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Department of Health

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DEPARTMENT OF HEALTH

Internal Audit of Prudential Risk and Compliance

Final Report

2 March 2018

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Timeline

Milestone	Dates
Entry Interview	19/09/2017
Approved Audit Plan	20/09/2017
Commence Fieldwork	21/09/2017
Completion of Fieldwork	10/11/2017
Draft Report	05/02/2018
Final Report including Management Comments	02/03/2018
Final report provided to the Audit Committee	March 2018
Completion of the Audit Satisfaction Survey	March 2018

Sign-Off

I acknowledge the findings and recommendations enclosed in this report and undertake to have the agreed actions completed within the identified time frame.

……..
Jaye Smith
A/g First Assistant Secretary, Residential and Flexible Aged Care
Department of Health

……
Mark Harrison
Managing Director
Protiviti

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1. Executive Summary

The Department of Health (the Department) has key functions within the health and aged care system, including oversight through stewardship, policy and regulation, financing, and resource management. The *Aged Care Act 1997* (the Act) sets out to protect recipients of aged care services, and requires approved aged care providers ("approved providers") receiving accommodation payments to comply with certain prudential requirements under section 52M of the Act. The *Fees and Payments Principles 2014 (No 2.)* issued under the Act outlines the four prudential requirements, being the Liquidity Standard, Records Standard, Disclosure Standard and Governance Standard. These standards are described in more detail in Attachment D.

In 2015-16, approximately $22 billion of accommodation payments were deposited. The Australian Government's Accommodation Payment Guarantee Scheme (the Scheme) and related Prudential Standards provide for the protection of these accommodation payments on behalf of aged care recipients. Since 2015-16 approximately $43 million has been paid to residents where aged care residents accommodation payments were not effectively protected by approved providers.

The Prudential Risk and Compliance Section (PRCS) monitors conformance with Prudential Standards of approved providers charging accommodation payments. The PRCS consists of two teams: the Risk and Analysis Team; and the Investigations Team. Together, they are responsible for the identification and investigation of at-risk providers (from a Prudential Standard compliance perspective), utilising information from multiple sources. Those information sources include approved provider self-reporting, regular meetings with the Health State Network (HSN) and complaints forwarded from the Complaints Commission.

1.1 Overall Assessment

We reviewed the governance, structures, processes and controls in place for capturing, escalating and sharing information relating to financial risk of accommodation payments. This included a review of internal PRCS governance as well as PRCS' communication and working relationship with HSN. We note that since completion of fieldwork in December 2017 there has been a restructure within the Department which will impact the governance arrangements for PRCS going forward. These new governance arrangements were not examined as part of this audit.

Objective 1: Assessment of governance[1] structure, processes and controls for capturing, escalating and sharing information related to financial risk and other risks

The governance structure in place for the capturing, escalating and sharing information related to financial and other risks is adequate. The governance structure of the PRCS is defined within key documentation and the small size of the PRCS team has also allowed for a streamlined governance structure that is well understood within the team.

However, there are weaknesses in the processes and controls for capturing, escalating and sharing information related to financial risk and other risks. In particular, there are gaps in the processes for sharing information. As the processes for escalating and sharing information between relevant teams in the Department are not defined and there is a need to define both the type of financial intelligence to be gathered, as well as the communication mechanisms for sharing this information between teams and across the Department. There is also a lack of clarity relating to the capturing of key information from multiple sources as well as the defined source of all information.

Overall, while there are processes in place to identify high risk providers, these gaps in the capturing,

[1] For this internal audit, governance was considered using the ANAO definition of "leadership, direction, control and accountability, and assists an entity to achieve its outcomes" (ANAO, *Public Sector Governance: Strengthening Performance through Good Governance Better Practice Guide,* 2014).

escalating and sharing of information present barriers to this process and accordingly there is a risk that not all high risk providers are being identified for further monitoring due to the limitations in information management.

There is also an opportunity to formalise and document decisions made during an investigation to strengthen the defensibility and transparency of decision making; and the Department could drive continuous improvement to processes and controls by leveraging electronic forms within PRCS to offer additional guidance to providers as they complete annual statements.

Objective 2: Assessment of processes for monitoring approved providers' non-compliance

Overall, there are effective processes in place for the monitoring of approved providers' non-compliance by the PRCS team.

As discussed above, there are gaps in the processes and controls for information capturing, sharing and escalating. While this presents a barrier for the identification of high risk issues for further monitoring, once an issue has been identified there are effective processes in place for monitoring and follow-up.

Processes for monitoring approved providers' non-compliance with the Prudential Standards within PRCS are well understood by the team. Discussions with stakeholders and review of recent case studies identified that there is appropriate collaboration between PRCS and HSN once potential issues have been identified that require further investigation.

However, recordkeeping processes are currently undocumented and relevant prudential information is not readily available to PRCS because information is stored across multiple systems. Improvements to intelligence documentation, storage and retention have also been identified.

1.2 Summary of Findings and Recommendations

The following recommendations have been made to improve the PRCS' ability to identify and respond to prudential risks.

The risk ratings associated with the recommendations reflect the assessment of consequence and likelihood of the related risk exposure of the finding using the Department's Risk Management Matrix and definitions included in **Attachment A**.

