work in recent years to identify patterns in demand for its services, there are signs of inefficiency in its use of resources. For example, in 2016–17 the Ambulance Service of NSW paid more than $10.5 million to paramedics due to missed meal breaks. This was the equivalent of about 140 full-time first-year paramedic graduate salaries. In 2017–18, overtime payments increased by $200,000 to $74.8 million.

Last year's Auditor-General's Report to Parliament recommended the Ambulance Service of NSW implement strategies to reduce the different overtime categories. The Ambulance Service of NSW advises the strategies implemented vary depending on the reasons for the overtime. Strategies include:

- **Call out** – reviewing 24-hour rostering requirements at key locations where demand has increased with more full-time employees introduced to reduce frequency of call outs.
- **Drop shift** – reviewing alternative staffing practices and workforce, in particular the increased use of casual staff to cover unplanned absences.
- **Extension of shift** – reviewing staff rostering and deployment model as part of the Paramedic Response Network in the Sydney region. Whole-of-health program improvements in patient flows and time spent by paramedics transferring care at emergency departments is helping reduce Extension of Shift overtime.

Other NSW health entities are generally managing overtime well. Overtime as a percentage of salaries and wages increased by only 0.1 per cent to 4.3 per cent this year.

> **Recommendation (repeat issue)**
>
> Ambulance Service of NSW should further review the effectiveness of its rostering practices to identify strategies to reduce excessive overtime payments.

The number of roster related internal control issues has reduced

NSW Health has implemented a state-wide staff rostering system to allow managers to more effectively roster to staffing needs by time of day, day of week and by skill level.

The Auditor-General has undertaken a performance audit on the effectiveness of the HealthRoster system in delivering business benefits, which was released on 7 June 2018. The audit found the system implementation has reduced the number of roster related internal control issues that included unapproved timesheets and salary overpayments needing retrospective adjustments.

Despite the improvements, our audits of health entities found supervisors failing to approve employee timesheets continues to be an issue for some health entities. Weaknesses in timesheet approval controls increase the risk of staff claiming and being paid for hours they have not worked. Some timesheets were approved before the work was performed or system administrators 'force approved' timesheets so pay runs could be finalised on a timely basis. Processes to follow up or subsequently review pre-approved timesheets are not yet fully implemented.

As health entities complete their transition to HealthRoster, we expect regular escalation of HealthRoster reports and exceptions to senior managers and executives will result in stronger controls over the approval of timesheets before submission for payroll processing and reduce the volume of roster adjustments, manual pays, salary overpayments and leave not recorded accurately in the system.

> **Recommendation (repeat issue)**
>
> Health entities should, as part of the benefits realisation of HealthRoster, continue to rectify time and leave recording control weaknesses to reduce the risk of timesheet fraud.

3. Audit observations

Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. They are essential for quality and timely decision making.

This chapter outlines our observations and insights from:

- our financial statement audits of agencies in the Health cluster for 2018
- the areas of focus identified in the Audit Office Annual Work Program.

The Audit Office Annual Work Program provides a summary of all audits to be conducted within the proposed time period as well as detailed information on the areas of focus for each of the NSW Government clusters.

Observation	Conclusions and recommendations
3.1 Internal control deficiencies	
The number of internal control deficiencies decreased. However, almost a quarter of control deficiencies are repeat issues and over a quarter relate to managing employees' leave and time recording.	Control deficiencies that relate to managing employees' leave, employees' time recording or information system limitations can be difficult for entities to resolve in a timely manner. Nonetheless, the longer the deficiency remains unaddressed the more likely the vulnerability will contribute to error or fraud.
3.2 Audit Office annual work program	
Revaluation of property, plant and equipment	
Three health entities did not effectively oversee the asset revaluations performed by the experts they engaged in 2017–18. All three entities made material adjustments to their draft financial statements.	Valuation of health property, plant and equipment is complex and subjective. Health entities and the Ministry of Health rely on the experts they engage, but needed to do more to review and oversee their work.
Capital projects	
NSW Health manages a significant capital program ($1.7 billion in 2017–18). We noted significant revisions to completion dates and budgeted costs for some projects.	NSW Health complied with approval requirements for business cases, initial budgets and budget variations for the projects we reviewed. For some projects revisions to planned completion dates and budgeted costs impact on the ability to assess the timeliness and cost effectiveness of projects. Combining stages of projects for simplicity of reporting, as a project progresses also makes it difficult to see how the project is tracking to the original plan.

Observation	Conclusions and recommendations

Asset maintenance

The five health entities with the highest maintenance expense used different methods to estimate budgets for maintenance expense. Entities that calculated maintenance budgets by applying CPI factors to prior year expenses were less likely to deliver within budget.

Maintenance budgets are more accurately predicted when estimates are made of expected costs and prepared with the input of asset maintenance staff.

Two of the five entities recorded significantly higher unplanned maintenance expenditure. Planned maintenance expenditure for these entities was lower than other entities.

The entities plan to address this by performing condition audits of their assets, increasing planned maintenance and replacing assets.

All five of the entities were using assets that have been fully depreciated. The replacement cost of each entities' fully depreciated assets represented between 3–7 per cent total replacement cost.

While entities are now regularly reassessing the useful lives of their assets, they continue to use some assets that were fully depreciated prior to the implementation of these processes.

3.1 Internal control deficiencies

We reported fewer control deficiencies relating to health entities this year. Although the total number of control deficiencies identified decreased, the number of repeat issues remains high.

	New deficiencies	Repeat deficiencies
2017–18	71	27
2016–17	90	32
2015–16	93	33
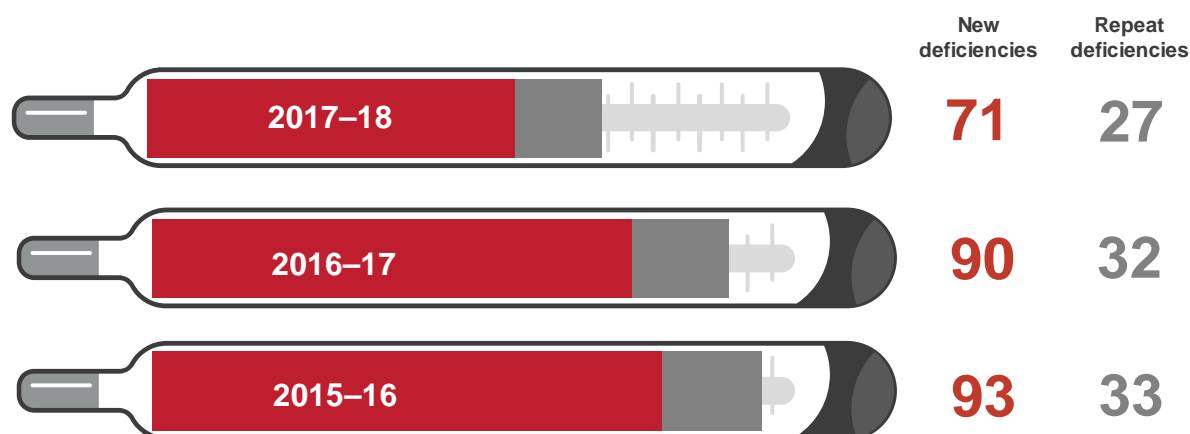
Source: Management reports issued by the Audit Office

