

**EXAMINATION OF SELECTED AUDITOR-GENERAL'S FINANCIAL AUDIT
REPORTS 2021**

Organisation: icare

Date Received: 12 September 2022

12 September 2022
Our Ref: 00110/22
Your Ref: D22/37511

Mr Greg Piper MP
Chair
Public Accounts Committee
Legislative Assembly
PAC@parliament.nsw.gov.au

Dear Mr Piper

I refer to your correspondence to Mr John Robertson, Chair of the icare Board, requesting further information relating from the NSW Auditor General's Financial Audit report on Treasury 2021, as being examined by the Legislative Assembly Public Accounts Committee.

Please see icare's response below. I apologise for the delay.

As outlined in the report regarding its allocation of service fee costs to schemes, the Auditor-General recommended icare:

- 1. Has icare introduced any new policies, procedures, and/or internal controls during 2021-22 to ensure it new service fee allocation methodology is correctly embedded? If yes, please provide details.**

Response:

- The audit recommendations were addressed through refinement of existing processes in 2020/21.
- No new policies/procedures were introduced in 2021/22, as the updated processes introduced during FY2020-21 are considered to have adequately addressed the audit recommendations.
- Spreadsheets to calculate the allocations have been simplified and consolidated into one model. Using one model reduces the risk of error in consolidating the cost allocation information.

- 2. Has icare undertaken any internal training to improve its service fee allocation processes? If yes, please provide details.**

Response:

- Finance business partners understand the cost allocation process and work closely with the respective GMs when agreeing service fee allocations for their areas.

- 3. How does icare ensure that the inputs used to calculate administrative costs are accurate?**

Response:

- As part of the budget process:
 - All costs are reviewed by the relevant GET owner.
 - Total costs are signed off by the GET at an aggregate level.

- Over the last 12 months, cost allocations were reviewed internally as part of the budget and HYR processes and reviewed externally by EY (as part of the year end audit).
- Monthly processes ensure that each scheme owner receives management results, which includes direct and indirect expense allocations.

4. What are icare's processes for assessing the reasonableness of costs allocated to insurance schemes?

Response:

- Finance business partners understand the cost allocation process and work closely with the respective GMs when agreeing service fee allocations for their areas.
- Agreed processes have been followed.
 - Review of cost allocations is included as part of the budget process.
 - GM confirmation and sign off of allocations under their responsibility.
 - GET members sign off of business unit costs incurred and allocations to schemes.
 - GET sign off of the overall indirect and direct allocations across icare to the schemes, including movement in allocations from the prior approval.
 - Recipient GET members approve allocations to and from their schemes as part of the GET sign off.
 - Board sign off of the allocations included in the budget, as part of the overall budget sign off.

5. Please outline the results of icare's reasonableness assessment of "service fee" costs allocated for the financial year ending 30 June 2022.

Response:

- In addition to the answer to question 3 icare considers that:
 - "indirect cost allocations" were distributed as per GM/GET sign offs.
 - "project allocations" were allocated per agreed beneficiaries of the project spend.
 - "direct costs allocations" were incurred by the scheme per relevant approvals.
- The table below shows Actual v Budget Indirect costs and Project spend in \$millions.
 - Variances of indirect spend and project spend (actual v budget) have been reviewed and are understood.
 - The variances are mainly due to timing of both Innovation and Partnerships grants and project spend.

Indirect & Project Cost Allocations. Act vs HYR Budget

Scheme (\$m)	Indirect & Project Costs			Comments
	FY22 Actuals	HYR Budget	Variance	
WI	176.6	177.6	(1.0)	Due to timing of Innovation & Partnership grants disbursements.
IfNSW	45.8	48.4	(2.6)	
LTC	24.0	29.5	(5.5)	Largely due to timing of Innovation & Partnership grants disbursements.
DDA	15.8	16.3	(0.5)	Mainly due to timing of DDC Technology Transformation project spend.
SICA	0.2	0.1	0.1	Mainly due to timing of CTP Care project spend.
MAITC	4.8	5.4	(0.6)	
TOTAL	267.0	277.3	(10.2)	

6. How many errors in “service fee” allocations or inputs been identified in 2021-2022? If yes, please provide details including:

Response:

- During FY2021-2022, there was a a refinement to the CEO cost allocations to be based on Gross Written Premium.
- This resulted in NI receiving an additional \$200k and a reduced allocation to LTC -\$100k and IFNSW/HBCF -\$100k.
- Internal checking continues to ensure that issues are picked up throughout the process.

Should the Committee require any further clarification, please contact me at

[REDACTED]

Yours sincerely

[REDACTED]

Clemency Morony
Head of Ministerial and Parliamentary Support
icare