



# Audit & Assurance

## THE ASK:

Whilst governing bodies and executives may understand their strategic and operational risks, assurance involves a more detailed review of processes and controls to ensure they are designed well and operating effectively. Audit (whether financial or non-financial) is just one example of an assurance activity that providers can use to ensure governing bodies and executives have adequate oversight.

## Covered in this Topic Guide

- What is assurance, and why is it important?
- Types of audit
- Achieving effective audit results

## Where are we now?



*We are lucky to have an internal audit partner. When we've done reviews, we've been able to draw the governing body in and have really productive discussions about what we are facing into.*

GOVERNING BODY MEMBER

## Key concepts

The following high-level definitions are provided to assist in interpreting some of the key concepts discussed in this Topic Guide:

- **Assurance** is an assessment process from which a level of confidence over the matter under review can be gained. Assurance is not necessarily an audit.
- The **three lines model** describes a structure for the establishment of controls within different layers of the organisation to provide the governing body with a level of assurance over the effectiveness of control frameworks.
- An **assurance map** is a useful tool for the governing body to outline key processes as a source of assurance, as well as expose any gaps or duplication in processes.
- An **audit committee** plays a key role in assisting the governing body to fulfil its oversight responsibilities in areas such as an entity's financial reporting, internal control systems, risk management systems and the internal and external audit functions.
- **External audit** is concerned with evaluating the financial statement of a provider.
- **Internal audit** is concerned with evaluating and improving the effectiveness of risk management, control and governance processes within an organisation.

## Audit and assurance in aged care

To ensure that the expectations of older Australians are met, aged care providers have an obligation to ensure that their services and facilities operate effectively. For governing bodies, this means empowering the executive team and staff to carry on the day-to-day operations of the provider – including the front-end delivery of care and services to consumers – whilst maintaining *enough* oversight over those operations to ensure accountability, to share insights where appropriate and useful, and to gain comfort that the compliance obligations and strategic objectives are achieved. Assurance is a key mechanism through which governing bodies exercise this oversight and enables the provider to mature and improve.

## Tips for understanding audit and assurance

### Older Australians at the Centre of Care

- Ensure that the governing body understands the different ways it can “assure itself” that its services are safe and meet consumer expectations.

### Obligations and Accountabilities

- Ensure the governing body understands its obligations in respect of financial reporting.

### Knowledge, Skills and Experience

- Identify areas that require external support to receive assurance (e.g. complex processes).

### Leadership and Culture

- Foster a culture of openness in relation to assurance processes, which speak to the continuous improvement opportunities it affords.

## Reflecting on your practice



### Think...

Below are the top things you need to be **thinking** about:

- Are there governing body-approved charters (or terms of reference) in place that outline the roles and accountabilities of the external and internal auditors?
- What assurance mechanisms are in place for the governing body? Is qualitative and quantitative data used, and how has that data been analysed?
- Is the governing body/audit committee satisfied with the executive's assurances in relation to the provider's risk management and compliance systems?



### Ask and say...

Below are the top **questions you need to be asking**:

- What assurance do we have, or need, to be confident that our service is providing safe, high-quality care?
- Is there an assurance map that indicates any gaps in the assurance provided? And does the assurance framework adequately address key risks e.g. clinical and care risks?



### Do...

These are the top **actions and behaviours** of leaders:

- Ensure the provider's risk profile is linked to its internal audit plan and updated in line with audit findings and other continuous improvement strategies.
- Ensure the executive team and staff are open and willing to engage with the assurance process and understand their importance (i.e. through the governing body setting a good example in their openness to processes such as audits).
- Ensure that audit actions are being tracked and implemented.
- Have an awareness of any significant accounting disagreements between the executive team and the external auditors.

## What is assurance and why is it important?

'Assurance' can be described as an assessment process from which a level of confidence over the matter under review can be gained; it is a process to validate information, both formally and informally. Though audit is *one* mechanism through which assurance may be given (which is supported by consistent professional methodologies and standards), it is by no means the only way for a governing body to receive assurance. Assurance can be sought for dual purposes, which are to provide:

- a means of gaining comfort over the implementation and effective management of internal controls over organisational risks
- stakeholders with an independent assessment of how well the provider is meeting strategic and mandatory performance and reporting standards.

### The role of the governing body

By the nature of its fundamental roles and ongoing duties, a governing body is expected to provide oversight over the operations of the provider. However, there is no way that the governing body could (or should) be across the day-to-day minutiae of activities or processes.