Deficiencies in internal controls increase the risk of fraud and error. We report deficiencies in internal controls, matters of governance interest and the unresolved issues we identify to management and those charged with governance. We report our observations, related implications, recommendations and risk ratings.

The following table outlines management letter findings for Health cluster entities this year.

Category	Risk rating	Issue
Capital projects and asset maintenance	🟡 Moderate: 1 new, 1 repeat ✅ Low: 2 new, 1 repeat	Issues included: • delays in capitalising projects • delays in processing disposal of assets in accounting systems. Repeat issues included: • weakness in asset management, for example stocktakes were not independently reviewed, fully depreciated assets remain in the asset register and delays occur in performing reconciliations.
Procurement practices	🟡 Moderate: 6 new, 1 repeat ✅ Low: 2 new, nil repeat	Issues included: • incomplete contract registers • approval of purchase requisitions after the invoice date. Repeat issues included: • absence of evidence to support aspects of public sector officials' travel.
Valuation of property, plant and equipment	🔴 High: 3 new, nil repeat 🟡 Moderate: 3 new, nil repeat ✅ Low: 2 new, nil repeat	Issues included: • three high risk issues relating to health entities that could not provide adequate evidence to support their original asset revaluations • other deficiencies in the process to manage revaluation of assets • assets being fully depreciated because useful lives are not regularly reviewed.
Human resources	🟡 Moderate: 10 new, 11 repeat ✅ Low: 6 new, 4 repeat	New and repeat issues included: • excessive annual leave balances • unapproved timesheets and forced finalisation of rosters. Further details on managing excess annual leave and time recording are provided in Section 2.6.
Information technology	🟡 Moderate: 9 new, nil repeat ✅ Low: 5 new, 2 repeat	Issues included: • weak administration of access to IT systems. Cyber security risks were not incorporated into the enterprise risk framework and appropriate risk mitigation strategy such as cyber insurance were not in place. Repeat issues included: • ineffective monitoring of user access.

Category	Risk rating	Issue
Financial reporting	🟡 Moderate: 4 new, nil repeat ✅ Low: 5 new, nil repeat	Issues included: • delays in reconciling key account balances and resolving reconciling items • non-disclosure of salary packaging bank accounts.
Governance and oversight	🟡 Moderate: 1 new, nil repeat ✅ Low: 4 new, 2 repeat	Issues included: • lack of laws and regulations compliance register to monitor key compliance activities • delay in updating the gift and benefit register. Repeat issues included: • outdated policies and procedures • improvement to non-government funding arrangements.
Other internal control deficiencies or improvements	🟡 Moderate: 5 new, nil repeat ✅ Low: 7 new, 4 repeat	Issues included: • instances of manual journals recorded without independent review • the need to review inventory management and stocktaking processes • discrepancies in approval limits set in the delegation manual and the Oracle system. Repeat issues included: • expired service level agreement with service provider.

🔴 High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

🟡 Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

✅ Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

Source: Management reports issued by the Audit Office.

3.2 Audit Office annual work program

Each year our financial audits examine a small number of specific topics across agencies. We determine which topics to consider by looking for opportunities to improve public-sector accountability, governance and administration. We also consider the risks and challenges to reporting the true financial position and performance of the State and how these may be addressed during our audits.

Risks and challenges that may impact on financial reporting of health entities this year include:

- valuation of property, plant and equipment
- infrastructure delivery
- asset maintenance.

Valuation of property, plant and equipment

NSW Health's financial statements for 2017–18 record the fair value of their property, plant and equipment at $16.6 billion. This represents 83 per cent of NSW Health's total assets. Revaluations can therefore have a significant impact on NSW Health's financial statements. In 2017–18 NSW Health recorded an $856 million increase in the value of its land, buildings and infrastructure.

NSW Treasury policy requires physical assets to be carried at fair value

NSW Treasury policy mandates agencies measure physical non-current assets at fair value in accordance with the revaluation model described in Australian Accounting Standards. This ensures a consistent basis for measurement for all physical assets in the NSW Public Sector.

The Ministry of Health's policies seek to ensure health entities select appropriate valuation approaches

In determining fair value, the Ministry of Health's policies seek to ensure health entities use valuation techniques that are appropriate in the circumstances. Under Australian Accounting Standards entities are required to use valuation techniques that maximise the use of observable inputs and minimising the use of assumptions and estimates.

Health entities use the following approaches to value their physical assets:

- **The market approach** - uses prices and other relevant information generated by market transactions involving identical or similar assets. This approach was mainly applied in the valuation of land.
- **The current replacement cost** - reflects the amount that would currently be required to replace the 'service capacity' of an asset, adjusted for obsolescence. The cost approach was used to value assets where no or limited markets existed to establish a market value, such as specialised buildings and infrastructure.

Eight health entities revalued land and buildings this year

Australian Accounting Standards allow entities to revalue their assets on a rolling basis, provided revaluation of a class of assets is completed within a short period. Under the Ministry of Health's rotational plan for the revaluation of property, plant and equipment, eight health entities performed a full revaluation of their land, buildings and infrastructure systems in 2017–18.

The following figure illustrates the value of NSW Health property, plant and equipment in the last three years.

	2015–16	2016–17	2017–18
Revalued assets as a percentage of total property, plant and equipment	29%	31%	25%
Written-down value of revalued assets	$4.2 billion	$4.7 billion	$4.2 billion
Increase in value of revalued assets	$374 million	$309 million	$856 million
Increase in value of revalued assets as a percentage of their written-down value	9%	7%	20%

Source: Audited financial statements of health entities and the Ministry of Health.