Finding	Recommendation	Risk Rating
Finding 1: There is limited dynamic monitoring of financial and related risks by PRCS. Key stakeholders are not familiar with the relevant triggers of financial risk.	PRCS should: ▪ define the intelligence requirements for the prioritisation framework to include broader environmental scanning; and ▪ define the information triggers for HSN and how this information will be integrated into HSN processes and meetings.	Medium
Finding 2: Communication between PRCS and HSN are not driven by a structured approach. In addition, there is limited documentation to evidence decision making processes related to the provider investigation process.	PRCS should: ▪ define a stakeholder communication plan between PRCS and HSN relating to communication of financial and related risks; and ▪ develop documentation to evidence decision making throughout the provider investigation process to increase visibility of the process.	Medium

Finding	Recommendation	Risk Rating
Finding 3: Relevant prudential information is not readily available to PRCS because information is stored across multiple systems. Intelligence sharing when requested may not be complete because it relies on information retained by key persons which is not always formally captured	PRCS should: ▪ define recordkeeping guidelines for major systems and spreadsheets that are utilised by PRCS; and ▪ review system access for both PRCS and HSN based on the information requirements defined in Recommendation 1 to enable relevant staff can access and update information as needed.	Medium
Finding 4: There has been limited collation and analysis of known challenges for providers in the APCS submission process. This has resulted in reported breaches requiring additional departmental staff time to review and confirm the breaches.	PRCS should: ▪ analyse previous incorrectly reported breaches to identify common mistakes made by providers when completing the APCS; ▪ insert help information into electronic forms next to areas where common mistakes are made; and ▪ annually review the number of incorrectly reported breaches to assess the success of any additional help provided and to identify other areas for improvement in the APCS submission process.	Medium

1.3 Management Comments

Management agrees with the commentary and recommendations in this report.

1.4 Restriction of Use

This report is intended solely for use by the Department of Health, and should not be distributed to any third party without the consent of Protiviti, which will not be unreasonably withheld. This document is not to be used for any other purpose, except as required by law, without our prior express consent.

2. Background, Objective, Scope and Approach

2.1 Background

The Department has key functions within the health and aged care system, including oversight through stewardship, policy and regulation, financing, and resource management. The Australian ageing population is expected to increase the demand for aged care services. Aged care continues to transform from a system where consumers received set services with little choice, to a system that is more responsive to consumer's needs and preferences. As the system changes, there is increasing regulation and oversight over approaches that will improve older people's quality of life.

In 2016-17, the Australian Government had a total expenditure of $17.4 billion on aged care, with more than two-thirds of the total expenditure ($12.1 billion) on residential aged care. More than 1.3 million older people received some form of aged care support.

Australian Government's Accommodation Payment Guarantee Scheme

Individuals entering residential aged care are generally required to pay some form of accommodation payment, which includes Refundable Accommodation Deposits (RADs), Accommodation Bonds and Entry Contributions. The Commonwealth guarantees the repayment of these sums under the Australian Government's Accommodation Payment Guarantee Scheme (the Scheme). Specifically, where an approved provider taking accommodation payments becomes insolvent, the repayment is guaranteed by the Commonwealth.[2]

The *Aged Care Act 1997* (the Act) sets out to protect recipients of aged care services. Approved aged care providers ("approved providers") receiving accommodation payments must comply with the prudential requirements under section 52M of the Act. The *Fees and Payments Principles 2014 (No 2.)* issued under the Act outlines the four prudential requirements, being the Liquidity Standard, Records Standard, Disclosure Standard and Governance Standard.

In 2015-16, approximately $22 billion of accommodation payments were deposited.[3] The Scheme and related Prudential Standards provide for the protection of these accommodation payments on behalf of aged care recipients. During the life of the Scheme, approximately $43 million has been paid back to residents where aged care residents accommodation payments were not effectively protected by approved providers.

Continuity of Services

In the event that a provider becomes insolvent or there is a risk of service delivery interruption for any reason, the Health State Network (HSN) in the Department is responsible for monitoring the continuity of services. The Department has a responsibility to monitor this to ensure the providers are adhering to their obligations to ensure that there is continuity of service so that care needs are being appropriately met in accordance with the *Aged Care Act 1997, Schedule 1 User Rights Principles 2014*.

Monitoring Processes

The Department monitors residential aged care providers' compliance with the Prudential Standards through collecting the APCS (summarised in Attachment D). Under the *Fees and Payments Principles 2014 (No. 2)* the APCS must be completed within four months of the end of the financial year and by approved providers of residential aged care that hold or have previously held refundable

[2] This financial risk to the Commonwealth is specific to approved providers charging accommodation payments (as opposed to approved providers receiving capital grants).

[3] Aged Care Financing Authority, *Fifth Report on the Funding and Financing of the Aged Care Sector* (July 2017).

deposits, accommodation bonds or entry contributions. The form contains questions about the number and value of the refundable deposits, accommodation bonds and entry contributions held, whether refunds were paid on time and whether they complied with the four Prudential Standards. These standards are intended to assist providers to improve their financial management practices, enhance financial sustainability and reduce the risk of default on the refund of bond balances. While under Division 67 of the Act, the Department's Secretary has the power to impose sanctions for non-compliance, the Department has limited power to gain additional information involuntarily from providers outside of the APCS.

