



Department of Health and Aged Care

Western New South Wales Primary Health Network

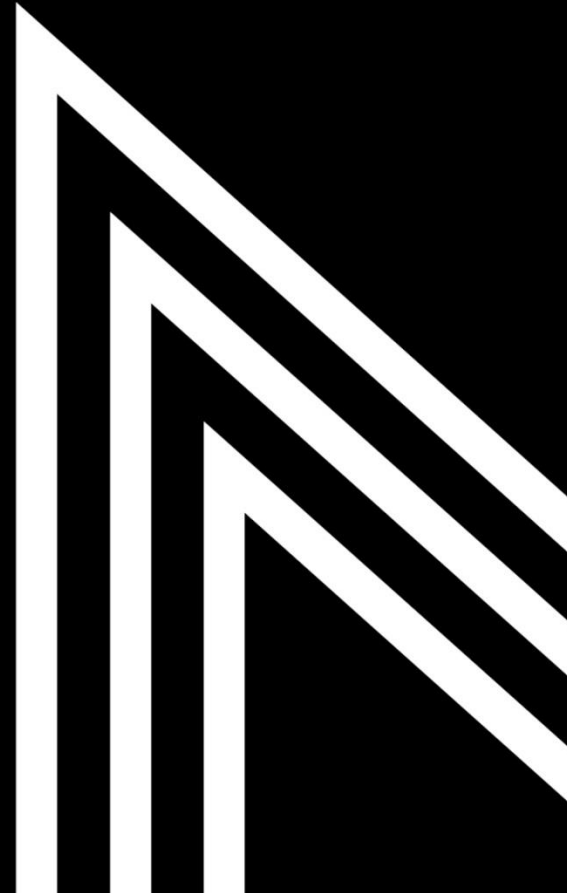
Organisational Review

Summary Report

11 July 2025



McGrathNicol



Scope of review

McGrathNicol have been engaged by the Department of Health and Aged Care (the Department) to undertake a review of the Western New South Wales (WNSW) Primary Health Network (PHN) (the Western Health Alliance Limited (WHAL) is the legal entity t/a WNSW PHN), to determine the extent to which it has complied with its performance and financial management obligations under the funding agreements.

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

- governance and decision-making processes;
- financial management, planning and reporting;
- organisational capacity and capability;
- probity and commissioning practices;
- stakeholder relationships;
- data management; and
- the establishment, funding and operations of Priority Red Health Foundation Limited (PRHF), a subsidiary of WHAL.

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 program of PHN audits supports the performance and operation of the PHN Program and provides assurance that PHNs are operating appropriately and in accordance with their legal and financial obligations.

McGrathNicol has been engaged to undertake a review of WHAL to determine the extent to which it has complied with its performance and financial management obligations under the GPG and Funding Agreement. The Department and WHAL stakeholders were extensively engaged as part of this audit.

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

Disclaimer

This report has been prepared for the Department of Health and Aged Care for the purpose set out in the Official Order dated 19 December 2022. In accordance with our usual practice, McGrathNicol expressly disclaims all responsibility to any other person or entity for any reliance on the content of this report.

The information in this report may not include all possible or relevant information in relation to the matter we have been instructed to investigate. Whilst every effort has been made to ensure the information contained in this report is accurate, McGrathNicol accepts no responsibility if the information ultimately turns out to be incorrect or not applicable. We note that, in issuing this report, McGrathNicol is not certifying that we have identified all relevant events and information. We have sought to identify all significant events from the information provided but provide no assurance that all such significant events and information have been identified.

We 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.

We advise that neither McGrathNicol nor any member or employee of McGrathNicol undertakes responsibility in any way whatsoever, including by way of any errors or omissions arising through negligence or otherwise however caused to any persons other than the Department.

Note

Please note that the fieldwork for this report was conducted between June and July 2024. While the report has been reissued with minor adjustments, the findings and data reflect the conditions and information available during the original fieldwork period.

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

Governance and decision-making processes

Key findings and recommendations are set out below:

- We found WHAL's Constitution to be appropriate, considered and tailored to their activities. The staggered rotation of Director appointments is a positive practice that promotes regular intake of new Directors, while maintaining the level of retained knowledge.
- The WHAL Board has an appropriate mix of the necessary skills required to oversee the delivery of the PHN program, and there was strong evidence to support that the Board, Councils and Committees are actively involved in setting strategy, monitoring performance and overseeing operations.
- However, notwithstanding these strengths, we consider that the decision-making by the WHAL Board regarding the treatment of self-generated income and establishment of PRHF, indicated a need for strengthened Board oversight.
- We noted from the Constitution that WHAL's membership structure leads to it having only eight members. Whilst low member numbers are not entirely unusual in the context of other PHNs, WHAL should consider whether such a small number of members adequately represents their community in relation to the delivery of the PHN program. With a limited membership base, this also means that WHAL needs to ensure it has robust processes for stakeholder consultation within the community (beyond its members).
- Notwithstanding conflict of interest issues which may have eventuated if PRHF had become operational, in general, we found WHAL's conflict of interest processes and declarations register to be robust and comprehensive.
- We reviewed the 2021 and 2023 Strategic Plan Overviews which contain high level summary information. Whilst these documents are regarded as useful summaries, they do not contain the expected detail to establish and communicate the strategic direction of the organisation to stakeholders. Based on our review, the prevailing view was that WHAL's strategic direction was not well communicated to staff or broadly enough to WHAL's stakeholders.
- Based on our review, WHAL appears to primarily engage with the local community through its Councils and Committees, conducting stakeholder consultations when completing the WNSW PHN Health Needs Assessments. Further, WHAL has provided examples of reports, dashboards and tools it has created to engage participating general practices in its region.
- Our review found, however, that WHAL had received complaints by service providers from the past two plus years, with at least one in reaction to PRHF. The review found that WHAL had treated these complaints thoroughly and with sufficient attention once raised, but WHAL receiving complaints over several years points to a potential deficiency in WHAL's stakeholder engagement process.
- We have made two recommendations in relation to WHAL's governance and decision-making process:
 - WHAL should consider publishing a version of its Operational Strategic Plan on a public-facing platform at least annually.
 - WHAL should consider improvements to its approach to communication and consultation with members, service providers and other stakeholders within its region. Additionally, WHAL should prioritise review of the Consumer and Community Engagement Framework to ensure the approach is fit for purpose.

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; and
- reporting.

Financial management, planning and reporting

Key findings and recommendations are set out below:

- McGrathNicol's review of WHAL's financial management policies and procedures found a generally sound suite of documentation for effective delivery of the PHN program. This documentation addressed key functions such as risk management; delegations and authorisations; procurement practices; and budgeting.
- However, we have raised concerns in relation to the funding of PRHF, including the allocation of interest earned on PHN funds to WHAL 'self-generated income' and potentially expending PHN funds in delivering non-PHN program activities (in part). We refer to the 'Priority Red Health Foundation' section below for further details.
- In considering compliance with financial legislative responsibilities, we tested key financial management requirements against the *Australian Charities and Not-For-Profits Commission Act 2012* (ACNC Act) and did not identify any areas of departure or non-compliance from the ACNC Act.
- The WHAL Budget Process Brief document was considered to be helpful in providing detailed budgeting procedures for business units to follow in the annual budget process. However, we believe that WHAL's budgeting approach could be further strengthened by implementing an overarching framework.
- We have made one recommendation in relation to WHAL's financial management, planning and reporting:
 - WHAL should develop a Budget Framework that sets out budgeting principles, approaches to allocation of program funding (including carryovers), approval mechanisms and similar items in an overarching guidance document. We also suggest inclusion of a flow chart for the approvals process; with indicative dates and methodology for how the finance team, business units, CEO, Finance, Audit and Risk Management (FARM) Committee and subsequently the Board endorses the annual budget.

Scope of review included:

- human resource policies and procedures are in place and appropriate;
- staff procurement/recruitment framework and policies/procedures;
- work health and safety policy;
- feedback, compliments and complaints framework and policies/procedures;
- list/description of training provided to Directors and staff;
- paperwork regarding recent resignations and turnover of staff from the past 12 months; and
- all contracts and transfer paperwork for staff members who were transferred to or from a related entity (including PRHF).

Organisational capacity and capability

Key findings and recommendations are set out below:

- McGrathNicol found the Human Resources (HR) function to be mature. The HR team were knowledgeable and well informed of relevant HR issues within the organisation. Key HR documentation included the Human Resources Policy and Employee Code of Conduct, which was regarded as comprehensive, and our testing supported that internal procedures were being followed.
- We highlight a period of elevated staff turnover in the nine months prior to our review that was explained by WHAL.
- No recommendations are made in this category.

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;
- commissioning practices are culturally appropriate; and
- commissioning activities under Funding Agreements reflect the approved Activity Work Plan details.

Probity and commissioning practices

Key findings and recommendations are set out below:

- McGrathNicol has undertaken a review of WHAL's documentation related to the needs assessment and commissioning process including key internal control frameworks, policies, and procedures.
- WHAL's Commissioning Framework and associated documents, including the Co-Design Framework, are regarded as comprehensive. These documents clearly define activities involved in the Commissioning Cycle and provide linkages to other supporting internal documents. The roles and responsibilities associated with each activity are detailed appropriately, and we consider that the Commissioning Framework meets the requirements set out by the Department's Grant Programme Guidelines, including the requirement that value-for-money be demonstrated and that potential conflicts of interest be managed. Overall, we consider that the Framework was fit-for-purpose.
- It is noted that WHAL provides additional guidance on its website regarding commissioning services for the PHN program.
- McGrathNicol completed testing of a sample of ten 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 WHAL. The sample testing had a specific focus on whether linkages to the Activity Work Plans (AWPs) were clear and whether WHAL had documented how value for money was achieved, consideration of conflicts of interest, evidence of monitoring and evaluation, and approvals of contracts.
- In testing the sample of commissioned contracts, we found WHAL could easily access its commissioned contracts from its file database system in a timely manner. However, gaps emerged in demonstrating evidence of consideration against the Health Needs Assessment (HNA) and AWPs in the planning process. Further gaps were noted in the evidence of stakeholder engagement, retention of Expression of Interest or Request for Quote documentation and documented consideration of conflicts of interest and value for money.
- Our review found that the level of documentation to support the application of WHAL's Commissioning Framework was insufficient. While the evidence that could be provided was generally strong, there appeared to be a gap in respect to document management which meant that not all necessary documentation was retained or that the documentation was unable to be located.
- We have made one recommendation in relation to WHAL's probity and commissioning practices:
 - WHAL should review its current approach to documenting commissioning activities and understand why the strong frameworks in place are not being adhered to. This may involve training being required to set clear expectations on commissioning activity, and management should consider implementing additional control points to ensure required processes are followed. Further, WHAL should reinforce the need for centralised record-keeping and comply with document retention requirements. Robust record-keeping promotes strong probity and improves the defensibility of the organisation's processes in the event of challenge.

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).

Data management

Key findings and recommendations are set out below:

- The Department requested that McGrathNicol undertake a review of WHAL's data management arrangements, including data migration plans related to PHI. PHI is a storage and analytics platform that hosts the de-identified GP and other primary health data of most of the PHNs across Australia.
- WHAL's data governance and security arrangement appear mature, robust and well documented.
- At the time of the review, WHAL advised that the organisation had successfully completed its migration to PHI.
- In terms of a Cybersecurity Framework, WHAL adopted 'CIA Triad' approximately five to six years prior to this review. This approach was selected at the time by WHAL given their assessment of it being comprehensive as an overarching model. Whilst the Essential 8 or NIST models appear favoured by most organisations these days given they offer prescriptive strategies for cyber security; the CIA triad approach offers a principle-based approach (or broad methodologies) for organisations to consider.
- WHAL management explained that the organisation was working towards ISO 27001 accreditation with an approximate two-year timeframe to June 2026. No recommendations were made in this category, but we highlight that obtaining ISO 27001 accreditation should remain a priority given the June 2026 deadline outlined in the Core Funding Agreement.

Scope of review included:

- PRHF Strategic Plan;
- PRHF audited financial statements from inception to current;
- PRHF Bank Statements from inception to current;
- PRHF general ledger export from inception to current;
- PRHF Constitution;
- PRHF Board Minutes from inception to current;
- overview of Governance structure;
- overview of organisational structure;
- list of PRHF employees and respective responsibilities; and
- list of Board members from inception including appointment date and resignation date.

Priority Red Health Foundation

Key findings and recommendations are set out below:

- As part of this review McGrathNicol considered the background to the establishment of PRHF. This was compiled through WHAL's Board minutes and other supporting information, and from our conversations with a number of WHAL's Directors.
- Our review found that PRHF was established as a subsidiary of WHAL. In WHAL's communication with the Department, and during our consultations with Board and staff, WHAL communicated that all funds used in relation to the establishment and to meet ongoing costs for PRHF, were sourced from WHAL's own 'equity' or 'self-generated income', including that PHN program funds were not used in relation to PRHF.
- There are multiple elements that comprise WHAL's self-generated income balance, built up over nearly nine years between 30 June 2015 and 31 May 2024. From our work, we regard it as highly likely that a material portion of what WHAL regards to be self-generated income may have been indirectly or directly sourced from the Department's funding.
- WHAL made a number of transactions associated with PRHF, which appears to have been used to meet staff wages and on-going costs and program delivery expenses.
- At the time of our review, PRHF was in the process of being wound up and surplus cash was expected to be paid back to WHAL. Based on ASIC records, PRHF was deregistered in December 2024.
- The establishment of PRHF by WHAL raised concerns as to potential misuse of Commonwealth funding. In particular, we found WHAL's definition, recording and use of 'self-generated income' to be potentially not in accordance with the Commonwealth's funding arrangements.
- Separately, there were potentially significant conflict of interest challenges that may have arisen for WHAL in establishing PRHF. Whilst actual conflicts of interest did not present (given the decision to shut PRHF before it undertook any significant activities), the conflict of interest frameworks observed within WHAL may not have prevented material issues occurring.
- We have made one recommendation in relation to WHAL's establishment of PRHF:
 - WHAL should establish and implement a policy on how self-generated income can be earned. Further, WHAL should maintain detailed documentation to support the basis for income recorded as self-generated income.

