



Australian Government

**Department of Health
and Aged Care**

06 March 2023

Mr Julian Hill MP
Chair, Joint Committee of Public Accounts and Audit
Box 6021, Parliament House
CANBERRA ACT 2600
jcpaa@aph.gov.au

Dear Mr Hill

Re: Inquiry into Commonwealth Financial Statements 2021–22

The Department of Health and Aged Care (Health) provides this submission to the Joint Committee of Public Accounts and Audit (JCPAA) to support its consideration of the Auditor-General Report No.8 of 2022–23 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022*.

Thank you for the invitation to submit a response to the JCPAA on the Australian National Audit Office (ANAO) report on the 2021–22 Commonwealth Financial Statements. This submission focusses on improvement actions implemented as part of Health’s response to Report 08/ 2022–23 and highlights the continuous improvement actions across Health’s departmental operations.

The Report noted the status of ANAO findings¹ as follows.

Category	Closing position (2020–21)	New findings (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
Moderate (B)	1	1	1	1
Total	1	1	1	1

There was one new moderate audit finding in relation the impairment of administered inventory. Report extracts and subsequent actions follow.

Impairment of Administered Inventory

The Report noted the following.

During the stocktaking conducted for the NMS during 2021–22, Health identified errors associated with the expiry date of NMS items. Due to the errors identified, management completed additional assurance activities to confirm the appropriateness of the carrying value of inventory as at 30 June 2022 ⁱⁱ.

Individual inventory items held in the NMS are written off when the item passes its expiration date or when the item has been assessed as damaged. Similarly, vaccines inventory is written-off when there is observed damage, the item passes its expiration date and/or cold chain breaches ⁱⁱⁱ.

The ANAO has recommended that Health implement an activity to provide assurance that the impairment status of inventory is accurate and to incorporate expiry date adjustments as part of the cycle count process. The ANAO has also recommended that Health should consider developing an allowance for impairment based on a consumption forecast model, focusing on inventory categories that are likely to expire before they are consumed ^{iv}.

Health response and actions taken

The COVID-19 pandemic drove exponential growth in the inventory held by Health in the National Medical Stockpile (NMS). The pandemic also changed the nature of the NMS from a relatively small strategic reserve to a very large scale purchase and distribution mechanism for COVID-19 related personal protective equipment and other essential medical supplies.

The issue identified by the ANAO during the 2021–22 Financial Statements Audit related to the quality of expiry date data held for NMS stock. The ANAO identified discrepancies between the expiry date physically marked on a sample of stock in the NMS, and the expiry date for stock held in the third-party logistic provider's system.

In response, Health is working with the third-party logistic provider to identify and rectify any remaining expiry date data errors. The logistic provider has undertaken a floor-to-system reconciliation and correction exercise to ensure expiry dates are accurately reflected in the provider's system. This work will be supported by:

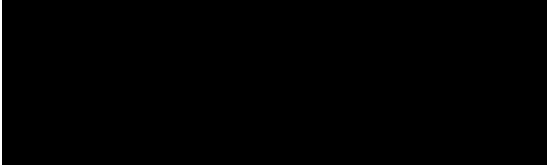
- a parallel reconciliation of inventory expiry dates between the Department's inventory management system and stock on hand, and
- a formal stocktake to validate stock at 30 June.

In addition, the ANAO noted that Health does not currently maintain a provision in its financial statements for obsolescence of stock. The ANAO recommended Health consider estimating, in advance, the value of stock that will reach its expiry date before it is deployed, and to write down the value of that stock to zero in the financial statements.

Health has agreed to review the appropriateness of recognising a provision for obsolescence. Health will develop a position paper, which will be externally reviewed by an independent finance assurance provider, considered by the ANAO and Health's Audit and Risk Committee and applied as appropriate to the Department's 2022–23 Financial Statements.

Health considers that the actions undertaken are well aligned with the intent of the recommendations in the Report. We would be happy to discuss our progress on implementation with the Committee through correspondence or as part of the public hearing process.

Yours sincerely



Charles Wann
Deputy Secretary
Department of Health and Aged Care

ⁱ *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022* (Report 08/ 2022-23) para 4.7.14, Table 4.7.6

ⁱⁱ *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022* (Report 08/ 2022-23) para 4.7.16

ⁱⁱⁱ *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022* (Report 08/ 2022-23) para 4.7.17

^{iv} *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2022* (Report 08/ 2022-23) para 4.7.18