The Prudential Risk and Compliance Section (PRCS) in the Department is responsible for identifying, investigating and managing at-risk providers. The PRCS is split into two teams: the Risk and Analysis Team and the Investigations Team. The Risk and Analysis Team identifies at-risk approved providers based on the APCS and General Purpose Financial Report (GPFR) received annually from providers, Service Provider of Concern meetings (SPoC) held with HSN, and complaints received that are then passed on to the Investigations Team. The Investigations Team investigates the matters raised by the Risk and Analysis Team. Accordingly, they engage with the approved providers to gather further information, provide assistance, and if needed provide a notice of non-compliance with a required action plan for resolution of the matter.

The Department applies a risk-tiered approach to monitoring service providers, and the Department's level of involvement will vary on a case by case basis. Typically, residential care service providers often present the highest risk cases to HSN because of the level of impact on recipients in the event of service interruption. The providers that have been identified presenting critical quality or financial risks are discussed at the fortnightly SPoC which includes HSN and multiple Department aged care stakeholders including PRCS. These providers are monitored by HSN on an ongoing basis and may have specific action items delegated to provide additional support to an aged care provider.

Links Between Financial and Quality Risks

While the PRCS team is focused on financial and related risks and the HSN is focused on quality of care, there are often links between financial and quality indicators in approved providers. That is, it is not unusual for a provider reporting significant financial risks to also be experiencing issues in quality of care (and vice versa). As a result, PRCS and HSN have information on financial and quality indicators that is relevant to each other. This will often require sharing of information between PRCS and HSN when at-risk providers are identified.

Previous Reviews

In 2016, the Department engaged a firm to consult on the legislation, business and operation framework for Refundable Accommodation Payments. They were engaged to assist in a review of existing aged care legislation in respect of the regulation and protection of accommodation payments. The Final Report in May 2017 included key findings in the areas of inadequate data collection, limited resources to adequately assess compliance, as well as deficiencies in the Liquidity and Disclosure Standards of the regulatory framework. They recommended that the Prudential Standards should be amended to align the regulatory framework and the Department's powers with leading prudential regulatory practice. This internal audit did not duplicate the scope or findings outlined in this previous report.

2.2 Objective

This audit assessed the effectiveness of Department's governance, structures, processes and controls to proactively identify and respond to financial and other risks under the legislative monitoring framework in place for health and aged care service providers.

2.3 Scope

The scope of the internal audit included:

1. review of the Department's governance[4], structures, processes and controls for capturing, escalating and sharing information relating to financial risk and other risks related to accommodation payments for approved providers involved in accommodation payments; and
2. review of the Department's processes for monitoring approved providers' non-compliance with the Prudential Standards and identifying potential prudential issues that may have the potential to interrupt delivery of services.

This internal audit was conducted in November/December 2017. Accordingly, we assessed the governance arrangements in place during this time. Since the completion of fieldwork there has been restructure in the Department which will impact the governance arrangements. The impact of these changes has not be assessed as part of this audit. The governance and processes in place at the time of fieldwork were assessed using the normative model referenced in **Attachment B.**

Key controls that were identified through this audit are outlined in **Attachment C**.

2.4 Scope Limitations

The scope of this internal audit did not include:

- a review of the policy framework for prudential monitoring, including prudential requirements imposed on health and ageing service providers, as this has been previously examined in a recent consultancy;
- a review of monitoring of quality of services for approved providers (as this audit was focussed on prudential monitoring);
- a review of the appropriateness of the risk assessment (including consideration of quality of care factors) during relinquishing of services or instances of potential interruption to delivery;
- consultations with approved providers or recipients;
- a review of the governance arrangements for PRCS following the restructure of the Department after completion of fieldwork for this internal audit; or
- a review of the management reporting related to all health and ageing service providers, as this internal audit focused on approved providers involved in accommodation payments.

The assessments made during this internal audit have been provided in good faith and in the belief that such statements and opinions are not false or misleading. Due to the limited duration of the internal audit, Protiviti has relied on information that was provided by the Department. Protiviti does not express an opinion as to whether the information supplied is accurate and no warranty of accuracy or reliability will be given. Furthermore, we have not implied and it should not be construed that we have verified the information provided to us, or that our enquiries could reveal any matter that a more extensive examination might disclose.

The Department is responsible for maintaining an effective internal control structure. The purpose of the internal audit was to assist management in discharging this obligation. Due to the inherent limitations in any internal control structure, it is possible that errors or irregularities might have occurred and have not been detected. Further, the overall control environment within which the

[4] For this internal audit, governance was considered using the ANAO definition of "leadership, direction, control and accountability, and assists an entity to achieve its outcomes" (ANAO, *Public Sector Governance: Strengthening Performance through Good Governance Better Practice Guide,* 2014).

reviewed control procedures operate has not been audited.

Please note that an internal audit is not designed to detect all weaknesses in control procedures as the audit is not performed continuously throughout the period and the tests performed were conducted on a sample basis. Any projection of the evaluation of the control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Considerable professional judgement is required in determining the overall assessment. Accordingly, others could evaluate the results differently and draw different conclusions.

3. Finding and Recommendations

3.1 Finding 1: Dynamic Monitoring of Financial and Related Risks

There is limited dynamic monitoring of financial and related risks by PRCS. Key stakeholders are not familiar with the relevant triggers of financial risk. This may result in high risk providers not being identified or monitored.