Opportunities exist to improve the revaluation processes of health entities

In 2017–18 three of the eight health entities that revalued their assets were unable to provide adequate evidence to support the methodology, inputs and assumptions used. All three entities had engaged the same valuer. A Ministry of Health review of the valuation approach resulted in appointment of a new valuer, who reperformed the valuations in late August.

All three health entities revised their valuations, reducing the valuation increment previously recorded by NSW Health by $148 million.

Our review of the revaluation process identified that:

- management could improve their assessment of the expert's valuation methods, and quality review the results
- significant judgements and assumptions had not been adequately challenged by management
- errors in valuation techniques had led to double counting of some assets
- information on how the highest and best use of the asset was determined was not always available
- some revaluations were not completed and ready for audit in the agreed timeframes.

Better practice tips for managing revaluations

- Engage upfront with all stakeholders, including auditors.
- Determine who needs to be involved and advised of the revaluation's progress.
- Ensure asset registers are complete and there is evidence to demonstrate the agency controls the assets.
- The effective date of the valuation can be any date after the financial year commences, but well before year-end.
- Start revaluations early so they are completed along with financial statement preparation procedures brought forward to 31 March.
- Review the reasonableness of the methodology, inputs and assumptions used and the accuracy of the calculations made by the valuer.
- Understand the rationale for the movements in the valuation and assess whether the movements are reasonable.
- Ensure sufficient information is provided by the valuer for the financial statements disclosures.
- Assess compliance with NSW Treasury policy and relevant accounting standards.
- Check the competence, objectivity, experience and reputation of the proposed valuer.
- Provide written instructions clearly detailing the proposed valuation methodology to valuer in accordance with TPP 14–01 Valuation of Physical Noncurrent Assets at Fair Value.
- Ensure valuation report details the key assumptions used, explains why the valuation approach was adopted, and how it maximised the use of observable inputs.
- Valuation reports should differentiate between assets revalued using a cost approach and those using market approach or income approach. They should explain why the approach used was the most relevant for the asset type.
- Determine the extent of physical inspections that may be required and ensure the valuer has considered the age and condition of the assets, and other special factors.
- If a representative/statistical sampling will be used, ensure the sample is representative of the population.
- Support significant judgements, such as discounts to reflect restrictions on use, with relevant benchmark data or other analysis.

The Report on State Finances 2018 provides for further guidance on using the work of an expert.

Infrastructure delivery

NSW Health delivered a $1.7 billion capital program in 2017–18 ($1.5 billion in 2016–17).

There are two models for delivery of health infrastructure in New South Wales

Health infrastructure projects with budgeted costs less than $10.0 million are delivered directly though health entities. However, projects with budgeted costs of more than $10.0 million are delivered by Health Infrastructure, an arm of NSW Health established to oversee the planning, design, procurement and construction of health capital works.

The graph below outlines the split between infrastructure projects, in terms of capital work in progress, delivered by Health Infrastructure and delivered by health entities during 2017–18.

Infrastructure delivery in the Health cluster
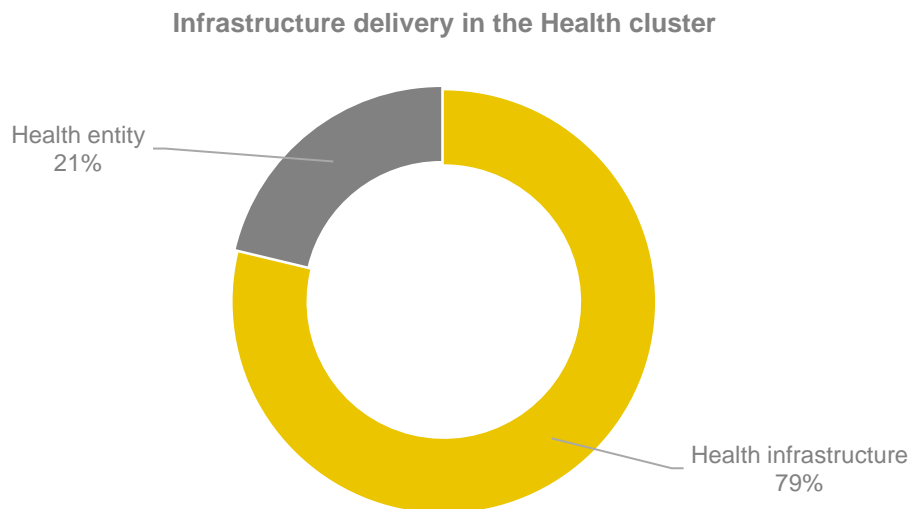
Source: Audited financial statements of the Ministry of Health.

Major capital projects were completed on time and within budget

In 2017–18 NSW Health reported Health Infrastructure completed two major capital works projects, each with an estimated cost of $50.0 million or more. The total cost of delivering both projects was $322 million.

The Sutherland Hospital Redevelopment delivered a new emergency department, new offices, additional storage and support space for the theatre department. It was delivered in November 2017, as scheduled. Health Infrastructure reported the total cost of the project was $2.5 million under budget.

The Wagga Wagga redevelopment delivered a 50-bed inpatient unit and a new acute services building to provide additional services such as operating theatres, emergency and imaging departments. Health Infrastructure reported the total cost of the project was $7.3 million under budget.

Completion dates were revised for ten projects and budgeted costs were revised for six

As at 30 June 2018, Health Infrastructure was managing 30 major projects each with an estimated cost of more than $50.0 million. This is an increase from 18 as at 30 June 2017.

Overall, the revised budget for the 30 major projects is $1.1 billion more than the original budget of $7.6 billion.

