One Audit Review of the current audit landscape on the Wise Group

Wise Group

27 August 2012

Paul Ingle
Chief Executive Officer
Mental Health Solutions Limited/Strategic Development
Wise Group
Auckland

27 August 2012

Dear Paul,

One Audit – Review of the current audit landscape on Wise Group

In line with our letter of engagement dated 19 June 2012, we have completed our review of the assurance related audits that occur across the Wise Group.

This report outlines our findings from this review, including recommendations on a potential One Audit approach to support the One Contract you are negotiating with government.

As noted in the body of this report, our review did not constitute an audit. Accordingly, this review was not intended to, and has not resulted in, the expression of an audit opinion or the fulfilling of any statutory audit or other requirements.

Our findings are based on reviewing data that was provided directly by Wise Group, including financial cost data and interviews with Wise Group management and staff. We have also utilised our understanding of the wider health and government sector.

Please pass on our thanks to your team for all their assistance during this review.

If you have any questions please do not hesitate to contact either Alastair Donald or James Rees-Thomas.

Kind regards,

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1. Executive summary

Background

The Wise Group are involved in discussions with Government to develop a more efficient way of contracting between providers and Government funders. In summary this has involved developing a concept known as One Contract. If implemented it is envisaged that this would increase efficiencies by requiring providers, such as Wise Group, to agree contractual terms through one lead government agency.

Conceptually, this proposal has gained support across the government agencies and Non-Governmental Agencies involved in the discussions. In discussion about the One Contract, Wise Group has noted that government funders expressed concern over how an auditing regime might be structured to match the One Contract approach. To help address this concern, Wise Group engaged us to review their current auditing landscape and to develop a proposal on how this process could be modified to fit suitably within a One Contract structure and to provide suitable comfort to all funders.

Current state

The Wise Group are currently party to 47 contracts with 14 distinct funders. Each of these funders has the contractual right to audit Wise Group to ensure that it is operating in accordance with their obligations. The contracts, in aggregate, provide wide-reaching authority to the funding party to effectively review all areas of Wise Group's operations. This results in a high degree of duplication between audit agencies as they all try to provide comfort to their respective funders.

Wise Group is also subject to non-contract related audits that further increases the level of duplicated effort (e.g. ACC Partnership Programme and ISO 9001 audits).

The total current cost to Wise Group and funders for all audits over the past three years amounts to approximately $871,878, or an annual cost of $290,626, including pre- and post- direct audit costs and any preliminary and audit support effort from the Wise Group..

One Audit approach

We have developed a One Audit approach to streamline the auditing of Wise Group and reduce duplicated effort and associated costs. This One Audit approach would support the One Contract initiative by engaging one (or at most two) auditing agencies to fulfil all the current auditing requirements of funders. Our detailed approach is outlined in section 5.

In summary, we have distilled each of the current audit scopes into three summary categories and nine supporting auditable areas:

Summary category	Auditable area
Business Management	Governance/Legal
	Finance
	Human Resources (HR)
	Information Systems
Service Quality	Health & Safety and Emergency Management
	Quality management
	Cultural/consumer considerations
Service Delivery	Contract specific specifications
	Health and Disability Service Standards (H&DSS)

Some audit agencies review each of these auditable areas, while others only review one or two. There is an opportunity to rationalise the volume of audits and engage two audit providers to review all of these auditable areas. This would reduce duplication of effort across the sector; enable specialists to be engaged to review each auditable area, and provide increased value from audit findings by enabling common themes to be identified across the organisation.

We have conservatively estimated that this One Audit approach could reduce the extent of Wise Group's staff and management time from $181,846 a year to approximately $43,760 a year (refer to page 20 for a detailed analysis). This figure may change depending on the final costs associated with engaging the external auditing agencies, but the impact to Wise Group alone is likely to be significant.

To take this process forward we have the following key recommendations:

Key recommendations

The following recommendations are based on the assumption that Wise Group will be able to agree an outcomes based One Contract with Government.