Discussion

PRCS utilises a number of channels to gather information regarding prudential risks from aged care providers. These channels are in part driven by legislative requirements. The four primary sources for this information are the APCS, GPFR, Specific Providers of Concern Meetings (SPoC) and notifications from the Complaints Commission. Both the APCS and GPFR are annual statements that are completed months before they are analysed by PRCS. While both documents provide significant information detailing a provider's financial situation they are historical and rely on self-reported breaches. Notifications from the Complaints Commission provide PRCS an opportunity to identify provider financial risks soon after they occur however this process is reactive and only provides the opportunity for PRCS to identify and resolve financial issues within aged care providers after they impact residents.

SPoC meetings provide an opportunity for PRCS and HSN to discuss current critical risk providers and any new information on other providers that may increase their risk rating. While SPoC meetings allow the identification of both quality and financial issues there is limited discussion regarding how quality issues may manifest as a financial issue (or vice versa). It was noted throughout the internal audit that SPoC meetings focus on quality as these risks are often more urgent. While we agree that this is reasonable when considering minimising the impact to residents, prudential risks are often early indicators of quality issues, and as such should share the focus of these meetings with the goal of reducing future quality issues.

The discussion of prudential issues within SPoC and through other communication channels is often limited due to the lack of prudential risk knowledge held by staff outside of PRCS, particularly within HSN. HSN staff have a strong focus on quality issues within providers as this is their main area of focus when visiting and evaluating providers.

This strong focus on quality issues and the lack of education and structure regarding financial risk and the triggers that require HSN to inform PRCS of information, significantly impacts HSN staff's ability to identify and report on financial concerns and provide for broader environmental scanning. This is a missed opportunity for PRCS to receive intelligence already retained within the Department regarding approved providers who may not have been identified through the APCS or GPFR. Obtaining this information may assist in providing more timely and dynamic monitoring of financial and related risk.

Risk Exposure

While PRCS utilises multiple information sources to identify at risk providers these are often reactive and SPoC meetings have a strong focus on quality rather than financial risk. This creates the risk that HSN will not provide key information on financial risks for approved providers, resulting in high risk providers going undetected, which may impact the quality care for aged care recipients.

Recommendation 1	
Risk Rating	Medium (Consequence: Moderate. Likelihood: Possible)

PRCS should:

- define the intelligence requirements for the prioritisation framework to include broader environmental scanning; and
- define the information triggers for HSN and how this information will be integrated into HSN processes and meetings.

Recommendation 1	
Management Comments	
Accepted. This recommendation will be implemented for the current prioritisation framework. However, we note the intelligence requirements and triggers will change over time as the framework is updated following the Review of the Prudential Standards undertaken by Ernst and Young in 2017. We also note information triggers for Health Grants and Networks will not include additional information triggers that will be covered by the Review. Health Grants and Networks will require education and training to develop the skills and knowledge required to understand what financial information triggers to look for and how they can be relevant to monitoring financial and related risks. Training can only be undertaken following the development of the prioritisation framework and is likely to take 6 to 12 months to ensure Health Grants and Network staff are comfortable with additional requirements of their role.	
Accountable Position	**Agreed Completion Date**
First Assistant Secretary, Residential and Flexible Aged Care	28.02.2019

Assurance

The following will provide assurance that the risk has been managed:

- updated prioritisation framework to include broader intelligence gathering and environmental scanning;
- documented criteria for intelligence and financial information that must be shared by HSN with PRCS; and
- regular reporting showing the increase in notifications from HSN.

3.2 Finding 2: Structured Communication Between PRCS and HSN

Communications between PRCS and HSN are not driven by a structured approach. In addition, there is limited documentation to evidence decision-making processes related to the provider investigation process.

Discussion

Stakeholder Communication Planning

It is important that organisations identify all stakeholders they interact with and the information requirements of these stakeholders. This is often defined through a stakeholder communication plan that details each stakeholder, the purpose and expectation for provision of information, and the most effective communication channels.

As the PRCS and HSN have information on financial and quality indicators that is relevant to each other this will often require sharing of information between PRCS and HSN. This will often require sharing of information between PRCS and HSN when at-risk providers are identified. This is highlighted in the case study below.

Case Study: In January 2017 a provider was referred from the PRCS Risk and Analysis Team to the PRCS Investigations Team due to negative profitability, poor cash flow and exceeding permitted use expenditure. This led to an investigation utilising knowledge from the Victorian HSN to understand the operating environment and directors of the approved provider. This information provided background for PRCS to engage with the approved provider's directors to discuss the non-compliance and possible solutions. These meetings resulted in the approved provider deciding to close their organisation in July 2017 working with the Department (both HSN and Central Office) to manage the smooth transition for care recipients.

PRCS do not currently have guidelines or structure for information sharing with other stakeholders, most significantly HSN (as discussed above in Finding 1). This has resulted in information provided between the two teams without a clear purpose or being understood by the recipient. For example, PRCS provided HSN with the high risk providers list. However without additional instructions or an identified purpose for the information it was not clear to staff how the information was to be utilised or actioned.

Documented Decision Making

A stakeholder communication plan partnered with documented decision making provides visibility and defensibility over decision making. It is important that key information leading to a decision, not just the final decision, is documented so that it can be referred to in future for similar decisions as well as for external visibility. The information that is included in decision making documentation should include (at a minimum) the following details:

- the reason for the decision;
- the details of the decision;
- the information relied on for the decision; and
- the expected or potential impact of the decision.

Within PRCS the final decision is documented and signed off by the delegate, but there is limited transparency around the process leading up to this final decision in the investigation process.