As at 30 June 2018, Health Infrastructure had spent $2.5 billion on these projects or 33.5 per cent of the original budget. The following figure summarises the locations and their budgeted costs, in accordance with the relevant budget paper for each project. Budgeted costs reported in budget papers are unaudited.
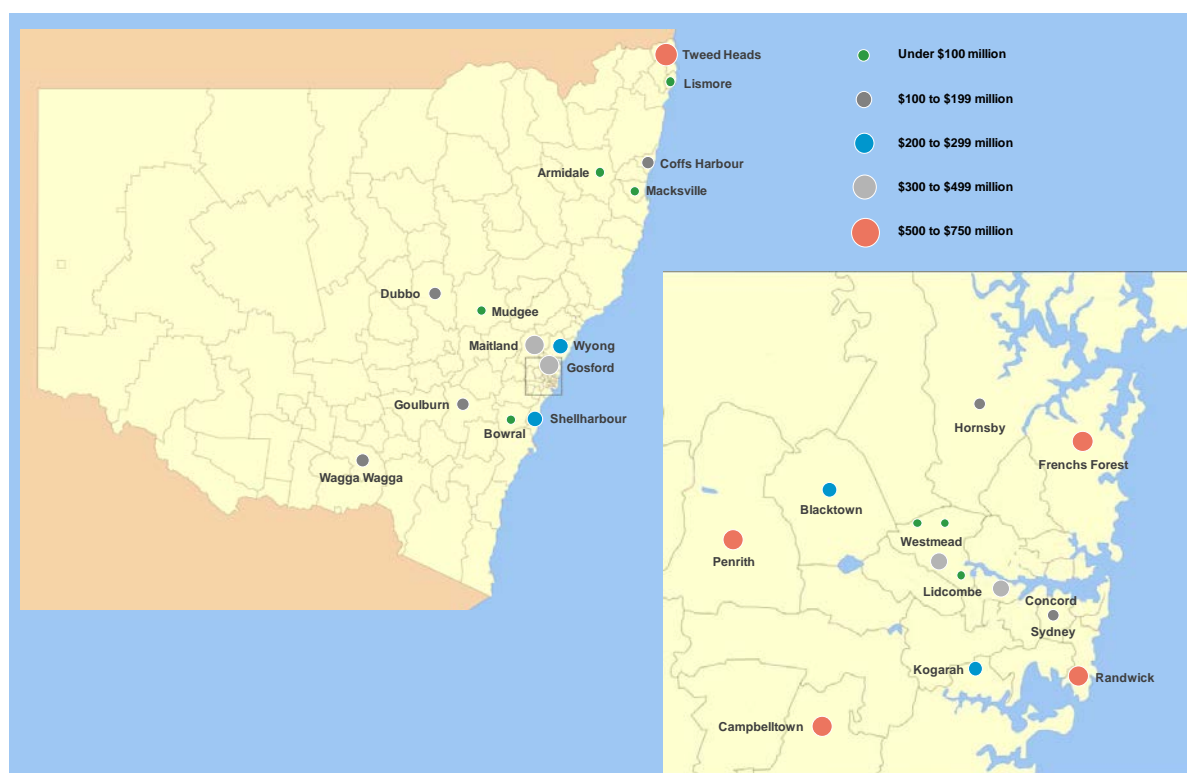
Source: NSW Ministry of Health (unaudited).

In addition to the projects reflected on the preceding map, the unaudited budget papers reported a total budgeted cost of $522.1 million for the Rural Ambulance Infrastructure Reconfiguration, HealthOne Strategy and Multipurpose Strategy projects. These projects are not reflected on the map as they impact multiple regions in NSW.

Completion dates have been delayed for five of the 30 projects and budgeted costs were also increased for four of these projects.

Completion dates and project budgets were increased for four projects due to different stages of projects being combined. This impacted Westmead, Hornsby, Lismore and Blacktown and Mount Druitt hospital redevelopments. For these projects, multiple stages are now being reported as a single project for simplicity.

During 2017–18 the procurement model was changed for two projects from a Private-Public Partnership to a traditional model, the Bowral Hospital Redevelopment and the New Maitland Hospital project. The Bowral Hospital Redevelopment required a restart of planning activities resulting in a revised completion date of 2020, while the scheduled completion date of the Maitland Hospital project remains unchanged.

The two major IT projects completed this year were delivered on or close to the scheduled completion date

IT projects are delivered by eHealth NSW, a separate organisation within NSW Health responsible for the management of electronic health data. One of eHealth's functions is to deliver state-wide systems.

eHealth NSW completed two major information technology projects in 2017–18, each with an estimated cost of $10.0 million or more. As shown in the table below, the Whole-of-Government Data Centre Migration, while not completed on time, was completed on budget.

Project description	Original budgeted cost	Revised budgeted cost	Actual cost	Original estimated completion	Completed
	$m	$m	$m	Year	Year
Electronic Medication Management	170.3	170.3	170.3	2018	2018
Whole-of-Government Data Centre Migration	31.4	31.4	31.4	2017	2018
Total	**201.7**	**201.7**	**201.7**		

Source: NSW Ministry of Health (unaudited).

Completion dates and budgeted cost have been revised for most ongoing, major IT projects

At 30 June 2018, eHealth NSW was managing seven major information technology projects, each with original budgets exceeding $10.0 million. The projects are summarised in the following table.

Project description	Original budgeted cost	Revised budgeted cost	Costs at 30 June 2018	Original estimated completion	Revised completion
	$m	$m	$m	Year	Year
Whole-of-System Digital Platform	113.0	286.3	70.2	2025	2025
Rostering (HealthRoster)	94.8	89.6	89.6	2014	2019
Digital Patient Records	91.1	236.2	11.4	2022	2023
Corporate System 2B	76.9	77.4	72.2	2017	2019
Electronic Record for Intensive Care	43.1	43.1	43.1	2016	2019
Incident Management System	22.2	22.2	14.9	2016	TBC
HealtheNet Pathology Results Repository	10.5	13.8	4.3	2018	2019
Total	**451.6**	**768.6**	**305.6**		

Source: NSW Ministry of Health (unaudited).

Five of the major projects have delays against original estimated completion dates and one project, the Incident Management System, has been paused due to issues with vendor performance.

Of the $15.0 million spent to 30 June 2018 for the Incident Management System, $5.0 million was initially recognised as an asset. Subsequently $3.0 million of this has been assessed as unrecoverable and an impairment expense has been recognised.

eHealth NSW attributes the remaining delays to extensions in implementation schedules, additional stakeholder consultation and usability testing, complexity in the rollout to meet different user requirements, and vendor/supplier capability and capacity issues.

While eHealth NSW's major projects are all within revised budget, two projects have been significantly revised from the original budget due to scope expansions:

- the Whole-of-System Digital Platform's revised budget has increased from $113 million to $286 million
- the Digital Patient Records' revised budget has increased from $91 million to $236 million.

The Auditor-General has undertaken a performance audit on the effectiveness of the HealthRoster system in delivering business benefits, which was released on 7 June 2018. We concluded the system is realising functional business benefits in the local health districts where it has been implemented. However, these local health districts are not measuring the value of broader benefits such as better management of staff leave and overtime. We also concluded HealthRoster is taking six years longer, and costing $37.2 million more, to fully implement than originally planned. NSW Health attributes the increased cost and extended timeframe to the large scale and complexity of the full implementation of HealthRoster.