1. Obtain agreement between funders of the key auditable areas (we suggest there are nine auditable areas)

2. Obtain agreement from funders that national certification in some areas (i.e. ACC Partnership programme) is sufficient to prove competence requirements for their funded services.

3. Rationalise the audit activity into an agreed programme including annual and multi-year reviews of auditable areas. This audit activity should be sufficient to support the requirements of Ministry of Health (MoH) accreditation and the ACC Partnership Programme certification.

4. Run a tender process to select a single lead audit provider that will deliver a substantial portion of the audit activity, with an ancillary role of managing outsourced audit services that are outside that organisation's competence (at least, in the short term). This audit agency should be appropriately accredited to provide assurance to MoH and ACC. The lead government agency should be involved in the selection of the audit agency to ensure independence. It would be expected that the contract be retendered on a regular basis (say three years).

5. Require the selected audit agency(ies) to provide third party assurance to all funders of the work they have performed. The audit agencies should define the professional standards that they will follow in providing this third party assurance.

2. Purpose of the review

Background and objectives

In accordance with our Letter of Engagement dated 19 June 2012 we have completed our review of the assurance related audits completed on Wise Group.

Currently, the Wise Group has 47 individual contracts with over 14 Crown funding agencies. Many of the contracts vary significantly in base terms and conditions and are coupled with extensive and duplicated reporting and audit requirements.

We were asked to review the information gathered by Wise Group, and interview a range of Board members, management and staff members, to provide a summary of the current audit landscape, and to recommend a potential approach to reducing duplication in the audits. In particular we were asked to identify:

- the areas where audit duplication occurs and the extent of the duplication
- the reduction in cost and effort for the Wise Group that may result if the multiple audits by different government agencies with significant areas of overlap were merged
- an approach to implement those reductions in cost and effort as a single integrated audit approach, including a contract schedule specifying audit arrangements for each contract with Wise Group.

Scope

The scope of this review included all audits conducted by government agencies on all entities within the Wise Group from 1 July 2009 to 3o June 2012, and included:

- single audits performed by multiple government agencies on one service type provided by the Wise Group
- multiple audits performed by a single government agency on more than one service type provided by the Wise Group.

Scope exclusion

This review did not constitute an audit. Accordingly this review was not intended to, and has not resulted in, the expression of an audit opinion, or the fulfilling of any statutory audit or other requirements.

The statutory financial audit was excluded from this review.

The current and future audit cost analysis performed within this review was based on data provided by Wise Group. We have not tested the accuracy or completeness of this information.

Approach

In completing this review we applied the following approach:

- interviewed key Wise Group staff, management and Board members involved in audit processes to confirm our understanding of the current processes and systems and the resources required to assist government agency audits
- analysed Wise Group documentation such as contracts, pre-audit and post audit reports as well as Government agency audit documentation, audit tools and audit reports, in order to identify and categorise service specifications and auditing requirements
- mapped current contracts and audits (with multiple funders) to create an understanding that informs an integrated single audit

- utilised costs provided by Wise Group to identify and quantify the cost of the current audit programme, as an annual average, compared to a new proposed arrangement. This included an assessment of the cost implications to Wise Group internally (including invoices for audit costs) and an estimate of the costs to associated funders

- produced a report identifying the audit bodies, the reports that they produce, the scope of work they carry out, the areas of duplication and a recommended approach for the Wise Group to have those audits carried out on behalf of those agencies.

To perform the above analysis we relied on information provided by the Wise Group along with our own observations and experience, however we did not audit or verify this information. Therefore we do not accept any responsibility for any errors contained in any documentation produced by us.

Review team

PwC team member	Role
Paul Nickels	Engagement partner with overall responsibility for the engagement.
Neil Haines	Quality review and relationship partner
Alastair Donald	Director responsible for managing the review, leading interviews and drafting the report.
James Rees-Thomas	Senior Manager responsible for assisting Alastair in the undertaking interviews, analysing data and drafting the report.

