



Australian Government
Professional Services Review



Professional Services Review Annual Report 2015-16



Professional Services Review
Annual Report 2015-16



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Letter of transmittal

The Hon. Sussan Ley MP
Minister for Health and Aged Care
Minister for Sport
Parliament House
Canberra ACT 2600

Dear Minister

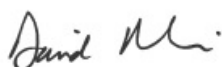
I am pleased to present to you the *Annual report* of the Professional Services Review Agency for the year ending 30 June 2016.

The report has been prepared in accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013*, which requires me to provide you with a report to present to the Parliament. The report reflects the *Requirements for annual reports* approved by the Joint Committee of Public Accounts and Audit under sections 63 and 70 of the *Public Service Act 1999*.

The report includes the Professional Service Review Agency's audited financial statements, as required under sections 42 and 43 of the *Public Governance, Performance and Accountability Act 2013*.

I am satisfied that the Professional Services Review Agency has in place fraud control mechanisms that meet the agency's needs and comply with the Commonwealth Fraud Control Framework.

Yours sincerely



Dr David Rankin
Acting Director
Professional Services Review
October 2016

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Director's introduction

The Professional Services Review Agency (PSR) was established in 1994. The part of the *Health Insurance Act 1973* that establishes the PSR Scheme defines the basic objects of the scheme as protecting 'patients and the community in general from the risks associated with inappropriate practice' and protecting 'the Commonwealth from having to meet the cost of services provided as a result of inappropriate practice'.

PSR is a peer-review system. Committees of peers are established from the PSR Panel. The Panel comprises practitioners nominated by relevant professional bodies and appointed to the Panel by the Minister for Health.

The legislation empowers PSR to require practitioners to provide samples of clinical records. Under the PSR Scheme, substantial sanctions can be imposed on practitioners who are found to have engaged in inappropriate practice. These sanctions include repayment of Medicare benefits; the amount to be repaid can be extrapolated to all services in the defined class provided during a defined year. A practitioner can also be disqualified from all or part of the Medicare or pharmaceutical benefits arrangements for some years.

Concerns regarding the health, conduct or performance of a practitioner sometimes become apparent during PSR's investigative processes. The legislation establishing PSR empowers PSR to refer such matters to relevant professional boards, and state

and territory health complaints bodies, through the Australian Health Practitioner Regulation Agency (AHPRA). Since PSR was established, about 15% of practitioners referred to PSR have been referred on to a professional registration board.

Professional Services Review in 2015-16

During 2015-16, three educational sessions were held for PSR Panel members:

- A training session for Panel members was held in Sydney on 30 April 2016.
- A similar session was held in Melbourne on 14 May 2016.
- A training session for Deputy Directors was held in Canberra on 17-18 June 2016. Senior representatives of the Australian Government Department of Health, the Australian Medical Association (AMA) and the Royal Australian College of General Practitioners attended this meeting.

These educational events concentrated on PSR committee processes, with a focus on ensuring that practitioners were accorded due process. At the sessions, selected Panel members participated in mock committee hearings.

Issues under consideration within PSR include:

- further adoption of electronic communications, with plans for an eventual PSR 'portal', to facilitate committee members' input in to draft reports and other documents
- further development of the processes currently in place to provide committee members with electronic versions of clinical notes for committee meetings; this is complicated by the variable adoption of electronic records by practitioners referred to PSR and by the range of commercial medical record systems in use across Australia
- initiatives to speed up the steps required under the Health Insurance Act that are within PSR's direct control, including preparation of draft reports of committee hearings.

The PSR Advisory Committee (PSRAC) has membership from the Department of Health, the AMA and PSR. The committee meets each year, providing a forum for raising policy and operational issues relevant to PSR.

PSR proposes that a facilitated process for appointing members to the PSR Panel when there is a requirement for a committee of peers of practitioners from disciplines not often referred to PSR should be discussed at PSRAC. The current process can cause long delays in establishing PSR peer-review committees.

Conclusion

As Director, I would like to acknowledge the individual practitioners on the PSR Panel. Without the dedication of these practitioners, PSR could not function.

I would also like to acknowledge the cooperation and professionalism of the officers of the Department of Health with whom PSR liaises on a regular basis.

Finally, I would like to acknowledge the professionalism and commitment of Patricia O'Farrell, PSR's Executive Officer, and all PSR staff who cooperate willingly as the organisation continually adapts to a changing and more complex legal and organisational environment.



Dr Bill Coote

Director

Professional Services Review

1

Agency overview

The Professional Services Review Scheme

The high quality and integrity of Australia's health system is recognised internationally. Preventing inappropriate practice is crucial to maintaining this high quality and integrity and in maintaining the confidence of the Australian public in the health practitioners working within the health system. Financial loss to the community as a result of inappropriate practice is also minimised.

About the Professional Services Review Agency

PSR operates as an independent agency within the Australian Government's Health portfolio, and reports directly to the Minister for Health. Together, the Director and staff form a statutory agency under the *Public Service Act 1999*.

To help guide its performance, PSR has defined its own values and behaviours, which are underpinned by the Australian Public Service (APS) Values. PSR's values and behaviours of being fair, transparent and professional address the unique aspects of its business and environment, and guide PSR in performing its role.

Our stakeholders

During 2015-16, PSR continued to work closely with key stakeholders to improve its operations. PSR stakeholders include the Department of Health, the AMA and other relevant professional organisations. During 2015-16, PSR engaged with a broad range of stakeholders to provide information on the activities and outcomes of the PSR Scheme.

Agency and scheme objectives

The role and functions of PSR are set out in Part VAA of the *Health Insurance Act 1973* (the Act), which establishes the PSR Scheme. Section 79A of the Act states that:

The object of this Part is to protect the integrity of the Commonwealth Medicare benefits, dental benefits and pharmaceutical benefits programs and, in doing so:

(a) protect patients and the community in general from the risks associated with inappropriate practice; and

(b) protect the Commonwealth from having to meet the cost of services provided as a result of inappropriate practice.

Section 81 of the Act includes a definition of 'practitioner', which lists the categories of medical and allied practitioners that are subject to review under Part VAA.

Agency outcome

Outcomes are the government's intended results, benefits or consequences for the Australian community. The government requires agencies such as PSR to use outcomes as a basis for budgeting, measuring performance and reporting. Annual administered funding is appropriated on an outcomes basis.

The Australian Government, through PSR, aims to safeguard the public against the risks and costs of inappropriate practice by health practitioners. PSR works with government, medical and allied health care regulatory bodies, and professional organisations to protect the integrity of the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS).

PSR outcome: A reduction of the risks to patients and costs to the Australian Government of inappropriate clinical practice, including through investigating health services claimed under the Medicare and Pharmaceutical Benefits schemes.

PSR Agency delivery of outcome

The PSR Scheme safeguards the integrity of the Medicare program and Pharmaceutical Benefits Scheme from:

1. inappropriate practice by ensuring that the Commonwealth-funded services delivered by practitioners are clinically relevant
2. the consequences of inappropriate practice by ensuring that payments to claimants are made in accordance with the regulations for the Medicare and Pharmaceutical Benefits schemes.

The PSR Scheme has continued to evolve since its inception. Legislative amendments were made in 1997, 1999, 2002, 2006 and 2012 to strengthen the professional review process. Comprehensive reviews were conducted in 1999 and 2006 by government and key stakeholders. A Senate inquiry in 2011 also made recommendations to refine the administration of the scheme, and improve its effectiveness and transparency.

PSR has acted on the recommendations from these reviews. It continues to strengthen its governance processes and build its capacity to deliver a rigorous peer review scheme that affords procedural fairness to practitioners, and meets the outcome of protecting the integrity of the Medicare and Pharmaceutical Benefits schemes.

The future

As the MBS becomes more complex and the range of health professions whose services attract Medicare benefits expands, PSR must maintain the organisational agility required to meet these changes and future challenges.

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Performance statement

This performance statement is prepared for paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) for the 2015–16 financial year and accurately presents PSR’s performance in accordance with subsection 39(2) of the PGPA Act.

Entity purpose

PSR’s purpose is to protect the integrity of the Australian Government’s Medicare and Pharmaceutical Benefits programs, and to safeguard the Australian public from the cost and risk of inappropriate practice. In so doing, PSR is contributing to Outcome 4 of the Portfolio Budget Statements of the Australian Government’s Health portfolio.

The PSR Scheme is funded to ensure that requests by the Chief Executive Medicare to investigate suspected cases of inappropriate practice are reviewed and, if necessary, examined by committees of the practitioners’ peers.

PSR’s program aims to protect against inappropriate health care practice and maintain professional support for PSR.

Protecting against inappropriate health care practice

During the 2015–16 reporting period, PSR continued to:

- investigate health care professionals
- refer matters to committees
- progress PSR committee hearings
- support the Determining Authority in its determination of sanctions and consideration of negotiated agreements
- refer behaviour that may be a threat to the life or health of patients, or that fails to meet professional standards, to the relevant bodies for appropriate action.

A summary of outcomes is provided in the ‘Professional Services Review Agency performance’ section of this report.

Maintaining professional support for PSR

During 2015–16, the Director of PSR engaged with a broad range of stakeholders to provide information on the activities and outcomes of the PSR Scheme. These stakeholders included:

- Royal Australian College of General Practitioners
- Optometrists Association of Australia
- Australian Dental Association
- Australian Physiotherapy Association
- Australian Osteopathic Association
- Australasian Podiatry Council
- Australian College of Midwives
- Skin Cancer College Australasia.

Professional Services Review Agency performance

The following sets out PSR’s performance criteria and provides details of its results for activities undertaken during 2015–16. This included work on the 57 cases already on hand at the commencement of the reporting period, and the 80 cases which were received during 2015–16. A total of 49 cases were completed and, at the end of the reporting period, 88 cases had not been finalised and were in various stages of completion.

New referrals from the Chief Executive Medicare

Medicare sent 80 requests in 2015-16, continuing the increasing trend that has been evident in recent years. This figure is 29% higher than in 2014-15, when 62 requests were received and 81.8% higher than the 44 received in 2013-14.

In 2015-16, PSR completed 49 cases. Of these, 24 were the subject of a decision by the PSR Director to take no further action, 18 were settled by negotiated agreements that were subsequently ratified by the Determining Authority (thereby becoming effective), and 7 resulted in final determinations by the Determining Authority that became effective during the reporting period. In addition to

the 49 cases completed, a final determination made during 2015-16 was the subject of an application for judicial review by the Federal Court and was still unresolved at the conclusion of the reporting period (see the section 'Judicial review'). The case referred to in the previous Annual Report as being the subject of an application for judicial review was on appeal to the Full Federal Court at the conclusion of the reporting period.

No cases resulted in a finding by a PSR committee of no inappropriate practice. During the reporting period, 12 cases were referred by the PSR Director to a committee of peers.

Table 1 compares PSR's case statistics for 2015-16 with those of the previous reporting period.

Table 1: PSR's case statistics, 2014-15 and 2015-16

Action	2014-15	2015-16
Requests received from DHS	62	80 ▲
Requests by DHS to review a practitioner with a previous effective determination for a second or subsequent time	11	13 ▲
No further action	12	24 ▲
Requests withdrawn or lapsed	1	0 ▼
Referrals from the PSR Director to new PSR committees	12	12 ●
Committees in progress	11	19 ▲
Committee reports finalised	7	7 ●
Reports finding inappropriate practice	7	7 ●
Reports finding no inappropriate practice	0	0 ●
Committee matters ceased	0	0 ●
Referrals to medical boards or AHPRA	5	5 ●
Referrals to Chief Executive Medicare for suspected fraud	0	0 ●
Negotiated agreements ratified and effective	19	18 ▼
Draft determinations made	6	9 ▲
Final determinations made	8	8 ●
Final determinations effective	7	7 ●
Cases in hand at 30 June 2016 ^a	57	88 ▲

AHPRA = Australian Health Practitioner Regulation Agency; DHS = Australian Government Department of Human Services; PSR = Professional Services Review

^a As PSR receives referrals from Chief Executive Medicare throughout the year, case data cannot be reconciled within a 12-month period.

Cases in which no further action was taken

The PSR Director can, after considering all the relevant material, decide to take no further action under s. 91 of the Act.

The PSR Director took no further action in 24 of the 51 cases completed in 2015–16. This represents 47% of all matters completed in the year.

The cases involved 20 general practitioners, 1 obstetrician, 1 ophthalmologist, 1 gastroenterologist and 1 psychiatrist. The practitioners were from New South Wales, Queensland, South Australia, Victoria and Tasmania.

Negotiated agreements

Under s. 92 of the Act, the Director and the practitioner under review can enter into a negotiated agreement that must include acknowledgement by the practitioner that they have engaged in inappropriate practice, and may also include specified action such as a reprimand, repayment of some or all of the Medicare benefit received, and total or partial disqualification from participating in the MBS or PBS.

In 2015–16, 18 negotiated agreements became effective. Outcomes of these negotiated agreements include:

- repayment orders totalling \$1 630 000 in 17 cases
- partial disqualification in 12 cases.

The practitioners concerned were general practitioners from New South Wales, Queensland, Victoria and South Australia.

PSR Panel and peer review committees

Under s. 93(1) of the Act, the Director may establish a PSR committee and refer a person under review to the committee for investigation. The committee then determines whether the person has engaged in inappropriate practice in providing the services specified in the Director's referral.

Members of peer-review committees are drawn from a PSR Panel of 101 practitioners appointed during 2011–12 and 2012–13.

The PSR Panel comprises practitioners from a range of backgrounds and practice locations: 18% practise in inner regional areas, 4% practise in outer regional areas and 1% practise in remote areas. Women comprise 36% of the PSR Panel.

During 2015–16, the Director established 12 PSR committees and referred cases to each of them. Of the 12 practitioners referred to a PSR committee, nine were general practitioners, two were medical practitioners and one was a specialist.

At the end of the reporting period, 11 of the 12 PSR committees established were still in progress. Seven committee hearings had been held, and 6 final committee reports had been sent to the Determining Authority. All the finalised committee reports resulted in findings of inappropriate practice.

