

MEDIA RELEASE**8 April 2016**

Calvary Public Hospital financial and performance reporting and management

The ACT Auditor-General, Dr Maxine Cooper, today presented the **Calvary Public Hospital financial and performance reporting and management** report to the Speaker for tabling in the ACT Legislative Assembly. The Calvary Public Hospital is managed by Calvary Health Care ACT Ltd, a subsidiary company of the Little Company of Mary Health Care Ltd, and is funded by the ACT Government under the Calvary Network Agreement.

Dr Cooper says 'Calvary Public Hospital provides a significant proportion of the ACT's public hospital services and inappropriate financial management has occurred and is a major concern'.

Dr Cooper has called for two fundamental issues to be considered by the ACT Government:

- the appropriateness of continuing to use the Calvary Network Agreement for facilitating the delivery of public hospital services at Bruce; and
- whether or not staff in the Calvary Public Hospital should continue to be employed under the *Public Sector Management Act 1994*.

Calvary Health Care ACT Ltd lodged two 2014 annual reports with the Australian Securities and Investments Commission, in August and then again in October 2014. These indicated a deteriorating financial position. The loss finally reported was \$9.451 million against an initial surplus of \$1.925 million.

Dr Cooper says 'it is a concern that neither the Little Company of Mary Health Care Ltd nor the ACT Government had an accurate understanding of the 2013-14 year financial position of Calvary Health Care ACT Ltd's Public Hospital until October 2014'.

'Although a small number of Calvary Health Care ACT Ltd executives and staff were involved in undertaking the inappropriate financial practices others were aware of this, but did not report it. Calvary Public Hospital staff are employed under the *Public Sector Management Act 1994* which requires inappropriate practices be reported' said Dr Cooper.

The Summary of **Calvary Public Hospital financial and performance reporting and management: Report No. 1/2016**, with audit conclusions, key findings and recommendations is attached to this media release.

Copies of **Calvary Public Hospital financial and performance reporting and management: Report No. 1/2016**, are available from the ACT Audit Office's website www.audit.act.gov.au . If you need assistance accessing the report please phone 6207 0833 or go to 11 Moore Street, Canberra City.

Extract of Summary chapter:

Overall conclusion

In late 2012-13 and throughout 2013-14 inappropriate financial practices were undertaken with respect to the recording and reporting of the finances of the public hospital services provided by Calvary Health Care ACT Ltd. During this period inaccurate information was entered into the Little Company of Mary Health Care Ltd's financial system, Finance One at the Calvary Public Hospital at Bruce. This, and the manipulation of financial and other reports, resulted in the ACT Health Directorate and the Little Company of Mary Health Care Ltd receiving misleading information that presented a better financial result than was occurring.

At the end of the 2013-14 financial year, in preparing the financial statements for that year, receivables (monies expected to be collected) from the ACT Government of \$8.892 million were falsely reported. This enabled Calvary Health Care ACT Ltd to report a surplus for 2013-14. The subsequent removal of falsely reported receivables contributed to Calvary Health Care ACT Ltd's Public Hospital 2013-14 financial position being a \$9.451 million deficit rather than a surplus of \$1.925 million. Although the Little Company of Mary Health Care Ltd absorbed the deficit with no financial loss to the ACT Government and no misappropriation of funding was identified, it is a concern that neither the Little Company of Mary Health Care Ltd nor the ACT Government had an accurate understanding of the 2013-14 year financial position of Calvary Health Care ACT Ltd's Public Hospital until October 2014.

A small number of Calvary Health Care ACT Ltd executives and staff were involved in undertaking the inappropriate financial practices. Other staff and executives also at Calvary Health Care ACT Ltd advised the Audit Office that they had concerns at the time but did not report them. The *Public Sector Management Act 1994* obliges Calvary Public Hospital staff to report inappropriate behaviour. Further examination of how Calvary Public Hospital staff are employed is warranted, including consideration of their responsibilities under the *Public Sector Management Act 1994* and associated enterprise agreements, and how Calvary Health Care ACT Ltd and the Little Company of Mary Health Care Ltd provide support to staff to meet their responsibilities.

The inappropriate financial practices occurred in the context of the Calvary Network Agreement not being implemented effectively. Requirements in the Calvary Network Agreement relating to the provision of funding, including the implementation of a new activity-based funding model and a clinical costing system, both the responsibility of the ACT Health Directorate to develop, have not been met. Arrangements for the provision and oversight of funding for Calvary Public Hospital were inadequately implemented, coordinated and communicated thereby contributing to a workplace in which inappropriate financial practices were less likely to be challenged.

While respecting that improvements have been made in response to the events of 2013-14, given the findings of this audit and the significance of the public hospital services provided by Calvary Health Care ACT Ltd, it would be prudent to examine if the Calvary Network Agreement is the most appropriate mechanism for facilitating the delivery of services at Calvary Public Hospital. If it

is to remain, priority needs to be given to amending the agreement followed by a sustained commitment to its implementation. Importantly, the ACT Health Directorate will need to improve its leadership in managing the agreement.