Interviews

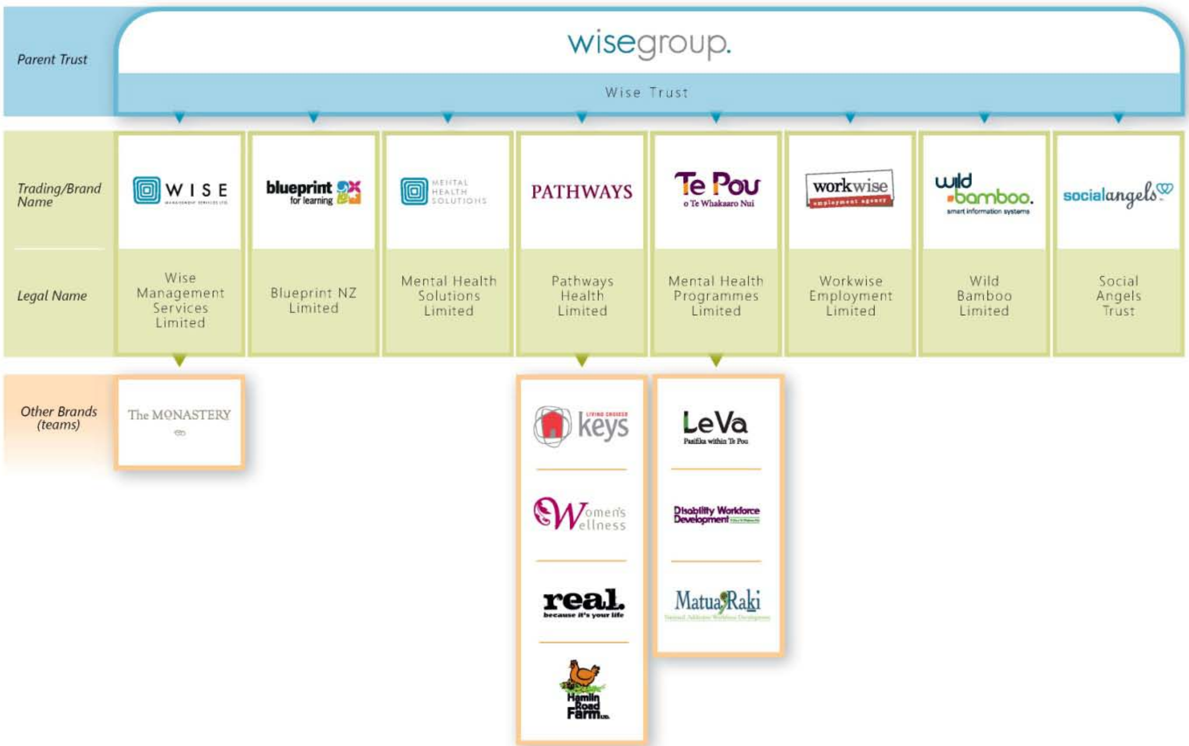
During the course of this review we interviewed the following members of Wise Group management and staff:

- Julie Nelson – Joint Chief Executive and Board member
- Paul Ingle – Chief Executive Mental Health Solutions Ltd and Board member
- Kevin Barnes – Group Chief Financial Officer
- Alan Grainer – Chief Executive Wild Bamboo and Group Information Systems Manager
- Lyndsay Fortune – Chief Executive Pathways
- Tina Nyman – Legal and Contracts Coordinator
- Robyn Atkinson – National Quality Manager Pathways
- Tina Pepperell – Payroll & Human Resources Advisor
- Kathryn Jellyman – Financial Accountant
- Ann Marie Searchfield – Senior manager Blueprint
- Adel Stephenson – Quality Manager Workwise