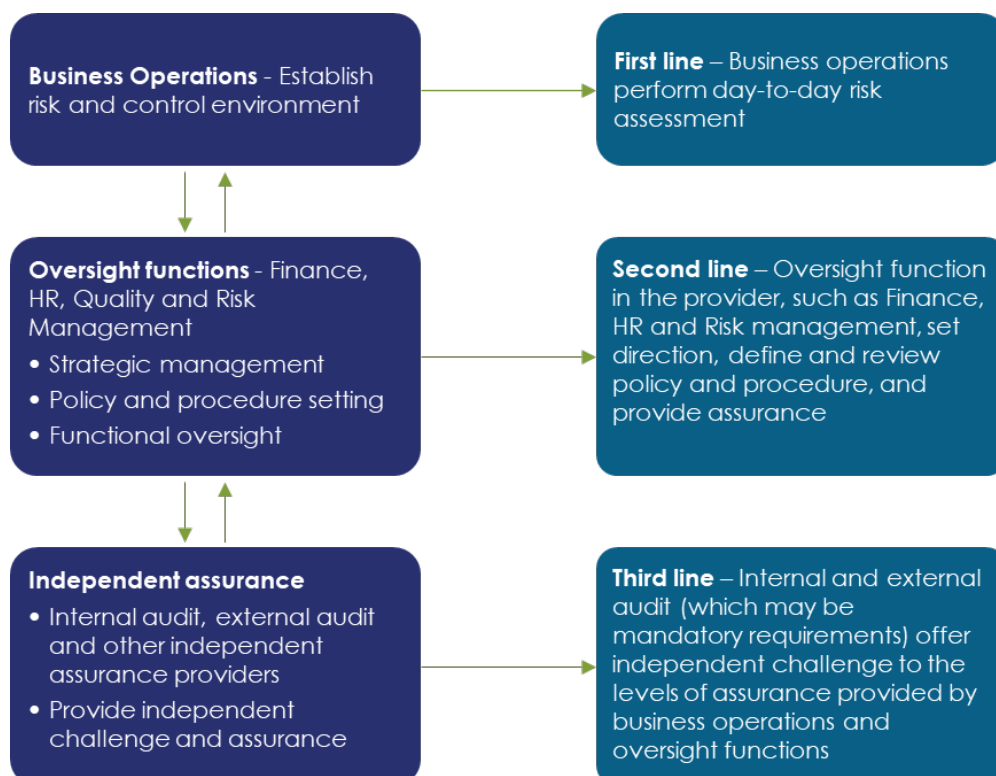
The governing body will set expectations relating to key processes (through defining the provider strategy and risk appetite and by approving policies). The governing body will receive regular reports from the CEO and management at their meetings for review. This provides the governing body with the opportunity to question the CEO regarding any risk or strategic concern. The governing body then has the responsibility to assess whether the expectations they have set are being met and take action if change is required.

## The three lines model

Most organisations establish a control environment that is commonly referred to as the 'three lines model' (also known as the 'three lines of assurance'). This model provides three lines of defence on the basis of establishing controls within different layers of the organisation in order to provide assurance:

- The **first line** (operational level) sits with management and the entire workforce, who are responsible for implementing the policies and procedures to manage, mitigate and control risks (e.g. a provider validating a new consumer's medical history upon admission, ensuring that consumers are provided with appropriate medications).
- The **second line** sits with management to assess and monitor risk management, compliance and continuous improvement processes to ensure policies, procedures, complaints and other feedback are addressed, and decisions are reported to the board. (e.g. ongoing regular reviews of a consumer's medications to ensure they remain appropriate).
- The **third line** is independent assurance over these processes, where reviewing and testing by an independent party is performed and reported to the board (potentially through an audit committee or similar), identifying any errors or control weaknesses (e.g. an internal audit of the medication management process, which includes sample testing to ensure that processes are operating effectively).

## An example of the three lines model



## The role of an audit and risk committee

Although not a requirement, governing bodies may find it beneficial to establish a committee with delegated responsibility to oversee and guide the provider's audit and risk management processes. The benefits of establishing a dedicated audit and risk committee include:

- increasing the ability of the governing body to understand the topic area in more detail, as not all governing body members will also be members of the committee.
- providing an independent view and specialist expertise, as the committee may include one or more external members who do not sit on the governing body.

An audit and risk committee can provide advice on the appropriateness of a provider's control framework, including independently verifying the integrity of management's reporting. This committee will commonly have oversight over, amongst other things:

- whether the provider has effective risk management frameworks, processes and practices in place to ensure the delivery of high quality consumer care and services
- whether the provider has adequate controls in place to ensure compliance with regulatory expectations, both from the Commission and otherwise
- whether the financial statements provide a true and fair view of the provider's financial position and performance (including the appropriateness of the accounting judgments).

## The role of a care governance committee

It may be beneficial for a provider to establish a specific care governance committee (or equivalent) to, amongst other things, consider risks and related controls relating to the provision of safe, quality care to consumers. Having a committee dedicated to this area will allow members with a specific focus (and ideally expertise) to provide more targeted oversight and insight into the management of these risks.

