



# Performance and Financial Management Review – South Eastern Melbourne Primary Health Network

21 November 2023

## Introduction

In accordance with the Commonwealth Grants Rules and Guidelines 2017, the Department has established the Primary Health Networks - Grant Programme Guideline (GPG) which outlines the requirements that PHNs must adhere to in order to participate in the PHN initiative. A rolling audit program of PHNs supports the performance and operation of the PHN Program and provides assurance PHNs are operating appropriately and in accordance with their legal and financial obligations.

McGrathNicol was engaged to undertake a review of South Eastern Melbourne Primary Health Network (SEMPHN) to determine the extent to which it has complied with its performance and financial management obligations under the Funding Agreement. The Department and SEMPHN stakeholders were extensively engaged as part of this audit.

This document is a comprehensive summary of the review undertaken by McGrathNicol, collating all key recommendations and findings.

## Scope of review

This performance and financial review will build on the findings of the Baseline Maturity Assessment of SEMPHN which assessed the organisation against six key qualitative domains: policies and procedures; people; governance and systems; risk and issues management; complaints management; and performance monitoring and reporting.

The review has considered compliance and performance of SEMPHN in the following areas:

- governance and decision-making processes
- financial management, planning and reporting
- organisational capacity and capability
- probity and commissioning practices.

## Governance and decision-making processes

### Scope of Review (included):

- board capability
- roles and responsibilities are clearly stated and understood
- determine how strategic decisions are made within the Board
- constitution and associated rules are adhered to and meet the needs of SEMPHN

- strategic plans in place and are regularly reviewed/revise
- relevant and appropriate governance systems and control frameworks in place
- compliance with the Funding Agreement and legislation
- identify recommendations for improvement.

## Key findings and recommendations are set out below:

- The SEMP HN Board includes representatives that possess current or previous experience with key engagement groups including primary health, allied health, aged care, mental health services, peak health bodies, and nursing. The Board is considered to have relevant experience and an appropriate mix of skills to be able to oversee SEMP HN's delivery of funded services.
- SEMP HN complies with the requirement to have a GP-led Clinical Council and representative Community Council.
- There was one aspect of SEMP HN's Constitution that McGrathNicol regarded as unusual, being that SEMP HN's only Members are current Directors. That is, individuals elected as a Director are automatically appointed as a Member and those who cease to be Directors are removed from membership.
- Whilst SEMP HN's Director/Member model is not overly common within other PHN constitutions reviewed, SEMP HN has clearly thought through the considerations raised by McGrathNicol in respect to their current Director/Member model and has previously sought external advice (including from Vision Method Outcome Pty Ltd [VMO] and Gadens). On balance SEMP HN's arguments for maintaining the current position are considered to have merit. However, SEMP HN should continue to revisit this issue periodically, particularly if stakeholder discontent becomes apparent.
- McGrathNicol's review indicated that SEMP HN's policies and frameworks currently in place are well drafted, robust and will support SEMP HN's operations.
- The review of the SEMP HN Conflict of Interest and Private Interests Policy and Board Manual, indicated that SEMP HN has a clear framework for identifying, managing, and reporting conflicts of interests. A detailed Register of Director Interests is also maintained for each Director, containing any past disclosed interests.
- SEMP HN's Strategic Plan 2023-28 (Strategic Plan) is a high-level document that outlines SEMP HN's vision and key performance pillars. The Board is responsible for the strategic planning of SEMP HN and the monitoring of management's implementation of agreed strategies. McGrathNicol reviewed committee and Board meeting minutes which indicate that the Board regularly discusses the Strategic Plan.
- Overall, SEMP HN demonstrates a methodical approach to risk management which is well set out within framework documents. Committee and Board meeting minutes demonstrate a focus on day-to-day risk management by management and the Board. The recent introduction of an internal audit function to add assurance to the Board, management and other stakeholders that SEMP HN is managing risk, operating effectively and efficiently, and operating within its funding agreement requirements is viewed as a positive governance enhancement.
- There are five recommendations in relation to SEMP HN's governance and decision-making processes:
  1. It is recommended that SEMP HN actively consider the areas of need identified by the VMO review, the internal Board of Directors Skills Matrix Survey, and the

- planned annual Director performance assessments as a focus for the development of future training for individual Directors or the entire Board.
2. It is recommended that the Board revisit the Constitution's arrangements for members in the next six months, based on consultation with key stakeholders.
  3. It is recommended that SEMPHN review and update any policies and frameworks that have passed (or are approaching) designated review dates.
  4. It is recommended that as a priority SEMPHN further consider its framework for demonstrating achievement of the Strategic Plan and in delivering its outcomes. The development of a performance monitoring and reporting framework, including a roadmap of how performance measures will be achieved (with periodic reporting against those measures), will provide greater clarity over SEMPHN's achievements to the Board, management, and stakeholders.
  5. Given the unusual membership structure, where only Directors can be members, limiting the direct provision of feedback for the Board, stakeholder consultation carries an extra layer of importance. It is recommended that SEMPHN have a robust review process for the effectiveness of its stakeholder consultation, specifically to address whether it has the capacity to capture concerns or issues about the PHN and its operations.

