

Finance, Audit and Risk Management Committee

Foreword

The annual report of the Finance, Audit and Risk Management Committee (FARMC) for 2018-19 is submitted in accordance with FARMC's terms of reference (TOR). FARMC is the principal committee of the Agency Management Committee (AManC) which provides governance oversight of finance, audit and risk. Our Charter was reviewed and updated in 2018-19 to reflect a focus across the National Registration and Accreditation Scheme (the National Scheme). The Charter can be accessed [here](#).

It was another very productive year for FARMC, and I would like to thank the members of FARMC, Ahpra staff and our external and internal auditors who contributed to the completion of an important program of work for the 2018-19 year. I would also like to acknowledge Mr Tom Hughes whose ongoing engagement ensured we had independent assurance reviews of the Pulse and Digital House projects throughout the year. His work in these challenging areas has given us valuable insights that informed solutions and project progression such that both initiatives are now progressing well with clearer governance and greater visibility.

The environment in which Ahpra and the National Scheme operates is dynamic. FARMC plays an important governance role in providing oversight, scrutiny and assurance that 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, in managing risks and responding to changed expectations. Over the past year this included the expansion of the National Scheme to include the paramedicine profession.

FARMC also recognised the importance of organisational culture in giving assurance about the management and mitigation of risk. Staff climate surveys are now a routine part of each internal audit. This innovation has assisted both FARMC and Ahpra in understanding and addressing culture as an important part of our controls and risk management environment.

FARMC has been highly focused on improving Ahpra's cyber resilience capabilities. Ahpra has matured significantly in its ability to detect and respond to cyber incidents and has implemented new threat detection tools as part of the Security Operations Centre. However, the environment is rapidly changing with the ever-present and emerging threats of ransomware attacks and intrusions. Cyber security will continue to be an area of significant focus for FARMC.

FARMC also oversaw an active program of internal audit and quality assurance review in a diverse range of areas. This included:

- procurement processes
- regulatory delegations
- Regulatory Operations operating model health check
- Notifications performance
- consultation processes for registration standards, codes and guidelines
- workplace health and safety
- major technology and business transformation initiatives including Pulse and Digital House

These audits and reviews each identified areas for improvement as Ahpra looks to continuously strengthen the efficiency and effectiveness of its processes, systems and controls. These reports form an important part of the work Ahpra is doing to embed a proportionate and systematic approach to its assurance framework and the management of its strategic, enterprise and operational risks.

Australian Health Practitioner Regulation Agency
National Boards

GPO Box 9958 Melbourne VIC 3001 Ahpra.gov.au 1300 419 495

Ahpra and the National Boards regulate these registered health professions: Aboriginal and Torres Strait Islander health practice, Chinese medicine, chiropractic, dental, medical, medical radiation practice, midwifery, nursing, occupational therapy, optometry, osteopathy, paramedicine, pharmacy, physiotherapy, podiatry and psychology.

I present the 2018-19 FARMC Annual report for consideration.

Barbara Yeoh AM

Chair

Finance, Audit and Risk Management Committee

2018-19 Annual report

Role of FARMC

The Finance, Audit and Risk Management Committee (FARMC) is the principal committee of the Agency Management Committee (AManC) which provides oversight of finance, audit and risk at the enterprise level. It is responsible to 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 AManC
- assuring an effective and independent audit and risk assessment function for Ahpra
- providing independent advice and assurance AManC on processes of governance, risk management, compliance 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.

The Charter was updated in 2018-19 to reflect the whole of National Registration and Accreditation Scheme (National Scheme) focus and the frequency of FARMC meetings. The Charter can be accessed [here](#).

Powers and responsibilities of FARMC

FARMC has authority from the AManC 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.

FARMC 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 carry out their role.

Membership

Members are appointed by the AManC and the committee may have up to seven members.

The following capabilities are required for FARMC as a whole, and committee members should demonstrate at least two of the following:

- a sound understanding of National 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 2018-19, membership included:

Name	Membership status	Attendance
Barbara Yeoh AM, Chair	Member of AManC	28 August 2018 26 November 2018 7 March 2019 27 May 2019
David Balcombe	External member	28 August 2018 26 November 2018 7 March 2019 27 May 2019
Ian Smith PSM	Member of AManC	26 November 2018 7 March 2019 Resigned from 4 July 2019
Kim Jones	National Board member (Dental)	28 August 2018 26 November 2018 7 March 2019 27 May 2019
Jenny Taing	Member of AManC	28 August 2018 26 November 2018 7 March 2019 27 May 2019
Allyson Warrington	National Board member (Nursing and Midwifery)	28 August 2018 26 November 2018 7 March 2019 27 May 2019
Anthony Evans	National Board member (Optometry)	28 August 2018 7 March 2019

FARMC members would like to recognise the contribution and dedication that Mr Ian Smith has made to FARMC up until his resignation in July 2019.

