



Australian Government
Department of Health, Disability and Ageing

[Date]

Mr Josh Burns MP
 Chair, Joint Committee of Public Accounts and Audit
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Re: Inquiry into Commonwealth Financial Statements 2023-24 and 2024-25

The Department of Health, Disability and Ageing (the department) provides this submission to the Joint Committee of Public Accounts and Audit (JCPAA) to support its consideration of Auditor-General Report No.22 of 2024-25: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2024* and Auditor-General Report No.17 of 2025-26: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2025*.

Thank you for the invitation to submit a response to the JCPAA on the Australian National Audit Office (ANAO) report on the results of the audits of Australian Government Entities, including the Australian Government’s Consolidated Financial Statements. This submission focusses on improvement actions implemented in the context of the department’s response to Report 22/ 2024-25 and Report 17/ 2025-26 and highlights the continuous improvement actions across departmental operations.

Report 22/ 2024-25 noted the status of ANAO significant and moderate findings as follows:

Category	Closing position (2022–23)	New findings (2023–24)	Findings resolved (2023–24)	Closing position (2023–24)
Significant (A)	1	1	1 ^a	1
Moderate (B)	1	4 ^a	2 ^{a b}	3
Total	2	5	3	4

Note a: The significant audit finding relating to *Legal governance and conformance* was identified during the 2022–23 audit. This audit finding was reduced to a moderate audit finding during the 2023–24 interim audit as reported in Auditor-General Report No. 42 of 2023–24 *Interim Report on Key Financial Controls of Major Entities*. During the 2023–24 final audit this finding was resolved.

Note b: The moderate audit finding relating to *Commonwealth Home Support Programme – Compliance Program* was identified during the 2022–23 audit. This audit finding was resolved during the 2023–24 interim audit as reported in Auditor-General Report No. 42 of 2023–24 *Interim Report on Key Financial Controls of Major Entities*.

Report extracts and subsequent actions in relation to the significant and moderate audit findings follow.

Significant Audit Finding - Legal conformance

During the 2023–24 audit, the ANAO reviewed the risk assessments performed by DoHAC over its conformance with legislation that the department is responsible for administering. DoHAC did not have a centralised process to assess whether the risk assessments were consistently undertaken and a number of inconsistencies were identified by the ANAO.

DoHAC had not assessed legislation which resulted in breaches of section 83 of the Constitution of Australia as high risk, despite known legislative compliance issues.

In addition, legislation which had given rise to potential non-compliance identified during 2023–24 had not been assessed as high risk and therefore DoHAC had not undertaken further work to ensure payments to recipients were compliant with legislative requirements.

The ANAO recommended that DoHAC:

- *revisit its risk assessments to ensure consistency in the risk assessment process;*
- *for those programs identified as higher risk for non-compliance with legislative requirements, conduct further work to ensure payments to recipients are compliant;*
- *establish a centralised process to provide oversight of DoHAC's legal governance arrangements; and*
- *implement reporting of legal conformance matters through its Audit and Risk Committee.*

Departmental response and actions taken

In response, the department established new arrangements for assessing the risk of non-compliance with legislative requirements and established a centralised review and oversight process to ensure consistency across programs. The department also improved the guidance on identifying section 83 breaches, reporting obligations and possible remediation actions.

Programs identified as being higher risk of non-compliance with legislative requirements, including section 83 breaches, have identified measures to mitigate the risk. Risk mitigation strategies include the redesign of controls, program design changes, or amending legislation to reduce the risk of breaches occurring.

In addition, relevant matters raised in the quarterly meetings with Services Australia at the Strategic Business Committee are reported to the Financial Statements Sub-Committee and Audit and Risk Committee.

This finding was closed by the ANAO during the 2024-25 financial statements audit.

Moderate Audit Finding - Compliance activities over PBS advance payments

Under the National Health Act 1953, approved pharmaceutical suppliers can submit an advance claim for payment for the supply of pharmaceutical benefits. Once paid, the supplier has up to 65 days to certify the claim.

During the 2023–24 final audit, DoHAC identified \$1.8 billion in advance payments which should have been recorded as a statutory receivable. The receivable related to payments made to suppliers which had not been certified within 65 days as required by the National Health Act 1953.

The advanced payments related to a period of over a decade. DoHAC has not undertaken any investigative work or analysis to determine reasons why the advance payments have not been certified by the supplier. Advance claims are excluded from DoHAC's compliance activities as DoHAC does not undertake compliance until claims have been finalised.

The failure to recognise a statutory receivable has resulted in a material misstatement in DoHAC's prior years' financial statements (which was corrected in the 2023–24 financial statements). In addition, the absence of appropriate monitoring or oversight over the growing balance of advance payments presents business and legal risks to DoHAC.

