AHPRA

Aboriginal and Torres Strait Islander Health Practice
Chinese Medicine
Chiropractic
Dental
Medical
Medical Radiation Practice
Nursing and Midwifery

Occupational Therapy
Optometry
Osteopathy
Pharmacy
Physiotherapy
Podiatry
Psychology

Australian **Health Practitioner** Regulation Agency

# Finance, Audit and Risk Management Committee

## Chairs introduction

### Foreword

The annual report of the Finance, Audit and Risk Management Committee (FARMC) for 2017-18 is provided to the Agency Management Committee (AManC) in accordance with the Committee's Terms of Reference (TOR).

AHPRA is continuing to evolve into a more agile, forward looking organisation that is better equipped to deal with future growth in its regulatory workload including the expansion of the National Registration and Accreditation Scheme (NRAS) to include the Paramedicine profession. The members of FARMC have diligently supported this work through governance scrutiny of AHPRA approach to corporate assurance and risk management.

The committee welcomed increased representation by the National Boards in line with amended FARMC Terms of Reference (TOR) in 2017-18, with Alyson Warrington (Nursing and Midwifery Board of Australia) and Anthony Evans (Physiotherapy Board of Australia) appointed to FARMC from 1 February 2018 for a 3 year term.

We were also pleased to welcome Agency Management Committee members Ian Smith and Jenny Taing to the committee during the year.

The Committee was highly focused on improving AHPRA's cyber resilience capabilities in 2017-18 with the implementation of a modern Security Operations Centre to increase the speed we are able to detect threats and respond. Members also reviewed the results of an independent evaluation of AHPRA's preparedness and endorsed recommendations that will ensure security is at the forefront of design principles for AHPRA's planned migration to the Cloud. The migration will transform AHPRA's ability to adapt to changing technology.

FARMC made an important contribution to the work of the Review of Equity and Cost Allocation Reference Group (RECA) throughout 2017-18. Under FARMC's guidance, AHPRA will transition to a new Activity Based Costing methodology that allows for a more detailed costing of our registration, accreditation, compliance and notification functions. This will improve our transparency, benefitting both the Australian public and our co-regulatory partners.

The Committee oversaw a number of internal audits during the year including:

- Registration renewal
- Assurance model and lines of defence
- Financial budgeting and scorecard reporting
- Procurement
- Administrative complaints

These audits each identified areas for improvement as AHPRA looks to reinforce the efficiency and effectiveness of its controls. These reports represent another step forward to help AHPRA implement a more systematic approach to its assurance framework and the management of its strategic, enterprise and operational risks to bring us closer to best practice.

Changes in Accounting Standards saw the Committee consider a number of new finance policy positions for Related Party disclosures, Revenue Recognition and Leases. The committee also considered changes to the financial delegations as part of an annual review and the development of a new policy to support the administration of refunds.

It was another very productive year for all members. I would like to thank the members of FARMC, AHPRA staff and our auditors who contributed to the delivery of an important program of work for the 2017-18 year. Our people are dedicated and have done an extraordinary job over the last 12 months to transform our business and improve the public value of the work AHPRA does.

**Barbara Yeoh AM**

**Chair**
**Finance, Audit and Risk Management Committee**

# 2017-18 Annual Report

## Role of the Committee

The Finance, Audit and Risk Management Committee (FARMC) is the principal committee of the Agency Management Committee which provides oversight of finance, audit and risk at the enterprise level. It is responsible to the Agency Management Committee (AManC) for leadership, strategy and assurance in relation to:

- the financial strategy, financial performance and sustainability of AHPRA and National Boards;
- providing recommendations on the integrity and acceptance of the financial statements by the Agency Management Committee;
- assuring an effective and independent audit and risk assessment function for AHPRA;
- providing independent advice and assurance to the Agency Management Committee on processes of governance, risk management and internal control in line with leading practice;
- internal processes and controls for ensuring compliance with statutory and regulatory requirements, codes of conduct and reasonable community expectations.

## Powers and responsibilities of the Committee

The Committee has the authority from the Agency Management Committee to request any information it requires from AHPRA or any employee and to discuss any matter with both the internal and external auditors and is able to seek independent, professional advice, as it considers necessary.