3. One Contract proposal

The Wise Group structure

The Wise Group provides a range of mental health related services to New Zealanders. Mental Health Solutions Ltd (MHSL) is part of the Wise Group and acts as a contract holding entity. MHSL then subcontracts service delivery to other entities within the Wise Group. MHSL was originally established in agreement with the Crown to provide a single point of access for all Crown agencies to contract with the Wise Group. However, in practice, not all funders have followed this expectation, with some preferring to contract directly with individual Wise Group entities. This approach has diminished the possible advantages from having a centralised negotiating point.
The Wise Group structure is illustrated in the diagram below:



The Wise Trust Board is the 100% shareholder of all entities in the Wise Group. Wise Management Services provides back office and management support services to all entities within the Wise Group.

Contracts with funders

The Wise Group has entered into negotiations with the Government to establish a single contract to cover the services it provides for public monies. This 'One Contract' will cover Government Ministries, Departments and Crown Entities that currently have multiple contracts with the Wise Group. This will rationalise the relationships with Government agencies and reduce the transaction costs associated with multiple organisations.

As part of this One Contract process, the contract performance measures are under renegotiation. At present, the existing Government agency contracts have 'input' based performance criteria. For example, they measure workload, or staffing levels, the implication being that if appropriate staffing levels exist, services will be appropriate and of high quality.

Key performance indicator development has shown that input based measures rarely indicate the quality, effectiveness or efficiency of an organisation's performance. Rather, they show consumption, or resource utilisation. This is only one aspect of efficiency, and does not address any effectiveness measures. Outcome measures, however, allow the evaluation of service delivery, consumer satisfaction and health status assessment. As they are broadly based, there is less chance that unintended consequences occur when they are the goal of the service.

The One Contract will have a series of agreed outcomes. There will be direct alignment with those outcome measures and the One Contract's goals. This will change the contract performance measures and consequently the audit effort involved in verifying the measures.

One Audit approach

As part of any contract rationalisation agreement reached with Government, it directly follows that a rationalised audit process should be established to ensure that Wise Group meets its One Contract outcome goals.

However, auditing outcomes will require a different approach to that used currently for the input-based contract measures. Outcomes are characterised by indirect measures, such as surveys, planned versus actual achievements and quantitative data around success volumes. These can be supported by systems audits and controls-based audits, rather than substantive compliance testing. Even then, substantive testing could occur over straightforward data accuracy as part of the outcome measures. Even in this case, the level of testing and audit work will be substantially less than what is currently occurring to audit the input components of the existing contracts.

In the following pages we outline a potential approach to performing a "One Audit." This proposed approach has been reached by performing a review of the current audit landscape, and identifying an approach that would see this audit process streamlined, reducing costs for both Wise Group and the respective funders.

4. Current state of auditing

The current audit landscape

Background

The Wise Group is audited by a range of audit agencies, funders and certifiers, throughout any given year. These audits require a significant investment of Wise Group's staff time, at a considerable cost.

These audits can be roughly divided into two broad categories:

(i) Contract related audits

(ii) Non-contract related audits

These two categories are described in greater detail below.

Contract related audits

The Wise Group are currently party to 47 contracts with 14 distinct funders. A summary of the funding party and the related number of contracts is summarised below based on information provided by Wise Group. We have not sought to independently verify this information and note that it was provided directly by Wise Group for the purposes of performing this review.

Funder	Number of contracts	Total value of contracts annually	Audits in past 3 years
Accident Compensation Corporation (ACC)	2	$166,000	0
Auckland DHB	1	$1,605,000	2
Canterbury DHB	2	$2,526,000	0
Capital & Coast DHB	4	$6,186,000	2
Counties Manukau DHB	12	$12,241,000	1
Hutt Valley DHB	1	$362,000k	0
Lakes DHB	2	$632,000	1
Ministry of Health	10	$22,987,000	4
Ministry of Social Development (Work & Income)	4	$256,000	0
Taranaki DHB	2	$3,300,000	2
Waikato DHB	3	$7,313,000	1
Wairarapa DHB	1	$2,824,000	0
Waitemata DHB	2	$1,541,000	2
Whanganui DHB	1	$3,079,000	1
Total	**47**	**$65,018,000**	**16**

Each of these funders has the right to audit Wise Group to ensure that it is operating in accordance with their contracted obligations. The audit clauses within each contract provide wide-reaching powers to the funding party to effectively review all areas of Wise Group's operations.