Chapter Conclusions

GOVERNANCE, ADMINISTRATIVE AND CONTRACTUAL ARRANGEMENTS

Governance and administrative arrangements for the Calvary Network Agreement for the delivery of public hospital services provided by Calvary Health Care ACT Ltd in 2013-14 were inadequately implemented and in some instances the arrangements themselves were inadequate. Importantly, some key clauses in the Calvary Network Agreement were not adhered to, were ineffectively implemented or need to be revised. The ACT Health Directorate has adopted an informal approach in relation to Calvary Health Care ACT Ltd and its management of the Calvary Network Agreement. However, it is incumbent on the ACT Health Directorate, as the party ultimately responsible for the management of the delivery of public hospital services, to take a strong leadership role. This was lacking in 2013-14.

Communication between the ACT Health Directorate and Calvary Health Care ACT Ltd (and Little Company of Mary Health Care Ltd) did not occur in a timely manner. This resulted in uncertainty regarding decisions made on service activity levels and funding. Additionally, the effectiveness of governance committees with responsibility for overseeing and monitoring the delivery of Calvary Public Hospital services was compromised due to inadequate documentation of committee meetings.

The development and agreement of annual service activity levels and funding, as required in Annual Performance Plans supporting the Calvary Network Agreement, is problematic. Plans were developed and finalised late, some many months into the financial year. It is important that plans are finalised in a timely manner so that there is certainty for Calvary Health Care ACT Ltd with respect to the services it needs to deliver and for the ACT Government regarding funding commitments.

The Calvary Network Agreement required the parties to transition to an activity-based funding model for the delivery of public hospital services by Calvary Health Care ACT Ltd by 1 February 2015. A pre-requisite for the transition was for the ACT Health Directorate to provide a clinical costing model to Calvary Health Care ACT Ltd. This did not occur. Until an activity-based funding model is implemented Calvary Health Care ACT Ltd will receive funding for an amount no less than that received for the preceding year, regardless of activity levels. Having an activity-based funding model may offer advantages to the ACT Government in that it may provide certainty on the calculation of funding. However, the ACT Health Directorate did not give priority to its development.

INAPPROPRIATE FINANCIAL PRACTICES

The Little Company of Mary Health Care Ltd's operating revenue in 2013-14 was \$1.066 billion. Calvary Health Care ACT Ltd's operating revenue for its public hospital services at Bruce was \$189.721 million in 2013-14 (17.7 per cent of the Little Company of Mary Health Care Ltd's total operating revenue).

Inaccurate information was entered in the Little Company of Mary Health Care Ltd's financial system, Finance One at the Calvary Public Hospital at Bruce. This facilitated the reporting of better financial performance than was occurring. The financial performance of Calvary Health Care ACT Ltd was inaccurately reported as being 'in balance' in monthly and other reports to the ACT Health Directorate and to the Little Company of Mary Health Care Ltd.

In addition to the inaccurate information entered in Finance One there was manipulation of financial and other reports in order to mislead. Reports that were provided to the ACT Health Directorate were manipulated, in order to ensure that information in them was consistent with information maintained by the ACT Health Directorate.

As well as inaccurate information presented in reports and reported to committees during the 2013-14 financial year, receivables were falsely reported in preparing the 2013-14 financial statements. This perpetuated the misleading financial position that had been reported throughout the year. A falsely reported \$3.7 million receivable was detected by the Chief Financial Officer of the Little Company of Mary Health Care Ltd and corrected before the *Calvary Health Care ACT Ltd 2014 Financial Report* was lodged with the Australian Securities and Investments Commission (ASIC) on 27 August 2014. Other falsely reported receivables totalling \$5.2 million were not identified until early September 2014. This necessitated the re-lodgement of the *Calvary Health Care ACT Ltd 2014 Financial Report* with ASIC on 5 November 2014. This resulted in a loss of \$9.451 million, equivalent to 4.98 per cent of the total revenue received from the ACT Government for the Calvary Public Hospital in 2013-14. There was however no loss to the ACT Government in 2013-14 nor evidence of misappropriation of funding.

The \$5.2 million receivable, in part, was purported to be evidenced and supported by agreement from the ACT Health Directorate during a meeting with Calvary Health Care ACT Ltd on 12 July 2013. This meeting did not occur and the document which purported to evidence it was falsely created. A former Calvary Health Care ACT Ltd executive has admitted creating the false document.

There were warning signs in the reporting of Calvary Health Care ACT Ltd's financial position for the Calvary Public Hospital in 2013-14 that the 'in balance' position being reported was improbable. These warning signs warranted greater examination by those overseeing the financial performance of Calvary Health Care ACT Ltd and the delivery of the Calvary Network Agreement. This did not happen.