This reduces PRCS defensibility/transparency of decision making. It also does not support the information expectations of HSN staff as HSN does not currently have visibility of the information that PRCS uses in their decision making process. It was noted during interviews that PRCS are in the process of updating internal templates for decision making to provide additional detail and rationales for decisions. Internal Audit supports these improvements to documentation of decision making.

Risk Exposure

The communication channels between PRCS and HSN are informal and unstructured. This may result in wasted departmental resources through unproductive communication channels. Conversely, this may also result in key information not being shared effectively to allow the Department to detect situations which may impact financial risks and/or the quality care for aged care recipients.

Limited documentation of decision making may result in an inconsistent or unclear approach to decision making or a lack of transparency for decision making and approvals. Any inconsistent approach to decision making may also cause high risk providers issues to not be effectively addressed and result in reputational damage to the Department.

Recommendation 2	
Risk Rating	Medium (Consequence: Minor. Likelihood: Likely)

Recommendation 2
PRCS should: ▪ define a stakeholder communication plan between PRCS and HSN relating to communication of financial and related risks; and ▪ develop documentation to evidence decision making throughout the provider investigation process to increase visibility of the process.
Management Comments
Accepted. Noting that this recommendation relating to evidence decision making does not relate to the NCCIMS system which is intended to capture the decision making processes for all compliance cases or initial risk profiling of providers. It is understood that this recommendation relates to the capture of documentation to evidence decision making throughout the provider compliance investigation process.

Accountable Position	Agreed Completion Date
First Assistant Secretary, Residential and Flexible Aged Care	31.08.2018

Assurance

The following will provide assurance that the risk has been managed:

- documented stakeholder communication plan by PRCS relating to financial and related risks;
- a report showing the increase in notifications from HSN; and
- documentation from a completed investigation showing use of new templates for decision making throughout the provider investigation process.

3.3 Finding 3: Recordkeeping Standards for Intelligence Retention and Sharing

Relevant prudential information is not readily available to PRCS because information is stored across multiple systems. Intelligence sharing when requested may not be complete because it relies on information retained by key persons which is not always formally captured.

Discussion

It is important that organisations have guidelines that provide an understanding of key information and where it is accessible for current and new staff, as well as external stakeholders who may use the systems. These guidelines increase the efficiency as all stakeholders are able to find relevant information in a consistent and efficient manner. It also reduces the reliance on key staff with undocumented knowledge of a system.

PRCS operates with a number of systems and spreadsheets throughout the compliance review and investigation process. These systems are generally understood by all PRCS team members however there have been examples where information known by team members have been difficult to access and collate. This is because information is stored across a number of systems including Casper, NCCIMS, National Approved Providers System (NAPS), TRIM and email records retained by individual staff. While the use and contents of these systems are understood by PRCS staff they are not documented. Additionally, HSN does not have a clear understanding of where information related to current or past financial risks should be located, and there are no clear directions on where to document and retain HSN intelligence related to financial risks.

Risk Exposure

With no documented recordkeeping standards in place PRCS relies heavily on retained knowledge by staff which creates significant key person risk. It also creates barriers for stakeholders to share or access

information when there are no clear requirements for information storage. This may result in high risk providers going undetected or key information on high risk providers not being passed to the relevant stakeholders.

Recommendation 3	
Risk Rating	Medium (Consequence: Minor. Likelihood: Likely)

PRCS should:

- define recordkeeping guidelines for major systems and spreadsheets that are utilised by PRCS; and
- review system access for both PRCS and HSN based on the information requirements defined in Recommendation 1 to enable relevant staff can access and update information as needed.

Management Comments

Accepted.

Due to the complexity of the systems and spreadsheets that are utilised as well as the need to ensure version control and information integrity of linked documents, appropriate governance will have to be established to ensure all staff have appropriate skill and knowledge of the use of all the systems and their role.

Health Grants and Networks will require education and training to develop the skills and knowledge required to use the systems and spreadsheets. It is likely to take 6 to 12 months to ensure Health Grants and Network staff are comfortable with additional requirements of their role, the systems and purposes.

Accountable Position	Agreed Completion Date
First Assistant Secretary, Residential and Flexible Aged Care	28.02.2019

Assurance

The following will provide assurance that the risk has been managed:

- finalised record keeping guidance for prudential intelligence, risk and compliance information. This should identify which systems should be used and access requirements for both PRCS and HSN; and
- regular reporting showing the increase in notifications from HSN.

3.4 Finding 4: Lessons Learned from the Submission Process

There has been limited collation and analysis of known challenges in the APCS submission process. This has resulted in reported breaches requiring additional departmental staff time to review and confirm the breaches. This delays monitoring activities and is an inefficient use of finite departmental resources.

Discussion

Each APCS contains multiple points where providers are required to self-report if they have breached their agreement. The most recent analysis of these reported breaches was conducted in 2014-15 and it found that of the 349 providers there were 803 self-reported breaches, however only 236 (29%) of those were confirmed breaches. This is a significant number of breaches that are reported incorrectly by providers. Each of these reported breaches requires follow up by a staff member from PRCS. Following up reported breaches in the APCS is an activity that takes multiple months of lapsed time of PRCS' full time resources. Through discussions with PRCS it was identified that providing education to providers would not be a viable solution to reduce the number of incorrect breaches as providers typically have a high turnover rate of staff and providing yearly training is unrealistic based on PRCS current resourcing.