The Determining Authority

The appointment terms of the members of the Determining Authority expired on 21 May 2016. On 5 May 2016, the Minister for Health appointed the following members for the Determining Authority for two-year terms starting on 22 May 2016: Dr Mary Cohn (chair), Dr Robert Menz, Dr Jennifer Thomson and Ms Sharon Flynn.

In 2015–16, the Determining Authority made nine draft determinations and eight final determinations following PSR committee report findings of inappropriate practice.

During 2015–16, seven final determinations became effective. The directions made by the Determining Authority were:

- reprimand and counselling in all cases
- partial disqualification from Medicare benefits in three cases for between 6 and 12 months, and 3 months full disqualification for one case
- repayment of Medicare benefits, ranging from \$48 380 to \$1 138 463 (totalling \$2 957 291).

Rereferrals

In 2015–16, the Chief Executive Medicare made 13 requests to PSR to review practitioners who had previously been referred to, and reviewed, by PSR, and had an effective negotiated agreement or determination. At 30 June 2016, all of these cases were still under review, and none had been dismissed under s. 91 of the Act. PSR continues to work with the Chief Executive Medicare to analyse the claiming behaviour of practitioners whose practice continues to cause concern after they have been through the PSR process.

Referrals to medical boards and other bodies

The Act requires the PSR Director to refer practitioners to appropriate bodies when a significant threat to the life or health of a patient is identified, or if the person under review has failed to comply with professional standards.

In 2015–16, the Director made five referrals of practitioners to AHPRA, medical boards or other bodies.

Judicial review

Practitioners involved in the PSR process can seek judicial review in the High Court, the Federal Court or the Federal Circuit Court.

Two actions involving PSR matters were commenced in the Federal Court during 2015–16. One of those matters was heard but no decision had been made by the Court as at 30 June 2016. The other matter which was commenced was settled between PSR and the practitioner without the need for a hearing by the Court.

A further application, which had started towards the end of 2014–15, was heard by the Federal Court during 2015–16 and the Court handed down a decision that was favourable to PSR. That decision was appealed to the Full Federal Court by the practitioner late in the 2015–16 financial year and is scheduled for hearing in October or November 2016.

Performance against Portfolio Budget Statements 2015–16

Performance criteria

The quantitative key performance indicators specified for PSR in the Portfolio Budget Statement 2015–16 were the percentage of cases referred to regulatory bodies where a possible threat to life or health of a patient was identified, and the total PSR actions upheld by the courts after appeal.

PSR achieved its target of 100% for both key performance indicators (Table 2).

Table 2: Professional Services Review quantitative deliverables, 2015–16

Quantitative indicator and deliverable: protect against inappropriate health care practice	2015–16 budget	2015–16 actual
Reviews by the PSR Director finalised within 12 months (%)	100	100 ●
Committees established (no.)	20	12 ▼
Matters finalised ^a (total no.)	50	49 ▼
Cases referred to regulatory bodies where a possible threat to life or health of a patient was identified (%)	100	100 ●
PSR actions upheld by courts after appeal (%)	100	100 ●

^a This figure includes no further actions under s. 91 of the Act, negotiated agreements under s. 92 of the Act and final determinations resulting from a committee hearing. The figure excludes cases that have lapsed under s. 94 of the Act.

In 2016–17, PSR will further strengthen the deterrent effect of the PSR Scheme by continuing to refer cases of practitioners who may pose a threat to the life or health of a patient to regulatory bodies for further action.

Quantitative deliverables

PSR continued to action referrals from the Chief Executive Medicare during 2015–16, completing 49 matters.

Qualitative deliverables

The qualitative key performance indicators specified for PSR in the Portfolio Budget Statement 2015–16 were:

- positively influencing health care professional behaviour
- actively engaging professional bodies in consultation.

Communications with practitioners reviewed by PSR indicate that a great majority made positive changes to their practice as a result of the review process. In most cases reviewed during 2015–16, inappropriate practice involved poor clinical notes, failure to comply with the particular requirements of the MBS items billed to Medicare or unacceptably high numbers of service provision. Practitioners who were reviewed frequently indicated that they accepted the need to change their practices and were able to demonstrate practical measures undertaken to achieve the required improvements. This was the case for both practitioners who were referred to committees under section 93 of the Act and practitioners who entered into voluntary agreements under section 92.

The AMA was consulted, as required by section 106ZPB of the Act, as part of the process of appointing the new membership of the Determining Authority in May 2016.

Performance criteria set out in the PSR Corporate Plan include:

- timely case management of practitioners, who are the subject of requests from the Chief Executive Medicare

- engagement with government, and relevant professional and regulatory bodies to ensure peer support and awareness
- continuing engagement with stakeholders to ensure their understanding of PSR's role and activities
- reviewing PSR's internal operations to ensure minimal burden to the health industry while ensuring the integrity of the Medicare system.

Throughout 2015–16, all cases were managed to ensure that deadlines required by the process set out in the legislation were met. The Case Management Unit within PSR met on a regular, weekly basis with the Director to review the status of all current cases, whether at the initial PSR review stage of the process or at the committee stage. The case management software was upgraded and refined, which made it easier to provide reports for critical dates.

The Director and the PSR executive team met regularly with the Provider Compliance Branch in the Department of Human Services (DHS) and these regular meetings continued after its transfer to the Department of Health following the machinery of government changes in the Administrative Arrangements Order made by the Governor-General in September 2015. These meetings enabled the Director to provide feedback and comments to the senior officials who advise the Minister for Health on Medicare issues, including inappropriate practice.

In the course of reviewing details of the provision of services by practitioners, the Director consulted with relevant experts in the various colleges or with AHPRA. This engagement enabled those consulted to be apprised of the extent and circumstances of inappropriate practice across the health industry.

During 2015–16, PSR's Case Management Unit was reviewed and restructured to ensure that it has the necessary capability to support the Director, committees and the Determining Authority in delivering the PSR Scheme.

Senior Case Managers are now required to have legal qualifications and significant experience in the practice of administrative law. Two experienced lawyers were appointed as Senior Case Managers in August and September 2015. These Senior Case Managers are supported by APS 6 paralegal staff. This has enabled greater focus and emphasis on matters such as the provision of natural justice, or procedural fairness, a technical area of administrative law designed to ensure practitioners are aware of the matters being raised against them and that the peer-review process is conducted impartially.

A further advantage of increasing the legal expertise in the Case Management Unit is that legally qualified case management staff are more readily able to deal professionally with the lawyers acting for practitioners under review.

Director's comments

Medicare and PSR Scheme

Medicare, Australia's universal, compulsory, monopoly, tax-funded medical insurance system, was established in 1984. The scheme is administered and financed by the Australian Government. In 2014-15, Medicare paid subsidies of \$20.2 billion for 368 million medical services for the Australian population of 23.9 million people.

Subsidies are based on around 5000 services and fees listed in the MBS. The total costs and total number of services provided have grown recently, by around 3-4% per year.

As referred to in last year's report, the Australian Government has established a major review of all items in the MBS and a review of financing arrangements for primary care, including general practice. The government has also indicated that it wishes to review compliance by practitioners with Medicare rules and regulations. It is useful to consider aspects of PSR in the context of these reviews.

DHS administers Medicare payments and previously undertook a range of processes for ensuring compliance with MBS requirements. These processes for ensuring compliance were transferred to the Department of Health in November 2015. These processes include random audit activities that check practice administration and other records, to confirm that particular services were provided. The Department of Health also has an investigation arm that deals with suspicions or reports of more serious, explicit fraud by health care providers.

The Department of Health's professional review staff assess unusual patterns of practice that become apparent through data analysis of Medicare payment patterns. The Department's medical officers engage with and interview several hundred practitioners each year regarding their billing patterns; fewer than 100 practitioners, out of around 85 000 whose services attract Medicare payments, are referred to PSR each year.

PSR was established in 1994 and provides for peer-review committees to assess concerns of inappropriate practice. The focus of the work of PSR is on the challenging conceptual issue of inappropriate practice under Medicare. This includes assessing such concerns as suspected overservicing (extremely high numbers of services provided by a practitioner, suspected unnecessary care, high referral rates compared with other practitioners for pathology and diagnostic imaging tests), and unusual or atypical patterns of practice.

The matters referred to PSR by Medicare are those that cannot be resolved or explained

after investigation by the Department's medical and professional staff. Under the Act, PSR has the power to require practitioners to provide a sample of their patient clinical records to assist PSR's review of their practice profile.

PSR deals largely with community-based general practice and specialty practice outside hospitals. In Australia, clinical audit and similar processes are more developed within hospital settings.

The Medicare system operates on the basis of a 'clinically relevant service', defined in the legislation establishing the scheme as:

... a service rendered by a medical practitioner that is generally accepted in the medical profession as being necessary for the appropriate treatment of the patient to whom it is rendered.

Inappropriate practice is defined in the legislation:

A practitioner engages in inappropriate practice if the practitioner's conduct in connection with rendering or initiating services is such that a Committee could reasonably conclude that:

(a) if the practitioner rendered or initiated the services as a general practitioner—the conduct would be unacceptable to the general body of general practitioners; or

(b) if the practitioner rendered or initiated the services as a specialist in a particular specialty—the conduct would be unacceptable to the general body of specialists in that specialty.

Since PSR was established in 1994, a range of developments have complicated the assessment of suspected inappropriate practice, for both Medicare staff and PSR peer-review committees, including the following developments:

1. Electronic health records are now widely used. A PSR committee is often confronted by clinical records containing many computer-generated 'template' entries, often with a detailed history and examination for each body system, listing clinical findings that may (or may not) have been elicited by the practitioner under review. Clinical records may also include entries that do not seem relevant

to the patient concerns or conditions being assessed.

2. The list of nonprocedural MBS services attracting payment has moved beyond straightforward 'attendance' services based largely on face-to-face time. The MBS now includes complex services for Chronic Disease Management, items for detailed 'health assessments' and complex services for managing mental health problems. These MBS items have been developed to reflect changing patterns of illness across the community, including a growing prevalence of chronic illness, and the recognition of a high prevalence of mental illness. The MBS items and their associated rules are necessarily somewhat prescriptive. This provides scope for less scrupulous practitioners to populate the clinical record of an attendance with copious 'generic' computer template material; PSR committees often find that these are of little apparent relevance to the particular patient.
3. In community-based care, especially for patients with chronic conditions, modern health care is often provided by several practitioners. For example, a person with diabetes may regularly attend a GP, occasionally visit a specialist endocrinologist, and also receive regular care from allied health practitioners such as an optometrist, a dietician or a podiatrist. Looking at the provision of services by just one practitioner may provide a limited picture.
4. Because of technical developments in medical science and personal choice, increasing numbers of doctors, specialists and GPs focus their practice on a specific interest—that is, they 'subspecialise'. For example, on the Royal Australian College of General Practitioners (RACGP) website, the list of 'endorsed networks and working groups' covers 22 areas of specific interests. The Medical Board of Australia recognises 16 specialty areas within adult consultant physician practice and 21 areas of specialty practice within paediatrics. One consequence for PSR is that it can be a challenge defining who a practitioner's peers are.

5. A related emerging issue noted by PSR is that some practitioners with a narrow area of practice, within both general practice and some specialties, claim that their narrow range of work enables them to develop a very efficient practice, often through employment of assistants trained to undertake routine aspects of patient management under supervision. They claim that such efficient processes are more difficult to develop in a more traditional setting, where the practitioner works alone to provide a broad range of services. This is offered as the explanation for providing high numbers of specific services.
6. In the past decade, there has been an accelerating consolidation into larger practices; this applies particularly to general (primary) practice and, to some extent, specialist practice. The administrative data received by PSR from Medicare are built around the services provided by an individual practitioner, whereas a patient may receive care from several practitioners in the same practice during a given year.
7. At times, new technologies and new approaches to practice are adopted by practitioners before the MBS can be amended to keep pace with these developments. The MBS Review is currently examining items that may no longer be relevant to clinical best practice.

Australia's MBS payment system is adapting to these and other developments with regard to its capacity to provide information to assess a practitioner's pattern of practice.

Practitioners referred to PSR in 2015-16

During 2015-16, PSR continued to consolidate procedural and structural changes introduced since 2011-12. These changes, discussed in previous annual reports and elsewhere in this report, have included:

- the engagement of legally qualified case managers
- enhanced processes to ensure expeditious review of clinical records by experienced clinicians during the initial Director's review stage of the PSR process
- more effective use of the agency's IT infrastructure to support administrative processes.

During 2015-16, as a consequence of these changes, the Agency was able to efficiently accommodate the significant increase, compared with the previous few years, in the number of referrals from Medicare Australia.

This increase is detailed in Table 1 on page 9 of this report. The number of specialists referred by Medicare was higher than the number in recent years. Referrals included specialists in dermatology, gastroenterology, psychiatry and sleep medicine.

MBS Chronic Disease Management items

In the past two financial years, PSR reported that many referrals from the Chief Executive Medicare were in respect of GPs' use of Chronic Disease Management (CDM) items and MBS Health Assessment items. This trend has continued in 2015-16.

Many practitioners who provide high numbers of these services use computer-generated templates; a plan may have minimal content specific to the patient for whom the plan has been prepared.

For example, combined GP Management Plan/Team Care Arrangement documents sometimes have no information directly relevant to the patient other than basic demographic data auto-populated by the practice IT system, a diagnosis or two, and referral to a physiotherapist for five MBS-subsidised visits. Plans sometimes have very generic health advice of the most minimal nature, and sometimes irrelevant to any condition listed in the patient's clinical record. A GP Management Plan (item 721) currently attracts an MBS fee of \$144.25 and a Team Care Arrangement (item 723) attracts a fee of \$114.30.