RESPONSE TO THE INAPPROPRIATE FINANCIAL PRACTICES

The Little Company of Mary Health Care Ltd's immediate response to specific inappropriate financial practices at Calvary Health Care ACT Ltd in 2013-14, of accepting the resignation of two executives and conducting a forensic investigation into the financial practices was appropriate and timely. However, the workplace investigation of two of the Calvary Health Care ACT Ltd Finance Team involved in the inappropriate financial practices was inadequate. This investigation was ineffectively documented and not conducted in accordance with the requirements of the *ACT Public Sector Health Professional Enterprise Agreement 2013-2017* under which the staff are employed.

Although a range of executives and staff at Calvary Health Care ACT Ltd have asserted that they had concerns with respect to practices at Calvary Health Care ACT Ltd, there is no evidence that these were raised through appropriate channels. Given that most staff in the Calvary Health Care Public Hospital are employed under the terms and conditions of the *Public Sector Management Act 1994* they are obliged to report corrupt or fraudulent conduct or any possible maladministration.

Calvary Health Care ACT Ltd needs to have fully effective employee policy governance documents and processes, including codes of conduct and whistleblowing policy guidance (currently under review), in order to provide guidance to Calvary Health Care ACT Ltd public hospital employees on their responsibilities under the *Public Sector Management Act 1994*. These employees need to be advised that they can report inappropriate practices to non-Little Company of Mary Health Care Ltd (Calvary Health Care ACT Ltd) bodies (e.g. the Commissioner for Public Administration, the Ombudsman or the Auditor-General) and their identity can be protected.

Recommendations

RECOMMENDATION 1 CALVARY NETWORK AGREEMENT AND ENGAGEMENT OF PUBLIC HOSPITAL STAFF

The ACT Government should examine:

- a) the fundamental issue of whether or not the Calvary Network Agreement is the most appropriate mechanism for delivering Public Hospital services; and
- b) whether the Public Hospital staff employed by Calvary Health Care ACT Ltd should be engaged under the terms and conditions of the *Public Sector Management Act 1994* and associated enterprise agreements.

If it is determined that the Calvary Network Agreement is to be retained then Recommendation 2 is a high priority. If it is determined that staff are to be employed by Calvary Health Care ACT Ltd under the *Public Sector Management Act 1994* then Recommendations 6 and 8 are high priority.

RECOMMENDATION 2 CALVARY NETWORK AGREEMENT

The ACT Health Directorate and the Little Company of Mary Health Care Ltd should review, negotiate and amend the Calvary Network Agreement to address weaknesses identified in this audit report.

RECOMMENDATION 3 ACT HEALTH DIRECTORATE RISK MANAGEMENT

The ACT Health Directorate should document its consideration and management of risks associated with the purchase of public hospital services from Calvary Health Care ACT Ltd, including conducting a risk assessment and documenting the management of identified risks.

RECOMMENDATION 4 EXTERNAL ANNUAL FINANCIAL AUDIT OF CALVARY PUBLIC HOSPITAL

Calvary Health Care ACT Ltd should seek written confirmation from the ACT Health Directorate that the reporting of the external audit of 2014-2015 Calvary Public Hospital's financial reports is adequate for the purposes of clause 14.1 (a) of the Calvary Network Agreement, which requires the provision of externally audited annual reports for the public hospital to the ACT Government.

RECOMMENDATION 5 FUNDING MODEL

The ACT Health Directorate, in consultation with the Little Company of Mary Health Care Ltd and Calvary Health Care ACT Ltd, should commit to a timeframe for the finalisation and implementation of the successor to the interim funding model for Calvary Public Hospital services.

RECOMMENDATION 6 INVESTIGATIONS OF INAPPROPRIATE WORKPLACE BEHAVIOURS

The Little Company of Mary Health Care Ltd and Calvary Health Care ACT Ltd should undertake investigations of inappropriate workplace behaviours by its Public Hospital staff in accordance with the *Public Sector Management Act 1994* and any related regulations and relevant enterprise agreements.

RECOMMENDATION 7 REPORTING OF RECONCILIATION OF MONTHLY REVENUE

Calvary Health Care ACT Ltd should include the following in its reporting to the ACT Health Directorate in relation the Calvary Network Agreement:

- a) reconciliation of year to date revenue to the actual funding paid year to date, including explanations for reconciling items; and

- b) information on the basis of how revenue items have been recognised, to ensure only approved funded items have been included in the revenue reported.

RECOMMENDATION 8 INFORMATION AND SUPPORT TO STAFF

The Little Company of Mary Health Care Ltd and Calvary Health Care ACT Ltd should continue to review, amend and promulgate employee behaviour and conduct documents, including policies relating to employees' conduct and 'whistleblowing', so that Calvary Health Care ACT Ltd public hospital staff are provided with information on:

- a) their duties and obligations under the *Public Sector Management Act 1994*, including their obligation to report any corrupt or fraudulent conduct or any possible maladministration to an appropriate authority; and
- b) options, including the making of a public interest disclosure under the *Public Interest Disclosure Act 2012*, for the reporting of any corrupt or fraudulent conduct or any possible maladministration to appropriate ACT public sector authorities, such as the ACT Health Directorate, the Commissioner for Public Administration or the ACT Auditor-General.