## Financial management, planning and reporting

### Scope of Review (included):

- financial management practices
- financial governance/controls
- clear and transparent funding arrangements
- delegations and authorisations
- budget management
- self-generated income
- compliance with any financial legislative responsibilities
- accounts payable/receivable
- statutory liabilities
- risk management
- asset management
- procurement practices
- receipts, banking, investments
- adherence to the requirements of the Funding Agreement with the Department
- reporting.

### Key findings and recommendations are set out below:

- The Department requested McGrathNicol undertake a review of SEMPHN's financial planning, management systems, internal control frameworks, and policies and procedures. We found that SEMPHN's frameworks are to a high standard, with appropriate delegations, governance documentation and financial risk management policies and procedures.

- SEMPHN provided evidence of a strong budgeting framework and reporting processes that appear to meet funding agreement requirements. It is apparent that in FY22, SEMPHN had approximately \$26.6 million of funds that were not expended in the financial year. However, SEMPHN treats the sum as being 'committed' (approximately \$19.4 million) or 'uncommitted' (approximately \$7.2 million).
- As part of the review of commissioned contracts, McGrathNicol found that the contract aligned with the AWP budget for each of the 10 contracts tested.
- There were no recommendations identified in relation to SEMPHN's financial management, planning and reporting.

## Probity and commissioning practices

### Scope of Review (included):

- policies and procedures are in place and appropriately adhered to
- probity arrangements are in place for clear, transparent and ethical decision making in relation to the commissioning and funding practices
- the PHN has documented how value for money was achieved.

### Key findings and recommendations are set out below:

- The Department requested that McGrathNicol undertake a review of operational systems to support the efficient and effective identification of needs and commissioning of services including key internal control frameworks, policies, and procedures.
- SEMPHN's Commissioning Framework is regarded as comprehensive in nature, clearly defining the activities involved within the Commissioning Cycle and providing linkages to relevant SEMPHN strategic and other supporting internal documents. The roles and responsibilities associated with each activity are clearly defined as are the approval requirements to proceed to the next stage of the process.
- McGrathNicol completed testing of a sample of 10 commissioned contracts to determine if probity and other control arrangements were demonstrated to support clear, transparent, and ethical decision making in relation to the commissioning and procurement practices of SEMPHN. The sample testing included a focus on whether linkages to the Strategic Plan were clear and whether SEMPHN had documented how value for money was achieved.
- In testing the sample of commissioned contracts, documentation supported achievement of the testing criteria (with one minor exception). Evidence was readily available to support consideration of conflicts of interest, value for money, relevant approvals, and endorsement of the commissioning activities. This also pointed to strong record keeping practices within SEMPHN.
- There were no recommendations identified in relation to SEMPHN's probity and commissioning practices.

## Data security

### Scope of Review (included):

- appropriateness of IT infrastructure;
- data management arrangements;
- progress against Baseline Maturity Assessment;
- funding of data collection; and
- data migration plans related to Primary Health Insights (PHI).

### Key findings and recommendations are set out below:

- The Department requested that McGrathNicol undertake a review of SEMPHN's data management arrangements, including data migration plans related to Primary Health Insights (PHI). PHI is a storage and analytics platform that hosts the de-identified general practice and other primary health data of most of the PHNs across Australia.
- SEMPHN confirmed that their long-term intention was to join PHI once their current data infrastructure became obsolete. However, there was no indicative timeframe that could be provided. SEMPHN noted that they had made significant investment into data infrastructure and that transferring to PHI at this point in time would require a write down of this asset value.
- There is evidence in correspondence and committee and Board meeting minutes that SEMPHN has a focus on cyber security. In discussions with management, it appears that external assessment of SEMPHN's systems under the Essential Eight framework has not previously been undertaken but is anticipated within the next three to four months. McGrathNicol consider that an external assessment of SEMPHN's cyber security arrangements against the Essential Eight framework would provide assurance to the Board and stakeholders that SEMPHN's cyber risks are being appropriately managed.
- There was one recommendation in relation to SEMPHN's data security:
  1. It is recommended that SEMPHN undertake the planned external assessment of their cyber security arrangements against the Essential Eight framework as a priority in the next six months and provide an update to the Department on the results of that assessment.

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McGrathNicol have not carried out a statutory audit, and accordingly an audit opinion has not been provided. The scope of our work is different to that of a statutory audit and it cannot be relied upon to provide the same level of assurance.

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