

South Eastern Sydney and Illawarra Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

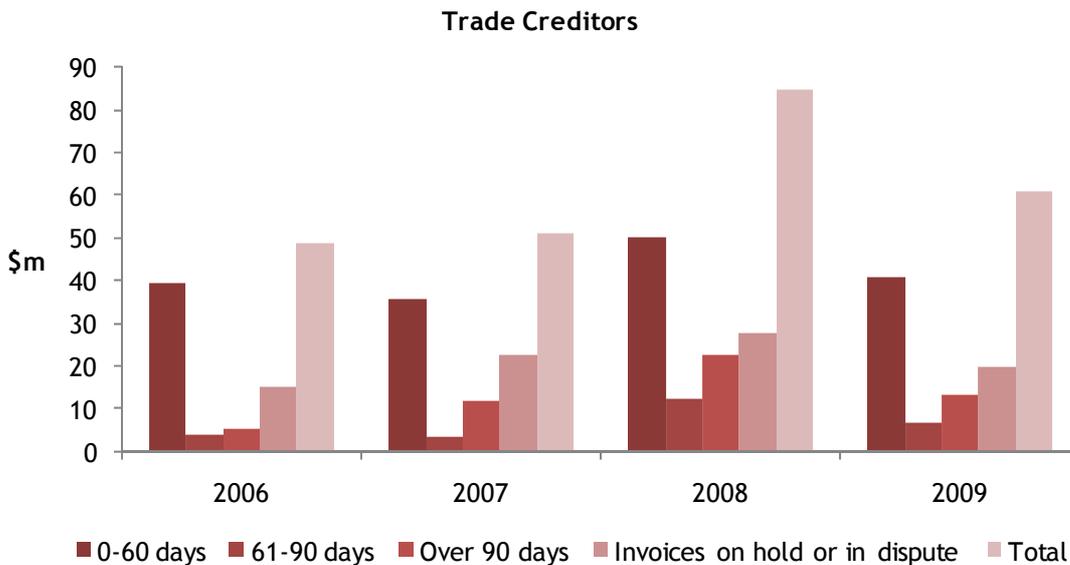
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

The Service needs to ensure all purchases are supported by authorised orders, pay its creditors within agreed payment terms, and to follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: South Eastern Sydney and Illawarra Area Health Service (unaudited)

The timely payment of creditors continues to be an issue for the Service. Total trade creditors at 30 June 2009, \$60.7 million, were significantly lower compared to the prior year, \$84.8 million. Trade creditors over 90 days old have reduced by 41 per cent in that time. During the year, the Service received one off funding of \$5.5 million from the Department of Health (the Department) to pay creditors.

In each of the past four years, invoices on hold or in dispute have constituted a material portion of total trade creditors. At 30 June 2009 around \$20 million or 33 per cent of total trade creditors were either on hold or in dispute. This percentage was the same for 2008, but a decrease on 44 per cent in 2007.

A significant amount of the 2009 on hold balance, \$7.7 million, was over 90 days old, and in some cases amounts on hold were more than two years old. The Service advised that invoices can be placed on hold for a number of reasons, including the lack of a Service purchase order in support of the invoice. We have reported this for the last two years, and recommended that purchases need to be accompanied by valid orders. The lack of action on this issue could give the impression, perhaps mistakenly, that this is being used as a means of deferring payments to suppliers.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	167,497	174,768	166,948	171,144
Current liabilities* (\$'000)	383,424	366,809	320,084	312,141
Working capital deficit (\$'000)	215,927	192,041	153,136	140,997
Working capital (%)	43.7	47.6	52.2	54.8
Number of times current liabilities exceed current assets	2.3	2.1	1.9	1.8

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, the declining trend should be addressed to ensure sufficient funding is on hand for the timely payment of creditors, and to avoid operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$64.8 million, was \$23.3 million worse than the budgeted deficit of \$41.5 million. In comparison, the 2008 result was \$7.0 million worse than the budgeted deficit of \$65.3 million.

The Service advised this was due in part to the deferring of some capital works projects resulting in reduced revenue from government grants being received. Although there may have been extenuating circumstances, the variance between budget and actual has continued a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat issue)

The Service should liaise with the Department to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program, including a pilot review of ‘whole of lifecycle’ management of equipment across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service’s fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	226,677	214,814	234,079
Fully depreciated Plant and Equipment - at cost (\$'000)	68,503	73,200	56,700
Fully depreciated Plant and Equipment as a percentage of total (per cent)	30.2	34.1	24.2

The Service continues to use a high proportion of plant and equipment which has been fully depreciated. Although this reduced from 34.1 per cent in 2008 to 30.2 per cent in 2009, it is still very significant.

Last year I recommended the Service, in conjunction with the Department, review the useful lives of assets that have been fully depreciated. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety, and
- the remaining useful life of the equipment.