While it may be reasonable for a funding party to request independent verification of a contracted provider's performance, there is a high degree of duplication between audit scopes, resulting in replicated effort and additional cost to both parties. As can be seen in the table above, funding contracts alone have resulted in 16 audits in the past three years, with estimated cost to the sector of $588,386 (see page 14 for a detailed analysis of these costs).

Non-contract related audits

In addition to contract related audits, the Wise Group is audited by three other organisations as detailed below:

Agency	Purpose	Audits in past 3 years
New Zealand Qualifications Authority	As part of providing training, Blueprint has received NZQA accreditation. This allows students to access funding through government schemes such as student loans and allowances, and to apply credits from Blueprint courses to further NZQA accredited qualifications. The NZQA moderation process is a fundamental part of providing services in the New Zealand education sector as it provides a valuable means of moderating performance across students, and ensuring that teaching syllabi are consistent across students. This should not be defined as an audit, but rather a component of service delivery in the education sector.	2
Accident Compensation Corporation	As a participant in the ACC partnership programme, the Wise Group are audited to review their performance against a range of criteria to maintain their accreditation. The ACC audit is the result of a business choice by Wise Group to join the ACC Partnership Programme, as it gives them a significant discount on their ACC levies, in exchange for taking responsibility for their employees' work claims. The cost of time required to successfully pass one of the ACC partnership audits can be offset against the savings realised through reduced levies.	2
Telarc	Wise Group are certified under the ISO 9001:2008 Quality Management Systems standard. Wise Group used Telarc to provide their initial accreditation. To maintain this accreditation, Wise Group is routinely audited by Telarc. This certification is not mandatory, but is a choice that has been made by the Wise Group. The ISO 9001:2008 accreditation and related surveillance audits undertaken by Telarc are again related to a strategic decision by the Wise Group to attain, and maintain, ISO accreditation. However it should be noted that of the 34 audits conducted across the Wise Group in the past 3 years, 14 (or 41%) have related to this particular type of audit.	14

Auditable areas

To understand the current scope of audits performed at Wise Group, and to identify any potential overlaps, we obtained and reviewed audit tools and reports that were provided from audit agencies over the past three years.

An analysis of these audit tools highlighted that the audit scopes tend to fall within nine auditable areas. These nine auditable areas can be further summarised into three summary categories as highlighted below:

Summary category	Auditable area
Business Management	Governance
	Finance/Legal
	Human Resources (HR)
	Information Systems
Service Quality	Health & Safety and Emergency Management
	Quality management
	Cultural/consumer considerations
Service Delivery	Contract specific specifications
	Health and Disability Service Standards (H&DSS)

While we understand that these auditable areas are set at a high level, an analysis of the specific areas within each audit tool reveal that the type of detail reviewed under each area is relatively similar and could be fitted within one of these categories.

A summary of our analysis of the audit tools is provided in the table on page 12.