For the most recent reporting period PRCS introduced electronic reporting to make it easier for providers to complete and collate required information. These electronic forms present an opportunity to include

guidance on specific reporting requirements as well as provide on demand, detailed information as needed by the user. It also provides the opportunity to utilise automatic controls so that only specific input will be accepted for certain fields. This may reduce the number of entry errors possible while providing direction to providers as they file their APCS. PRCS noted that this is an opportunity to address known challenges in the submission process and they are looking to use these tools to help reduce the manual follow ups.

Risk Exposure

The high number of incorrectly reported breaches requires a significant resource investment from PRCS which could be utilised on other tasks. This may result in wasted departmental resources and detract resources from resolving high risk situations at approved providers.

Recommendation 4	
Risk Rating	Medium (Consequence: Minor. Likelihood: Likely)

PRCS should:

- analyse previous incorrectly reported breaches to identify common mistakes made by providers when completing the APCS;
- insert help information into electronic forms next to areas where common mistakes are made; and
- annually review the number of incorrectly reported breaches to assess the success of any additional help provided and to identify other areas for improvement in the APCS submission process.

Management Comments

Accepted.

Analysis of previous incorrectly reported breaches to identify common mistakes made by providers when completing the APCS can commence once the current APCS data has been quality checked and accepted. Following this analysis information can be included into electronic forms where common mistakes are made for the next reporting period commencing 1 July 2018.

Review of the number of incorrectly reported breaches following the next APCS submission can only commence after the reporting period is finalised (31 October 2018) and the information submitted by Approved Providers has been quality checked and accepted (late February 2019). Accordingly, this recommendation can only be implemented post February 2019.

Accountable Position	Agreed Completion Date
First Assistant Secretary, Residential and Flexible Aged Care	30.06.2019

Assurance

The following will provide assurance that the risk has been managed:

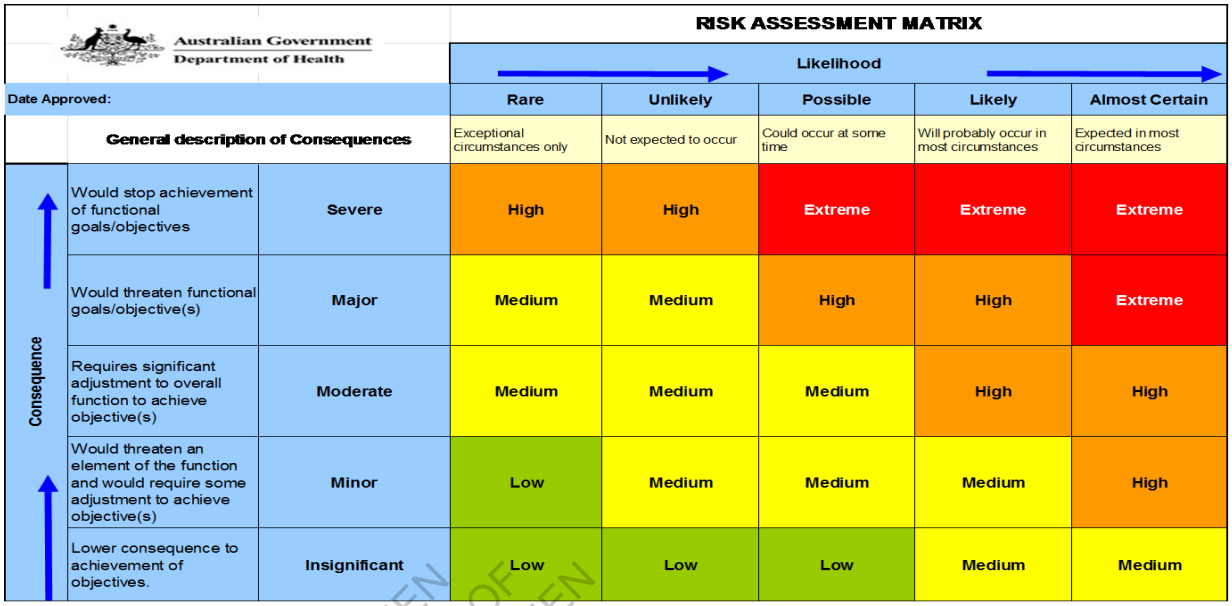
- updated APCS submission electronic forms to include help information; and
- an analysis report showing the reduction in the number of unconfirmed breaches for the 2017-18 APCS submission process.

Attachment A: Risk Rating Definitions

This internal audit report includes a range of findings and observations. The risk exposure of these findings and observations have been identified based on the internal audit work performed. A risk rating associated with the findings has been determined based on an assessment of the consequence and likelihood of the related risk exposure of the finding. We have used the Department Risk Assessment Matrix at **Diagram 3**.

Opportunities have been identified to address each finding / observation. **Diagram 4** provides an outline of the expected management response to, and monitoring of, recommendations. This has also been taken from the Department's Risk Management Framework.