Risks exist in accounting for projects completed by Health Infrastructure

While projects are in progress, health entities record the capital work-in-progress as an asset in their financial statements based on the costs incurred to date by Health Infrastructure. Health entities are responsible for both reviewing the costs incurred and identifying costs that are operational rather than capital in nature.

On completion of a project, health entities are responsible for transferring the costs from work-in-progress to the fixed asset register and commencing depreciation. In 2017–18 we noted this did not occur in a timely manner at three health entities. This results in understatement of depreciation expense for the year.

Infrastructure delivery in the Health cluster

We reviewed three significant ongoing capital projects

We reviewed three significant, on-going capital projects to obtain an understanding of the processes and controls in place. We selected the following projects.

Blacktown – Mt. Druitt Redevelopment	Northern Beaches Redevelopment	Dubbo Health Services Redevelopment
Western Sydney Local Health District	Northern Sydney Local Health District	Western New South Wales Local Health District

SPENDING TO DATE

$453.9 million	$164.1 million	$127.9 million
68.9% of budget	27.3% of budget	53.0% of budget

Source: NSW Ministry of Health (unaudited information as at 30 June 2018).

The Northern Beaches project is a Public Private Partnership (PPP). This key infrastructure is being delivered through a 'hospital operator' led model, meaning a private sector party is responsible for designing and constructing the project, instead of Health Infrastructure. The same third party will be responsible for providing clinical services, clinical support services and facility related services for public patients when the redevelopment is complete.

NSW Health reported the model has the following benefits:

- It transfers key project risks away from the state.
- It reduces the capital required to meet the hospital needs of the catchment and is expected to reduce the cost of delivering services.
- It is supported by the market, based on both research and recent similar transactions.

The *Public Finance and Audit Act 1983* does not provide the Auditor-General with a mandate to provide independent assurance about service delivery outcomes and financial accountability in these arrangements ('follow the money' powers). As such, our audits can only consider the project management processes of the Ministry and the relevant health entities. We are unable to comment on any aspect of the performance or operations of that hospital.

Capital project budgets were properly approved

Due to their significant size, all three projects are delivered by Health Infrastructure. The budget approval process for projects managed by Health Infrastructure includes:

- initial business case and budget endorsement by the impacted health entity and Health Infrastructure
- initial business cases and budget approval by the Ministry of Health
- submission of budgets to NSW Treasury for final approval.

The approval process was followed for all three projects selected for review. We also noted the total estimated cost of Northern Beaches project presented in the business case includes a $106 million community health project to construct community health facilities previously contained in the hospital. This indicates NSW Health considered costs associated with moving to a hospital operator led model. This component includes $38.0 million for the Mona Vale Community Centre, $10.0 million for the Dalwood upgrade and $58.0 million for the Sothern Community Health Centre.

Revisions have been made to two of the project budgets

All three projects reforecast budgets quarterly. The Executive Steering Committee considers reforecasts of budget costs for the projects delivered by Health Infrastructure.

The process for budget variation approval includes:

- approval by the Minister for Health or their delegates for variations of up to ten per cent of the initial budget that do not exceed $1.0 million and can be accommodated within NSW Health's existing capital budget
- approval by NSW Treasury for amounts which exceed ten per cent, $1.0 million or require an adjustment of the capital budget in the current or forward years.

The initial budget of $270 million for the Blacktown-Mt Druitt Redevelopment was revised. While net savings of $10.8 million were recorded for Stage 1 of this project, the budget for Stage 2 has been increased by $425 million. The budget variation was approved in accordance with the process.

The project contingency for the Dubbo Health Services Redevelopment has been used to cover an additional spend of $11.5 million in Stages 1 and 2 of the project. The increased costs are associated with early works completed prior to the collapse of the construction firm National Build.

The Project Delivery Board considers project reforecasts for the Northern Beaches PPP. The Northern Beaches budget has not been revised.

Asset maintenance

Maintenance of health assets and infrastructure is the responsibility of health entities. In 2017–18 NSW Health spent $621 million maintaining their assets, which have a fair value of $16.6 billion. Maintenance expense represents 2.8 per cent of total expenses for NSW Health.

We reviewed maintenance expenses for five health entities

To obtain an understanding of health entity processes for maintaining assets, we selected five health entities based on the highest maintenance expense in 2017–18. These entities reported 40 per cent of the total maintenance expense of NSW Health. The following table outlines the entities selected.

	Hunter New England	Western Sydney	Northern Sydney	South Eastern Sydney	Sydney
Maintenance expense ($'000)	$64,841	$59,673	$36,987	$43,957	$44,192

Source: Audited financial statements of local health districts.

All five health entities reviewed had asset maintenance plans in place as required by NSW Treasury

The Ministry of Health oversees asset maintenance by:

- approving maintenance budgets through the annual service agreements with the health entities
- reviewing the asset strategic plans prepared by health entities, which include key performance indicators and asset maintenance plans.

NSW Treasury guidelines require asset maintenance plans to include detailed strategies on:

- capital investment
- asset maintenance
- asset disposal.

We found all five health entities' plans that we reviewed complied with NSW Treasury's guidelines.

Not all of the five health entities reviewed delivered their asset maintenance within agreed budgets

Of the five entities reviewed two entities did not spend their budget for maintenance expense in 2017–18. NSW Treasury guidelines require entities to indicate a basis for their maintenance budget. We noted inconsistencies in how health entities calculate their maintenance budgets. Four of the five entities calculated their budget by applying a consumer price index to the prior year's maintenance expense, adjusted for known significant additional costs.

One entity calculated their maintenance budget differently, and has been more accurate in estimating their eventual spend each year since 2016–17. The entity took the following steps:

- divisions or asset owners analysed and reported on expected maintenance work for the year
- maintenance managers reviewed historical data and expected maintenance provided by the divisions
- compared requirements to the budget allocated by the Ministry of Health and where additional funding was required prepared business cases for Ministry of Health consideration.

This entity is also utilising Asset and Facilities Management Online (AFM Online). AFM Online is a system implemented by eHealth to improve how the assets of NSW Health are managed to ensure they are monitored correctly, available in the right condition, at the right time and in the right location for optimal patient care.

The five health entities reviewed are using consistent performance measures for asset maintenance

NSW Treasury guidelines outline 42 performance indicators and measures across five planned service outcomes. These include financial and non-financial measures. We identified two measures, which are being considered by all five health entities selected for review:

- **unplanned vs planned maintenance** - measures unplanned maintenance against the total maintenance expenditure during the financial period
- **total maintenance/asset replacement value (ARV)** - measures the annual cost of maintaining an asset against its replacement cost.

We noted that while all entities are monitoring their performance against these measures, only one is reporting their performance back to the Ministry of Health. We also noted both measures monitored across all five entities are financial measures. Non-financial measures include downtime as a proportion of operating time and number of complaints about service interruption per month.

The five entities' maintenance expense was within the Ministry of Health's cap for total maintenance as a percentage of asset replacement value (ARV)

Entities consider this ratio, in conjunction with unplanned maintenance, to determine whether it is more economical to replace the asset than to continue maintaining it.

The Ministry of Health has previously set a target of 2.15 for this ratio. All five entities met the Ministry of Health target. This is despite:

- some entities having much higher unplanned maintenance than others indicating less mature asset maintenance planning processes
- all entities working through backlog maintenance
- all entities reporting fully depreciated assets still being used.

Year ended 30 June 2018

	Hunter New England	Western Sydney	Northern Sydney	South Eastern Sydney	Sydney
Maintenance ratios					
Maintenance expense ($'000)	64,841	59,673	36,987	43,957	44,192
Replacement value of assets ($'000)	3,076,817	2,964,274	2,253,289	2,781,771	2,261,930
Maintenance cost as a percentage of the value of assets	2.1%	2.0%	1.6%	1.6%	2.0%

Source: Audited financial statements of local health districts.

The unplanned maintenance of three of the five health entities reviewed is significantly higher than others

Unplanned maintenance is any unscheduled repair on an asset. A high percentage of unplanned maintenance indicates the entity is maintaining their assets reactively. It may indicate either weaknesses in the budgeting and planning for maintenance or assets requiring replacement.

Three entities' unplanned maintenance is significantly higher than the other entities reviewed, 66 per cent, 64 per cent and 55 per cent compared to an average of 17.5 per cent across the other entities. Despite the high unplanned maintenance, the total maintenance spend remains within the Ministry of Health cap for total maintenance spend as a percentage of asset replacement values. The entities have planned to address this by performing condition audits, increasing planned maintenance and replacing assets.

The five entities reviewed are using fully depreciated assets

Australian Accounting standards and New South Wales Treasury policy require health entities to review asset useful lives at least annually, and depreciate the cost of each asset over its useful life.

We compared the number of fully depreciated assets to the total number of depreciable assets, and noted all entities continue to use assets that are fully depreciated. This indicates entities have under estimated the useful lives of their assets and depreciated them too quickly, recognising too much depreciation in their financial statements each year. The majority of the fully depreciated assets that are still in use are buildings.

We considered the financial impact of these assets by comparing the replacement cost of the fully depreciated assets to the total replacement cost of all assets (excluding land). We concluded this does not have a significant impact on the financial statements.

As health entities continue their current practice of revaluing buildings every three years and annually reviewing their assets' useful lives the impact of this issue will decrease. NSW Health have commenced separately recognising the components of assets that may have materially different useful lives. Separately depreciating these components will further address this issue.

Year ended 30 June 2018

	Hunter New England	Western Sydney	Northern Sydney	South Eastern Sydney	Sydney
Total replacement cost of fully depreciated assets ($000)	176,533	63,319	95,184	51,590	147,132
Total replacement cost of all assets (excluding assets) ($000)	2,830,111	2,136,414	2,158,105	1,851,989	2,082,317
Fully depreciated assets as a percentage of total assets (excluding land)	6%	3%	4%	3%	7%

Source: Audited fixed asset registers of local health districts.

Section two

Appendices

Appendix one – List of 2018 recommendations

The table below lists the recommendations made in this report.

1. Financial reporting

1.1 Managing excess annual leave	Health entities should further review the approach to managing excess annual leave in 2018–19. They should: • monitor current and projected leave balances to the end of the financial year monthly • agree formal leave plans with employees to reduce leave balances over an acceptable timeframe • encourage staff that perform key control functions to take a minimum of two consecutive weeks leave a year as a fraud mitigation strategy.	✓
1.2 Ambulance Service of NSW sick leave	Ambulance Service of NSW should further implement and monitor targeted human resource strategies to address the high rates of sick leave taken.	⊖
1.3 Ambulance Service of NSW overtime payments	Ambulance Service of NSW should further review the effectiveness of its rostering practices to identify strategies to reduce excessive overtime payments.	⊖
1.4 Time and leave recording practices	Health entities should continue to review time and leave recording practices to rectify control weaknesses, reduce the risk of timesheet fraud and realise all the benefits HealthRoster can deliver.	✓

Key	✓ Low risk	⊖ Medium risk	❗ High risk

Appendix two – Status of 2017 recommendations

Recommendation	Current status	
Health entities		
Health entities should further review the approach to managing excess annual leave in 2017–18. They should: • monitor current and projected leave balances to the end of the financial year on a monthly basis • agree formal leave plans with employees to reduce leave balances over an acceptable timeframe.	All health entities now have access to a new dashboard used to monitor all excessive leave. Quarterly reports will be provided to managers to review excess leave and proactively require leave plans to be put in place. Line managers are required to manage excess leave above 30 days on an ongoing basis. The Ministry of Health is developing tools to assist health entities with additional budget supplementations to cover staff relief in the medical and nursing area.	⊖
Health entities should conduct a risk-based review of time and leave recording practices to ensure control weaknesses are identified and fixed.	While the ongoing implementation of HealthRoster is improving time recording practices in health entities, unapproved employee timesheets continue to be a problem for some health entities. Some health entities reported forced finalisations of timesheets in HealthRoster to facilitate payroll processes. Refer to the financial reporting chapter.	
Ambulance Service of NSW		
The Ambulance Service of NSW should further implement and monitor targeted human resources strategies to address high rates of sick leave taken.	The Ambulance Service of NSW continues to implement and monitor targeted human resource strategies to reduce sick leave taken. Despite significant efforts, it continues to have the highest average sick leave rate, across the health sector, higher than the NSW Health average. Refer to the financial reporting chapter.	⊖
The Ambulance Service of NSW should further review the effectiveness of its rostering practices to identify strategies to reduce excessive overtime payments.	The Ambulance Service of NSW continues to review its strategies and rostering practices to reduce the different overtime categories. Despite significant efforts, overtime payments continue to be significantly higher than other health entities. Refer to the financial reporting chapter.	⊖

Key ✓ Fully addressed ⊖ Partially addressed ❗ Not addressed

Appendix three: Cluster agencies - Timeliness of financial and audit reporting

Cluster agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat
Principal department/Lead agency								
Ministry of Health	✓	✓	✓	--	14	4	**18**	6
Local health districts and specialty health networks								
Central Coast#	✓	✓	✓	--	2	--	**2**	2
Far West#	✓	✓	✓	--	2	--	**2**	--
Hunter New England#	✓	✓	✓	--	3	3	**6**	2
Illawarra Shoalhaven#	✓	✓	✓	--	2	1	**3**	2
Justice Health and Forensic Mental Health#	✓	✓	✓	--	--	--	**--**	--
Mid North Coast#	✓	✓	❗1	--	1	1	**2**	2
Murrumbidgee#	✓	✓	✓	--	2	2	**4**	--
Nepean Blue Mountains#	✓	✓	✓	--	3	--	**3**	--
Northern NSW#	✓	✓	✓	--	2	2	**4**	--
Northern Sydney#	✓	✓	✓	--	2	--	**2**	2
South Eastern Sydney#	✓	✓	✓	1	2	6	**9**	4
South Western Sydney#	✓	✓	✓	--	2	1	**3**	1
Southern NSW#	✓	✓	✓	--	2	--	**2**	--
Sydney#	✓	✓	✓	--	--	2	**2**	--
The Sydney Children's Hospital Network#	✓	✓	✓	1	1	2	**4**	--
Western NSW#	✓	✓	✓	--	2	--	**2**	1
Western Sydney#	✓	✓	✓	--	--	--	**--**	--
Pillar agencies								
Agency for Clinical Innovation#	✓	✓	✓	--	--	1	**1**	--

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Cluster agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat
Bureau of Health Information#	✓	✓	✓	--	--	--	**--**	--
Cancer Institute NSW#	✓	✓	✓	--	--	1	**1**	--
Clinical Excellence Commission#	✓	✓	✓	--	--	--	**--**	--
Health Education and Training Institute#	✓	✓	✓	--	--	1	**1**	--
Shared state-wide services								
Health Administration Corporation^	✓	✓	✓	--	7	9	**16**	1
Other controlled health entities								
Albury Base Hospital	✓	✓	✓	--	--	--	**--**	--
Albury Wodonga Health Employment Division	✓	✓	✓	--	--	--	**--**	--
Graythwaite Charitable Trust	✓	✓	✓	--	--	--	**--**	--
Other entities in the cluster								
Health Care Complaints Commission#	⚠2	✓	✓	--	--	4	**4**	2
Mental Health Commission of NSW#	✓	✓	✓	--	2	--	**2**	--
NSW Health Foundation	✓	✓	✓	--	--	--	**--**	--
Health Professional Councils:	--	--	--	--	--	4	**4**	2
• Aboriginal and Torres Strait Islander Health Practice Council	N/A	✓	✓	--	--	--	**--**	--
• Chinese Medicine Council	N/A	✓	✓	--	--	--	**--**	--
• Chiropractic Council	N/A	✓	✓	--	--	--	**--**	--
• Dental Council	N/A	✓	✓	--	--	--	**--**	--
• Medical Council	N/A	✓	✓	--	--	--	**--**	--

Cluster agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat
• Medical Radiation Practice Council	N/A	✅	✅	--	--	--	**--**	--
• Nursing and Midwifery Council	N/A	✅	✅	--	--	--	**--**	--
• Occupational Therapy Council	N/A	✅	✅	--	--	--	**--**	--
• Optometry Council	N/A	✅	✅	--	--	--	**--**	--
• Osteopathy Council	N/A	✅	✅	--	--	--	**--**	--
• Paramedics Council	N/A	✅	✅	--	--	--	**--**	--
• Pharmacy Council	N/A	✅	✅	--	--	--	**--**	--
• Physiotherapy Council	N/A	✅	✅	--	--	--	**--**	--
• Podiatry Council	N/A	✅	✅	--	--	--	**--**	--
• Psychology Council	N/A	✅	✅	--	--	--	**--**	--

Key ✅ Statutory financial reporting deadline or agreed date was met   ❗ Statutory financial reporting deadline or agreed date was not met

N/A   Agency not required to complete early close procedures.

Each entity controls a special purpose service entity or staff agency that prepares separate financial statements.

^   Controls four special purpose service entities that prepare separate financial statements.

1   The audit report for the Mid North Coast Local Health District was signed late due to delays receiving the Management Representation Letter.

2   The early close financial statements for Health Care Complaints Commission was not submitted on due date.

Source: Early close procedures letters, Client service reports, Independent auditor's reports and Management letters issued by the Audit Office.

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NSW Auditor-General's Report to Parliament | Health 2018 | Appendix three: Cluster agencies - Timeliness of financial and audit reporting

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cluster lead entity								
Ministry of Health	20,138,357	18,612,405	5,143,017	4,850,963	22,417,843	21,295,592	22,040,142	20,888,204
Local Health Districts								
Central Coast	837,553	720,783	126,546	115,967	946,513	917,323	840,322	810,341
Far West	135,929	113,389	16,007	18,888	133,518	111,373	117,268	113,640
Hunter New England	1,647,625	1,611,200	467,691	466,266	2,266,820	2,104,279	2,231,820	2,127,958
Illawarra Shoalhaven	770,227	661,521	154,855	138,098	937,173	905,472	961,184	912,438
Mid North Coast	531,194	512,074	107,408	87,586	629,087	596,813	629,789	599,041
Murrumbidgee	547,755	534,574	85,724	78,232	642,297	579,831	636,608	589,159
Nepean Blue Mountains	616,263	570,615	130,583	124,293	836,336	766,863	830,553	784,961
Northern NSW	692,021	665,545	127,214	116,913	838,601	820,437	822,266	781,199
Northern Sydney	2,304,111	2,309,445	1,032,998	991,126	1,646,494	1,582,892	1,693,569	1,598,356
South Eastern Sydney	1,893,818	1,586,123	323,284	322,354	1,947,580	1,861,480	1,789,311	1,725,473
South Western Sydney	1,445,461	1,457,112	414,837	390,655	1,850,655	1,692,056	1,886,488	1,757,257
Southern NSW	376,453	377,437	58,362	48,621	422,540	389,318	433,140	398,616
Sydney	1,493,135	1,509,341	395,024	402,988	1,757,315	1,640,608	1,765,557	1,731,801
Western NSW	1,062,963	1,062,081	298,699	293,131	943,392	884,961	945,096	896,183
Western Sydney	2,215,925	1,529,861	332,188	328,165	2,005,724	1,854,801	1,793,054	1,730,871
The Sydney Children's Hospital Network	787,931	724,874	147,148	138,802	785,209	760,918	804,364	749,799
Justice Health and Forensic Mental Health Network	123,051	118,304	113,849	110,086	288,763	258,153	292,307	257,621
Pillar agencies								
Agency for Clinical Innovation	2,869	2,564	5,318	5,007	32,062	33,932	32,068	33,307

