



**Australian Government**

**Department of Health,  
Disability and Ageing**

Deputy Secretary

Mr Josh Burns MP  
Chair, Joint Committee of Public Accounts and Audit  
Box 6021, Parliament House  
CANBERRA ACT 2600  
[jcpaa@aph.gov.au](mailto:jcpaa@aph.gov.au)

Dear Mr Burns,

**Re: Inquiry into Auditor-General Report No. 22 of 2024-25: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2024**

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 the Auditor-General Report No.22 of 2024-25: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2024*.

Thank you for the invitation to submit a response to the JCPAA on the Australian National Audit Office (ANAO) report on the 2023-24 Commonwealth Financial Statements. This submission focusses on improvement actions implemented as part of the department's response to Report 22/ 2024-25 and highlights the continuous improvement actions across departmental operations.

The report 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 <sup>a</sup>	1
Moderate (B)	1	4 <sup>a</sup>	2 <sup>a b</sup>	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 new findings follow.

### **Significant Audit Finding - Legal conformance**

The report noted the following:

*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**

The Report noted the following:

*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**

The report noted the following:

*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**

The report noted the following:

*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.

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 as part of the public hearing process.

Yours sincerely,



Rachel Balmanno

Chief Operating Officer

1 December 2025