During 2018-19, attendees included:

Attendees	Position
Ahpra staff	
Martin Fletcher	CEO
Sarndrah Horsfall	Executive Director, Business Services
Kym Ayscough	Executive Director, Regulatory Operations
Anthony DeJong	National Director, Performance and Innovation
Mark Edwards	Executive Director, People and Culture

Finance, Audit and Risk Management Committee

Barry Bennett	Director, Corporate Risk and Compliance
Megan Taylor	Corporate Counsel
Kelly Johnston	Acting Director, Supplier, Partner and Contract Services
Claire Fowler	Manager, Financial Accounting
Vijay Narayan	Information Security Manager
Phil McAloon	Special Counsel
Ronda Trevitt	Workplace Health and Safety Manager
Michelle Powell	Policy Officer (secretariat)
Andrea Oliver	Program Manager, Government Relations (secretariat)
Victorian Auditor General's Office	
Anh Ha	Senior Manager
Ronald Mak	Director, Financial Audit
Travis Derricott	Sector Director, Financial Audit
Remy Szpak	Senior Manager
Internal auditors: Deloitte Risk Advisory	
Elma von Wielligh-Louw	Partner
Rob Baines	Senior Manager
Other	
Tom Hughes	Independent quality assurance auditor

FARMC activities for the reporting period 1 July 2018–30 June 2019

Governance

FARMC observed best practice corporate governance through:

- annual review of FARMC terms of reference
- assessment of FARM activities against relevant Australian National Audit Office (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 start of meeting by all members and all others present
- receiving regular advice on significant changes to legislation, including accounting standards, and Ahpra activities to ensure compliance
- annual meeting of Chair and audit providers.

Matters of note

Matters of note considered by FARMC included:

- scheduled quality assurance reviews for Digital House and Pulse including oversight of the Digital House recovery actions
- operating and capital budgets for FY 2019-20
- external audit by the Victorian Auditor General's Office

- annual financial statements
- report into the operation of the Whistle-blower policy
- internal audit plan for FY 2018-19
- terms of reference for internal audit assignments
- final reports for internal audit assignments and proposed management responses
- review of progress on management actions on audit recommendations
- work health and safety performance
- serious incident summary
- insurance coverage and claims.

FARMC also considered the major assumptions and judgements applied in the annual financial statements, which is a standard annual agenda item each year. The judgements and assumptions included the following areas:

- doubtful debts provision
- make-good provision
- annual leave provision
- long service leave provision
- depreciation of assets
- materiality.

There was one significant issue considered during 2018-19 relating to Digital House which was escalated to AManC for direct monthly reporting until the issues were resolved. Further information on this issue can be found on page 9 of this report. All other issues were handled through routine committee procedures.

Major policy recommendations to AManC

Policies considered	Policies recommended to and approved by AManC
Financial delegations	27 May 2019 / 18 June 2019
Corporate Assurance Framework	7 March 2019 / 19 March 2019
Indexation policy (updated to include accreditation)	7 March 2019 / 19 March 2019
Revenue recognition policy	7 March 2019 / 19 March 2019
Strategic internal audit plan	28 August 2018 / 18 September 2018
Administrative complaints management policy and procedure	29 August 2018 / 18 December 2018
Investment policy	27 May 2019 / 18 June 2019
Gifts, benefits and hospitality policy	26 November 2018 / 18 December 2018

External audit

The Victorian Auditor-General's Office (VAGO) provided external audit services during the year, conducting planning, interim and final audits, and was represented at all FARMC meetings. The Responsible Director was initially Ron Mak who was succeeded by Travis Derricott.

The closing management report for the financial year ending 30 June 2018 from VAGO was received with no outstanding issues.

The audit report for the financial year ending 30 June 2018 from VAGO was received with an unqualified audit opinion.

The annual financial statements for the financial year ending 30 June 2018 were reviewed and recommended to AManC for signing. FARMC commended Finance staff for both the quality and timeliness of the preparation of the annual financial statements.