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Bureau of Health Information	709	818	777	759	8,750	8,027	8,877	7,967
Cancer Institute NSW	13,992	13,971	15,998	15,330	181,404	181,646	182,051	180,835
Clinical Excellence Commission	2,152	2,219	3,190	3,059	17,261	16,442	17,459	17,021
Health Education and Training Institute	4,674	8,406	7,830	6,023	42,516	46,457	48,055	45,056
Shared State-wide services								
Health Administration Corporation	2,032,764	1,763,923	747,225	658,069	3,467,302	3,024,500	3,293,258	3,014,606
Other controlled health entities								
Albury Wodonga Health Employment Division	--	--	1,306	1,067	2,115	1,081	2,354	1,097
Albury Base Hospital	61,779	64,484	--	--	--	--	2,705	2,774
Graythwaite Charitable Trust	46,419	47,308	--	--	125	129	1,014	969
Other entities in the cluster								
Health Care Complaints Commission	1,602	1,271	2,016	1,750	16,352	14,987	16,287	15,100
Mental Health Commission of NSW	1,216	750	1,422	1,106	10,903	10,898	10,753	10,622
Health Professional Councils^	58,640	56,220	18,338	18,817	33,283	32,078	30,384	25,990
NSW Health Foundation	58,962	59,692	9	8	55	64	786	835

*   Total revenue includes other gains, gain on disposal, and capital contributions, which were shown separately on the financial statements.

**   Total expense includes other losses, and losses on disposal which were shown separately on the financial statements.

^   Health Professional Councils is the aggregate of the Psychology, Physiotherapy, Pharmacy, Paramedicine, Osteopathy, Occupational Therapy, Nursing and Midwifery, Medical Radiation Practice, Medical, Dental, Chiropractic, Chinese Medicine, and Aboriginal and Torres Strait Islander Health Practice Councils.

Source: Audited financial statements.

Appendix five – Analysis of financial indicators

The following table summarises the health entities performance against some key financial indicators as at and for the year ended 30 June 2018.

Health entity	Surplus/ (deficit)	Expense growth rate		Capital replacement ratio	
	$'000	%	3-year average	Ratio	3-year average
Consolidated entity					
Ministry of Health	377,701	5.5	5.3	2.0	1.8
Local health districts/specialty networks					
Central Coast	106,191	3.8	5.4	5.8	4.5
Far West	16,250	3.0	3.9	4.1	2.2
Hunter New England	35,000	4.8	3.8	1.4	1.3
Illawarra Shoalhaven	(24,011)	5.5	6.1	0.5	0.7
Justice Health and Forensic Mental Health Network	(3,544)	13.4	14.4	0.6	0.9
Mid North Coast	(702)	5.2	4.8	1.3	1.4
Murrumbidgee	5,689	8.0	7.8	1.4	2.2
Nepean Blue Mountains	5,783	5.7	6.5	1.3	0.7
Northern NSW	16,335	5.4	5.8	2.0	3.2
Northern Sydney	(47,075)	5.9	4.2	0.9	0.8
South Eastern Sydney	158,269	3.5	3.9	4.0	3.6
South Western Sydney	(35,833)	7.4	6.3	0.7	0.5
Southern NSW	(10,600)	8.7	7.6	0.9	1.9
Sydney	(8,242)	1.6	4.8	1.0	1.0
The Sydney Children's Hospitals Network	(19,155)	7.3	5.3	0.8	0.9
Western NSW	(1,704)	5.4	5.1	1.4	1.2
Western Sydney	212,670	4.3	5.4	4.6	3.7

Source: Audited financial statements.

Appendix six – Analysis of performance against budget

The following table summarises the health entities performance against budget as at and for the year ended 30 June 2018.

Health entity	Budgeted total expenses excluding losses		Total expenses (excluding losses)	Favourable / (unfavourable) variance			
	Original	Final	Actual	Original vs actual		Final vs actual	
	$m	$m	$m	$m	%^	$m	%^
Far West	105.5	117.5	117.0	(11.5)	(9.8)	0.6	0.5
Western Sydney	1702.2	1,777.4	1,789.5	(87.3)	(4.9)	(12.1) ❗	(0.7)
Nepean Blue Mountains	793.0	824.6	828.5	(35.5)	(4.3)	(4.0)	(0.5)
Illawarra Shoalhaven	905.0	948.7	960.3	(55.3)	(5.8)	(11.6) ❗	(1.2)
Murrumbidgee	581.2	617.7	636.3	(55.1)	(8.7)	(18.6) ❗	(2.9)
The Sydney Children's Hospitals Network	734.6	803.2	804.0	(69.4)	(8.6)	(0.9)	(0.1)
South Eastern Sydney	1,703.8	1,776.4	1,782.9	(79.1)	(4.4)	(6.6)	(0.4)
Southern NSW	403.6	420.8	433.1	(29.5)	(6.8)	(12.3) ❗	(2.8)
Western NSW	897.0	943.8	944.1	(47.1)	(5.0)	(0.3)	0.0
Justice Health and Forensic Mental Health Network	216.2	293.7	291.7	(75.5)	(25.9)	2.0	0.7
Mid North Coast	606.9	630.5	629.2	(22.3)	(3.6)	1.2	0.2
Hunter New England	2,194.0	2,233.3	2,228.3	(34.3)	(1.5)	5.0	0.2
Northern Sydney	1,618.3	1,684.8	1,688.1	(69.8)	(4.1)	(3.3)	(0.2)
Sydney	1,701.9	1,754.6	1,758.0	(56.1)	(3.2)	(3.4)	(0.2)
Northern NSW	786.6	824.6	821.4	(34.8)	(4.2)	3.2	0.4
South Western Sydney	1,815.9	1,880.9	1,882.9	(67.0)	(3.6)	(2.0)	(0.1)
Central Coast	799.1	839.7	840.1	(41.0)	(4.8)	(0.4)	0.0
Key	❗		Not performing according to NSW Ministry of Health's performance framework.				

^   Value of favourable/(unfavourable) variance as a percentage of actual total expenses excluding losses for 2017–18.

Source: Original budget total expenses excluding losses – Service level agreement. Final budget and actual total expenses excluding losses – audited financial statements.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

OUR VALUES

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

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