Diagram 3: Risk Assessment Matrix



Australian Government Department of Health		RISK ASSESSMENT MATRIX				
		Likelihood →				
Date Approved:		Rare	Unlikely	Possible	Likely	Almost Certain
General description of Consequences		Exceptional circumstances only	Not expected to occur	Could occur at some time	Will probably occur in most circumstances	Expected in most circumstances
Consequence ↑						
Would stop achievement of functional goals/objectives	Severe	High	High	Extreme	Extreme	Extreme
Would threaten functional goals/objective(s)	Major	Medium	Medium	High	High	Extreme
Requires significant adjustment to overall function to achieve objective(s)	Moderate	Medium	Medium	Medium	High	High
Would threaten an element of the function and would require some adjustment to achieve objective(s)	Minor	Low	Medium	Medium	Medium	High
Lower consequence to achievement of objectives.	Insignificant	Low	Low	Low	Medium	Medium

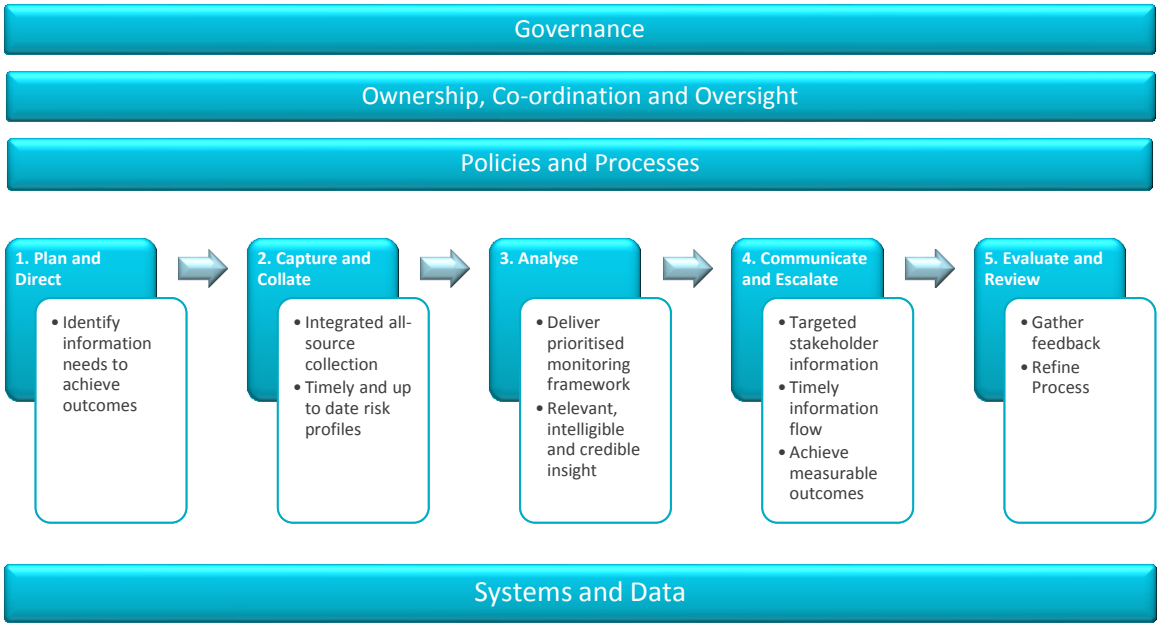
Diagram 4: Transparency and accountability requirements

Rating	Risk Tolerance Table – Action Required
Extreme	Must be given immediate senior management attention. Risk assessment and approved plan, including treatments, must be undertaken.
High	Must have considerable management attention to reduce risk to as low as reasonably possible. Risk assessment and approved plan, including treatments, must be undertaken.
Medium	Risk should be managed and monitored. Risk assessment and approved plan required. If contracts are working effectiveness than additional treatments are optional.
Low	Risk should be managed and risk and controls monitored.

Attachment B: Normative Model of Information Management

The below diagram represents a high level normative model of information management used during this internal audit. We have developed this model for prudential monitoring for the Department, is consistent with better practice.[5] We reviewed PRCS' governance, structures, processes and controls against the process shown below to identify improvement opportunities.

Information Management System



[5] This diagram has been developed consistent with the information and intelligence management principles in: *ANAO, Public Sector Governance: Strengthening Performance through Good Governance (2014)*, *FBI Intelligence Cycle* and the *Productivity Commission Regulatory Audit Framework (2014)*.

Attachment C: Summary of Risk and Controls Assessment

The below table provides a summary of the assessment of controls identified in this internal audit.

Risk	Inherent Likelihood	Inherent Consequence	Inherent risk rating	Current controls	Residual Likelihood	Residual Consequence	Residual risk rating
Ineffective oversight of key issues by executive resulting in high risk issues going unaddressed. This may result in financial loss for aged care recipients or a decline in the quality of care.	Likely	Moderate	High	Regular reporting at SPOC meeting Formal and regular review of high risk issues Executive have oversight of high risk issue management *Control gaps:* *Approach to communication between teams is not structured (see Finding 2).*	Possible	Moderate	Medium
Delayed or ineffective escalation of key issues resulting in reputational damage to the Department. This may result in financial loss for aged care recipients or a decline in the quality of care.	Likely	Moderate	High	Regular reporting at SPOC meeting Formal and regular review of high risk issues Executive have oversight of high risk issue management Defined roles and responsibilities for escalation Target stakeholders of high risk issues are identified Defined accountabilities with specific action items for issue resolution *Control gaps:* *Approach to communication between teams is not structured (see Finding 2).*	Possible	Moderate	Medium
Ineffective communication of key information between teams. This may result in high risk providers not being identified, which may cause financial loss for aged care recipients or a decline in the quality of care.	Likely	Moderate	High	Defined roles and responsibilities in team Formal process to assign and manage issues Regular reporting of investigations at SPOC meetings Formal and regular review of high risk issues Executive have oversight of high risk issue management *Control gaps:* *Approach to communication between teams is not structured (see Finding 2).*	Likely	Minor	Medium