Financial reports for 2018-19

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

Further work on the five-year financial plan and equity approach were also presented to FARMC in 2018-19. Ahpra, in collaboration with the Review of Equity and Cost Allocation Reference Group, continued the review of costing allocation, based on the principles of activity-based costing (ABC). New principles, methodology, assumptions and a framework for its application to the National Scheme have been developed and expanded. It is proposed to continue and validate the business assumptions underpinning this methodology during FY2019-20.

Internal control, risk management and serious incidents

FARMC reviewed Ahpra's system of internal control and risk management over the year including discussing key audit findings, management's actions to remedy significant issues and monitoring implementation of remedial actions.

FARMC gave feedback on the Corporate Assurance Framework, which has been amended to include the [Three Lines of Defence](#) and inclusion of a 'vulnerability' criterion to enable consideration of control status when assessing the risk. The governance of corporate assurance was strengthened during the year by the establishment of the Ahpra National Executive Enterprise Risk Committee, which has also been incorporated into the framework.

FARMC was updated on the status of the Critical Incident Management Framework and related Business Continuity Plans. It noted the impact on the framework and plans caused by significant changes to IT systems and infrastructure and changes to the operating systems and structure of the business. While work has been done to update the framework and plans, FARMC will continue to monitor this issue through 2019/20.

FARMC reviewed and endorsed the updated Risk Appetite Statement which, together with the Corporate Assurance Framework, was presented to AManC for approval and to inform the AManC review of strategic risks.

FARMC received extracts from the Corporate Assurance Plan for Strategic Risks and for any other material changes to the plan on a quarterly basis. The reports included the status of identified mitigating actions.

Serious incidents are managed through the Critical Incident Management Framework and a register of serious incidents is maintained. FARMC reviewed the status of serious incidents quarterly and potential systemic issues arising from those incidents.

The Three Lines of Defence model is being implemented across Ahpra as part of an assurance strategy process to provide a holistic approach to assurance across the organisation. The National Quality Assurance team (NQAT) has provided second-line defence by carrying out reviews of process quality.

An annual National Quality Assurance team annual report is submitted to the FARMC at the first meeting after 1 July each year.

Cyber security

Overall, Ahpra has made significant improvements in its ability to detect and respond to a cyber incident. FARMC has been committed to improving Ahpra's cyber resilience capabilities.

Through the independent annual threat-risk assessment, the cyber security program has successfully closed 44 risks identified in the previous period. Ahpra has more work to do to improve cyber security, owing to the increasing number of systems and number of major changes such as cloud migration and systems upgrades that will continuously shift the threat and risk to Ahpra.

Independent security penetration testing was also successful with [white-hat hackers](#) unable to penetrate the Ahpra network. However, this testing resulted in a few recommendations for improvement.

The overall results of the assurance program confirm a significant level of improvement in Ahpra's cyber security capability.

The status of this program of work is reported to FARMC each quarter.

Internal audits 2018-19

Deloitte were appointed internal auditors in June 2015 and continued to provide internal audit services during FY 2018-19.

During the year, Ahpra put out a select tender for internal audit services for FY 2019-20. Deloitte were reappointed as the internal auditors with a three-year contract.

The Internal Audit Plan FY18-19 is part of the rolling Three Year Strategic Internal Audit Plan. The Internal Audit Plan determines the priorities for internal audit activity.

The following internal audits were completed and reported during FY 2018-19:

Regulatory delegations (August 2018)

This internal audit assessed the adequacy and effectiveness of the controls and system in place to manage the exercise of regulatory delegations at Ahpra. The focus of this internal audit was to assess compliance with delegations executed under Part 7 of the National Law in relation to practitioner registration.

The auditors noted that to execute the powers and functions delegated by the National Boards, Ahpra is required to navigate a complex operating environment, including differences in the delegations across different Boards and limitations imposed on the exercise of their delegated authority. These regulatory delegations are evidenced through the Pivotal system, a platform that does not enforce role-based execution of delegations and data validation. Ahpra is addressing these restraints through the Digital House initiative which will replace the Pivotal system and provide greater rigour and control over the execution of delegations.

This audit identified isolated incidents in which delegations were not executed appropriately or information sufficient to support the execution of the delegation was not recorded in the Pivotal system. Ahpra has introduced measures to improve the timely development, approval and implementation of new and amended Instruments of Delegation. The audit also identified the opportunity to improve the process by enhancing monitoring and reporting, improving the timeliness of processing and putting amended delegation powers into practice.

Procurement (August 2018)

This internal audit conducted an end-to-end review of Ahpra's procurement process to assess its adequacy and effectiveness.