The Committee has no executive powers, supervisory functions or decision-making authority in relation to the operations of AHPRA or the National Boards. Committee members are responsible for ensuring the efficient and effective operation of FARMC and with support from AHPRA, for taking appropriate steps to ensure they have the requisite knowledge and training to undertake their role.

## Membership

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

The following capabilities are deemed requisite for the Committee as a whole, and Committee members should demonstrate at least two of the following.

- A sound understanding National Registration and Accreditation Scheme governance and the core functions of AHPRA.
- Financial literacy and commercial acumen.
- Management of internal audit programs and external auditors.
- Experience and competence in advising on the treatment of enterprise risk.
- A sound understanding of IM&IT enterprise strategy and risk.

During 2017-18, membership included:

| Name | Membership status |
| --- | --- |
| Barbara Yeoh AM, Chair | Member AManC |
| David Balcombe | External member |
| Ian Smith PSM | Member of AManC |
| Kim Jones | National Board member |
| Jenny Taing | Member of AManC |
| Allyson Warrington | National Board member (from February 2018) |
| Anthony Evans | National Board member (from February 2018) |

During 2017-18, attendees included:

| Attendees | Position |
| --- | --- |
| Martin Fletcher | CEO, AHPRA |
| Sarndrah Horsfall | Executive Director, Business Services, AHPRA |
| Kym Ayscough | Executive Director, Regulatory Operations |
| Anthony DeJong | National Director of Performance and Innovation, AHPRA |
| Barry Bennett | Director, People Programmes, Risk and Compliance |
| Phil McAloon | Corporate Counsel, AHPRA |
| Claire Fowler | Manager, Financial Accounting |
| Vijay Narayan | Information Security Manager |
| Michelle Powell | Executive Secretariat |
| Elle Hoskins | Decision Support Services Lead |
| Charlotte Jeffries | Director of Financial Audit, Victorian Auditor General's Office |
| Anh Ha | Senior Manager, Victorian Auditor General's Office |
| Elma von Wielligh-Louw | Internal Audit, Deloitte |
|  |  |
| Rob Baines | Internal Audit, Deloitte |
| Tom Hughes | QA Auditor |
| Ronald Mak | Director, Financial Audit, Victorian Auditor General's Office |
| Judith Pettitt | Interim Executive Director, People and Culture |

During 2017-18, meeting dates and attendance of FARMC members were as follows:

| Meeting dates 2016-17 | Attendance |
| --- | --- |
| 28 August 2017 | Barbara Yeoh<br>David Balcombe<br>Kim Jones |
| 5 September 2017 | (Out of session by resolution) |
| 20 November 2017 | Barbara Yeoh<br>David Balcombe<br>Kim Jones |
| 5 March 2018 | Barbara Yeoh<br>David Balcombe<br>Kim Jones<br>Ian Smith<br>Jenny Taing<br>Anthony Evans |

| | Allyson Warrington |
|---|---|
| 28 May 2018 | Barbara Yeoh |
| | David Balcombe |
| | Kim Jones |
| | Ian Smith |
| | Jenny Taing |
| | Allyson Warrington |

## Committee objectives and Terms of Reference

The Committee has broad responsibilities, which include:

- External Audit
- Internal audit and risk management
- Information security and governance
- Investment management
- Financial management.

The Charter was updated in 2017-18 to reflect the whole of NRAS focus and the frequency of FARMC meetings, with the following changes now in effect:

- Membership has been expanded to include three members of National Boards
- The Committee will not deal with the annual budget, nor with the sign-off of registration fees
- Monthly management accounts will go directly to the Board (AManC)
- The language was simplified and streamlined to enhance readability.

The Charter can be accessed here.

## Committee activities for reporting period 1 July 2017 - 30 June 2018

### Governance

Observed best practice corporate governance through:

- Annual review of the Committee Terms of Reference
- Assessment of FARM activities against relevant ANAO and professional better practice guides on an ongoing basis
- Standing invitation to internal and external auditors to attend the duration of all meetings
- Meeting in camera at each meeting with auditors in the absence of the CEO, executive and management
- Declaration of conflicts of interest at commencement of meeting by all members and all others present
- Receiving regular advice on significant changes to legislation (such as the introduction of mandatory privacy breach reporting) and AHPRA activities to ensure compliance.
- Annual meeting between Chair and audit providers.

### Significant Issues

There were no significant issues considered during 2017-18 which could not be handled through routine Committee procedures. Matters of note considered by the Committee included:

- Quality Assurance for Digital House and Pulse
- Operating and capital budgets for FY 2018-19
- Fee positions for all 15 National Boards
- Financial budget and scorecard review
- External audit by the Victorian Auditor General's Office
- Procurement policy
- Cashless AHPRA policy
- Refunds policy

- Leases policy
- Related parties policy
- Revenue recognition proposed position
- ATSIHPBA funding arrangements for FY 2018-19
- Financial delegations annual review
- Financial Statements
- First year report into the operation of the Whistleblower policy
- Review of the Scheme's insurance broker contract
- Data Centre migration
- Revised Terms of Reference for FARMC
- Internal audit plan for FY 2018-19
- Terms of Reference for internal audit assignments

**Major policy recommendations to Agency Management Committee**

| Policies Considered | Policies recommended to Agency Management Committee |
| --- | --- |
| Financial delegations | Approved by AManC |
| Related party disclosures | Approved by AManC |
| Revenue recognition | In progress |
| Cashless AHPRA policy | Approved by AManC |
| Refunds policy | Approved by AManC |
| Leases policy | Approved by AManC |
| Procurement policy | Approved by AManC |

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

- Doubtful debts provision
- Make good provision
- Annual leave provision
- Long service leave provision
- Depreciation of assets
- Materiality

**Financial reports for 2017-18**

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

Work on the 5 year financial plan and equity approach were also presented to the Committee. AHPRA, in collaboration with the Review of Equity and Cost Allocation Reference Group has undertaken a review of costing allocation, based on Activity Based Costing (ABC). New principles, methodology, assumptions and a framework for its application to the National Registration and Accreditation Scheme (National Scheme) have been developed. It is proposed to test this methodology during FY18-19 and commence its progressive application in the budgeting period for FY19-20

**Internal control, risk management and serious incidents**

The Committee reviewed AHPRA's system of internal control and risk management over the year including discussing key audit findings, management actions to remedy significant issues and monitoring implementation of remedial actions. An internal audit review of AHPRA'S overall Assurance Framework was also undertaken to maximise the effectiveness of the resources available to the assurance programme and capitalise on identified opportunities to improve the programme, including strengthening of the Three Lines of Defence.

As a result of that audit, the Institute of Internal Audit have been engaged by AHPRA to work with management to provide a program of work to respond to the audit recommendations.

The Committee also considered the Corporate Assurance Framework for AHPRA, which comprises of three elements; a risk register, a risk mitigation plan and assurance of delivery and effectiveness of the control contained in the mitigation plan. The Committee received extracts from the Corporate Assurance Plan for those risks rated High (12) or above or for any other material changes to the plan. The report included the status of identified mitigating actions.

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

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

**Cyber security**

During 2017-18 corporations and government agencies across Australia witnessed an increase in Cyber threats and incidents. The Australian Cyber Security Centre annual report 2017 states that cybercrime expertise has grown. As a result, industry analysts predict that the cyber threats will increase in numbers and in complexity. In response, FARMC has been committed to improving AHPRA's cyber resilience capabilities. Below outlines the achievements during 2017-18.

Implementation of a modern Security Operations Centre capability provided AHPRA the capability to detect threats much earlier in the chain and ability to respond quicker to limit impact

- Uplifted defences by removing vulnerabilities associated with Java, Internet Explorer 9 and other vulnerable software are blocked using application blacklisting capability

- Newly implemented advanced email security gateway has given very good protection from email bound threats such as phishing and spam

- Upgraded to next-generation anti-malware technology that prevents ransomware and provides anti-exploitation capabilities

- Demonstrated a reasonable level of maturity in self-assessment of AHPRA's preparedness measures against industry best practice standards such as the NIST (US National Institute of Standards and Technology) Cyber Security Framework and the ACSC (Australian Cyber Security Centre) having revised 37 strategies to mitigate cyber security incidents

- Security penetration testing by white-hat hackers were not able to penetrate the network.

Independent validation of self-assessment by cyber insurer Marsh

The overall results of the assurance programme confirm a significant level of effort and improvement in AHPRA's cyber security capability. As next steps, the cyber security program will focus on the following activities:

- Improving network hygiene and data security
- Securing AHPRA migration to the Cloud by building security protocols into the design
- Scaling up to support AHPRA to navigate mobility and manage the breakdown of traditional network perimeters.

The status of this programme of work is reported to the Committee each quarter.

## Internal audits 2017-2018 - Overview

### Registration renewal

This audit examined the adequacy and effectiveness of the process and controls over the annual registration renewal process and the integrity of the register of health practitioners.

Internal audit identified a number of control vulnerabilities and opportunities for improvement. There were six findings for which 13 recommendations were agreed leading to management actions.

Whilst there are comprehensive controls framework for managing registration renewals in place at AHPRA, the agreed actions provide an opportunity to demonstrate greater accountability and monitoring of key stakeholders in the renewals process and will improve controls surrounding the integrity of the National Practitioner Register.

### Assurance Model and Three Lines of Defence

This internal audit focused on a series of 'what must go right' objectives, to:

- Ensure assurance activities across the three lines of defence are clearly defined with clear roles and responsibilities

- Whether accountability and independence between the three lines of defence is appropriate

- Governance is clear so that FARMC, the Agency Management Committee and other committees are provided with the appropriate level of assurance

- Outline clear ownership and coverage of assurance for corporate risks.

A number of opportunities were identified to enhance the overall assurance for AHPRA's stakeholders through the design and delivery of the three lines of defence model. A proposed model was endorsed by FARMC and approved by the Agency Management Committee, which will enable AHPRA to address each of the 17 recommendations made.

### Financial Budgeting Process and Scorecard Reporting

This audit assessed the efficiency and effectiveness of the process and controls for business planning and budgeting, including the processes that are followed with National Boards. The focus was on the aspects of the FY 2017-18 and FY 2018-19 financial budgeting, monitoring and balanced scorecard reporting processes for AHPRA and the Boards. In addition, this internal audit considered the future state financial budgeting, monitoring and scorecard reporting processes proposed by AHPRA.

The audit found that AHPRA's Executive take a proactive approach towards continually improving the budget setting process. In FY 2018-19, the Executive decided to commence the budget setting process two months earlier to ensure adequate time was available to balance the need for extensive consultation, while meeting key milestones.

While AHPRA is starting to realise benefits from a number of implemented initiatives, there remain opportunities to enhance the budget setting process. These include managers providing greater clarity of roles and responsibilities across the budget setting process and continuing to adopt a greater use of technology to help plan for, formulate and monitor performance against the budget. There were eight recommendations from the audit that were agreed.

### Administrative Complaints

This project assessed the adequacy and effectiveness of the controls and system in place to oversee administrative complaints at AHPRA. AHPRA's compliance against the Australian Standard, AS NSZ 1002-2014 Guidelines for complaint management was reviewed. The audit focused on administrative complaints received relating to notifications and registrations as these make up approximately 85% of all complaints.

It was determined that AHPRA's complaint management operating model is fragmented without a clear purpose for the function. Inconsistent practices have manifested partly due to a lack of clarity as to what constitutes a complaint and how the complaints management function will be perceived from an end user perspective. Weaknesses related to four key organisational elements; governance, people, process and technology with observations presented in this format respectively.

There were 11 key recommendations and agreed management actions. A steering committee has been formed, with the active engagement of staff, to implement the agreed actions for the end-to-end management of Administrative Complaints and to develop a new Complaints Management Framework.

**FARMC workplan**

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

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

In total, 53% of Work Plan activities were completed, 16% are ongoing activities and 26% are currently in progress.

Paused activities account for 4% of the Work Plan and relate primarily to dependencies on other activities and in some cases unplanned resource losses.

**External audit**

VAGO provided external audit services during the year, conducting planning, interim and final audit services, and was represented at all FARMC meetings. The Responsible Director was Charlotte Jeffries who was succeeded by Ron Mak.