Risk	Inherent Likelihood	Inherent Consequence	Inherent risk rating	Current controls	Residual Likelihood	Residual Consequence	Residual risk rating
Provider issues and non-compliance are not identified in a timely manner, which may result in financial loss for aged care recipients.	Likely	Moderate	High	Annual prudential compliance statement provides a self-assessment at a point in time Complaints and self-reporting provide additional issue communication channel Formal and regular tracking of high risks Tiered compliance approach in place for engagement with approved provider stakeholders Defined feedback loop for issue resolution with providers Issues classified in line with defined risk framework *Control gaps:* *Limited mechanisms to identify current and future issues through environmental scanning (see Finding 1).* *Compliance monitoring program has limited dynamic monitoring (see Finding 1).*	Possible	Moderate	Medium
Monitoring and investigation processes are unstructured which may cause high risk providers to go unidentified. This may result in reputational damage for the Department and financial loss for aged care recipients.	Possible	Moderate	Medium	Defined options for resolution Defined sources of and methods to obtain relevant information Investigation team structured with responsibilities Activities during investigations recorded electronically using case notes Updates on investigations provided at regular formal meetings to management Prioritisation framework in place for investigations Feedback loop on investigations in place *Control gaps:* *Limited documentation of all critical decisions during an investigations (See Finding 2).*	Unlikely	Moderate	Medium

Risk	Inherent Likelihood	Inherent Consequence	Inherent risk rating	Current controls	Residual Likelihood	Residual Consequence	Residual risk rating
Lessons learnt are not captured resulting in continuing ineffective/inefficient processes which may result in poor quality of care for aged care recipients or financial loss.	Likely	Moderate	High	Ongoing review of templates Continuity of management *Control gaps:* *Limited lessons learnt to inform quality and performance of activities (See Finding 4).*	Likely	Minor	Medium
Issues are not closed in a timely or effective manner, resulting in reputational damage to the Department and financial loss for recipients of care.	Possible	Moderate	Medium	Outcomes of investigations are recorded Decisions and reasons for outcomes are recorded in line with defined criteria Feedback loop in place with approved providers with single point of contact in PRCS Standard templates in use	Unlikely	Minor	Medium
IT systems do not support information management for monitoring of financial and related risks, requiring additional staff time for processing and resulting in instances of missed identification of high risk providers. This may result in financial loss for aged care recipients.	Likely	Moderate	High	Records management procedures Automatic system for collecting and collating APCS results Manual tools to supplement existing systems *Control gaps:* *There are multiple systems containing relevant information for investigations (See Finding 3).*	Likely	Minor	Medium
Information is not analysed or prioritised, resulting in high risk approved providers going unidentified. This may result in financial loss for aged care recipients or a decline in the quality of care.	Likely	Major	High	Prioritisation framework Defined risk criteria Quality assurance process over compilation of self-reported breaches Management review of high risk list Formal and regular review of high risk list	Unlikely	Moderate	Medium

Risk	Inherent Likelihood	Inherent Consequence	Inherent risk rating	Current controls	Residual Likelihood	Residual Consequence	Residual risk rating
Information collection is not aligned to planned outcomes, resulting in insufficient information to target monitoring activities. This may result in financial loss for aged care recipients or a decline in the quality of care.	Possible	Moderate	Medium	Prioritisation framework Defined risk criteria Quality assurance process over compilation of self-reported breaches Data requirements driven by the Act	Unlikely	Moderate	Medium
Information data sets are incomplete or outdated resulting in monitoring activities being incorrectly targeted. This may result in financial loss for aged care recipients or a decline in the quality of care.	Likely	Moderate	High	Regular reporting at SPOC meeting Formal and regular review of high risk issues Executive have oversight of high risk issue management Target stakeholders of high risk approved providers are identified	Likely	Minor	Medium

Attachment D: Summary of the *Fees and Payments Principles 2014 (No 2.) Prudential Requirements*

In the below table we have summarised the four prudential requirements for approved providers related to this internal audit. Full details of the standards can be found in the *Fees and Payments Principles 2014 (No 2.) Prudential Requirements*.

Standard	Summary
Liquidity Standard	If an approved provider holds one or more refundable deposit balances, accommodation bond balances or entry contribution balances, the approved provider must maintain sufficient liquidity to ensure that the approved provider can refund, in accordance with the Act and the related principles, any of those balances that can be expected to fall due in the following 12 months. The approved provider must implement and maintain a written liquidity management strategy and identify the minimum level of liquidity.
Records Standard	An approved provider must establish and maintain a register (the refundable deposit register) that includes information in relation to the refundable deposits, accommodation bonds and entry contributions.
Governance Standard	An approved provider must implement and maintain a governance system that ensures that balances for refundable deposits or accommodation bonds are used only for permitted uses and are refunded to care recipients. This governance system must allocate responsibilities in relation to the management of refundable deposit balances or accommodation bond balances and there must be written documentation describing the governance system. There must also be an investment management strategy for the refundable deposits or accommodation bonds.
Disclosure Standard	An approved provider must give the Secretary an annual prudential compliance statement, which includes information about the refundable deposits, accommodation bonds and entry contributions. Information that must be provided related to the balances includes total number, total value held, total value received, total amount deducted, total amount refunded, and details relating to non-compliance with the Act. The annual prudential compliance statement must be supported by an independent audit.