MBS support for a Team Care Arrangement is meant to support provision of allied health care from practitioners such as physiotherapists and dieticians. In these cases, the contribution and aims of such care should have been discussed and agreed to by the GP and relevant allied health practitioners. However, rather than initiating such services as part of a necessary Team Care Arrangement, some GPs claim that they are induced to prepare CDM paperwork by patients seeking Medicare rebates for allied health services. For PSR, the situation can appear more uncertain when, as is becoming more common, allied health practitioners rent rooms within GP practices. Department of Health advice to GPs makes clear that:

The chronic disease care planning process is not simply a mechanism to provide Medicare rebates for allied health services. The CDM items were developed to provide GPs with a structured way of managing a wide range of chronic medical conditions and to assist them to plan and coordinate the care of patients with multidisciplinary care needs. Care planning can be used as a tool for organising the care a patient needs and help reduce the need for ad hoc, episodic consultations. A care plan is a useful mechanism for recording comprehensive, accurate and up-to-date information about the patient's condition and all of the treatment they are receiving.—Australian Government Department of Health¹

¹ www.health.gov.au/internet/main/publishing.nsf/Content/mbsprimarycare-chronicdiseaseandmanagement-qanda#must

In a number of cases, it appears that practitioners have been preparing GP Management Plans every 12 months and reviewing them every three months without any intervening patient consultations, or any apparent need to review or remake the plan. Indeed, in some cases, there was little evidence that patients were aware that they had a GP Management Plan, and the precise regularity of reviews every three months (the minimum time period after which a new review will attract a Medicare rebate) appeared contrived to maximise income rather than being based on clinical assessment.

PSR continues to discuss these compliance issues with Department of Health officials. PSR notes that the appropriate use of these MBS items is being reviewed as part of the MBS review and the review of primary care announced by the Minister for Health.

Larger general practices

The ownership of many of Australia's general practices is gradually consolidating into larger entities. Rather than owning and operating their own small practice, many GPs now elect to work in facilities owned and operated by other doctors, or by small or larger so-called corporate practice operators. Practitioners and the practice owners typically enter into a contract in which the practitioner is regarded as an 'independent contractor', who agrees to pay the practice owner a set percentage, typically between 30% and 40%, of all fees generated as a 'service fee' for the provision of practice facilities and administrative support.

An emerging issue is the extent to which the practice owner is responsible for ensuring that contracted practitioners do not engage in inappropriate practice. Section 82(2) of the Act provides for a finding of inappropriate practice against 'an officer of a body corporate' who 'knowingly, recklessly or negligently' permits a practitioner 'to engage in conduct that constitutes inappropriate practice'. To date, no officers of bodies corporate have been referred to PSR for review.

PSR has reviewed several cases recently where practitioners practising under such

contracts in larger practices were found to have engaged in inappropriate practice. These practitioners were required to refund very substantial sums to the Commonwealth. However, the practice owners who engaged the practitioners were not involved in the PSR process and retained whatever percentage of the Medicare rebates were paid to them by the practitioners as 'service fees'.

One matter involved an older English graduate who was also new to Australian general practice. This practitioner engaged in particularly egregious use of the MBS items for Chronic Disease Management, that is, MBS items 721 and 723. Examination of a sample of clinical records indicated that very substantial MBS rebates were paid (around \$240 each time items 721 and 723 were claimed in conjunction) when the information in his clinical records comprised little beyond basic demographic and clinical data entered automatically by the practice computer. These items had been claimed over 400 times in the year reviewed by PSR. The practice had some years ago received a very substantial seven figure Commonwealth grant on the understanding that the practice would provide high quality coordinated team care.

Three other recent cases all involved overseas-trained doctors who had recently arrived in Australia. In these matters, the practitioners were referred to PSR for breaching the so-called 80/20 rule—that is, they rendered 80 or more MBS GP Attendance Items on 20 or more days and were, therefore, under the Act deemed to have engaged in inappropriate practice. All three practitioners claimed the practice owners had provided little practical advice regarding the rules and regulations around Medicare billing beyond providing a list of MBS items to bill.

In 2015–16, 43 overseas-trained doctors were referred to PSR, comprising 53.75% of those referred. Often, overseas-trained doctors who are referred have been practising in Australia for only a short time, typically a few years. This also raises the question of whether a policy response is required—for example, education relating to billing,

and the appropriate use of the MBS and Medicare arrangements more generally.

80/20 rule

Under MBS regulations, a GP is deemed to have engaged in inappropriate practice if, on each of 20 days in the previous year, they billed Medicare for at least 80 MBS Attendance items. MBS Procedural items and Department of Veterans' Affairs services are not included.

In 2015–16, Medicare referred five 80/20 matters to PSR—about 6% of all referrals. GPs may also be referred to PSR for high-volume practice that does not quite reach the 80/20 criteria. In 2015–16, at least 15 medical practitioners were referred to PSR who had in excess of 60 professional attendances on more than 100 days in the review period.

During a year, a typical 80/20 GP provides around 17 000–20 000 services, leading to gross Medicare rebates (before practice costs) of around \$800 000–1 000 000.

GPs referred to PSR under the 80/20 rule offer diverse explanations:

- They work very long hours.
- They know all their patients well and can see them quickly.
- In bigger clinics, management has not engaged enough GPs to meet endless demand.
- Nobody alerted them to the 80/20 rule.
- Nobody told them that 80 is the number of Attendance items claimed, not the number of patients seen.
- Practice staff 'batched' claims, and the 80/20 breach is an artefact.
- They have developed efficient processes with nurses for providing CDM services.
- They have an 'area of need' provider number and are locked into the practice, and management demands that they work long hours.

Many 80/20 GPs prepare large numbers of CDM items. One GP who provided 20 000 services in the year also provided almost 600 GP Management Plans, 400 Team Care Arrangements and more than 1000 item 2713 mental health services. Item 2713 has a minimum 20-minute time

requirement. PSR committees often find that GP Management Plans prepared in such circumstances are not a useful framework for long-term monitoring and management of the patient's chronic conditions.

All the attendances provided on 80/20 days are deemed to be inappropriate practice, and the GP is liable for repayment of all MBS benefits for these services. In recent cases, the number of days on which 80 or more Attendance items were provided and ranged from 20 to 75 days. The total MBS rebates therefore deemed inappropriate ranged from around \$100 000 to \$350 000. A peer-review committee may decide that other aspects of the GP's practice also represent inappropriate practice, so total repayments can be higher.

The Act provides a defence if the GP can demonstrate that 'exceptional circumstances' applied.

Urgent after-hours services

During 2015-16, a number of practitioners have been referred to PSR with concerns about their provision of urgent after-hours services. MBS urgent after-hours items 597, 598, 599 and 600 have specific requirements both for the time the service was provided and the urgency of treatment.

The Health Insurance (General Medical Services Table) Regulation 2016 states the following:

2.15.1 Meaning of patient's medical condition requires urgent treatment

(1) For items 597 to 600, a patient's medical condition requires urgent treatment if:

(a) medical opinion is to the effect that the patient's medical condition requires treatment within the unbroken after-hours period in, or before, which the attendance mentioned in the item was requested; and

(b) treatment could not be delayed until the start of the next in-hours period.

(2) For subclause (1), medical opinion is to a particular effect if:

(a) the attending practitioner is of that opinion; and

(b) in the circumstances that existed and on the information available when the opinion was formed, that opinion would be acceptable to the general body of medical practitioners.

Although the practitioners referred to PSR have generally met the time requirements when billing these items, there has been concern about their interpretation of the patient's condition requiring urgent treatment. Examination of clinical records has shown that some practitioners have billed these items for medical conditions such as an uncomplicated rash, reissuing prescriptions for patients' regular medication and for routine completion of medication charts in residential aged care facilities.

As there is a fee differential between urgent and non-urgent after-hours MBS items, potentially inappropriate billing of these services has a significant financial impact on Medicare. PSR committees have been established to assess practitioner provision of these services. PSR is also aware that the Australian Government is examining this issue from a policy perspective.

Legal issues

Practitioners involved in the PSR process can seek judicial review in the High Court, the Federal Court or the Federal Circuit Court.

Two actions involving PSR matters were commenced in the Federal Court during 2015-16. One of those matters was heard but no decision had been made by the Court as at 30 June 2016. The other matter that was commenced was settled between PSR and the practitioner without the need for a hearing by the Court.

A further application, which had been commenced towards the end of the 2014-15 year, was heard by the Federal Court during 2015-16 and a decision favourable to PSR was handed down by the Court (*Sevdalis v Director of Professional Services Review (No. 2) [2016] FCA 433*). In that matter, which was largely concerned with consultations in patients' homes, the Federal Court held that a during-hours or after-hours professional attendance outside the practitioner's consulting rooms could be

claimed as such under the MBS (e.g. MBS items 37 or 5043) if the service was:

... on the information available to the medical practitioner at the time, 'necessary for the appropriate treatment of the patient to whom it is rendered', and generally accepted in the medical profession to be so. In my opinion 'necessary' imports a standard at the level of there being no reasonable alternative in the circumstances. It does not suggest the Committee should determine whether it was physically possible for a patient to have attended during hours or at the practitioner's consulting rooms ...

The Court held that Regulations 5 and 6 of the Health Insurance (Professional Services Review) Regulations 1999:

... do not require the recording of information by way of justification for the location of the attendance. They require recording of what was done, and, clinically, why it was done.

The Determining Authority had directed that Dr Sevdalis repay \$453 656.75 and be fully disqualified from claiming under Medicare for a period of two years. While the Court criticised the Determining Authority for the way it expressed its reasons, the Court said:

'such a criticism of the way the Determining Authority has expressed its reasoning process is not the same as a conclusion that it misunderstood its task and was intent on punishing Dr Sevdalis, rather than making directions it was satisfied would give effect to the protective purposes of the legislative scheme. While in parts of its reasons, it is critical of Dr Sevdalis, those criticisms are generally couched in the context of the Determining Authority explaining why the shortfalls in Dr Sevdalis's behaviour may pose a risk to patients.

The decision of the Federal Court was appealed to the Full Federal Court by Dr Sevdalis late in the 2015-16 financial year and was scheduled for hearing in October or November 2016.

Conclusion

The Director's commentary in the 2014-15 PSR annual report discussed some limitations in the data available to PSR when assessing concerns about possible inappropriate practice. Those limitations are largely related to the configuration and capability of the computer systems that underpin the Medicare payment system.

The data generated by DHS in regard to a practitioner referred to PSR still largely represents the solo-practitioner arrangement of Australian medical practice that was common in the 1970s and 1980s, when the MBS and payment arrangements were developed.

As part of the government's review of the MBS and MBS compliance measures, it is anticipated that consideration will be given to how additional information might be gathered as a by-product of the Medicare payment system, to better detect and define possible inappropriate practice in the existing environment, which is somewhat more complex than in 1994 when PSR was developed.

However, there is a more general issue that goes to the use of administrative data to support more sophisticated clinical audit and related quality assurance processes.

There has been discussion in Australia recently about 're-engineering' the processes for providing Medicare payments. There is a similar debate in other countries—for example, in the United States, the Medicare system (a system for people over 65 operating on principles broadly equivalent to Australia's Medicare arrangement) is developing a sophisticated process that uses the Medicare payment system to support processes that will adjust fee payment levels to reflect demonstrated achievement of higher quality outcomes. Australia is a long way from having such systems and in the meantime the PSR process will remain a necessary part of the several processes that regulate medical and other health professional practice in Australia.

3

Management and accountability

Structure and organisation

The Director of PSR is an independent statutory officer appointed by the Minister for Health under s. 83 of the Act. PSR is an agency for the purposes of the PGPA Act, and the Director is prescribed as the agency's chief executive (accountable authority).

During 2015–16, Dr Bill Coote continued his role as PSR Director. Dr Coote was first appointed by the Minister for Health in an acting capacity, with agreement from the AMA, on 14 August 2011. He was substantively appointed by the Minister for Health on a full-time basis on 14 November 2011 for a three-year term, which was extended for a further 12 months on 14 November 2014 and again in November 2015.

Corporate governance and business planning

Overall accountability for PSR rests with the Director, who has primary authority and legal responsibility for the agency. The PSR Executive Officer, who reports to the Director, is the senior APS officer and is responsible for the administrative management of the agency.

In 2015–16, PSR further reviewed its Corporate Plan and completed its organisational restructure. The review and restructure focused on the resources and capability of the Case Management Unit, and the agency's transition to shared-services arrangements with the Department of Health.

To assist with this process, PSR engaged external consultants Noetic to review the agency's Corporate Plan and organisational structure. This involved significant staff

consultation, including whole-of-agency workshops and focus groups with individual business units within the agency.

The PSR Corporate Plan 2015–16 identifies six goals, as shown in Figure 1.

The PSR Corporate Plan is publicly available on the PSR website.² During 2015–16, PSR used this Corporate Plan as the basis for development of a new performance reporting framework.

The agency's current structure (Figure 2) was finalised in 2015–16. This structure provides for:

- a Case Management Unit, which is managed by the Corporate Solicitor and deals with the increasing number of referrals from the Medicare Provider Compliance Area in the Department of Health and a resulting increase in the number of committee hearings held
- an integrated Corporate Support Unit that reports to the Chief Finance Officer, and is responsible for human resources, security and property management, finance, and IT and information management
- a Business Manager, who supports the PSR Executive, and coordinates administrative support across the agency and manages communications, media and parliamentary functions
- the role of General Counsel providing internal legal advice.

As a result of the Noetic review, and as identified in the Corporate Plan, some changes to the agency's structure were implemented in the first half of the 2015–16 financial year. In particular, the legal capacity within the Case Management Unit was increased. The Senior Case

² www.psr.gov.au

Manager positions are now held by Legal 2 senior legal officers supported by three APS 6 paralegal positions. Document preparation and management for PSR Committee hearings and reviews conducted by the Director is provided by an administrative team comprising an APS 5 senior administrative officer and two APS 4 administrative officers. This team is supported by senior records management staff.

