



# Appendix six – About the audit

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## Audit objective

The audit objective is to assess the effectiveness and efficiency of the governance of LHDs.

## Audit criteria

We addressed the audit objective with the following lines of enquiry.

1. Are there clear roles, responsibilities and relationships between the Ministry of Health and LHDs and within LHDs?
  - Holders of governance-related roles within the Ministry of Health and LHDs understand and fulfil their roles and responsibilities.
  - Holders of governance-related roles maintain professional and effective relationships.
  - Ambiguity in roles and responsibilities is resolved with reference to devolution principles.
  - Key governance committees work cohesively within LHDs.
  - Issues are effectively escalated and resolved at an appropriate level in NSW Health.
2. Does the NSW Health Performance Framework establish and maintain accountability, oversight and strategic guidance for LHDs?
  - Service agreements within the NSW Health Performance Framework provide an adequate accountability mechanism between the Ministry of Health and LHDs.
  - The NSW Health Performance Framework allows for adequate monitoring of LHD performance by the Ministry of Health, the community, and other stakeholders.
  - Performance monitoring provides appropriate oversight, including intervention and coordination where necessary by the Ministry of Health to address poor performance and promote efficiency in service delivery.

## Audit scope and focus

In assessing the criteria, we examined:

1. LHD board papers (including terms of references, recent agenda and minutes), including papers of selected board committees
2. LHD board member induction materials and role descriptions
3. documents relating to LHD board performance reviews
4. documents relating to NSW Health's 'tuning' review of governance
5. documents that support the negotiation of service agreements by LHDs and the Ministry, including briefing papers and meeting minutes
6. documents (including policy, guidelines or processes) that:
  - a) direct or guide the process of negotiating service agreements
  - b) direct or guide the preparation (by LHDs) of annual attestation statements against governance standards, and the management and use (by the Ministry of Health) of those attestation statements
7. documents that set out how LHD underperformance will be managed (by both the LHD and the Ministry)
8. documents regarding occasions where LHD underperformance has required Ministry intervention
9. LHD performance reports (both internal reports to the board or board committees, as well as external reports to the Ministry of Health)
10. documents (including policy, guidelines or processes) that set out how performance reports should be prepared, disclosed, monitored and actioned
11. data quality statements for reported LHD performance measures

12. documentation from other stakeholders obtained throughout the audit such as research and studies, statistical data and analysis
13. information from other jurisdictions for comparison.

This audit focused on the effectiveness and efficiency of high-level institutional governance arrangements that establish the responsibilities and functions of LHDs (including with reference to the Ministry of Health), rather than governance practices performed within LHDs.

However, practices within LHDs were relevant where they revealed something about the adequacy of the overall governance arrangements – this included where an activity was performed within an LHD in a way that is unnecessarily duplicative of efforts done in other LHDs, inherently inefficient (for example, due to lack of scale) or ineffective (for example, due to lack of a specialist skill or knowledge).

## Audit exclusions

The audit did not examine the governance of NSW public health organisations other than LHDs, except to the extent that another public health organisations may be relevant to the governance of LHDs.

## Audit approach

Our procedures were:

1. Interviews in five selected LHDs of (where available):
  - a) Chairs of LHD boards
  - b) Chief Executives
  - c) Audit and Risk Committee Chairs
  - d) Internal Audit Executives
  - e) Chairs of Community Engagement Committees
  - f) Chairs of Finance and Performance Committees
  - g) Senior executives with roles and functions related to the audit objective and scope.
2. Interviews with senior staff from the Ministry of Health, including:
  - a) in areas with responsibility for negotiating and monitoring service agreements and performance reporting
  - b) staff with responsibility for high-level governance roles
  - c) subject matter experts in health system management and governance, including contributors to the 'tuning governance' project and the NSW Health Governance Compendium.
3. Interviews were conducted with other senior stakeholders from:
  - a) Australian Salaried Medical Officers Federation
  - b) Grattan Institute
  - c) Health Consumers NSW
  - d) Medical Staff Council NSW Executive
  - e) NSW Agency for Clinical Innovation
  - f) NSW Bureau of Health Information
  - g) NSW Clinical Excellent Commission
  - h) Other state health departments.

4. We reviewed documentation relating to governance in the five LHDs and the Ministry, including:
  - a) governance-related frameworks, policies, legislation and by-laws
  - b) board and committee charters
  - c) board and committee papers and minutes
  - d) LHD performance reports and planning documents
5. We conducted an online survey of board members of all NSW LHDs, seeking their views on:
  - a) board functions (particularly around understanding and clarity of those functions)
  - b) board capability (including skill-mix, induction, and support)
  - c) board performance against a range of defined functions.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

## **Audit methodology**

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

## **Acknowledgements**

We gratefully acknowledge the co-operation and assistance provided by the many individuals who gave their time to be interviewed for this audit or participate in our online survey.

We particularly thank those people in LHDs who engaged openly and generously in this audit.

## **Audit cost**

Including staff costs and overheads, the estimated cost of the audit is \$180,000.