

The Auditor-General  
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Performance Audit

# **Community Pharmacy Agreement: Follow-on Audit**

Department of Health

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Canberra ACT  
31 August 2016

Dear President and Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Health titled *Community Pharmacy Agreement: Follow-on Audit*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, reading 'Grant Hehir', is positioned above the printed name.

Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## **AUDITING FOR AUSTRALIA**

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Summary and recommendations

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## Background

1. Performance audits play an important role in stimulating improvements in the administration and management of public sector entities as well as providing independent assurance to the Parliament on the administration of programs. Recommendations in audit reports highlight actions that are expected to improve entity performance when implemented. Where an entity has agreed to a recommendation, implementation of that recommendation should be timely and in line with its intended outcome to achieve the benefits envisaged.<sup>1</sup>
2. The beneficial impacts of audits are undermined if agencies do not institutionalise robust implementation and oversight mechanisms.<sup>2</sup> Consequently, in recent years, the ANAO has conducted a series of performance audits to monitor the implementation of audit recommendations, as part of the ongoing process of improving agency performance.
3. This audit examines the Department of Health's (Health) implementation of recommendations from ANAO Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, in the context of the negotiation and implementation of the Sixth Community Pharmacy Agreement.

## Conclusion

4. As at May 2016, the ANAO has assessed six of the eight recommendations as implemented, with Health completing the necessary action in a timely manner. The various actions taken by Health in response to the Fifth Community Pharmacy Agreement audit recommendations have resulted in improved transparency of funding under the Sixth Community Pharmacy Agreement, better recordkeeping and contract management processes, and an enhanced financial and performance reporting framework.
5. There were a number of costing errors identified in relation to recommendation 2 that highlight the importance of using a robust quality assurance process. In developing any future community pharmacy agreements, Health should improve and document its quality assurance processes in relation to how indexation factors are applied in costing calculations.

## Supporting findings

6. Health has improved the transparency of funding in the Sixth Community Pharmacy Agreement by both clearly distinguishing the amounts of government and patient contributions in the estimated total cost of the agreement, and including the cost of third-party administration of the community pharmacy programs. Health made errors in applying indexation factors to one of the eleven Sixth Community Pharmacy Agreement savings measures. While the financial impact of the errors was small in terms of the whole agreement, this detracted from the overall integrity of the processes used by Health to calculate the estimated total savings to be derived from the Sixth Community Pharmacy Agreement.

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1 ANAO *Annual Report 2014–15*, Canberra, p.23.

2 Joint Committee of Public Accounts and Audit, *Report 443: Review of Auditor-General's Reports Nos. 23 and 25 (2012–13) and 32 (2012–13) to 9 (2013–14)*, Canberra, 2014, paragraph 2.32, p. 9.

7. Health maintained an adequate record of the meetings where negotiations of the Sixth Community Pharmacy Agreement took place. Records were not made for five meetings held during the formal negotiating period. Health advised the ANAO that no negotiations took place at these meetings. In view of the high-level nature of these meetings<sup>3</sup> and in the interests of greater transparency, some form of contemporaneous record should have been made of these meetings, even if it was to note that formal negotiations did not occur at them. Following the Fifth Community Pharmacy Agreement audit, the department revised both departmental policy on keeping records of contract negotiations and its record-keeping practices for managing the implementation of community pharmacy agreements. The revisions have seen considerable improvements to Health's record keeping arrangements relating to Recommendation 5.

8. In relation to the key Sixth Community Pharmacy Agreement related contracts, the ANAO's analysis indicates that the required periodic third-party reporting has been adequate, thereby assisting Health to maintain visibility over contract performance.

9. Health has made substantial progress towards achieving an adequate financial and performance reporting framework in relation to the community pharmacy agreements. It has revised the relevant departmental program performance indicators to better align them with the provisions of the Sixth Community Pharmacy Agreement, and publicly reported against these indicators. Health has commenced annual public reporting on the actual cost of each major component of the agreements through its annual *Pharmaceutical Benefits Scheme Expenditure and Prescriptions Report*. Health has also undertaken some measures to improve the collection, recording and sharing of information regarding payments to pharmaceutical suppliers, although these are still in progress as at May 2016. If successfully completed, this will improve Health's ability to track expenditure on a range of pharmaceutical items.

## Summary of entity response

10. The Department of Health provided formal comment on the proposed audit report. The summary response is provided below, with the full response at Appendix 1:

The Department welcomes the report and notes the key area for improvement indicated in the report, namely the quality assurance process for any future community pharmacy agreements in relation to how indexation factors are applied to costing calculations.

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3 One of the meetings involved the Prime Minister, one involved the Minister for Health, and three involved the Secretary of the Health department.



## **Audit Findings**



# 1. Background

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## The Community Pharmacy Agreements

1.1 Since 1990, the Government has entered into and funded six successive five-year community pharmacy agreements with the Pharmacy Guild of Australia<sup>4</sup> (the Guild) to help maintain a national network of approximately 5456 pharmacies as the primary method for dispensing Pharmaceutical Benefits Scheme (PBS) medicines to the public. The pharmacy agreements set out the amounts of the various fees ('pharmacy remuneration') pharmacies are paid to dispense PBS and Repatriation Pharmaceutical Benefits Scheme (RPBS) medicines, as well as the estimated total cost of pharmacy remuneration over the life of the agreement. The more recent agreements also provide for the funding of various programs intended to improve the use of PBS and RPBS medicines in the community. The agreements also establish a Community Service Obligation (CSO) funding pool to be drawn on by pharmaceutical wholesalers that can meet specified service standards for supplying PBS and RPBS medicines to retail pharmacies.<sup>5</sup> The estimated total cost of these successive agreements, including the Sixth Community Pharmacy Agreement (6CPA), is \$64 billion.

### Audit of the Fifth Community Pharmacy Agreement

1.2 The Fifth Community Pharmacy Agreement (5CPA) came into effect on 1 July 2010 and expired on 30 June 2015. The ANAO commenced a performance audit of the Department of Health's administration of the 5CPA (the 5CPA audit) in June 2013. The audit report<sup>6</sup>, tabled in March 2015, identified shortcomings in important aspects of Health's administration of the 5CPA, including in the development, negotiation and implementation phases. The audit also concluded that Health was not in a position to assess the extent to which the agreement had met its key objectives, including achieving \$1 billion in expected savings.

1.3 Based on these findings, the ANAO made eight recommendations aimed at improving the overall administration of the 5CPA and informing the development of the next agreement. Seven recommendations were directed to Health, and related to: the development of costings; improving the clarity of the next agreement and related public reporting; record keeping; and improving performance information. A further recommendation, directed towards the Departments of Health, Human Services and Veterans' Affairs focused on improving the accuracy of Health's calculation of pharmacy remuneration.<sup>7</sup> Health agreed to all eight recommendations.

1.4 In June 2015, the Joint Committee of Public Accounts and Audit (JCPAA) selected the 5CPA audit report for further review and scrutiny at public hearings. In its December 2015 report<sup>8</sup>, the JCPAA made three recommendations (see Appendix 3). One of these was that the ANAO consider

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4 The Pharmacy Guild is the national peak body representing the owners of community pharmacies.

5 The CSO Funding Pool financially supports pharmaceutical wholesalers to supply the full range of PBS medicines to pharmacies, regardless of their location and the relative cost of supply, to ensure that all Australians have timely access to the full range of PBS medicines.

6 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*.

7 The focus of this audit was limited to Health's implementation of recommendations, and did not involve an assessment of the Departments of Human Services or Veterans' Affairs.

8 Joint Committee of Public Accounts and Audit, Report 451: *Review of Auditor-General Report No.25 (2014–15)*, Canberra, 2015.

conducting a follow-up audit on the implementation of the 6CPA to be completed no later than 30 months into the agreement's term; the other two recommendations were directed to Health.

## The Sixth Community Pharmacy Agreement

1.5 The Sixth Community Pharmacy Agreement (6CPA) forms a component of the PBS Access and Sustainability Package developed by the Australian Government for the May 2015 Budget.<sup>9</sup> The 6CPA provides for an estimated \$18.9 billion in funding over five years (including \$15.5 billion in Commonwealth funding and \$3.4 billion from patient contributions) to cover 6CPA components including: pharmacy remuneration; community pharmacy programs<sup>10</sup>; wholesaler remuneration; and the CSO funding pool.<sup>11</sup>

1.6 Consultations with the pharmaceutical industry, medical industry and health consumer groups in relation to the PBS Access and Sustainability Package and 6CPA began in July 2014. Formal negotiations for the 6CPA, which involved a wide range of industry stakeholders, took place over two months, beginning in March 2015, with the agreement being signed on 24 May 2015. The involvement of stakeholders other than the Guild was required as some of the savings measures that were eventually reflected in the 6CPA<sup>12</sup> were obtained from groups such as pharmaceutical wholesalers.

1.7 The design of the 6CPA is intended to reflect a focus by Health on value for money and transparency in the payment of funds to community pharmacies. While this focus reflects recommendations made in the 5CPA audit, the 6CPA also includes more comprehensive changes aimed at significantly changing the model of pharmacy remuneration. Some significant measures in the 6CPA include:

- achieving gross savings estimated by the government to be \$6.6 billion over the life of the agreement;
- de-linking pharmacy remuneration from the price of medicines;
- independent evaluation of all community pharmacy programs under the 6CPA, with new programs only proceeding where cost effectiveness can be demonstrated;
- market testing for the provision of major administrative services provided under the 6CPA; and
- a comprehensive independent review of pharmacy remuneration and regulation (including the pharmacy Location Rules<sup>13</sup>) within the first two years of the 6CPA.

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9 The PBS Access and Sustainability Package includes a range of savings that will fund increased investment in the pharmacy sector, and extends the rules governing pharmacy locations until 2020.

10 These include Medication Management Programs, Rural Support programs, Aboriginal and Torres Strait Islander programs and Pharmacy Practice Incentive programs.

11 Pharmacies and certain service-providers will receive additional remuneration—notably pharmacies will receive up to an estimated \$4.8 billion over the life of the 6CPA from patients purchasing medicines costing less than the maximum co-payment (\$38.30 for most PBS medicines or \$6.20 for holders of concession cards).

12 Realisation of some of these savings required further action such as the passing of legislation. The key piece of legislation, the *National Health Amendment (Pharmaceutical Benefits) Act 2015*, was passed in June 2015 and all provisions are in force as at the date of this audit.

13 These rules regulate the establishment of a new pharmacy or the relocation of an existing pharmacy which has approval to provide PBS medicines.

## Audit objective, criteria and scope

1.8 In view of the significance of the findings in the 5CPA audit report, and the interest expressed by JCPAA, the ANAO has conducted a follow-on audit of the *Administration of the Fifth Community Pharmacy Agreement*.

1.9 The audit objective was to assess the adequacy and effectiveness of the Department of Health's implementation of the recommendations made in the ANAO Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*.

1.10 To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- implementation has fully addressed the intent of each recommendation;
- implementation has been timely; and
- Health has implemented joint recommendations in consultation with the Department of Human Services and Department of Veterans' Affairs.

1.11 In conducting the audit, the ANAO met with relevant staff from: the Department of Health; Department of Human Services; Department of Veterans' Affairs; Department of Finance; and the Pharmacy Guild. The ANAO reviewed key documentation related to the 6CPA, including Cabinet documents, Ministerial briefings, policy and operational guidelines, meeting records, third-party contracts and contractual reporting. Information regarding Health's progress in implementing the relevant recommendations from the JCPAA's December 2015 report has been included in Appendix 3.

1.12 While the ANAO conducted a detailed analysis and reconciliation of how indexation factors were used by Health in calculating the estimated savings reflected in the 6CPA, the audit scope did not include an assessment of the overall integrity of these savings measures.

1.13 The audit was conducted in accordance with the ANAO auditing standards at a cost to the ANAO of approximately \$179 879.

## 2. Implementation of recommendations

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### Areas examined

This chapter examines Health's implementation of the eight recommendations made in ANAO Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*.

As at May 2016, the ANAO has assessed six of the eight recommendations as implemented, with Health completing the necessary action in a timely manner.

The ANAO has assessed Recommendation 2 as partially implemented as Health failed to apply the correct forecast indexation factors to one of the eleven savings measures contained in the Sixth Community Pharmacy Agreement (6CPA). Recommendation 4 has been assessed as partially implemented on the basis that action to implement the provision of improved data from Human Services to Health is not yet complete, although it is progressing well.

The various actions taken by Health in response to the Fifth Community Pharmacy Agreement (5CPA) audit recommendations have resulted in improved transparency of funding under the 6CPA, better recordkeeping and contract management processes and an enhanced finance and performance reporting framework. The costing errors identified in recommendation 2 highlight the importance of a robust quality assurance process.

### Areas for improvement

In developing any future community pharmacy agreements, Health should improve and document its quality assurance processes in relation to how indexation factors are applied in costing calculations. Health should also ensure records are kept of all government meetings held with the Pharmacy Guild and other key stakeholders during the formal negotiation periods for future community pharmacy agreements.

## Introduction

2.1 The definitions used to assess the extent to which recommendations had been implemented are provided in Table 2.1. The assessment of the eight recommendations are gathered around three broad themes: transparency of funding (Recommendations 1, 2 and 6); recordkeeping and contract management processes (Recommendations 3 and 5); and financial and performance reporting (Recommendations 4, 7 and 8).

**Table 2.1: ANAO’s categorisation of implementation**

Category	Explanation
Implemented	The action taken met the intent of the recommendation, and sufficient evidence was provided to demonstrate action taken.
Partially implemented	This category encompasses two considerations: <ul style="list-style-type: none"> <li>• action taken was less extensive than recommended by the ANAO. Action either fell short of the intent of the recommendation, or only addressed some of the identified risks; or</li> <li>• the entity may have established a process or procedure to address an issue, however, the specific action noted in the recommendation was not complete at the time of the assessment.</li> </ul>
Not implemented	This category encompasses two considerations: <ul style="list-style-type: none"> <li>• there is no supporting evidence that action has been undertaken; or</li> <li>• the action taken does not address the intent of the recommendation.</li> </ul>

Source: ANAO.

## Has Health improved the transparency of funding for the Sixth Community Pharmacy Agreement?

Health has improved the transparency of funding in the Sixth Community Pharmacy Agreement by both clearly distinguishing the amounts of government and patient contributions in the estimated total cost of the agreement, and including the cost of third-party administration of the community pharmacy programs. Health made errors in applying indexation factors to one of the eleven Sixth Community Pharmacy Agreement savings measures. While the financial impact of the errors was small in terms of the whole agreement, this detracted from the overall integrity of the processes used by Health to calculate the estimated total savings to be derived from the Sixth Community Pharmacy Agreement.

### Recommendation 1

2.2 During the development of the 5CPA in 2009, Health advised Ministers that, if arrangements under the Fourth Community Pharmacy Agreement were continued into the next agreement, expenditure for the 5CPA would be just under \$16 billion. This estimated ‘expenditure’ included the value of patient co-payments, which are payments made to pharmacies by patients rather than the Australian Government. This overstated the cost to government of the 5CPA by approximately \$2.2 billion. This failure to clearly distinguish between costs borne by government and patients was reflected in May 2010 budget papers and the 5CPA itself. The ANAO also found that pharmacy remuneration of \$2.6 billion for unsubsidised PBS medicines (which are also not a cost to government) was not reported in the 5CPA.<sup>14</sup> In view of these findings, the 5CPA audit report recommended:

To clarify the nature of financial commitments entered into by the Australian Government, the ANAO recommends that the Department of Health presents, in key documents, estimated

14 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, pp. 66–69.

government payments and patient payments for both subsidised and unsubsidised Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme medicines.

2.3 In response to Recommendation 1, and consistent with advice provided to the ANAO during the 5CPA audit, Health implemented enhancements to its financial modelling software, enabling it to separately report on the cost to government, and the cost to patients, for PBS and RPBS medicines, both subsidised and unsubsidised.<sup>15</sup> A breakdown of the major components of this funding is outlined in Table 2.2.

**Table 2.2: Estimated cost of Sixth Community Pharmacy Agreement components over 2015–20**

Funding component	Estimated government contribution (\$ billion)	Estimated patient contribution (\$ billion)
Pharmacy remuneration	11.112	3.025
Premium Free Dispensing Incentive	0.655	N/A
Wholesaler remuneration	1.414	0.385
CSO funding pool	0.976	N/A
Community pharmacy programs	1.263	N/A
Other components	0.056	N/A
<b>Total</b>	<b>15.476</b>	<b>3.410</b>

Source: Sixth Community Pharmacy Agreement.

2.4 In addition to the estimated costs reported in the 6CPA, Health has included the actual cost of each major component of the 5CPA for the 2014–15 financial year in its periodic *PBS Expenditure and Prescriptions Report*, which was published in early May 2016.<sup>16</sup> Health advised the ANAO that it expects that this style of reporting will continue under the 6CPA, with additional data included on under co-payment prescriptions. The reporting of separate cost components in the 6CPA, and the inclusion of additional data in the PBS Expenditure and Prescriptions Report provides an improved level of transparency of funding arrangements. Health’s financial modelling enhancements and additional public reporting on the major components of pharmacy remuneration represents an improvement on the 5CPA.

2.5 The ANAO has assessed Recommendation 1 as implemented.

## Recommendation 2

2.6 One key objective of the 5CPA was to achieve \$1 billion in savings over the life of the agreement through making adjustments to a range of policy and financial settings that applied under the Fourth Community Pharmacy Agreement. Under the 5CPA, various components of

15 The value of patient costs for unsubsidised medicines was estimated at \$4.8 billion over the duration of the 6CPA. From 1 January 2016, and subject to short-term transitional arrangements, community pharmacies are required to report to Health on the actual costs to the patient of unsubsidised medicines. Health advised the ANAO that similar arrangements for hospitals providing PBS medicines will come into effect in 2016–17.

16 Health also provided regular briefings and updates to Ministers on the estimated costs of 6CPA proposals. The ANAO examined these and found that while Health regularly outlined the aggregate costs for the 6CPA, and clearly stated that the costs included both government and patient contributions, information was not consistently provided on the specific quantum of funding for each type of contribution.



pharmacy remuneration were indexed annually to Wage Cost Index 9 (WCI9).<sup>17</sup> In addition, the 5CPA provided that indexation for two components (the pharmacy dispensing fee and the CSO funding pool) would be temporarily frozen.

2.7 In the course of the 5CPA audit, the ANAO found that, in calculating the effect of the 'freeze', Health incorrectly used a blanket two per cent indexation rate rather the forecast WCI9 rate (which ranged between 1.5–1.6 per cent). The use of the higher two per cent figure had the effect of overstating the savings of the dispensing fee and the CSO Funding Pool by \$38.7 million and \$4.5 million respectively.<sup>18,19</sup> In view of these findings, the 5CPA audit report recommended:

To provide assurance regarding the basis of costings for the next community pharmacy agreement, the ANAO recommends that the Department of Health applies the relevant forecast indexation factors released by the Department of Finance.

2.8 The 6CPA required that a combination of indexation factors (Consumer Price Index (CPI) and WCI9) be used to calculate the costs of various components of the agreement, including the impact of savings measures applied to them. The ANAO conducted detailed analysis on the models used by Health to determine whether the relevant (that is, the correct) Department of Finance indexation factors had been applied in each case. Table 2.3 outlines the ANAO's assessment for each of the savings measures identified.

**Table 2.3: ANAO assessment of indexation of savings measures**

Component	Estimated savings (\$m) <sup>a</sup>	Relevant indexation?
(a) An increase in the number of times a year that PBS medicine prices can change from three times per year (as applying under the 5CPA), to six times per year.	53.2	Yes
(b) A re-focusing of the Premium Free Dispensing Incentive to only apply where there is a brand premium.	573.6	Yes
(c) Freezing of the indexation on the Community Service Obligation (CSO) for a period of five years.	47.3	Yes
(d) The substitution of biosimilar medicines at the pharmacy level based on the clinical recommendations of the Pharmaceutical Benefits Advisory Committee (PBAC).	919.7	Yes
(e) Delisting of selected over-the-counter medicines from the PBS, based on the clinical recommendations of the PBAC.	480.6	Yes
(f) Expansion of the PBS early supply provision, 'Safety Net 20 Day rule', so that it applies to all PBS medicines where it is considered appropriate for the patient population, based on the advice of the PBAC.	480.7	Yes
(g) The component drug price disclosure arrangements under the Act are to be applied to F2 combination medicines.	616.8	Yes

17 A range of forecast indexation factors, including WCI9, are produced by the Department of Finance using data from the Australian Bureau of Statistics and the Treasury. These forecasts are updated on a monthly basis.

18 The two per cent indexation rate also had the effect of overestimating the total costs of dispensing fees by some \$95 million.

19 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, pp. 71–77.

Component	Estimated savings (\$m) <sup>a</sup>	Relevant indexation?
(h) A one-off statutory price reduction of 5 per cent to all brands of pharmaceutical items on the F1 formulary once the drug has been listed on the PBS for at least five years.	1008.4	Yes
(i) Originator brands will be removed from the calculation of the weighted average disclosed price of medicines under price disclosure arrangements for those medicines that have been listed on the F2 formulary for three years or more.	2020.7	Yes
(j) A transfer of the distribution of National Diabetes Services Scheme products from Diabetes Australia to pharmaceutical wholesalers through the existing CSO arrangements.	53.9	No
(k) Approved pharmacists may (but are not obliged to) discount the PBS patient co-payment by a maximum of \$1 per PBS supply.	368.8	Yes
<b>Total</b>	<b>6623.7</b>	

Note a: The value of each savings measure was determined and calculated by Health. The ANAO's analysis of each savings measure was limited to whether or not correct indexation figures were applied. It does not include an assessment of the credibility or integrity of the value of each savings measure.

Source: ANAO analysis.

2.9 The ANAO found that the relevant WCI9 and CPI indexation rates were applied in Health's calculations for ten of the eleven savings measures in the 6CPA. For savings measure (j), two errors were identified. In the first, the correct indexation rate was applied in only one of the relevant 13 rows of the spreadsheet model. This resulted in an overestimation of savings of \$1.4 million (or 2.6 per cent of the total savings for (j)). The second related error involved the application of indexation to two of the 13 rows of the spreadsheet where it should not have been applied.<sup>20</sup> This resulted in an underestimation of savings by \$1.64 million (or 3 per cent of the total savings for (j)).

2.10 The net impact of these two errors resulted in Health underestimating savings by approximately \$240 000 over the five year life of the 6CPA.<sup>21</sup> While the materiality of these errors is not significant in terms of the whole agreement, it highlights the potential for errors to occur in costings for significant government expenditure, and the importance of a robust quality assurance process to review work undertaken.

2.11 Health advised the ANAO that reviews of costings were undertaken by the department's contracted probity officer on a sample basis, and that all costings were reviewed by Health's budget branch and the Department of Finance. Health also stated that:

Numerous officers reviewed calculations and costing estimates, providing input and comment where appropriate. All project team members were briefed on the context of the ANAO 5CPA

20 Specifically, indexation was applied to cost components for the CSO, when Government policy indicated that indexation should not have been applied.

21 The ANAO also identified an error in Health's costing models, unrelated to indexation. It related to a re-costing of the Premium Free Dispensing Incentive as a result of a Government decision to change the relevant indexation rate from WCI9 to CPI. Health's re-costing included an inconsistency in projected script volumes, resulting in an overestimation of Government costs of \$13.5 million over the life of the 6CPA.

report and were reminded periodically of key matters to consider from it during the Budget process.

2.12 Health further advised the ANAO that all reviews and quality assurance was undertaken with a focus on financial materiality. Health also advised that it was unable to provide any documentation specifically evidencing these processes.<sup>22</sup>

2.13 The errors made in calculating savings measure (j), and the other error unrelated to indexation (see footnote 21), indicates there was room for improvement in quality assurance process for reviewing 6CPA costings, including by retaining records identifying what key processes—such as internal reviews of calculations—were actually done.

2.14 The ANAO has assessed Recommendation 2 as partially implemented.

## Recommendation 6

2.15 In the course of the 5CPA audit, the ANAO found that, while Health had provided significant funding to the Pharmacy Guild (the Guild) for administering professional programs under the 5CPA, the agreement did not outline the specific amount of funding provided to the Guild to administer those programs. This was considered a notable omission in an overarching agreement which established a framework for third-party administration of Commonwealth funded programs and services. Further, the ANAO also found that Health did not advise Ministers that some administrative funding would be provided to the Guild from funding originally allocated for professional programs and services.<sup>23,24</sup> In view of these findings, the 5CPA audit report recommended:

To improve transparency in agreement-making, the ANAO recommends that the Department of Health documents anticipated levels of Australian Government funding for third party administration for the next community pharmacy agreement.

2.16 In comparison, Health's advice to its Minister on funding matters during the development of the 6CPA clearly outlined the suggested level of funding to be provided to third parties for administering payments to pharmacies under the relevant programs (the 6CPA renamed these as community pharmacy programs rather than professional programs). This is also specified in the 6CPA itself which states that the available administrative funding would be 'up to' 3.5 per cent (or \$44.2 million) of the potential maximum funding of \$1.263 billion for community pharmacy programs.<sup>25</sup> This satisfies the requirements of the recommendation.

2.17 In the 5CPA audit, the ANAO estimated that over the life of the 5CPA, departmental contracts provided for the Pharmacy Guild to receive \$31.2 million for administrative services, and to receive funding of \$300.6 million for payments to recipients under 5CPA professional

22 Health provided the ANAO with documentation relating to the Department of Finance reviewing Health's costing models during the development of the 6CPA. These documents do not show evidence of review of whether the correct indexation factors had been applied throughout the relevant costing models.

23 Under the 5CPA, a communication strategy was funded by re-allocating \$5.8 million from funding for professional programs and activities.

24 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, p. 181.

25 This funding is comprised of: \$613 million for investment in a range of community pharmacy programs; a further \$600 million for to support new and expanded community pharmacy programs, subject to cost-effectiveness demonstrated through trials; and \$50 million for a Pharmacy Trial Program, to trial new and expanded community pharmacy programs.

programs.<sup>26</sup> As shown in Table 2.4, the level of administrative funding under the 6CPA is significantly lower than the ANAO’s estimated average of 10.4 per cent of program costs that the Guild received for administering payments under the 5CPA. As such, this may represent an improvement in value for money for the administrative function.

**Table 2.4: Estimated administrative funding for community pharmacy programs: Fifth Community Pharmacy Agreement vs Sixth Community Pharmacy Agreement**

Contract	Administrative funding (\$ million)	Program funding (\$ million)	Administrative funding (% of program funding)
5CPA	31.2	300.6	10.4
6CPA	44.2 <sup>(a)</sup>	1263	3.5

Source: ANAO analysis.

Note a: This level of administrative funding is based on delivery of the maximum potential community pharmacy program funding of \$1.263 billion over the life of the agreement. As noted in footnote 25, \$600 million of this funding is contingent on the successful trialling of new and expanded community pharmacy programs. Administrative funding is to be drawn from the program funding rather being additional to it.

2.18 The 6CPA also provides for a formal tendering process to allow other parties to compete for the contract to administer the community pharmacy programs from 2016–17 onwards. Ministers were advised in February 2016 that complexities in existing administrative and information technology systems relating to the programs had delayed the approach to market. As such, Health considered that the successful tenderer may not be in place until after 1 July 2016.<sup>27</sup>

2.19 The ANAO has assessed Recommendation 6 as implemented.

26 ANAO Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, p. 180.

27 As at May 2016, Health was also seeking expressions of interest regarding the administration of the CSO and the administration of Chemotherapy Compounding Fees (both currently administered by the Australian Healthcare Associates).

## Has Health maintained adequate recordkeeping and contract management processes in negotiating and implementing the Sixth Community Pharmacy Agreement?

Health maintained an adequate record of the meetings where negotiations of the Sixth Community Pharmacy Agreement took place. Records were not made for five meetings held during the formal negotiating period. Health advised the ANAO that no negotiations took place at these meetings. In view of the high-level nature of these meetings<sup>28</sup> and in the interests of greater transparency, some form of contemporaneous record should have been made of these meetings, even if it was to note that formal negotiations did not occur at them. Following the Fifth Community Pharmacy Agreement audit, the department revised both departmental policy on keeping records of contract negotiations and its record-keeping practices for managing the implementation of community pharmacy agreements. The revisions have seen considerable improvements to Health's record keeping arrangements relating to Recommendation 5.

In relation to key Sixth Community Pharmacy Agreement related contracts, the ANAO's analysis indicates that the required periodic third-party reporting has been adequate, thereby assisting Health to maintain visibility over contract performance.

### Recommendation 3

2.20 In July 2009, Health commenced consultations with stakeholders about possible arrangements for the 5CPA.<sup>29</sup> The main elements of the 5CPA were agreed in principle with the Guild on 24 December 2009, with Ministers noting the outcome of the negotiations on 9 April 2010. During the course of the 5CPA audit, Health advised the ANAO that, for the duration of the 5CPA negotiations, the department had not: kept a formal record of its meetings with the Guild; taken minutes of meetings; or prepared agreed notes of what had been discussed. The ANAO considered that, given the significance of the issues under negotiation, this approach was not consistent with sound practice, and potentially limited the department's capacity to satisfy accountability requirements.<sup>30</sup> In view of these findings, the 5CPA audit report recommended:

To improve its ability to satisfy accountability requirements and capacity to protect the interests of the Commonwealth in the event of disputes or legal action, the ANAO recommends that the Department of Health:

- maintains an adequate record of the negotiation of the next community pharmacy agreement and related contracts; and
- reviews its internal guidance on record keeping for the negotiation of significant contracts and agreements.

28 One of the meetings involved the Prime Minister, one involved the Minister for Health, and three involved the Secretary of the Health department.

29 In the course of the 5CPA audit, stakeholder peak bodies made submissions to the ANAO expressing concerns that the processes for developing and negotiating the 5CPA did not provide an opportunity for effective engagement prior to it being finalised. See ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, p. 83.

30 ANAO Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, pp. 83–84.

2.21 In June 2014, in preparation for stakeholder consultations on the PBS Access and Sustainability Package and negotiations with the Guild on the 6CPA, Health let a contract to an external consultancy for a range of probity services including record keeping. The contract also provided for staff training in recordkeeping and the establishment of specific record keeping guidelines for the 6CPA negotiation project.

#### *Maintain records of 6CPA negotiations*

2.22 Preliminary consultations with the Guild over the 6CPA commenced in July 2014. An intensive round of multilateral and bilateral meetings with key stakeholders, including the Guild, on the PBS Access and Sustainability Package and structure of the 6CPA started in February 2015. Formal negotiations for the 6CPA commenced on 26 March 2015, following approval from the Minister for Health on the same day. The finalised 6CPA was signed on 24 May 2015.

2.23 To assess the adequacy of Health's records of the 6CPA negotiations, the ANAO conducted analysis on the completeness and quality of records of meetings kept by Health from the start of formal negotiations.

2.24 The ANAO identified 49 meetings that occurred between Health and various stakeholders during the official negotiation period. Health made official records of meeting outcomes for all but five of the meetings. The department advised the ANAO that none of these five meetings involved actual negotiations of the 6CPA. In view of the high-level nature of these five meetings and in the interests of greater transparency, some form of contemporaneous record should have been made of these meetings, even if it was to note that formal negotiations did not occur at them.

2.25 For meetings where outcomes were recorded (44 of 49), the ANAO considered the record keeping for these meetings to be sufficient. The minutes provided detail on the content of discussions with stakeholders, including agreement on significant issues, and clearly outlined action items that arose as a result of discussions. Draft outcomes from those meetings with the Guild were provided to the Guild for comment and agreement.<sup>31</sup> Health also provided regular updates to the Minister for Health on the progress and content of discussions.

#### *Review internal guidance on keeping records of contract negotiations*

2.26 The review of the department's internal guidance undertaken by Health in response to Recommendation 3 was a 'desk review' undertaken by the Portfolio Investment Division as part of a broader project reviewing Health's procurement processes and did not result in a formal report being produced.<sup>32</sup> The broader review of departmental procurement processes resulted in Health amending its procurement rules and guidance to explicitly include record keeping requirements for contract and negotiation documentation. As at May 2016, training and awareness raising activities for the amendments to the procurement rules and guidance are yet to commence. Health advised the ANAO that it was planning to implement a revised training and awareness regime to coincide with the release of the revised Procurement Intranet pages, which are due to go live in September 2016 .

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31 The Pharmacy Guild advised the ANAO that meeting minutes were not consistently provided towards the end of the negotiation period, recognising the tight timeframes and high workload during the weeks prior to the signing of the 6CPA.

32 In addition to this, Health advised the JCPAA that a review of all negotiation and contract finalisation records was conducted to provide assurance that records were complete, structured sensibly and consistent with ANAO requirements. This review was also informal and did not result in a report being produced.

2.27 Health's actions in implementing Recommendation 3 represent an improvement over its practice in the 5CPA negotiations although, as noted, meeting records were not made for a small number of high-level meetings held during the formal negotiating period. The ANAO has assessed Recommendation 3 as implemented.

## **Recommendation 5**

2.28 At the commencement of the 5CPA audit, the ANAO sought Health's assistance in identifying all agreements and contracts relevant to the 5CPA. In responding to that request, Health took more than two months to produce a complete list of contracts matched to departmental files.<sup>33</sup> In view of the length of time it took for Health to identify its contracts, the 5CPA audit report recommended:

In order to effectively discharge its advisory, accountability and contract management obligations in a timely manner, the ANAO recommends that the Department of Health reviews its record keeping arrangements for the Fifth Community Pharmacy Agreement and the next community pharmacy agreement.

### *Review arrangements for keeping records of community pharmacy agreement implementation*

2.29 Health conducted an internal review of its record keeping arrangements and processes for the 5CPA prior to the negotiation of the 6CPA.<sup>34</sup> The internal review found that:

Staff involved in 5CPA administration advised that the level of records management under the paper-based systems then in place, was generally sub-standard and inefficient. Some records were not maintained on the corporate files, but were kept in folders, personal repositories, shared drives, etc. Records capture from email and other interchanges was not systematically and comprehensively managed as part of ongoing business. Consequently, there were problems in easily finding records and significant inefficiency in records management when staff changes or organisational restructuring occurred.<sup>35</sup>

2.30 The review resulted in the development of branch-specific record keeping guidelines and proposed a set of 'principles for good record keeping practices' including: the establishment of logical filing systems; standardisation of document titling and referencing; and branch level support for training, development and oversight. The recommendations of the review report were accepted by Branch management in March 2016, including specific actions to give effect to the recommendations.

### *Contract reporting*

2.31 Key contracts let by Health to support implementation of major aspects of the 6CPA are:

- the Community Pharmacy Programmes Administration contract with the Pharmacy Guild;
- the Administration of the CSO Funding Pool contract with the Australian Healthcare Associates; and
- the contract with Protiviti for the provision of probity services to Health.

33 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, p. 168.

34 Health also conducted mandatory records management training for staff in June 2015.

35 These findings are consistent with findings made in ANAO Report No.10 2015–16 *Records Management in Health* (p. 8) which also noted department-wide deficiencies in Health's record keeping, concluding that 'Health's records management requirements are not consistently applied and the transition to a robust digital information and records management system remains incomplete.'

2.32 These require periodic operational and financial reporting by the contractors to Health, allowing Health to maintain visibility over contract performance and identify any issues. The ANAO's analysis of the reports to 31 December 2015 identified that all required reports had been submitted to Health, and contained the information specified by the relevant contract. The ANAO's analysis of the reports also indicated that, where KPIs were required as part of the reporting, all KPIs were being met.

2.33 The ANAO has assessed Recommendation 5 as implemented.

## Does Health have an adequate financial and performance reporting framework under the Sixth Community Pharmacy Agreement?

Health has made substantial progress towards achieving an adequate financial and performance reporting framework in relation to the community pharmacy agreements. It has revised the relevant departmental program performance indicators to better align them with the provisions of the Sixth Community Pharmacy Agreement, and publicly reported against these indicators. Health has commenced annual public reporting on the actual cost of each major component of the agreements through its annual *Pharmaceutical Benefits Scheme Expenditure and Prescriptions Report*. Health has also undertaken some measures to improve the collection, recording and sharing of information regarding payments to pharmaceutical suppliers, although these are still in progress as at May 2016. If successfully completed, this will improve Health's ability to track expenditure on a range of pharmaceutical items.

### Recommendation 4

2.34 The Department of Human Services (Human Services) administers payments made to pharmacies under the PBS. While Human Services provides Health with prescription data in relation to these payments, Health advised the ANAO during the 5CPA audit that it did not receive data on some components of pharmacy remuneration, including: the cost of the medicine; the wholesale mark-up; the pharmacy mark-up; and the dispensing fee, among others. Health used an algorithm to retrospectively derive this information, based on the data provided by Human Services. The ANAO observed that, since the commencement of the 5CPA in 2010–11, there were a growing number of medicines for which Health was unable to retrospectively derive the cost components not provided by Human Services.<sup>36</sup> As a result, Health was unable to monitor the total costs of these components over time. In view of this the 5CPA audit report recommended:

To improve the accuracy and transparency of reporting on Australian Government expenditure under the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, the ANAO recommends that the Departments of Health, Veterans' Affairs and Human Services liaise on the collection, recording and sharing of information regarding payments to suppliers, so as to clearly identify the actual cost of medicines and the components of pharmacy remuneration.

### Data Strategy Working Group

2.35 In mid-2015, a Data Strategy Working Group (DSWG) was established between Health, Human Services and the Department of Veterans' Affairs. Through the DSWG, the departments

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36 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, pp. 122–125.



have worked on improving the reliability and content of data provided by Human Services to Health, including through the addition of new rows of data to address recommendation 4.<sup>37</sup> Subject to successful system testing, the improved data feed is scheduled to become operational in July 2016.

2.36 Noting that, as at May 2016, only around 12 months had passed since Recommendation 4 was made, the ANAO has assessed Recommendation 4 as partially implemented, with the department making reasonable progress to date.

## Recommendation 7

2.37 In Health's 2013–14 Annual Report, the department reported on the 5CPA under 'Outcome 2 Access to Pharmaceutical Services'. In the 5CPA audit, the ANAO found that multiple components of the 5CPA were either merged with other items or divided between two programs under Outcome 2 when reported in Health's Annual Report.<sup>38</sup> Consequently, it was not possible to establish from the Annual Report the actual annual cost of pharmacy remuneration under the 5CPA.<sup>39</sup> In view of this the 5CPA audit report recommended:

To improve transparency and the quality of program performance reporting, the ANAO recommends that the Department of Health reports annually on the actual cost of each major component of the Fifth Community Pharmacy Agreement and the next community pharmacy agreement, including pharmacy remuneration, CSO wholesaler payments and professional programs.

2.38 In early May 2016, Health published the *2014–15 Pharmaceutical Benefits Scheme Expenditure and Prescription Report*. This contained information on the actual cost of each major component of the 5CPA for 2014–15, including pharmacy remuneration, CSO wholesaler payments and professional programs. Given the timing of the release of this report, the audit scope did not include any testing of the accuracy of any of the 5CPA cost information contained in it. Health advised the ANAO that it expects that this style of reporting will continue under the 6CPA, with additional data included on under-co-payment prescriptions.

2.39 The ANAO has assessed Recommendation 7 as implemented.

## Recommendation 8

2.40 Under the 5CPA, the ANAO observed that the KPIs used by Health to assess the achievement of portfolio budget outcomes had limited alignment with: the objectives outlined in the 5CPA; the key professional programs funded under the 5CPA; or material components of the 5CPA, such as pharmacy remuneration. This meant there was a limited basis on which to assess performance against high level 5CPA objectives, specific professional program objectives or the

37 The 6CPA also provides for the introduction of new arrangements for the funding of chemotherapy compounders, which will bring chemotherapy payments into the data feed provided to Health by Human Services.

38 The two programs under this outcome related to the 5CPA were: Program 2.1 - Community pharmacy and pharmaceutical awareness – covering 5CPA professional programs, the Premium Free Dispensing Incentive, and the Electronic Prescription Fee; and Program 2.2 - Pharmaceuticals and pharmaceutical services – covering the PBS and the CSO Funding Pool.

39 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, pp. 197–198.

material components of Commonwealth expenditure under the programs.<sup>40</sup> In view of this the 5CPA audit recommended:

To inform decision-making and the assessment of outcomes by stakeholders, the ANAO recommends that the Department of Health reviews performance reporting to improve alignment between the next community pharmacy agreement and public reporting against the program objectives, deliverables and KPIs relating to the department's Program 2.1 and Program 2.2.

2.41 Following re-arrangement of Health's outcomes and programs in its May 2016 Portfolio Budget Statements, the 6CPA sits under Outcome 4 in Health's budget outcomes, with elements of Programs 4.3 and 4.8 contributing to delivery of pharmacy services to the Australian community. While the 6CPA and the PBS Access and Sustainability Package do not have any specific objectives, the agreement outlines that pharmacy funding and medicine pricing arrangements will be established with the intent of balancing the need to:

- ensure consumers can continue to have access to new and innovative PBS subsidised medicines at an affordable price that are necessary to maintain the health of the community;
- promote and improve the quality use of medicines; and
- ensure a cost-effective and sustainable PBS.

2.42 The intent of the 6CPA aligns with objectives established in the programs under Outcome 4, which include supporting timely access to medicines and pharmacy services, and increasing the sustainability of the PBS.

2.43 In September 2015, Health conducted an internal staff workshop with relevant staff within the department to consider and develop an improved set of performance criteria across the programs relevant to the 6CPA. The workshop identified four 'measure focus areas' against which draft performance criteria were developed. These measure focus areas were: access to pharmacy and medicines; cost-effectiveness of PBS medicines and services; sustainability of PBS; and access to information for decision-making. This focus broadly aligned with the objectives outlined in the 6CPA and the objectives in Health's budget outcomes.

2.44 Health's new performance criteria under the programs in Outcome 4, and more particularly program 4.3<sup>41</sup>, demonstrate an improvement over those under the 5CPA and align clearly with the intent of the 6CPA and the Package. These performance criteria are set against clear benchmarks projected until 2019–20. Further, the intent of the 6CPA aligns with the objectives established under the relevant programs. Table 2.5 outlines the alignment of the performance criteria for Program 4.3, with the intents outlined in the 6CPA.

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40 ANAO Audit Report No.25 2014–15 *Administration of the Fifth Community Pharmacy Agreement*, pp. 204, 206.

41 See Department of Health, *Portfolio Budget Statements 2016–17*, Canberra, May 2016, pp. 97-98.

**Table 2.5: Alignment of Program 4.3 performance criteria with the Sixth Community Pharmacy Agreement**

Performance criteria	2016–17 target	6CPA alignment
Percentage of urban centres/localities in Australia with a population in excess of 1,000 people with a resident community pharmacy or approved supplier of PBS medicines.	>90%	Access to PBS medicines
Percentage of urban centres/localities in Australia with a population in excess of 1,000 people with a resident service provider of, or recipient of, Medscheck, Home Medicines Review, Residential Medication Management Review or Clinical Intervention.	>80%	Quality use of PBS medicines
Percentage of subsidised PBS units delivered to community pharmacy within agreed requirements of the Community Service Obligation.	>95%	Access to PBS medicines
Average cost per subsidised script funded by the PBS.	\$28.17	Cost-effective and sustainable PBS
Average cost per subsidised script paid by consumers for subsidised medicines.	\$10.15	Cost-effective and sustainable PBS
Maintenance of pharmCIS <sup>(a)</sup> and delivery of an increased suite of reporting and data related to pharmacy and PBS funded medicine access and cost made available to Parliament, consumers, business.	Periodically increase the volume and data on the Department of Health website during the course of 2016–17.	Access to PBS medicines; Cost-effective and sustainable PBS

Note a: PharmCIS (Pharmaceutical Consolidated Information System) is a technology based system supporting the approval, listing and pricing of medicines on the PBS.

Source: ANAO analysis.

2.45 The ANAO has assessed Recommendation 8 as implemented.



Grant Hehir  
Auditor-General

Canberra ACT  
31 August 2016



# Appendices



## Appendix 1 Entity response



**Australian Government**  
**Department of Health**

**SECRETARY**

6 May 2016

Dr Tom Ioannou  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Dr Ioannou 

**Proposed Audit Report on the Fifth Community Pharmacy Agreement Follow-on Audit**

I refer to the letter of 8 April 2016 from Ms Fiona Knight, Executive Director, Performance Audit Services Group of the Australian National Audit Office (ANAO), and the attached proposed audit report on the Fifth Community Pharmacy Agreement (5CPA) Follow-on audit.

The Department notes the views expressed in the audit report about significant improvements to the Sixth Community Pharmacy Agreement over 5CPA, including improved transparency of funding arrangements, better recordkeeping and contract management, and enhanced financial and performance reporting arrangements. I note that the ANAO found that the Department has fully implemented six of the eight recommendations from the previous audit and has partially implemented the other two.


The Department's response for noting in the Audit Report Summary is:

*The Department welcomes the report and notes the key area for improvement indicated in the report, namely the quality assurance process for any future community pharmacy agreements in relation to how indexation factors are applied to costing calculations.*

For your reference, I have attached a copy of the *5CPA Expenses Report for 2014-15*, which is a supplement to the *Pharmaceutical Benefits Schedule Expenditure and Prescriptions Report*.

If you have any questions regarding the Department's response, please contact Ms Celia Street on (02) 6289 7735.

Yours sincerely

  
Martin Bowles PSM

GPO Box 9848 Canberra ACT 2601

## Appendix 2 ANAO assessment of implementation

Recommendation		ANAO Assessment
Rec. 1	To clarify the nature of financial commitments entered into by the Australian Government, the ANAO recommends that the Department of Health presents, in key documents, estimated government payments and patient payments for both subsidised and unsubsidised Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme medicines.	Implemented
Rec. 2	To provide assurance regarding the basis of costings for the next community pharmacy agreement, the ANAO recommends that the Department of Health applies the relevant forecast indexation factors released by the Department of Finance.	Partially implemented (action taken was less extensive than recommended by the ANAO)
Rec. 3	To improve its ability to satisfy accountability requirements and capacity to protect the interests of the Commonwealth in the event of disputes or legal action, the ANAO recommends that the Department of Health: <ul style="list-style-type: none"> <li>• maintains an adequate record of the negotiation of the next community pharmacy agreement and related contracts; and</li> <li>• reviews its internal guidance on record keeping for the negotiation of significant contracts and agreements.</li> </ul>	Implemented
Rec. 4	To improve the accuracy and transparency of reporting on Australian Government expenditure under the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, the ANAO recommends that the Departments of Health, Veterans' Affairs and Human Services liaise on the collection, recording and sharing of information regarding payments to suppliers, so as to clearly identify the actual cost of medicines and the components of pharmacy remuneration.	Partially implemented (the specific action noted in the recommendation was not complete at the time of the audit assessment)
Rec. 5	In order to effectively discharge its advisory, accountability and contract management obligations in a timely manner, the ANAO recommends that the Department of Health reviews its record keeping arrangements for the Fifth Community Pharmacy Agreement and the next community pharmacy agreement.	Implemented
Rec. 6	To improve transparency in agreement-making, the ANAO recommends that the Department of Health documents anticipated levels of Australian Government funding for third party administration for the next community pharmacy agreement.	Implemented
Rec. 7	To improve transparency and the quality of program performance reporting, the ANAO recommends that the Department of Health reports annually on the actual cost of each major component of the Fifth Community Pharmacy Agreement and the next community pharmacy agreement, including pharmacy remuneration, CSO wholesaler payments and professional programs.	Implemented
Rec. 8	To inform decision-making and the assessment of outcomes by stakeholders, the ANAO recommends that the Department of Health reviews performance reporting to improve alignment between the next community pharmacy agreement and public reporting against the program objectives, deliverables and KPIs relating to the department's Program 2.1 and Program 2.2.	Implemented



## Appendix 3 Joint Committee of Public Accounts and Audit recommendations

### Recommendation 1

The Joint Committee of Public Accounts and Audit (JCPAA) recommends that the Department of Health report back to the JCPAA:

- within six months of tabling this report with an update on progress of the two year review of remuneration and regulation of the 6th Community Pharmacy Agreement, including considerations of ‘value-for-money’ spending; and
- a further report upon the completion of the two year review.

#### *Implementation progress*

In late 2015, an independent panel of experts was established to conduct the remuneration and regulation review. As at May 2016, bilateral consultation meetings have been undertaken with approximately 50 stakeholders. Health advised the ANAO that the intended release of a review discussion paper in May 2016 was postponed due to the commencement of the caretaker period, but that research and modelling work to support the review would continue during this time.

### Recommendation 2

The Joint Committee of Public Accounts and Audit (JCPAA) recommends that the Department of Health report back to the JCPAA on the final Key Performance Indicators (KPIs) for components of the 6<sup>th</sup> Community Pharmacy Agreement. That report should include:

- the KPIs;
- how the KPIs will be achieved; and
- how outcomes to the KPIs will be monitored and measured and reported.

#### *Implementation progress*

Health revised KPIs relating to key components of pharmacy remuneration arrangements, the Community Services Obligation, and access to some pharmacy programs under the 6CPA. The updated KPIs were included in the 2015-16 Portfolio Additional Estimates Statement and the 2016-17 Portfolio Estimates Statement. Health advised the ANAO that the first meeting of the 6CPA Agreement Oversight Committee in March 2016 considered the issue of KPIs for specific community pharmacy programs. Under the 6CPA, the continuation of these pharmacy programs is subject to cost effectiveness reviews. Health advised the ANAO that specific program KPIs will only be developed following completion of the individual review processes.

### Recommendation 3

The Joint Committee of Public Accounts and Audit (JCPAA) recommends that the Australian National Audit Office (ANAO) consider conducting a follow-up audit on the implementation of the Sixth Community Pharmacy Agreement to be completed no later than 30 months into the agreement’s term.