## Receiving assurance from management

### Management attestations

Before needing to look to independent assurance mechanisms through which to gain comfort over risk management practices and management reporting, a governing body may seek to obtain assurance from management themselves. This assurance (which may come in the form of an 'attestation' or 'certification') indicates to the governing body that management are themselves comfortable with the design and operating effectiveness of the provider's control framework – and are not aware of any weaknesses that should be brought to the governing body's attention.

Though an attestation of this nature does not *guarantee* that there are no control weaknesses across the control framework, the process requires more specific and proactive assurance to be given by management (as opposed to regular reporting by exception).

### Assurance mapping

An assurance map can be a useful tool for management and the governing body to map key processes within a provider against the sources of assurance provided against that process. The mapping is most commonly done against the three lines model. An example is provided below:

Process	1 <sup>st</sup> Line	2 <sup>nd</sup> Line	3 <sup>rd</sup> Line
<b>Managing consumer records</b>	Privacy Policy and Procedures	Data Breach Reporting to Executive	Privacy Management Internal Audit

### Using data to enhance assurance activities

Reviewing only a representative sample of data will no longer be enough to provide the governing body and other committees with effective oversight over the provider's control environment (i.e. selecting a sample of 10 incidents over the course of the last financial year).

Instead, an effective governing body should expect to be provided with some degree of analysis over population sets of data, which minimises the manual effort required to review samples and provides deeper insights about a process (i.e. reviewing all incident data that has been stored within the relevant system, and performing analytics across that data to identify control weaknesses, but also to identify and understand correlations and trends).



## Receiving independent assurance

### Financial audit

All providers must complete and submit an Aged Care Financial Report (ACFR), and all non-government providers must also submit an audited General Purpose Financial Statement (GPFS). A provider must also submit an Annual Prudential Compliance Statement (APCS) and related audit opinion if, at any point during the relevant financial year, the provider held refundable deposits, accommodation bonds, or entry contributions.

The auditor must report on whether, in their opinion, the GPFS and/or APCS comply with the Corporations Act (if applicable) and the accounting standards and gives a true and fair view of the financial position and performance of the provider. They must also provide governing body members with a declaration as to their independence.

### Internal audit

As an independent assurance activity designed to consider the design and operating effectiveness of key processes and controls, an effective internal audit function plays a key role in helping the governing body to discharge its governance responsibilities. Internal audit should provide the governing body (either directly or through the audit committee) with an opportunity to assess performance and consider opportunities for continuous improvement.

Smaller aged care providers may not have a dedicated internal audit function but should be able to demonstrate the processes in place for evaluating and continually improving the effectiveness of their risk management and internal control processes.

Clinical	Consumer Care	Workforce	Financial	Operations
Medication Management	Use of Restraint	Recruitment Payroll	Accounts Payable	Data Governance
Medical Emergencies	Incident Management	Scheduling	Procurement	Facilities Management

## Achieving effective audit results

Though the governing body themselves will not be the ones preparing for an audit, below are some ways to ensure that audits are able to operate effectively and efficiently – which in turn will mean less time imposed on the provider during audit fieldwork, and more clear and beneficial results and outcomes in order to inform continuous improvement activities.

### Engaging effectively with independent audit providers

An audit committee typically has significant engagement with both external and internal auditors throughout the year. Some of the key functions performed by the audit committee in assisting the board in its oversight of auditors include (assuming that the internal audit function has been outsourced to an external provider):

- developing and implementing procedures for the selection, appointment and rotation
- recommending appointment to the governing body and, if necessary, removal
- reviewing and approving engagement terms, the reasonableness of audit fees, and the proposed audit plan and approach (including any materiality thresholds)
- assessing audit performance and objectivity.

### Being prepared for an audit

Audit activity may result in a number of findings and recommendations to address risk or otherwise improve processes, but knowing that an audit is imminent may also prompt a provider to address known issues. Some ways that providers can prepare for an audit include:

- ensure staff are familiar with relevant policies and procedures
- ensure relevant records and other information are up to date and easily accessible
- ensure management and relevant staff can be made available during audit fieldwork
- conduct spot checks and/or self-assessments to identify existing gaps.

### Addressing audit findings

Reporting to the audit committee should not cease when an audit report on findings is tabled. Rather, the auditors should report at regular intervals as to whether actions agreed to be taken to remediate weaknesses noted have been completed to an acceptable level by the due dates. This enables the governing body to understand whether the risks identified have been mitigated or whether further resources need to be applied to achieve resolution.

## Useful tools

- Tool – [Audit Plan](#)

## Useful references and links

[Standard 8. Organisational governance | Aged Care Quality and Safety Commission](#)

[Accountability Principles 2014](#)

[Department of Health | Annual Prudential Compliance Statement \(APCS\) Guidelines](#)

[Chartered Institute of Internal Auditors | Position Paper: Risk management and Internal Audit](#)