Significant progress has been made by Ahpra to implement a new operating model for its procurement function. This replaced the previous decentralised approach to procurement, including having no centralised contract management system in place. The Ahpra Procurement Strategy provides greater support to Ahpra Business Units for procurement activities. The strategy details the procurement governance framework, procurement processes and enablers to achieve quality procurement outcomes.

While fundamental steps have been taken to develop a procurement function for the organisation, this internal audit highlighted that further work is needed to drive the cultural change necessary for Ahpra staff to comply with new procurement practices.

The internal audit of purchasing activity from the past year identified several instances of non-compliance. These related to raising purchase orders after the expenditure occurred, and inadequate execution of contracts, exemption forms and procurement reports. The Procurement team were also unable to locate some vendor contracts and documentation to support purchases.

Operating model health check: Reg Ops (May 2019)

This internal audit assessed the adequacy and effectiveness of the governance framework applied in the design and rollout of operating model changes for Legal Services and Registration.

The changes within the Registration and Legal Services divisions had varying levels of complexity, risk and feedback received from staff involved in the change. While this internal audit identified several observations directly relating to the two changes assessed, the key observations are relevant to any change management activities carried out across Ahpra. They include the need for a more effective formal governance structure, clear program governance to manage interdependencies and much greater attention to transition planning and execution.

The audit found that while no formalised Ahpra-wide project management methodology existed to manage the two changes, Ahpra followed a structured approach to managing the change through design, consultation, concept finalisation and implementation activities. It also found that the subject matter experts assigned to carry out the project engaged well with staff and were able to effectively and successfully navigate the main change activities.

Audits to be completed in the 2019-20 financial year

The following audits occurred within the 2018-19 financial year, but were not completed before 1 July 2019. The outcomes of these audits will be provided in the FARMC annual report for the 2019-20 financial year.

- Measurement of notification performance and productivity (investigations): this internal audit assessed the processes and controls in place to establish and monitor targets for investigations performance and productivity.
- Consultation processes for registration standards, codes and guidelines: this internal audit assessed the adequacy and effectiveness of Ahpra's role in coordinating consultation on the development of registration standards, codes and guidelines.
- Health, safety and wellbeing: this internal audit assessed the design and implementation of Ahpra's approach to managing health, safety and wellbeing (HSW) risks for both Ahpra staff and board members across all Ahpra locations.

Quality assurance activities (Pulse and Digital House)

Mr Tom Hughes has been engaged to provide ongoing independent assurance reviews of the Pulse and Digital House projects, with a focus on the projects' health and to give early warning of possible issues to be remedied before they became significant risks or actual problems.

Pulse

The implementation of the Payroll function within Unit 4 was fragile throughout most of the year due to data quality, technical issues and the need for an additional payroll staff member to allow subject matter

expert input into system refinements. In addition, the Pulse project lacked a work plan and needed stronger business customer ownership through the Steering Committee.

With the appointment of an Executive Director, People and Culture (a new position), chairing a reconstituted Pulse Steering Committee, these governance issues were addressed, including clear business ownership of Pulse, and a new steering committee tasked with addressing the outstanding risks and issues, including much greater resilience and stability of payroll services.

Digital House

The Digital House project achieved some important milestones during the year with the implementation of paramedicine registration online and registration queue management.

In August 2018, however, Digital House had reached a critical point with ongoing governance issues still to be addressed, including significant budget pressures, poor teamwork, lack of business confidence in the project, inability to deliver the planned functionality and limited communications.

Following an independent review, FARMC fully endorsed the CEO's initiative to establish a Digital House Project Recovery Steering Committee reporting directly to AManC. In the interim, a reconstituted Digital House Steering Committee started addressing the outstanding governance issues, including the development of a work plan.

Other matters

Telstra data centre migration

FARMC noted the resource-intensive data centre migration project carried out by Ahpra was successful despite the significant risks relating to this project. The now-decommissioned Telstra data centre hosted all core production systems that supported Ahpra operations. The new environment provides additional capability and performance, access to new cloud technologies, and diminishes the previous technology risk.

Whistle-blower report

The annual Whistle-blower report did not identify any issues that met the threshold under the policy. However, as part of the committee's work to contribute to the understanding of cultural issues affecting risk management and compliance, future reports to FARMC will include insights into matters that did not meet the threshold.

Workplace health and safety (WH&S)

The establishment of the role of Executive Director, People and Culture saw a reinvigoration of WH&S committees and a focus on the development of lead indicators and improved reporting. FARMC welcomed the significant progress made and will continue to monitor improvements in WH&S performance and reporting.