The review resulted in \$12.6 million of assets being written off, generally for assets with an original cost of less than \$10,000. The Service was not able to provide documentary evidence to support the results of the review and we were therefore unable to assess whether sufficient work was done to conclude on the safety of the equipment for continued use.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund’s intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended the Service review all special purpose and trust funds to confirm each fund’s intended purpose. The nature and intended use of some funds was not apparent. The Service advised it commenced a review of trust funds in June 2009 which found that further investigative work is required. The review is expected to be completed by March 2010. The value of these funds at 30 June 2009 was \$48.5 million (\$53.5 million in 2007-08).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.

The average length of stay in acute hospitals in the South Eastern Sydney and Illawarra areas decreased to 3.6 days (3.7 days) and is slightly lower than the State average of 3.7 days.

The Service's bed occupancy rate increased to 93.3 per cent (90.9 per cent). This is the highest in the State and above the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded all five triage categories in 2007-08).

The Service's emergency admissions performance has reduced to 73 per cent (76 per cent). This is lower than its 80 per cent target.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09 the Service performed a stock take of items of plant and equipment with a value greater than \$10,000. A listing was made available to all cost centres detailing the assets under their control. Of the 924 cost centres, only 404 returned completed stock take sheets.

A final summary report on the results of the stock take was not prepared.

The Service should strengthen its stock take procedures over plant and equipment by:

- assigning accountability for the stock take process
- requiring all cost centres to complete and return their stock take sheets
- preparing a summary report detailing the results of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total medical staff*	251,636	238,092	211,174	201,749
VMOs	67,273	67,005	60,577	58,529

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMO costs comprise a substantial part of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	50,410	50,422	50,774
Recovery doubtful (\$'000)	4,329	3,881	3,841
Proportion of doubtful debts to total debtors (per cent)	8.6	7.7	7.6
Debts written off (\$'000)	1,299	1,451	1,568

The proportion of debts considered doubtful has remained fairly constant over the past three years. The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

Internal Controls

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters included:

- Joint Ventures - the Service has entered into a joint venture with the University of Wollongong to form the Illawarra Health and Medical Research Institute. We have yet to receive evidence of Ministerial and/or Treasurer's approval to enter into this joint venture
- identification of a weakness in the maintenance of suppliers and payroll master files data
- a material part of the Service's expenditure on goods and services was not supported by approved purchase orders
- salaries and wages reconciliations need improving
- some accounting journals were not supported by appropriate documentation.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	1,322,930	1,231,965	--	--
Personnel services	--	--	1,322,930	1,231,965
Visiting medical officers	67,274	67,005	67,274	67,005
Grants and subsidies	27,484	48,406	27,484	48,406
Other expenses	909,238	849,338	909,238	849,338
OPERATING EXPENSES	2,326,926	2,196,714	2,326,926	2,196,714
OPERATING REVENUE	566,200	530,561	566,200	530,561
Loss on disposal of non-current assets and other losses	6,939	2,416	6,939	2,416
NET COST OF SERVICES	1,767,665	1,668,569	1,767,665	1,668,569
Government contributions	1,702,847	1,603,247	1,702,847	1,603,247
DEFICIT	(64,818)	(65,322)	(64,818)	(65,322)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	(13,424)	47,700	(13,424)	47,700
Administrative transfers of assets to Health Support Services	(1,203)	267	(1,203)	267
Financial asset revaluation (Decrease)	(447)	0	(447)	0
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	(79,892)	(17,355)	(79,892)	(17,355)

Employee related expenses increased primarily due to increases in actuarially assessed long service leave entitlements, annual leave entitlements, and award rate increases.

The decrease in grants and subsidies was due to the payment of a one off \$20.0 million grant in the previous year.

The increase in revenue and other expenses was due to a general rise in activity, including increased patient fees.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	167,497	174,768	167,497	174,768
Non-current assets	1,433,295	1,468,545	1,433,295	1,468,545
TOTAL ASSETS	1,600,792	1,643,313	1,600,792	1,643,313
Current liabilities	573,766	542,395	573,766	542,395
Non-current liabilities	35,304	29,304	35,304	29,304
TOTAL LIABILITIES	609,070	571,699	609,070	571,699
NET ASSETS	991,722	1,071,614	991,722	1,071,614

The increase in current liabilities is mainly due to an increase in employee entitlements.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the South Eastern Sydney and Illawarra area through the following hospitals:

- Bulli District Hospital
- Coledale District Hospital
- David Berry Hospital
- Garrawarra Centre
- Gower Wilson Memorial Hospital
- Kiama Hospital and Community Health Service
- Milton Ulladulla Hospital
- Port Kembla Hospital
- Prince of Wales Hospital and Community Health Services
- Royal Hospital for Women
- Shellharbour Hospital
- Shoalhaven District Memorial Hospital
- St George Hospital and Community Health Services
- Sutherland Hospital and Community Health Services
- Sydney Children's Hospital and Community Health Services
- Sydney Hospital and Sydney Eye Hospital
- Wollongong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.sesiahs.health.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity