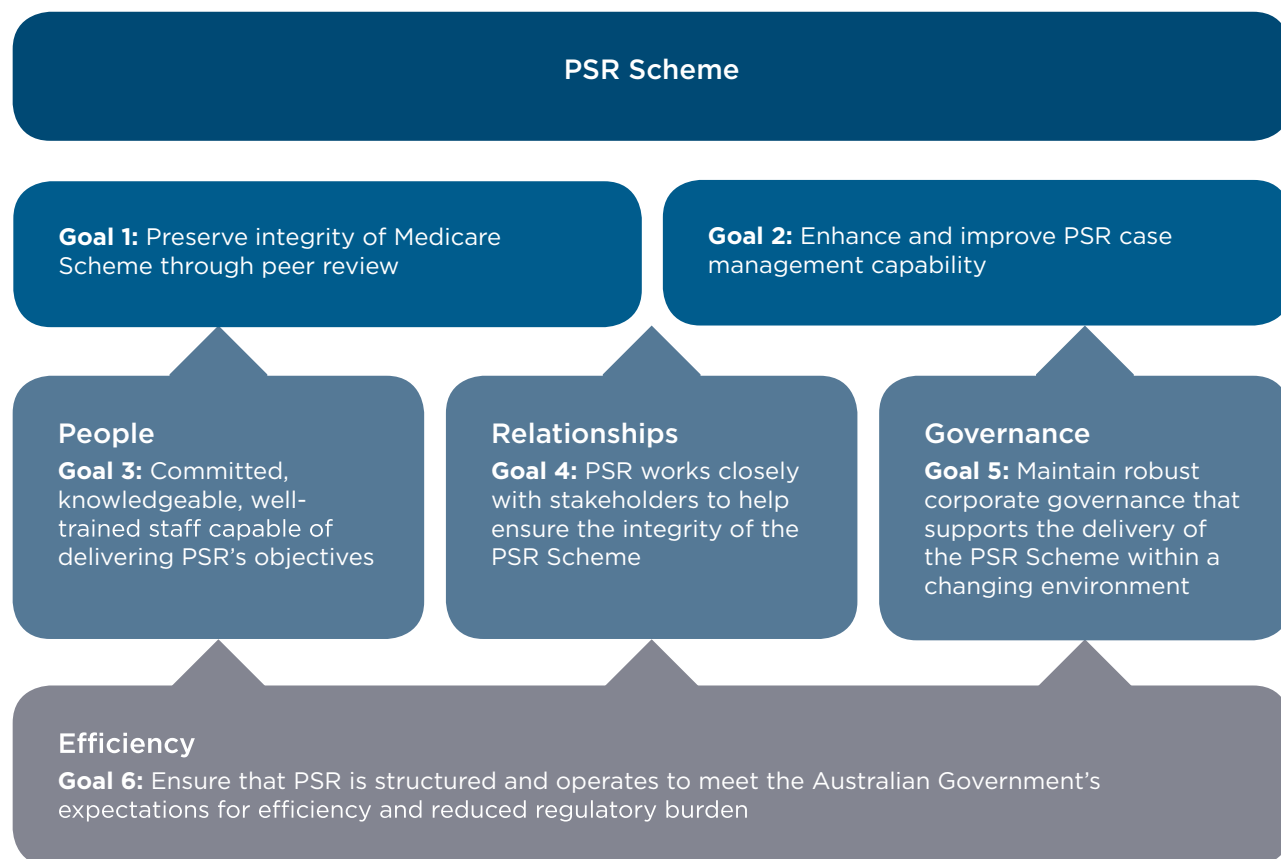
As it has done previously, PSR combined the finalisation of this agency restructure with a staff climate survey which was conducted by Noetic.

The results of this survey were very positive and showed a significant increase in staff satisfaction in the workplace since the previous survey in December 2013.

Noetic also interviewed several stakeholders, including the Department of Health, the Medicare Provider Compliance Branch (which is now part of the Department of Health, but was previously part of DHS), the AMA, and a number of the medical defence organisations and lawyers acting for practitioners under review.

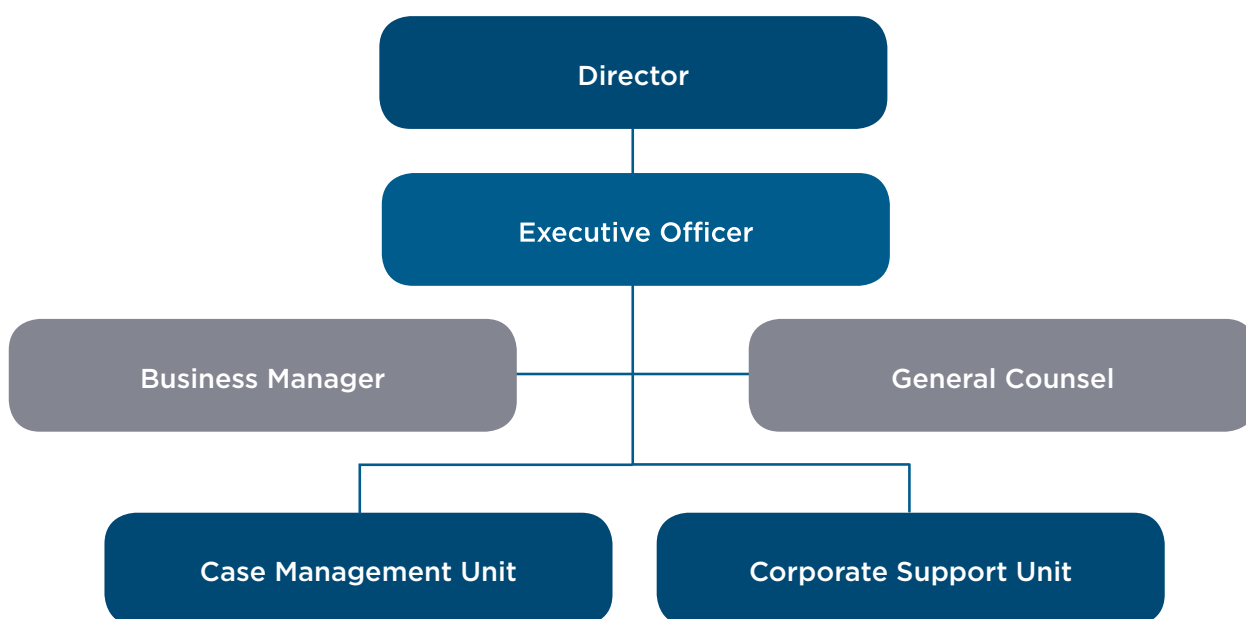
The feedback from these interviews was also positive.

Figure 1: Six goals from the Professional Services Review Corporate Plan 2015-16



PSR = Professional Services Review

Figure 2: Professional Services Review organisational chart, 2015-16



Portfolio shared-services arrangements

Because PSR is a small agency, it is not realistic or financially viable for it to employ the number or range of staff required to provide all of the specialist services that the agency may need from time to time. The ability to access specialist advice and services from the Department of Health under the portfolio shared-services arrangements has helped PSR to manage a range of infrastructure support functions cost effectively.

During 2015-16, PSR continued the transition of a range of corporate support services to the Department of Health under the portfolio shared-services arrangements. In particular, PSR completed the transition of human resources and payroll services to the Department, with commencement from the first pay period of the 2015-16 financial year. In addition, PSR accesses a range of advice services from the Department of Health in areas such as human resources, injury management, security and facilities management.

However, during the 2015-16 financial year, the Department of Finance undertook a review of shared services provision across Australian Government departments and agencies. As a result of this review a

number of shared service providers were identified. Currently, the Department of Health is in negotiations with the Department of Human Services (DHS) to consider the feasibility of joining a cluster of departments and agencies purchasing corporate support services from DHS. In response to these developments, PSR will monitor the Department's progress with these negotiations and the feasibility of joining this cluster as well as investigating shared services offerings being provided by other departments.

However, PSR as a part of the Health portfolio will continue to work collaboratively with the Department of Health and to access a range of advice services provided by the Department. In particular during 2016-17, PSR will work closely with the Department in considering its options for accommodation at the end of the lease of its current premises.

Executive management team

The PSR executive management team is made up of the Director, the Executive Officer, the General Counsel, the Corporate Solicitor (who is also the manager of the Case Management Unit) and the Chief Finance Officer. The team has a regular meeting twice a month, and meets as required at other times.

The executive management team is responsible for advising the Director on planning, budgeting, financial management, performance monitoring and corporate governance (including human resources), and workplace health and safety.

Standing agenda items at executive management team meetings include:

- reports from the Director, the Executive Officer and the Chief Finance Officer
- reports on risk management, internal audit, procurement and contracting, human resources, and workplace health and safety, including leave liability
- a report from the Information and Communications Technology (ICT) and Information Management Project Governance Committee.

In providing leadership for the agency, the executive management team promotes the core principles of good public sector governance, including accountability, transparency, integrity, efficiency and risk management.

Because PSR is a small agency, the executive management team undertakes a range of roles that might be performed by specialist committees in a larger organisation.

Identifying and managing risk

In May 2016, PSR worked with consultants Noetic to conduct a risk assessment of its activities, covering both strategic and operational risks. PSR has invested significantly in the development of a robust risk management framework and risk assessment.

This investment has continued with the annual Risk Management Workshop and review of PSR's Risk Management Plan.

The Risk Management Workshop involved all staff and the chair of the PSR Audit Committee. One of the tasks of the Risk Management Workshop is to review the PSR Risk Management Plan. The Risk Management Workshop also provides an opportunity for the agency to consider any risks or compliance issues in the context of developing the PSR Internal Audit Plan.

The PSR Risk Management Plan summarises the strategic risk context and operational

risk assessment for the agency. The plan also outlines key mitigation strategies to be implemented, and roles and responsibilities for monitoring and reviewing risks.

In addition, Noetic worked with PSR to review its approach to tracking and managing risks. The 2016–17 Risk Action Plan identifies and prioritises further opportunities for improvement in risk management, taking into account both the maturity of the agency's risk management practices, and its capacity for developing and implementing further change.

The maturity assessment was undertaken by Noetic at a high level, drawing on its risk management knowledge, and experience in the private and Australian Government sectors. It was based on what would reasonably be expected of an organisation of PSR's size, nature and complexity.

The findings from this annual review have provided input into the assessment of future improvement initiatives, as well as an indicative 'roadmap' to support the development of a detailed Risk Management Improvement Plan.

The improvement priorities identified include:

- reviewing policy documents
- streamlining risk monitoring and reporting
- more effectively linking risk management and business planning
- ensuring staff engagement
- outsourcing risk management advice or related services where appropriate—this is the approach PSR has taken with a range of Protective Security Policy Framework compliance activities.

The risk assessment will also be used to prepare the PSR Internal Audit Plan. The Internal Audit Plan includes provision for additional audits should circumstances change during the year. The preparation of the risk assessment is based on a methodology that recognises inherent risk and control effectiveness.

PSR reports on the Internal Audit Plan and provides regular updates on the status of audit recommendations to the PSR Audit Committee.

Although risk management and internal controls are overseen by the Audit Committee, primary responsibility for managing risk and internal controls rests with line managers, who are required to ensure that risks are identified and managed within their units.

As a result of both audit activity and a review of its compliance with the Protective Security Policy Framework, PSR identified information security as a major risk management focus during 2015–16.

During 2015–16, PSR:

- implemented recommendations from an audit into its compliance with its Records Authority
- continued a major records management project to digitise all case records allowing it to remove and dispose of all paper records from off-site storage
- investigated options for secure access to case materials for PSR committee members and Determining Authority members, and
- finalised the upgrade of its internal case management system.

Fraud control

In March 2015, PSR engaged PwC to review its two year Fraud Control Plan. A Fraud Control workshop was held which involved all staff. The workshop provided an opportunity to raise awareness amongst staff and assisted in the development of the current agency Fraud Control Plan. The PSR Fraud Control Plan was developed to ensure that PSR has effective systems and processes in place to manage its fraud risks. The plan complies with the Commonwealth Fraud Control Framework under the PGPA Act, and is consistent with PSR's Risk Management Plan and Accountable Authority Instructions.

Fraud control is a standing agenda item for meetings of both the PSR executive management team and the Audit Committee. PSR will conduct another Fraud Control workshop in the first half of 2017 and at the same time review its Fraud Control Plan.

During 2015–16, there were no reported incidents of fraud.

External scrutiny

PSR was not subject to any other external reviews during 2015–16.

Audit Committee

The PSR Audit Committee is established by the PSR Director under s. 45(1) of the PGPA Act. It provides independent advice on the agency's governance arrangements, risk management framework, internal control and compliance framework, and financial statement responsibilities.

At the beginning of the 2013–14 financial year, KPMG was appointed as the internal auditor for PSR for three years.

The PSR Audit Committee consists of an independent chair, an independent member and the agency's Executive Officer. In 2015–16, Ms Gayle Ginnane was the independent chair and Mr Paul Groenewegen was the independent member. Participating observers include representatives from the Australian National Audit Office and KPMG.

In 2015–16, the Audit Committee met on four occasions. In addition, the Chair reported regularly to the PSR Director.

During the course of the year, the PSR Audit Plan included a range of audits that focused on governance, internal controls and compliance.

These included audits in relation to PSR's compliance with its Records Authority, compliance with PSR's obligations under new privacy law provisions and a review of Shared Services Key Controls.

Ethical standards

PSR recognises its responsibilities as part of the APS. As a statutory agency, PSR is committed to the APS Values and the Code of Conduct outlined in the *Public Service Act 1999*. In addition, to help guide its performance, PSR has defined its own values and behaviours, which are underpinned by the APS Values. PSR's values and behaviours—**fair, transparent and professional**—address the unique aspects of our business and environment, and guide us in how we conduct ourselves in performing our role.

To PSR, being **fair** means:

- providing procedural fairness in the operation of the PSR Scheme
- using consistent processes to arrive at justifiable decisions
- delivering an effective and impartial PSR Scheme
- explaining the process to stakeholders.

To PSR, being **transparent** means:

- accurately informing practitioners of their rights and responsibilities
- accurately informing practitioners of PSR's powers, responsibilities and intentions
- proactively sharing information about the scheme, our outcomes and our activities
- explaining the reasons for outcomes.

To PSR, being **professional** means:

- being accountable for our actions and decisions
- complying with Commonwealth legislative requirements and expectations
- operating with integrity and honesty
- protecting the privacy and confidentiality of the information we receive, use and create
- treating all people with courtesy and respect
- using time and resources effectively.

Management of human resources

During 2015-16, PSR commenced negotiations with staff in relation to a new enterprise agreement. In common with other departments and agencies across government, PSR has been required to streamline the content of its enterprise agreement, and to develop a business case that sets out productivity gains and savings to underpin a remuneration increase. These negotiations are still in progress. PSR hopes to finalise the new enterprise agreement early in the 2016-17 financial year.

As a result of the negotiations on the enterprise agreement, PSR has also reviewed its human resource policies and guidelines to ensure that they:

- are clear and transparent for staff
- are consistent with the proposed enterprise agreement
- appropriately reflect the rights and obligations of PSR employees.

PSR ensures that all employees work in an environment that allows them to reach their full potential, and where they are treated fairly, equitably and with respect. These values are embedded in the agency's Performance Development Scheme.

PSR is committed to developing and maintaining a culture that encourages and supports all employees in raising concerns about unacceptable behaviour, is free from bullying and harassment, and provides protection to employees who report instances of suspected breaches of the Code of Conduct through discrimination or victimisation. Agency procedures for managing alleged breaches of the Code of Conduct set out how allegations will be managed; these procedures are available to all employees via the PSR intranet.

Table 4: PSR Australian Public Service staff, 30 June 2016

Classification	Male	Female	Ongoing employment	Non-ongoing employment	Full time	Part time	Total
SES Band	0	1	1	0	1	0	1
EL 2	2	1	3	0	3	0	3
EL 1	2	0	2	0	2	0	2
APS 6	1	4	3	2	1	4	5
APS 5	0	3	3	0	0	3	3
APS 4	3	1	3	1	4	0	4
APS 3	1	0	1	0	1	0	1
Total	9	10	16	3	12	7	19

APS = Australian Public Service; EL = Executive Level; SES = Senior Executive Service

Table 5: Actual PSR staff numbers, at 30 June 2015 and at 30 June 2016

Staff	2015	2016
Full-time equivalent	15.78	17.29
Average staffing level	19.00	19.00

Australian Public Service staff

Staff employed by PSR, with the exception of the PSR Director, are employed under the *Public Service Act 1999*.

At 30 June 2016, PSR employed 19 APS staff members, including staff on long-term leave and secondment. Although PSR is a small agency, it has a number of EL 2 to Legal 2 positions because of its role as a regulatory agency. These positions are filled by senior lawyers with extensive administrative law experience. They have specific responsibility for managing PSR cases, and providing legal advice to the Director and PSR committees.

Tables 4 and 5 provide details of staff numbers. They include staff on temporary transfer to PSR from another government agency and on secondment from PSR to another government agency, as well as staff on long-term leave.

There were no PSR employees who did not speak English as their first language; 35% had parents who did not speak English as their first language. PSR had no employees who identified as Aboriginal or Torres Strait Islander, or employees with an identified disability.

During 2015-16, PSR recruited five ongoing and three non-ongoing employees. Six ongoing employees left PSR through redundancy and transfer.

Enterprise agreement and Australian Workplace Agreements

At 30 June 2016, the pay and conditions of all APS employees, including those at Executive Level, were governed by the PSR Enterprise Agreement 2012-14. The pay and conditions of PSR's Senior Executive Service (SES) officer were governed by an SES employment policy and contract. Table 6 lists PSR salary ranges for each classification.

Table 6: PSR salary ranges, 1 July 2015

Classification	Minimum (\$)	Maximum (\$)
APS 3	55 311	61 175
APS 4	62 542	67 143
APS 5	68 051	71 976
APS 6	75 382	88 555
EL 1	95 248	106 351
EL 2	113 780	131 953

APS = Australian Public Service; EL = Executive Level

Note: Salary ranges are from the PSR Enterprise Agreement 2012-14.

Non-salary benefits

PSR provided non-salary benefits to attract and retain capable staff. In 2015-16, benefits included:

- allowance for mobile phones for relevant personnel
- home internet access to PSR's IT network
- paid car parking for all employees
- Qantas Club membership for employees who travel more than six times a year.

Holders of full-time and part-time public office

The Director of PSR is a holder of full-time public office whose remuneration and allowances are set annually by the Remuneration Tribunal.

The Remuneration Tribunal sets the remuneration and allowances for appointed PSR Panel members and Determining Authority members on an annual basis.

Panel members and deputy directors who are appointed to specific PSR committees are paid in accordance with the Remuneration Tribunal rates and allowances.

Table 7 shows PSR Panel membership by practice location and gender.

Table 7: PSR Panel members

Location	Male	Female	Total
Australian Capital Territory	3	4	7
New South Wales	21	11	32
Northern Territory	1	1	2
Queensland	10	6	16
South Australia	8	5	13
Tasmania	4	2	6
Victoria	15	7	22
Western Australia	3	0	3
Total	65	36	101

Training and development

PSR employees, in consultation with their managers, identify their training and development needs through individual development plans made under the organisation's Performance Development Scheme. As a result of this consultation, PSR employees accessed a range of learning and development opportunities during 2015-16, including external courses and workshops in areas including leadership and management, work health and safety, law, risk, and records management. All employees attended courses on work health and safety matters as mandatory training. In 2013-14, to ensure that staff were properly supported to take on broader roles and were given appropriate development opportunities, PSR engaged consultants Noetic to undertake a training needs analysis involving all staff. The analysis provided individual assessment of training needs. During 2015-16, PSR has continued to implement the recommendations from the training needs analysis.

PSR allocates a portion of its annual salary expenditure to training and development during the financial year.

Work health and safety

PSR is committed to protecting the health, safety and welfare of its employees, contractors and visitors.

PSR undertook a number of health and safety initiatives in 2015-16, including:

- workstation assessments for all new employees
- arranging onsite influenza vaccinations for all employees
- providing access to the employee assistance program for all employees and their immediate families
- training for an additional first aid officer
- appointing a new fire warden and an additional workplace harassment contact officer.

PSR's work health and safety representative is responsible for monitoring workplace hazards. The work health and safety representative and Human Resources Officer conduct workplace inspections and report their findings to the Health and Safety Committee for action. Employees can also raise any health and safety issues with the work health and safety representative.

Disability reporting mechanisms

The Commonwealth Disability Strategy has been superseded by the National Disability Strategy 2010-2020, which sets out a 10-year national policy framework to:

- improve the lives of people with disability
- promote participation
- create a more inclusive society.

A high-level two-yearly report will track progress against each of the six outcome areas of the strategy and present a picture of how people with disability are faring. The first of these reports is available on the website of the Australian Government Department of Social Services.³

³ www.dss.gov.au

4

Financial performance

PSR's departmental appropriation budget for 2015–16 was \$5 533 000, which includes \$5 000 for the Departmental Capital Budget.

The agency's 2015–16 departmental expenses were \$6 216 533 (excluding GST).

PSR reported an operating loss at 30 June 2016, which was a result of staff redundancies, litigation cases before the Federal Court and an increase in referrals during the year. The 2015–16 operating loss was funded by cash reserves.

No staff redundancies were expected after 30 June 2016.

PSR anticipates that referrals from the Chief Executive Medicare will continue to increase in subsequent years.

A resource summary of PSR's departmental expenses is provided in Appendix 1. Further information on PSR's financial performance is available in the audited financial statements and accompanying notes in Appendix 2.

Purchasing

In 2015–16, PSR sourced goods and services in accordance with the principles set out in the Commonwealth Procurement Rules.⁴

The agency's purchase of goods and services reflected the mandatory guidelines, focusing on:

- value for money
- encouraging competition
- efficient, effective and ethical use of Australian Government resources
- accountability and transparency
- compliance with other Australian Government policies.

PSR has outsourced some air travel management services. As part of service delivery arrangements with the provider, PSR requires the 'lowest practical fare' when procuring air travel for all PSR employees and part-time office holders.

Asset management

Management of physical assets is not a significant part of PSR's business. A departmental capital budget has been developed to ensure that there are sufficient funds to replace assets, as required.

PSR maintains an asset register and conducts an annual asset stocktake, in accordance with accounting standards and better practice asset management.

Consultants

PSR engages consultants where it lacks specialist expertise, or when independent research, review or assessment is required. Consultants are typically engaged to:

- investigate or diagnose a defined issue or problem
- carry out defined reviews or evaluations
- provide independent advice, information or creative solutions to assist with the agency's decision making.

⁴ Available at www.finance.gov.au

Before engaging consultants, PSR takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with the PGPA Act and related Rules, including the Commonwealth Procurement Rules.

During 2015–16, PSR entered into 10 new consultancy contracts under s. 90 of the *Health Insurance Act 1973*, with a total value of \$133 142 (inclusive of GST), to assist with the performance of the functions, duties and powers of the Director. In addition, PSR incurred further expenditure of \$519 228 (inclusive of GST) in relation to two new consultancy contracts for the provision of legal services.

PSR spent a cumulative amount of \$85 119 (inclusive of GST) on consultancies during 2015–16 to provide professional, independent and expert advice to PSR.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website.⁵

Australian National Audit Office access clauses

During 2015–16, PSR had no contracts over the value of \$100 000 (inclusive of GST) that did not provide for the Auditor-General to have access to the contractor’s premises.

Exempt contracts

In 2015–16, PSR had no contracts over the value of \$10 000 (inclusive of GST) that were exempted from being published on AusTender on the basis that to do so would disclose exempt matters under the *Freedom of Information Act 1982*.

Procurement initiatives to support small business

PSR supports small business participation in the Australian Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance’s website.⁶

PSR recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government payments to small business are available on the Treasury’s website.⁷

PSR applies procurement practices that are consistent with the Commonwealth Procurement Rules and the Commonwealth Contracting Suite for low-risk procurements valued under \$200 000 (inclusive of GST) that do not unfairly discriminate against small and medium enterprises. PSR recognises the importance of timely payments to small businesses, and ensures that key financial systems and processes are robust to facilitate these payments.

Advertising and market research

No advertising campaigns or market research were undertaken during 2015–16.

Grants programs

PSR does not administer any grant programs.

⁵ www.tenders.gov.au

⁶ www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts

⁷ www.treasury.gov.au

Ecologically sustainable development and environmental performance

Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* requires that PSR reports its contribution to ecologically sustainable development.

PSR's small size and specific role limit its opportunities to contribute to ecologically sustainable development. However, PSR endeavours to reduce its energy costs by installing energy efficient light bulbs and using sensor light technology. PSR also encourages ecologically sustainable practices, such as paper recycling and greater reliance on electronic records in preference to paper.

Publications

PSR produced one publication in 2015-16: *Annual report 2014-15*.

Appendices

Appendix 1 Professional Services Review's resource statement and outcome summary 2015-16

Table 8: Resource statement, 2015-16

Resource		Actual available appropriations for 2015-16 (\$'000) (a)	Payments made in 2015-16 (\$'000) (b)	Balance remaining (\$'000) (a-b)
Ordinary Annual Services ^a	Departmental appropriation ^b	5597	6354	-757
Other services	Departmental non-operating			
	Equity injections	-	-	-
	Previous year's outputs	-	-	-
	Total other services	-	-	-
	Total resourcing and payments	5597	6354	-757

Note: All figures are GST exclusive.

^a Appropriation Acts (No. 1) 2015-16.

^b Includes an amount of \$5 000 for the Departmental Capital Budget.

Table 9: Resource summary, Outcome 1^a

Program 1.1: Safeguarding the integrity of the Medicare Program and Pharmaceutical Benefits Scheme	Budget 2015-16 (\$'000) (a)	Actual expenses 2015-16 (\$'000) (b)	Variation (\$'000) (a-b)
Departmental outputs	5528	6177	-649
Average staffing level (number)	17	17	0

^a Outcome 1 is a reduction of the risks to patients and costs to the Australian Government of inappropriate clinical practice, including through investigating health services claimed under the Medicare program and Pharmaceutical Benefits Scheme.

Appendix 2 Financial statements

Independent audit report

Statement by the Accountable Authority and Chief Financial Officer

Statement of comprehensive income

Statement of financial position

Statement of changes in equity

Cash flow statement

Overview

Note 1: Expenses

Note 2: Income

Note 3: Financial assets

Note 4: Non-financial assets

Note 5: Payables

Note 6: Provisions

Note 7: Appropriations

Note 8: Cash flow reconciliation

Note 9: Employee provisions

Note 10: Senior management personnel remuneration

Note 11: Contingent assets and liabilities

Note 12: Financial instruments

Note 13: Fair value measurements

Note 14: Reporting of outcomes



INDEPENDENT AUDITOR'S REPORT

To the Minister for Health

I have audited the accompanying annual financial statements of the Professional Services Review for the year ended 30 June 2016, which comprise:

- Statement by the Accountable Authority and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and forming part of the financial statements comprising a Summary of Significant Accounting Policies and other explanatory information.

Opinion

In my opinion, the financial statements of the Professional Services Review:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Professional Services Review as at 30 June 2016 and its financial performance and cash flows for the year then ended.

Accountable Authority's Responsibility for the Financial Statements

The Director of the Professional Services Review is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act and is also responsible for such internal control as the Director determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

Independent audit report (continued)

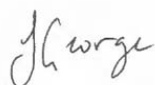
circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office



Jodi George
Audit Principal

Delegate of the Auditor-General

Canberra
30 September 2016

Statement by the Accountable Authority and Chief Financial Officer

STATEMENT BY THE ACCOUNTABLE AUTHORITY AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2016 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Professional Services Review will be able to pay its debts as and when they fall due.



Dr David Rankin
Acting Director, Accountable Authority
Professional Services Review

30 September 2016



Linnet Lee
Chief Financial Officer
Professional Services Review

30 September 2016

Statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

for the period ended 30 June 2016

	Notes	2016 \$	2015 \$	Original Budget 2016 \$
NET COST OF SERVICES				
Expenses				
Employee benefits	1A	2,855,474	2,572,371	2,873,396
Supplier expenses	1B	3,187,236	2,967,444	2,493,960
Depreciation and amortisation	4A	169,826	164,539	186,517
Finance costs	1C	2,731	3,997	3,997
Write-down and impairment of assets	1D	1,266	-	-
Losses from asset sales	1E	-	6,934	-
Total expenses		6,216,533	5,715,285	5,557,870
Own-Source Income				
Own-source revenue				
Rendering of services	2A	6,667	1,713	-
Other revenue	2B	31,000	30,000	30,000
Total own-source revenue		37,667	31,713	30,000
Gains				
Other	2C	2,262	-	-
Total gains		2,262	-	-
Total own-source income		39,929	31,713	30,000
Net cost of services		6,176,604	5,683,572	5,527,870
Revenue from Government	2D	5,528,000	5,688,000	5,528,000
Surplus (Deficit) attributable to the Australian Government		(648,604)	4,428	130
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Changes in asset revaluation surplus		-	-	-
Total other comprehensive income		-	-	-
Total comprehensive income attributable to the Australian Government		(648,604)	4,428	130

The above statement should be read in conjunction with the accompanying notes.

Budget Variances Commentary

Statement of Comprehensive Income

Supplier expenses have increased by \$693K (28%) due to an increase in case load (29%) and unexpected appeals heard for three matters. Total own source income increased by \$10K (33%) which represents a refund for pension age premiums and a refund for overpaid superannuation in the prior year.

The year end deficit was mainly due to the increase in supplier expenses as discussed above.

Statement of financial position

STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	Notes	2016 \$	2015 \$	Original Budget 2016 \$
ASSETS				
Financial Assets				
Cash and cash equivalents	3A	95,667	178,925	79,000
Trade and other receivables	3B	2,412,947	3,141,773	8,113,000
Total financial assets		2,508,614	3,320,698	8,192,000
Non-Financial Assets				
Land and buildings	4A	92,036	176,868	92,000
Plant and equipment	4A	119,426	188,836	66,000
Intangibles	4A	228,168	110,959	193,000
Other non-financial assets	4B	37,788	37,795	36,000
Total non-financial assets		477,418	514,458	387,000
Total assets		2,986,032	3,835,156	8,579,000
LIABILITIES				
Payables				
Suppliers	5A	351,897	351,707	262,000
Other payables	5B	90,260	158,123	74,000
Total payables		442,157	509,830	336,000
Provisions				
Employee provisions	9	651,080	791,658	554,000
Other provisions	6	88,728	85,997	82,000
Total provisions		739,808	877,655	636,000
Total liabilities		1,181,965	1,387,485	972,000
Net assets		1,804,067	2,447,671	7,607,000
EQUITY				
Contributed equity		854,497	849,497	(6,830,000)
Reserves		497,554	497,554	507,000
Retained surplus/(Accumulated deficit)		452,016	1,100,620	13,930,000
Total equity		1,804,067	2,447,671	7,607,000

The above statement should be read in conjunction with the accompanying notes.

Budget Variances Commentary

Statement of Financial Position

Cash has increased by \$17K (21%) due to a drawdown at year end for capital items. The budget was based on the available working cash limit.

Trade and other receivables decreased by \$5.7m (70%) as the budget did not reflect the reduction of appropriation due to the Government's repeal of all Annual Appropriation Acts (totalling \$5.2m) from 1 July 2010 to 30 June 2012 under the *Omnibus Repeal Day (Autumn 2014) Act 2014*. The remaining \$500K represents drawdowns for the year which is consistent with an increase in supplier expenses.

Property, plant and equipment increased by \$53K (80%) due to asset purchases not included in the budget.

Intangibles have increased by \$35k (18%), which represents further work associated with the upgrade of the agency's case management system which were not previously foreseen.

Supplier payables increased by \$90k (34%). Supplier payables were based on prior year activity level. At 30 June 2016, the outstanding invoices were due to an increase in case activity.

Other payables increased by \$16k (21%) which was mainly due to a leave liability owing to another Commonwealth agency for an employee's permanent transfer which was not considered at the time of budget.

The variance of \$98K (18%) in employee provisions was based on a budget using a prior year balance carried forward in the PBS for future years and the increase of the discount factor since the time of the budget.

Total equity has decreased by approximately \$5.8m (76%). During the year, PSR reported an operating loss which was a result of redundancies not funded during the year, and litigation cases that were before the Federal Court which were not anticipated at the time of budget. PSR also had an increase in case activity during the year with 80 cases referred by the Chief Executive Medicare, while finalising a number of cases referred to PSR in the prior year. The budget also includes appropriation that was repealed under the *Omnibus Repeal Day (Autumn 2014) Act 2014* as discussed above.

Statement of changes in equity

STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2016

	2016	2015	Original Budget 2016
Notes	\$	\$	\$
CONTRIBUTED EQUITY			
Opening balance			
Balance carried forward from previous period	849,497	1,940,000	(6,835,000)
Opening balance	849,497	1,940,000	(6,835,000)
Transactions with owners			
Distributions to owners			
Returns of capital			
Repeal of prior year appropriations ¹	-	(1,144,503)	-
Contributions by owners			
Departmental capital budget	5,000	54,000	5,000
Total transactions with owners	5,000	(1,090,503)	5,000
Closing balance as at 30 June	854,497	849,497	(6,830,000)
RETAINED EARNINGS			
Opening balance			
Balance carried forward from previous period	1,100,620	5,120,147	13,930,000
Opening balance	1,100,620	5,120,147	13,930,000
Comprehensive income			
Surplus/(Deficit) for the period	(648,604)	4,428	-
Total comprehensive income	(648,604)	4,428	-
Transactions with owners			
Distributions to owners			
Returns of capital			
Repeal of prior year appropriations ¹	-	(4,023,955)	-
Total transactions with owners	-	(4,023,955)	-
Closing balance as at 30 June	452,016	1,100,620	13,930,000
ASSET REVALUATION RESERVE			
Opening balance			
Balance carried forward from previous period	497,554	497,554	507,000
Opening balance	497,554	497,554	507,000
Comprehensive income			
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Closing balance as at 30 June	497,554	497,554	507,000

Statement of changes in equity (continued)

STATEMENT OF CHANGES IN EQUITY (Continued)

for the period ended 30 June 2016

	Notes	2016 \$	2015 \$	Original Budget 2016 \$
TOTAL EQUITY				
Balance carried forward from previous period		2,447,671	7,557,701	7,602,000
Opening balance		2,447,671	7,557,701	7,602,000
Comprehensive income				
Surplus (Deficit) for the period		(648,604)	4,428	-
Total comprehensive income		(648,604)	4,428	-
Transactions with owners				
Distributions to owners				
Returns of capital				
Repeal of prior year appropriations ¹		-	(5,168,458)	-
Contributions by owners				
Departmental capital budget		5,000	54,000	5,000
Total transactions with owners		5,000	(5,114,458)	5,000
Closing balance as at 30 June		1,804,067	2,447,671	7,607,000

The above statement should be read in conjunction with the accompanying notes.

¹ The Omnibus Repeal Day (Autumn 2014) Act 2014 repealed unspent Appropriation Acts from 1 July 2010 to 30 June 2012 on 1 July 2014.

Budget Variances Commentary

Statement of Changes in Equity

Contributed equity and retained surplus have decreased by approximately \$643K (26%) in total. During the year, PSR reported an operating loss which was a result of redundancies not funded during the year, and litigation cases that were before the Federal Court. PSR also had an increase in case activity during the year representing a 29% increase in case referrals, while finalising a number of cases referred to PSR in the prior year.

Cash flow statement

CASH FLOW STATEMENT

for the period ended 30 June 2016

	2016	2015	Original Budget 2016
Notes	\$	\$	\$
OPERATING ACTIVITIES			
Cash received			
Appropriations	6,140,802	5,273,565	5,396,000
Sale of goods and rendering of services	8,929	2,664	-
Net GST received	264,306	233,834	342,000
Total cash received	6,414,037	5,510,063	5,738,000
Cash used			
Employees	3,092,730	2,216,713	2,873,000
Suppliers	3,406,709	3,103,337	2,468,000
Net GST paid	-	-	342,000
Total cash used	6,499,439	5,320,050	5,683,000
Net cash from/(used by) operating activities	8 (85,402)	190,013	55,000
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment	13,948	102,347	60,000
Purchase of intangibles	133,518	97,766	-
Total cash used	147,466	200,113	60,000
Net cash (used by) investing activities	(147,466)	(200,113)	(60,000)
FINANCING ACTIVITIES			
Cash received			
Contributed equity - Departmental capital budget	149,610	110,100	5,000
Total cash received	149,610	110,100	5,000
Net cash from financing activities	149,610	110,100	5,000
Net increase/(decrease) in cash held	(83,258)	100,000	-
Cash and cash equivalents at the beginning of the reporting period	178,925	78,925	79,000
Cash and cash equivalents at the end of the reporting period	3A 95,667	178,925	79,000

The above statement should be read in conjunction with the accompanying notes.

Budget Variances Commentary

Cash Flow Statement

The movement in appropriation cash received, representing an increase of \$745K (14%), was due to an increase in supplier expenses and employee (redundancy) expenses.

Cash used for employees was higher than budget as redundancies was paid out during the year. PSR also completed an agency restructure by 30 June 2016, in which PSR increased its internal legal capacity to adequately support its core business. The budget assumes a different operational model and agency staffing structure.

Cash used for PPE and intangibles was higher than budget by \$87K (146%) as the funds for the case management system were drawn from prior years' budget allocation.

Cash received from financing activities represents actual cash drawn down from the departmental capital budget for asset purchases. The budget was based on capital injections due to be received in 2015-16, noting that PSR had cash reserves from prior years to fund capital items.

Overview

Objectives of the Professional Services Review

Professional Services Review (PSR) is an Australian Government controlled entity. The objective of PSR is to investigate suspected cases of inappropriate practice by health practitioners on request from the Chief Executive Medicare.

PSR has one outcome:

Outcome 1: A reduction of the risks to patients and costs to the Australian Government of inappropriate clinical practice, including through investigating health services claimed under the Medicare and Pharmaceutical Benefits Schemes.

The continued existence of the entity in its present form and with its present programs is dependent on Government policy and on continuing funding by Parliament for PSR administration and programs.

PSR activities contributing toward this outcome are classified as Departmental activities. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by PSR in its own right.

Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- a) The Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR) for reporting periods ending on or after 1 July 2015; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest dollar unless otherwise specified.

Certain comparative amounts have been reclassified or adjusted to comply with current year's presentation. There are minor changes to the cash flow statement, Note 7 and Note 8.

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

Future Australian Accounting Standard Requirements

During the 2015-16 financial year, accounting standards and interpretations were issued or amended by the Australian Accounting Standards Board which are effective for future reporting periods. However, none of these standards or interpretations are expected to have a material impact on PSR's financial statements.

Overview (continued)

Overview

Transactions with the Government as Owner

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Taxation / Competitive Neutrality

PSR is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except:

- a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- b) for receivables and payables.

Events After the Reporting Period

No events occurred after the balance date that would alter or influence PSR's financial statements and notes.

Explanation of major budget variances

AASB 1055: Budgetary Reporting requires explanations of major variances between the original budget as presented in the 2015-16 PBS. The variance commentary that appears in the face statements should be read in the context of the following:

1. The original budget was prepared before the 2015-16 final outcome could be known. As a result, the opening balance of the Statement of Financial Position was estimated and in some cases, variances between the 2015-16 outcome and budget estimates can be partly attributed to unanticipated movement in prior year figures.
2. PSR considers that major variances are those greater than 10% of the original estimate. Variances below this threshold are not included unless considered significant by their nature. Variances relating to cash flows are a result of factors detailed under expenses, own source income, assets or liabilities. Unless otherwise individually significant or unusual, no additional commentary has been included.

Note 1

Financial Performance

This section analyses the financial performance of PSR for the year ended 2016

Note 1: Expenses

	2016	2015
	\$	\$
Note 1A: Employee Benefits		
Wages and salaries	2,007,979	1,780,170
Superannuation		
Defined contribution plans	191,028	158,388
Defined benefit plans	151,041	144,544
Leave and other entitlements	305,660	334,465
Separation and redundancies	199,766	154,804
Total employee benefits	2,855,474	2,572,371

Accounting Policy

Accounting policies for employee related expenses are contained in Note 9.

Note 1B: Suppliers

Goods and services supplied or rendered

Legal expenses ¹	472,326	200,638
Case related fees ¹	560,256	426,052
Other case related expenses ¹	515,944	342,945
Consultant fees	265,948	431,984
Contractor expenses	550,090	736,767
Telephone and internet	76,657	78,901
Recruitment expenses ¹	31,259	-
Other expenses	300,512	312,524
Total goods and services supplied or rendered	2,772,992	2,529,811

Other suppliers

Operating lease rentals in connection with

External parties		
Minimum lease payments	313,706	308,671
Workers compensation expenses	100,538	128,962
Total other suppliers	414,244	437,633
Total suppliers	3,187,236	2,967,444

1. Increase in legal expenses, case related fees and other case related expenses mainly represent an increase in case activity during the year. Recruitment expenses represents costs incurred from an agency restructure.

PSR currently has an operating lease agreement which consists of the lease premises and car parking at the Canberra Airport from the Capital Airport Group Pty Ltd. An eight year lease was signed in July 2009.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within 1 year	385,388	375,093
Between 1 to 5 years	32,185	417,566
Total operating lease commitments	417,573	792,659

Accounting Policy

Leasing commitments

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

Note 1 (continued)

Financial Performance

This section analyses the financial performance of PSR for the year ended 2016

Note 1: Expenses

	2016	2015
	\$	\$
Note 1C: Finance Costs		
Unwinding of discount	<u>2,731</u>	<u>3,997</u>
Total finance costs	<u>2,731</u>	<u>3,997</u>

Accounting Policy

Borrowing Costs

All borrowing costs are expensed as incurred.

Note 1D: Write-Down and Impairment of Assets

Asset write-downs and impairments from:

Impairment of property, plant and equipment	<u>1,266</u>	<u>-</u>
Total write-down and impairment of assets	<u>1,266</u>	<u>-</u>

Note 1E: Losses from Asset Sales

Property, plant and equipment:

Carrying value of assets sold	-	6,784
Selling expense	-	150
Total losses from asset sales	<u>-</u>	<u>6,934</u>

Note 2

Financial Performance

This section analyses the financial performance of PSR for the year ended 2016

Note 2: Income

	2016	2015
Own-Source Revenue	\$	\$
Note 2A: Rendering of Services		
Rendering of services	<u>6,667</u>	<u>1,713</u>
Total rendering of services	<u>6,667</u>	<u>1,713</u>

Accounting Policy

Revenue

Revenue from the sale of goods is recognised when:

- a) the risks and rewards of ownership have been transferred to the buyer;
- b) the entity retains no managerial involvement or effective control over the goods;
- c) the revenue and transaction costs incurred can be reliably measured; and
- d) it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b) the probable economic benefits associated with the transaction will flow to the entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Note 2B: Other Revenue

Resources received free of charge	<u>31,000</u>	<u>30,000</u>
Total other revenue	<u>31,000</u>	<u>30,000</u>

Accounting Policy

Resources Received Free of Charge

Resources received free of charge are recognised as gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Note 2 (continued)

Financial Performance

This section analyses the financial performance of PSR for the year ended 2016

Note 2: Income

	2016	2015
	\$	\$
Gains		
Note 2C: Other Gains		
Reversal of prior year expenses	2,262	-
Total other gains	<u>2,262</u>	<u>-</u>

Accounting Policy

Sale of Assets

Gains from disposal of assets are recognised when control of the asset has passed to the buyer.

Revenue from Government

Note 2D: Revenue from Government

Appropriations		
Departmental appropriations	5,528,000	5,688,000
Total revenue from Government	<u>5,528,000</u>	<u>5,688,000</u>

Accounting Policy

Revenue from Government

Amounts appropriated for departmental appropriations for 2015-16 (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the entity gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts.

Note 3

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 3: Financial Assets

	2016	2015
	\$	\$
Note 3A: Cash and Cash Equivalents		
Cash on hand or on deposit	<u>95,667</u>	178,925
Total cash and cash equivalents	<u>95,667</u>	<u>178,925</u>

Accounting Policy

Cash

Cash is recognised at its nominal amount. Cash and cash equivalents include cash on hand.

Note 3B: Trade and Other Receivables

Good and services receivables

Other	<u>27,530</u>	-
Total goods and services receivables	<u>27,530</u>	-

Appropriations receivable

Existing programs	2,150,309	2,763,110
Departmental capital budget	<u>203,899</u>	<u>348,509</u>
Total appropriations receivable	<u>2,354,208</u>	<u>3,111,619</u>

Other receivables

GST receivable from the Australian Taxation Office	<u>31,209</u>	30,154
Total other receivables	<u>31,209</u>	<u>30,154</u>
Total trade and other receivables (gross)	<u>2,412,947</u>	<u>3,141,773</u>

Less impairment allowance

Goods and services	-	-
Total impairment allowance	-	-
Total trade and other receivables (net)	<u>2,412,947</u>	<u>3,141,773</u>

Trade and other receivables (net) expected to be recovered

No more than 12 months	<u>2,412,947</u>	3,141,773
Total trade and other receivables (net)	<u>2,412,947</u>	<u>3,141,773</u>

Trade and other receivables (gross) aged as follows

Not overdue	2,411,539	3,141,773
Overdue by:		
61 to 90 days	<u>1,408</u>	-
Total trade and other receivables (gross)	<u>2,412,947</u>	<u>3,141,773</u>

Accounting Policy

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at the end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

Impairment of Financial Assets

All assets were assessed for impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 4: Non-Financial Assets

Note 4A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles for 2016

	Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles for 2016		Total
	Buildings	Plant & Computer equipment software	
	\$	\$	\$
As at 1 July 2015			
Gross book value	261,700	254,727	513,353
Accumulated depreciation, amortisation and impairment	(84,832)	(65,891)	(150,723)
Net book value as at 1 July 2015	176,868	188,836	365,704
Additions			
Purchase or internally developed	-	12,680	12,680
Depreciation and amortisation	(84,832)	(80,824)	(165,656)
Disposals			
Other	-	(1,266)	(1,266)
Net book value as at 30 June 2016	92,036	119,426	211,462
Net book value as at 30 June 2016 represented by			
Gross book value	261,700	266,140	527,840
Accumulated depreciation and impairment	(169,664)	(146,714)	(316,378)
Net book value as at 30 June 2016	92,036	119,426	211,462

No indicators of impairment were found for property, plant and equipment or intangibles.

No property, plant and equipment, or intangibles are expected to be sold or disposed of within the next 12 months.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note 4. During 2015-16, B&A Valuers conducted a desktop valuation of PSR's assets as at 30 June 2016. Assets on hand were revalued at the reporting date whilst additions subsequently purchased were excluded from the revaluation.

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

PSR has a capital commitment relating to the upgrade of PSR's case management system and the acquisition of computer equipment.

Note 4 (continued)

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 4: Non-Financial Assets

Note 4A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles for 2015

Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles for 2015	Buildings		Plant & equipment		Computer Software		Total
	\$	\$	\$	\$	\$	\$	
As at 1 July 2014							
Gross book value	261,700	171,070	448,449		881,219		
Accumulated depreciation and impairment	-	-	(415,019)		(415,019)		
Net book value as at 1 July 2014	261,700	171,070	33,430		466,200		
Additions							
Purchase	-	92,907	88,879		181,786		
Depreciation and amortisation	(84,832)	(68,357)	(11,350)		(164,539)		
Disposals							
Other ¹	-	(6,784)	-		(6,784)		
Net book value as at 30 June 2015	176,868	188,836	110,959		476,663		
Net book value as at 30 June 2015 represented by							
Gross book value	261,700	254,727	513,353		1,029,780		
Accumulated depreciation and impairment	(84,832)	(65,891)	(402,394)		(553,117)		
Net book value as at 30 June 2015	176,868	188,836	110,959		476,663		

1. There were disposals during the year which had a nil net book value.

No indicators of impairment were found for property, plant and equipment or intangibles.

No property, plant and equipment, or intangibles are expected to be sold or disposed of within the next 12 months.

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

PSR has a capital commitment relating to the upgrade of PSR's case management system.

Note 4 (continued)

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 4: Non-Financial Assets

Accounting Policy

Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, except for individual purchases costing less than \$1,000, which are expensed in the year of acquisition.

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by PSR where there exists an obligation to restore the property to its original condition. These costs are included in the value of PSR's leasehold improvements with a corresponding provision for the 'make good' recognised.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depended upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Note 4 (continued)

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 4: Non-Financial Assets

Accounting Policy

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to PSR using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2016	2015
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years

Impairment

All assets were assessed for impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the entity were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles

PSR's intangibles comprise of purchased and internally developed software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of PSR's software are 5 to 10 years (2015: 5 to 10 years).

All software assets were assessed for indications of impairment as at 30 June 2016.

Note 4 (continued)

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 4: Non-Financial Assets

	2016	2015
	\$	\$
Note 4B: Other Non-Financial Assets		
Prepayments	<u>37,788</u>	<u>37,795</u>
Total other non-financial assets	<u>37,788</u>	<u>37,795</u>
Total other non-financial assets are expected to be recovered in		
No more than 12 months	<u>35,742</u>	<u>37,795</u>
More than 12 months	<u>2,046</u>	<u>-</u>
Total other non-financial assets	<u>37,788</u>	<u>37,795</u>

No indicators of impairment were found for other non-financial assets.

Note 5

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 5: Payables

	2016	2015
	\$	\$
Note 5A: Suppliers		
Trade creditors and accruals	336,849	326,971
Operating lease rentals	15,048	24,736
Total suppliers	351,897	351,707
Suppliers expected to be settled		
No more than 12 months	350,713	336,659
More than 12 months	1,184	15,048
Total suppliers	351,897	351,707
Settlement is made within 30 days.		
Note 5B: Other Payables		
Wages and salaries	71,640	106,038
Superannuation	1,345	11,681
Other	17,275	40,404
Total other payables	90,260	158,123
Other payables are expected to be settled		
No more than 12 months	90,260	158,123
Total other payables	90,260	158,123
Settlement is made within 30 days.		

Note 6

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 6: Provisions

	2016	2015
	\$	\$
Note 6: Other Provisions		
Provision for restoration obligations	<u>88,728</u>	<u>85,997</u>
Total other provisions	<u>88,728</u>	<u>85,997</u>
Other provisions are expected to be settled in:		
More than 12 months	<u>88,728</u>	<u>85,997</u>
Total other provisions	<u>88,728</u>	<u>85,997</u>

	Provision for restoration
	\$
Carrying amount 1 July 2015	<u>85,997</u>
Unwinding of discount or change in discount rate	<u>2,731</u>
Closing balance 2016	<u>88,728</u>

PSR currently has an agreement for the leasing of premises which include provisions requiring PSR to restore the premises to its original condition at the conclusion of the lease. PSR has made a provision to reflect the present value of this obligation.

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 7: Appropriations

7A: Annual Appropriations (Recoverable GST exclusive)

Annual Appropriations for 2016

	Appropriation Act		PGPA Act		Total appropriation	Appropriation applied in 2016 (current and prior years)	Variance ²
	Annual Appropriation ¹	Advance to the Finance Minister	Section 74 Receipts	Section 75 Transfers			
DEPARTMENTAL							
Ordinary annual services ¹	5,528,000	-	64,075	-	5,592,075	(6,204,017)	(611,942)
Capital Budget ³	5,000	-	-	-	5,000	(149,610)	(144,610)
Total departmental	5,533,000	-	64,075	-	5,597,075	(6,353,627)	(756,552)

Notes:

- In 2015-16, \$1,000 relating to Appropriation Act (No. 1) 2014-15 was quarantined.
- Departmental Appropriations were over spent by \$611,942. The variance was mainly attributable to case related activities and the number of cases referred to the Professional Services Review in 2015-16. PSR's approved operating loss was funded by cash reserves.
- Departmental Capital Budgets are appropriated through Appropriation Acts (No.1). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. Payments made on non-financial assets include purchases of assets, and expenditure on assets which have been capitalised. Note that payments made on non-financial assets were greater than the departmental capital budget for the year by \$144,610, as capital expenditure that commenced during 2014-15 continued throughout the course of 2015-16. Therefore, a proportion of PSR's departmental capital funds received in prior years were spent in 2015-16.

Annual Appropriations for 2015

	Appropriation Act		PGPA Act		Total appropriation	Appropriation applied in 2015 (current and prior years)	Variance ²
	Annual Appropriation ¹	AFM	Section 74	Section 75			
DEPARTMENTAL							
Ordinary annual services ¹	5,688,000	-	110,599	-	5,798,599	(5,369,073)	429,526
Capital Budget ³	54,000	-	-	-	54,000	(110,100)	(56,100)
Total departmental	5,742,000	-	110,599	-	5,852,599	(5,479,173)	373,426

Notes:

- In 2014-15, there were no appropriations that have been quarantined.
- Departmental Appropriations were under spent by \$429,526. The variance was mainly attributable to case related activities and the number of cases referred to the Professional Services Review in 2014-15, and postponing the implementation of key ICT systems until 2014-15 which will progress throughout 2015-16.
- Departmental Capital Budgets are appropriated through Appropriation Acts (No.1). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. Payments made on non-financial assets include purchases of assets, and expenditure on assets which have been capitalised. Note that payments made on non-financial assets were greater than the departmental capital budget for the year by \$56,100, as capital expenditure in 2013-14 was delayed until 2014-15. Therefore, a proportion of PSR's departmental capital funds received in 2013-14 were spent in 2014-15.

Note 7 (continued)

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 7: Appropriations

7B: Unspent Annual Appropriations ('Recoverable GST exclusive')

Authority	2016	2015
	\$	\$
DEPARTMENTAL		
Appropriation Act (No. 1) 2015-16	2,156,430	-
Appropriation Act (No. 1) 2014-15 ¹	54,000	1,887,939
Appropriation Act (No. 1) 2013-14	144,899	294,509
Appropriation Act (No. 1) 2012-13	-	945,832
Cash balance	95,667	178,925
Total	2,450,996	3,307,205

The cash balance of \$95,667 represents unspent departmental appropriation from Appropriation Act (No.1) 2015-16; (2015: \$178,925 from Appropriation Act (No.1) 2014-15). Unspent departmental appropriation also includes a departmental capital budget of \$5,000 (2015: \$54,000).

¹In 2015-16, \$1,000 relating to Appropriation Act (No. 1) 2014-15 was quarantined.

Note 8

Financial Position

This section analyses PSR's assets used to conduct its operations and the operating liabilities incurred as a result

Note 8: Cash Flow Reconciliation

	2016	2015
	\$	\$
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash flow statement	95,667	178,925
Statement of financial position	<u>95,667</u>	<u>178,925</u>
Discrepancy	<u>-</u>	<u>-</u>
Reconciliation of net cost of services to net cash from/ (used by) operating activities:		
Net cost of services	(6,176,604)	(5,683,572)
Add revenue from Government	5,528,000	5,688,000
Adjustments for non-cash items		
Depreciation / amortisation	169,826	164,539
Net write down of non-financial assets	1,266	-
Loss on disposal of assets	-	6,934
Finance costs	2,731	3,997
Changes in assets / liabilities		
(Increase) / decrease in net receivables	584,216	(423,909)
(Increase) / decrease in prepayments	7	(1,297)
Increase / (decrease) in employee provisions	(140,578)	247,722
Increase / (decrease) in supplier payables	13,597	125,168
Increase / (decrease) in other payables	<u>(67,863)</u>	<u>62,431</u>
Net cash from/ (used by) operating activities	<u>(85,402)</u>	<u>190,013</u>

Note 9

People and relationships

This section describes a range of employment and post employment benefits provided to our people and our relationships with other key people

Note 9: Employee Provisions

	2016	2015
	\$	\$
Note 9: Employee Provisions		
Leave	651,080	636,382
Separations and redundancies	-	155,276
Total employee provisions	651,080	791,658
Employee provisions expected to be settled		
No more than 12 months	235,002	365,920
More than 12 months	416,078	425,738
Total employee provisions	651,080	791,658

Accounting Policy

Employee benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 Employee Benefits) and termination benefits expected within twelve months of the end of the reporting period are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period.

Note 9 (continued)

People and relationships

This section describes a range of employment and post employment benefits provided to our people and our relationships with other key people

Note 9: Employee Provisions

Accounting Policy

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leaves is non-vesting and the average sick leave taken in future years by employees of PSR is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including PSR employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The long term leave liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees as at 30 June 2016. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation. The other factors which have been considered in determining the long term leave liability for long service leave include salary growth, probability factors and on costs.

Separation and Redundancy

Provision is made for separation and redundancy benefit payments. The entity recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

PSR's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

PSR makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. PSR accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

Note 10

People and relationships

This section describes a range of employment and post employment benefits provided to our people and our relationships with other key people

Note 10: Senior Management Personnel Remuneration

	2016	2015
	\$	\$
Short-term employee benefits:		
Salary	876,759	838,407
Performance bonuses	43,044	34,725
Other	102,960	98,451
Total short-term employee benefits	1,022,763	971,583
Post-employment benefits:		
Superannuation	149,253	131,426
Total post-employment benefits	149,253	131,426
Other long-term employee benefits:		
Annual leave	78,655	99,213
Long-service leave	29,112	43,138
Total other long-term employee benefits	107,767	142,351
Total senior executive remuneration expenses	1,279,783	1,245,360

The total number of senior management personnel that are included in the above table are 5 individuals (2015: 6 individuals).

Note 11

Managing uncertainties

This section analyses how PSR manages financial risks within its operating environment

Note 11: Contingent Assets and Liabilities

Quantifiable Contingencies

At 30 June 2016, PSR did not have any quantifiable contingencies (2015: nil).

Unquantifiable Contingencies

PSR is currently involved in a litigation case before the Federal Court which may result in costs awarded in favour of PSR. PSR has been advised by its solicitors that the amount cannot be reliably estimated. No further disclosure has been made on the grounds that it can be expected to prejudice seriously the outcome of the litigation (2015: nil).

Significant Remote Contingencies

At 30 June 2016 PSR did not have any significant remote contingencies (2015: nil).

Accounting Policy

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

Note 12

Managing uncertainties

This section analyses how PSR manages financial risks within its operating environment

Note 12: Financial Instruments

	2016	2015
	\$	\$
Note 12A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	95,667	178,925
Trade and other receivables	27,530	-
Total loans and receivables	123,197	178,925
Total financial assets	123,197	178,925
Financial Liabilities		
Financial liabilities measured at amortised cost		
Payables - Suppliers	351,897	351,707
Total financial liabilities	351,897	351,707

Note 12B: Fair Value of Financial Instruments

The carrying value of PSR's financial instruments approximate their fair value. PSR derived no interest income from financial assets in either the current and prior year.

Note 12C: Credit Risk

PSR was exposed to minimal credit risk as loans and receivables were cash and trade receivables. The maximum exposure to credit risk was the risk that arises from potential default of a debtor. This amount was equal to the total amount of trade receivables 2016: \$27,530 (2015: \$0).

Note 12 (continued)

Managing uncertainties

This section analyses how PSR manages financial risks within its operating environment

Note 12: Financial Instruments

Accounting Policy

Financial Assets

PSR classifies its financial assets as loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of Financial Assets

All assets were assessed for impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

Financial assets held at amortised cost - if there is objective evidence that an impairment loss has been incurred for loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

Financial Liabilities

Financial liabilities are classified as other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

Managing uncertainties

This section analyses how PSR manages financial risks within its operating environment

Note 13: Fair Value Measurements

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

Accounting Policy

Fair Value Measurement

PSR deems transfers between levels of the fair value hierarchy to have occurred at the end of the reporting period.

Note 13A: Fair Value Measurements, Valuation Techniques and Inputs Used

Fair value measurements at the end of the reporting period by hierarchy for assets and liabilities in 2016

	Fair value measurements at the end of the reporting period using		Category Level	For Levels 2 and 3 fair value measurement Valuation technique(s) ¹	Inputs used
	Fair value 2016	Fair value 2015			
	\$	\$	1, 2 or 3 ²		
Leasehold improvements	92,036	176,868	3	Depreciated replacement cost	Construction costs of comparable leasehold improvements, lease term, relevant price inflation, useful life and discount rates
Other property, plant and equipment	6,193	18,723	2	Market comparables	Market buying / selling price
Other property, plant and equipment	113,233	170,113	3	Depreciated replacement cost	Budget quote for similar assets new assets/ relevant price inflation, age and useful life
Total non-financial assets	211,462	365,704			
Total fair value measurements of assets in the statement of financial position	211,462	365,704			

The highest and best use of all non-financial assets are the same as their current use.

1. No change in valuation technique occurred during the period
2. Fair value measurements - highest and best use differs from current use for non-financial assets (NFAs)
The highest and best use of all non-financial assets are the same as their current use

3. Recurring and non-recurring Level 3 fair value measurements - valuation processes

PSR procured valuation services from B&A Valuers and relied on valuation models provided by B&A Valuers. PSR tests the procedures of the valuation model at least once every 12 months. B&A Valuers provided written assurance to PSR that the model developed is in compliance with AASB 13.

Note 13 (continued)

Managing uncertainties

This section analyses how PSR manages financial risks within its operating environment

Note 13: Fair Value Measurements

Note 13B: Reconciliation for Recurring Level 3 Fair Value Measurements

Recurring Level 3 fair value measurements - reconciliation for assets

	Non-financial assets								
	Other property, plant and equipment		Leasehold improvements		Other property, plant and equipment		Leasehold improvements		Total
	2016	2016	2016	2016	2015	2015	2015	2015	2015
Opening balance	\$ 188,836	\$ 176,868	\$ 365,704	\$ 171,070	\$ 261,700	\$ 432,770			
Total gains/(losses) recognised in net cost of services ¹	(82,090)	(84,832)	(166,922)	(75,141)	(84,832)	(159,973)			
Total gains/(losses) recognised in other comprehensive income ²	-	-	-	-	-	-			
Purchases	12,680	-	12,680	92,907	-	92,907			
Closing balance	\$ 119,426	\$ 92,036	\$ 211,462	\$ 188,836	\$ 176,868	\$ 365,704			

1. Total gains/(losses) are presented in the Statement of Comprehensive Income

2. Total gains/(losses) are presented in the Statement of Comprehensive Income

Note 14

Other information

Note 14: Reporting of Outcomes

Note 14: Net Cost of Outcome Delivery

	Outcome 1		Total	
	2016	2015	2016	2015
	\$	\$	\$	\$
Departmental				
Expenses	6,216,533	5,715,285	6,216,533	5,715,285
Own-source income	39,929	31,713	39,929	31,713
Net cost/(contribution) of outcome delivery	6,176,604	5,683,572	6,176,604	5,683,572

Appendix 3 Freedom of information statement

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a s. 8 statement in an annual report. Each agency must display, on its website, a plan showing what information it publishes in accordance with the IPS requirements.

Information on PSR's IPS can be accessed via the PSR website at www.psr.gov.au/psr-agency-corporate-information/information-publication-scheme.

Contact officer

All freedom of information requests should be directed to:

Freedom of Information Officer
Professional Services Review
PO Box 74
Fyshwick ACT 2609

Glossary

The Act means the *Health Insurance Act 1973*.

AHPRA means the Australian Health Practitioner Regulation Agency.

AMA means the Australian Medical Association.

APS means the Australian Public Service.

CDM means Chronic Disease Management.

Committee means a Professional Services Review committee comprising at least three practitioners appointed under s. 93 of the Act.

Committee member means a member of a PSR committee, who must be a current PSR Panel member.

Deputy Director means a deputy director of PSR appointed under s. 85 of the Act who serves as the chair of a committee.

Determining Authority means the independent statutory body established under s. 106Q of the Act.

DHS means the Australian Government Department of Human Services, which administers the Medicare program and the Pharmaceutical Benefits Scheme. The Chief Executive Medicare refers matters to PSR for investigation.

Director means the Director of PSR appointed under s. 83 of the Act.

Draft determination means the draft document detailing what action is proposed to be taken in a case, as required by s. 106T of the Act.

Draft report means the preliminary findings of a committee following a hearing, as required by s. 106KD of the Act.

Final determination means the final document detailing what action will be taken in a case, as required by s. 106TA of the Act.

GP means general practitioner.

Inappropriate practice is defined under s. 82 of the Act as conduct in connection with rendering or initiating services that a committee of the practitioner's peers could reasonably conclude was unacceptable to the general body of their profession.

IT means information technology.

MBS means the Medicare Benefits Schedule.

Medicare means the Medicare program administered by the Department of Human Services.

Medicare services means services provided by a practitioner that generated a Medicare benefit.

Minister means the Australian Government Minister for Health.

Negotiated agreement means a written agreement made under s. 92 of the Act.

Overservicing means providing a patient with services in excess of the patient's actual medical need.

Panel means the Professional Services Review Panel established under subsection 84(1) of the Act, members of which are available for appointment to a committee.

Panel member means a practitioner appointed under subsection 84(2) of the Act.

PBS means the Pharmaceutical Benefits Scheme.

Peers means the members of the PSR Panel who are appointed to represent the general body of their profession.

PGPA Act means the *Public Governance, Performance and Accountability Act 2013*.

Practitioner means a health professional who can access the Medicare and Pharmaceutical Benefits schemes, and includes a:

- medical practitioner
- dental practitioner
- optometrist
- midwife
- nurse practitioner
- chiropractor
- physiotherapist
- podiatrist
- osteopath.

PSR means Professional Services Review.

RACGP means the Royal Australian College of General Practitioners.

Ratify means to authorise or approve. This term is used when the Determining Authority is deciding whether an agreement with the Director will come into effect.

Sanction means a direction from a range of directions specified in s. 106U of the Act.

List of requirements

Part of report	Description	Requirement	Page number
Letter of transmittal	A copy of the letter of transmittal signed and dated by accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory	1
Aids to access	Table of contents.	Mandatory	2-3
	Alphabetical index.	Mandatory	77-80
	Glossary of abbreviations and acronyms.	Mandatory	70
	List of requirements.	Mandatory	71-76
	Details of contact officer.	Mandatory	ii
	Entity's website address.	Mandatory	ii
	Electronic address of report.	Mandatory	ii
Review by accountable authority	A review by the accountable authority of the entity.	Mandatory	4-5, 13-19
Overview of the entity	A description of the role and functions of the entity.	Mandatory	6-7
	A description of the organisational structure of the entity.	Mandatory	20-22
	A description of the outcomes and programs administered by the entity.	Mandatory	8-19
	A description of the purposes of the entity as included in corporate plan.	Mandatory	8
	An outline of the structure of the portfolio of the entity.	Portfolio departments mandatory	11-19
	Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, mandatory	Not applicable

Report on the performance of the entity

Part of report	Description	Requirement	Page number
Annual performance statements	Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory	8
Report on financial performance	A discussion and analysis of the entity's financial performance.	Mandatory	29-31
	A table summarising the total resources and total payments of the entity.	Mandatory	33
	If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, mandatory	Not applicable

Management and accountability

Part of report	Description	Requirement	Page number
Corporate governance	Information on compliance with section 10 (fraud systems).	Mandatory	24
	A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory	23-24
	A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory	23-24
	A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory	23-24
	An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory	20-21
	A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to noncompliance with Finance law and action taken to remedy noncompliance.	If applicable, mandatory	Not applicable
External scrutiny	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory	24
	Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, mandatory	24
	Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, mandatory	24
	Information on any capability reviews on the entity that were released during the period.	If applicable, mandatory	24

Part of report	Description	Requirement	Page number
Management of human resources	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory	25
	Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including statistics on: <ul style="list-style-type: none"> • staffing classification level • full-time employees • part-time employees • gender • staff location • employees who identify as Indigenous. 	Mandatory	26
	Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the <i>Public Service Act 1999</i> .	Mandatory	26-27
	Information on the number of SES and non-SES employees covered by agreements etc identified in paragraph 17AG(4)(c).	Mandatory	27
	The salary ranges available for APS employees by classification level.	Mandatory	27
	A description of nonsalary benefits provided to employees.	Mandatory	Not applicable
	Information on the number of employees at each classification level who received performance pay.	If applicable, mandatory	Not applicable
	Information on aggregate amounts of performance pay at each classification level.	If applicable, mandatory	Not applicable
	Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, mandatory	Not applicable
	Information on aggregate amount of performance payments.	If applicable, mandatory	Not applicable
Assets management	An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities.	If applicable, mandatory	29
Purchasing	An assessment of entity performance against the Commonwealth Procurement Rules.	Mandatory	29

Part of report	Description	Requirement	Page number
Consultants	A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST).	Mandatory	29–30
	A statement that “During [reporting period], [specified number] new consultancy contracts were entered into involving total actual expenditure of \$[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of \$[specified million]”.	Mandatory	30
	A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory	29–30
	A statement that ‘ <i>Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website</i> ’.	Mandatory	30
Australian National Audit Office access Clauses	If an entity entered into a contract with a value of more than \$100 000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor’s premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, mandatory	30
Exempt contracts	If an entity entered into a contract or there is a standing offer with a value greater than \$10 000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, mandatory	30

Part of report	Description	Requirement	Page number
Small business	A statement that ' <i>[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website</i> '.	Mandatory	30
	An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory	30
	If the entity is considered by the Department administered by the Finance Minister as material in nature—a statement that ' <i>[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury's website</i> '.	If applicable, mandatory	30
Financial statements	Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory	34–68
Other mandatory information	If the entity conducted advertising campaigns, a statement that ' <i>During [reporting period], the [name of entity] conducted the following advertising campaigns: [name of advertising campaigns undertaken]. Further information on those advertising campaigns is available at [address of entity's website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website</i> '.	If applicable, mandatory	Not applicable
	If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, mandatory	28
	A statement that ' <i>Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website]</i> '.	If applicable, mandatory	Not applicable
	Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory	28
	Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found.	Mandatory	69
	Correction of material errors in previous annual report	If applicable, mandatory	Not applicable
	Information required by other legislation	Mandatory	28, 31

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