



11 June 2010

Ms Christine McDonald
Secretary
Standing Committee on Finance and Public Administration
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Ms McDonald

**Standing Committee on Finance and Public Administration inquiry into:
COAG Reforms relating to Health and Hospitals**

I am responding to your correspondence of 8 June 2010 and the question that emerged during the above inquiry regarding the role of the Auditor-General in relation to Local Hospital Networks (LHNs).

The National Health and Hospitals Network Agreement sets out the shared intention of the Commonwealth and State and Territory governments to implement a National Health and Hospitals Network (NHHN) for Australia. The stated features of the NHHN are:

- the Australian Government will become the majority funder of public hospitals in Australia by funding 60 per cent of the efficient price of all public hospital services delivered to public patients;
- an agreed amount of State and Territory government GST revenue will be allocated on behalf of States and Territories to health and hospitals reform;
- responsibility for hospital management will be devolved to LHNs in order to increase local autonomy and flexibility so that services are more innovative and responsive to local needs; and
- LHNs will be paid on the basis of a national efficient price for each public hospital service they provide to public patients under LHN Service Agreements with States and Territory governments.

I understand that LHNs will be established by State governments as separate legal entities under State legislation. If this is the case, the Commonwealth Auditor-General would not have

the authority to audit the performance of LHNs, as the *Auditor-General Act 1997* focuses on the performance of Commonwealth entities. The LHNs would, however, fall within the mandate of State Auditors-General.

Nevertheless, the NHHN Agreement does contain provisions for the establishment of a National Performance Authority (NPA) to 'provide clear and transparent quarterly public reporting of the performance of every LHN and the hospitals within it'. The NHHN Agreement also states that to support monitoring and reporting on LHN activity, 'the States (in regard to LHNs), will provide the NPA with patient-level and hospital-level service data, financial payment and other financial information relating to the provision of public hospital and primary health care services'.

It is proposed that the NPA would be established from 1 July 2011 as an independent Commonwealth statutory authority under the *Financial Management and Accountability Act 1997* and, as such, it would be within the ANAO's mandate to access data and information held by the NPA and to conduct performance audits of its performance. Regarding the Commonwealth Auditor-General's role in providing an opinion on the financial reporting of public sector entities, the ANAO would undertake an audit of the annual financial statements of the NPA.

The scope of any performance audits of the NPA would be defined by the provisions of the Auditor-General Act, the NPA's enabling legislation, and government policy parameters as reflected in relevant Agreements between the Commonwealth and other parties. In undertaking such audits, it is common for the ANAO to meet with State and regional entities, such as the proposed LHNs, to obtain a local perspective. The access provisions of the Auditor-General Act would allow the ANAO to obtain information from the LHNs, in the context of reviewing the performance of the NPA and other Commonwealth entities involved in the administration of the National Health and Hospitals Network Agreement.

While actual performance measures are yet to be developed for the NHHN, the ANAO could provide assurance in relation to whether the NPA is fulfilling its role and, in doing so, is providing performance information that allows the Commonwealth Government, over time, to judge whether its policy directions are being implemented effectively.

As this Committee may be aware, in submissions to the Joint Committee of Public Accounts and Audit, dated 9 April 2009 and 7 May 2010 in relation to that Committee's inquiry into the *Auditor-General Act 1997*, the ANAO outlined a number of options to enhance external accountability arrangements in response to developments in Federal public administration, particularly under the umbrella of the Council of Australian Governments.

Broadly, our submissions suggest that there would be benefits in extending the Auditor-General's mandate to allow the ANAO to 'follow the money trail' in certain circumstances; particularly where, in the opinion of the Auditor-General, following the money trail would be significant in the context of an audit of a Commonwealth entity. As the Committee is aware, at the Committee's hearing on 25 May 2010, Senator Mason tabled a letter I wrote to him dated 7 May 2010 that discussed my mandate in the context of ANAO Audit Report No 33 *Building the Education Revolution – Primary Schools for the 21st Century*.

Please let me know if there is any further information that I can provide to assist the Committee.

Yours sincerely

Ian McPhee
Auditor-General