The ANAO recommends that DoHAC:

- *determine a strategy to address the backlog of advance claims which have not been certified by suppliers. There are legal issues that DoHAC will need to resolve in order to determine the recoverability of the balance; and*
- *implement monitoring and compliance activity over advance claims to ensure DoHAC's responsibilities under the National Health Act 1953 are fulfilled.*

Departmental response and actions taken

In response, the department and Services Australia developed a new remediation and compliance strategy, strengthening existing provider compliance and monitoring activities. Through the strategy the department and Services Australia have prevented further growth in uncertified claims and addressed the backlog through targeted education and enhanced monitoring activities.

In addition, the department sought additional legal advice from the Australian Government Solicitor (AGS), who concluded that a statutory debt did not exist where an advance claim had not been certified by the approved pharmaceutical supplier within 65 days. Following this advice the department no longer recognises these debts in the financial statements.

This finding was closed by the ANAO during the 2024-25 financial statements audit.

Moderate Audit Finding - Inventory management

DoHAC's financial statements include a material inventory balance relating to the National Medical Stockpile, COVID-19 vaccines and consumables. During the final audit, DoHAC identified two prior period errors affecting the inventory balance (which were corrected in the 2023–24 financial statements). Both errors were not detected by DoHAC's systems of internal control.

In addition, the ANAO identified weaknesses around DoHAC's inventory stocktake process and there was a large unresolved variance between inventory data maintained in the Inventory Management System and the Financial Management Information System. The weaknesses in internal control increase the risk of material misstatement in the financial statements.

The ANAO recommends that DoHAC:

- *examine its stocktake processes to ensure they are sufficiently robust and capable of detecting potential misstatements in the inventory population;*
- *investigate and resolve the cause of the variance in the inventory reconciliation; and*
- *perform a root cause analysis to determine the underlying issues contributing to the prior period errors so weaknesses in the control environment can be remediated to prevent the issues from re-occurring.*

Departmental response and actions taken

In response, the department has strengthened the stocktake methodology and processes to ensure the data availability issues and procedural deficiencies identified by the ANAO would not reoccur.

In addition, the department has reviewed and strengthened the monthly inventory reconciliations controls. All variances are identified, investigated, and corrected in a timely manner.

A thorough investigation into the root cause of the issue was undertaken during the 2023-24, resulting in strengthened detective controls being implemented, as well as improved collaboration between inventory management and financial reporting teams.

This finding was closed by the ANAO during the 2024-25 financial statements audit.

Moderate Audit Finding - Asset management

DoHAC commissioned a review of its internally developed software and identified a material prior period error as costs relating to projects considered to be 'software as a service' had been incorrectly capitalised (these prior period errors were corrected in the 2023–24 financial statements). Under the Australian Accounting Standards, these costs should have been expensed. In addition, the ANAO identified weaknesses around DoHAC's asset impairment and asset valuation processes.

The weaknesses in internal control increase the risk of material misstatement in the financial statements.

The ANAO recommended that DoHAC:

- develop guidance for program areas to be able to correctly apply the capitalisation requirements of the Australian Accounting Standards; and
- strengthen controls around its impairment and valuation processes.

Departmental response and actions taken

The independent review into the accounting classification of digital project costs commissioned by the department during 2023–24 included key deliverables of accounting policy advice and guidance materials. These materials have now been incorporated into the department’s internal policies and procedures.

The department continues to assess changes, where required, to the impairment, valuation, disposals and asset stocktake processes and documentation, to ensure the final outcome of these processes is compliant with the Australian Accounting Standards and in line with ANAO observations.

The department continues to remediate the asset impairment weaknesses identified.

This finding was downgraded to a minor (C) audit finding by the ANAO during the 2024-25 financial statements audit.

Report 17/ 2025-26 noted the status of ANAO significant and moderate findings as follows:

Category	Closing position (2023–24)	New findings (2024–25)	Findings resolved (2024–25)	Closing position (2024–25)
Significant (A)	1	-	1	-
Moderate (B)	3	2	3	2
Significant legislative breach (L1)	-	1	-	1
Total	4	3	4	3

Report extracts and subsequent actions in relation to the significant and moderate audit findings follow.

Significant legislative breach - Legislative non-compliance and governance risks in program payments

During 2024–25 Health identified and disclosed a number of section 83 breaches of the Constitution. These matters highlight ongoing compliance challenges given the complexity, volume, and scale of its responsibilities. The following significant matters of non-compliance were reported:

- *Aged care subsidies and fees – quarterly review process: The retrospective review undertaken by Services Australia to validate recipients’ maximum entitlement for aged care subsidies was found to be inconsistent with provisions of the Aged Care Act 1997.*
- *Home care – crediting of unspent funds: Services Australia systems currently credit home care accounts with unspent funds after 70 days when recipients transfer between providers. There is no legal authority to credit funds within 1–56 days of transfer, which in some cases has led to overpayments.*
- *Supply of Complex Authority Required (CAR) drugs: Some CAR medicines under the National Health (Highly Specialised Drugs Program) Special Arrangement 2021 were prescribed and claimed with increased quantities or repeats above the legislated maximum under the PBS.*
- *Exemption process for Authority Required prescriptions: Exemptions have been granted over a number of years to PBS Authority Required restrictions contrary to the National Health Act 1953.*

- *Private health insurance rebates: Payments made to insurers under the Private Health Insurance Act 2007 may in certain circumstances result in breaches of section 83. These issues demonstrate a heightened risk of non-compliance with legislative requirements and the Constitution.*

These breaches demonstrate that the department's processes for administering large and complex payment arrangements remain exposed to a higher risk of non-compliance with legislative requirements. The size, scale, and complexity of Health's responsibilities increase the likelihood of further breaches occurring if control weaknesses are not addressed. The continued existence of unresolved and recurring matters indicates that without timely and effective remediation, there is an ongoing risk of significant non-compliance with section 83 of the Constitution and related legislative provisions, which could undermine the integrity of financial reporting and public confidence in program administration.

Departmental response and actions taken

In response, the department continues to strengthen arrangements previously implemented to assess the risk of non-compliance with legislative requirements.

The department is continuing to strengthen governance arrangements implemented with Services Australia through the Strategic Business Committee, which meets regularly to provide oversight and decision-making for programs administered on behalf of the department. Relevant matters raised in these meetings are reported to the Financial Statements Sub-Committee and Audit and Risk Committee.

Evidence supporting the implementation of the remediation activities will be provided to the ANAO during the 2025-26 financial statements audit.

Inventory Management System IT General Controls – Privileged User Monitoring

The ANAO identified deficiencies in controls relating to privileged user logging as the department does not perform any monitoring over privileged user activities in the Inventory Management System. While audit logging is enabled on system events, no risk assessment is performed to identify a scope of high-risk privileged user activities that should be reviewed by an appropriate, independent reviewer to ensure such activities were done in accordance with an appropriate business case.

There is an increased likelihood that the risk of privileged users of the Inventory Management System making direct changes to underlying data, and incorrect or inappropriate changes being made to programs or configurations is not mitigated by the department's control activities. This reduces the department's ability to rely on the Inventory Management System to produce complete and accurate data to support the financial and operational management of the National Medical Stockpile, and for financial reporting.

Departmental response and actions taken

In response, the department is conducting a comprehensive review of existing controls relating to privileged user logging within the Inventory Management System, and will implement a risk-based policy for privileged user activity monitoring. This policy will include independent review of high-risk privileged actions to ensure they are appropriately authorised and supported by a valid business case.

Evidence supporting the implementation of remediation activities will be provided to the ANAO during the 2025-26 financial statements audit.

Network Terminations

The ANAO identified deficiencies in controls relating to post-termination activity monitoring. The department does not monitor post termination activity or conduct reviews to ensure that users who have had their access revoked in an untimely manner following their employment cessation have not

performed any inappropriate activities using their unauthorised access following their termination date.

The ANAO recommended that the department:

- implement an effective post termination monitoring process that identifies post termination access, investigates users' activities and rectifies/mitigates the associated risk with these activities; and*
- incorporate in-scope activities in IMS in the post-termination activity monitoring control as informed by an appropriate risk assessment over Inventory Management System end-user functions;*
- document these processes perform them consistently, and including a reporting mechanism so that management is aware of any risks identified.*

Departmental response and actions taken

In response, the department is reviewing the post-termination activity monitoring process. Following this review, the department will establish a revised process to monitor post-termination activities, identify and investigate any access occurring after termination, and implement measures to mitigate associated risks. Additionally, a risk assessment of the Inventory Management System end-user functions will commence, and relevant actions will be integrated into the monitoring framework.

Evidence supporting the implementation of the remediation activities will be provided to the ANAO during the 2025-26 financial statements audit.

The department is committed to addressing the findings raised by the ANAO and to continuous improvement in financial management and governance. We welcome the opportunity to discuss our progress with the Committee through correspondence, or in the course of the public hearing process.

Yours sincerely,

Rachel Balmanno
Chief Operating Officer

27 February 2026