Table of areas audited by each audit agency

Auditable Area		Business management				Service Quality			Service Delivery	
Funding party	Primary Audit Agency	Governance	Finance	HR	Information Systems	Health & Safety and Emergency Management	Quality Management	Cultural/Consumer	Contract Specific specs	Health & Disability Service Standards*
Contract related audits										
CCDHB	Central TAS	✔	✔	✔	✔	✔	✔	✔	✔	✔
Hutt Valley DHB	Central TAS	✔	✔	✔	✔	✔	✔	✔	✔	✔
Wairarapa DHB	Central TAS	✔	✔	✔	✔	✔	✔	✔	✔	✔
Whanganui DHB	Central TAS	✔	✔	✔	✔	✔	✔	✔	✔	✔
Taranaki DHB	Healthshare Ltd	✔	✔	✔	✔	✔	✔	✔	✔	✔
Lakes DHB	Healthshare Ltd	✔	✔	✔	✔	✔	✔	✔	✔	✔
Waikato DHB	Healthshare Ltd	✔	✔	✔	✔	✔	✔	✔	✔	✔
Auckland DHB	Health and Disability Audit New Zealand	✔	✔	✔	✔	✔	✔	✔	✔	✔
CMDHB	Health and Disability Audit New Zealand	✔	✔	✔	✔	✔	✔	✔	✔	✔
Waitemata DHB	Health and Disability Audit New Zealand	✔	✔	✔	✔	✔	✔	✔	✔	✔
MOH	DAA Group	✔	✕	✔	✔	✔	✔	✔	✕	✔
Canterbury DHB	Not audited	*Wise Group have not been audited by these funders in the past three years for services they are contracted to provide.*								
ACC	Not audited									
MSD	Not audited									
Non contract related audits										
ACC		✕	✕	✔	✕	✔	✔	✕	✕	✕
Telarc		✔	✔	✔	✔	✔	✔	✔	✕	✔
NZQA		✕	✔	✕	✕	✕	✕	✕	✕	✕

This table highlights a high degree of overlap between each audit scope conducted by each agency. It is obvious that this overlap will amount to increased costs for Wise Group and for the funders as a whole, due to duplicated effort across the majority of the audits. We have analysed these costs and provide a summary on the following page.

* H&DSS include areas such as organisational management, however these business areas are also reviewed as part of good management practices and are therefore included separately as requiring specific skills to provide a sufficient level of comfort to funders.

Current cost of audits

The tables on the following page provide a summary analysis of the auditing costs for Wise Group and Funders over the three year period 1 July 2009 – 30 June 2012. Our key observations on this data follow:

- The approximate total cost of auditing Wise Group for the three years amounts to $871,878 or an annualised cost of $290,626.
- The approximate annual hours for Wise Group based on an hourly rate of $90 is 1,810 hours or 226 days. This involves a significant level of senior management time.
- The estimated total cost of auditing to satisfy funders and Ministry of Health is $588,386 over a three year-period.
- The NZQA audit is not actually an audit but a moderation process that is part of delivering education services.
- Wise Management Services has been set up to provide an efficiently organised shared service model, where support services are centralised in Hamilton. This provides finance, human resources and information technology services. However, this centralisation exposes the shared services to excessive interaction with auditors. As each audit progresses, the auditors visit Wise Management Services, repeating previous audit activity. While a solution would be to distribute the support functions to each Wise Group subsidiary, thus reducing the face-to-face time with the support staff and spreading the workload, this would be an uneconomic and inefficient solution, and would send the wrong signal to the Wise Group to spend Government money inefficiently. Consequently, an un-costed effect is the cumulative auditor time faced by Wise Management Services that detracts them from their primary support function.

The following analysis is based on information provided by Wise Group based on their best estimate of time spent across the Group to perform each review. While we did not independently verify this information, we reviewed the data for reasonableness based on our experience as internal auditors, and the exposure we have to various clients during an audit process. The hourly rate provided by Wise Group falls generally within the cost range for work of a similar nature in this sector, based on information we have gathered. .

For detailed costing analysis across the three year period refer to Appendix I.

Assumptions

The following assumptions were made in analysing the data provided by Wise Group:

(i) The hours associated with each audit are based on the best assessment made by Wise Group management.

(ii) The hourly rate used in these calculations is based on an average hourly rate per Full time Equivalent (FTE) provided by Wise Management Services. This hourly rate was set at $90/hr. We consider this to be a reasonable rate for the purpose of these calculations based on our understanding of the mental health sector and approximate staffing costs plus an allowance for administrative and management costs; such as annual, statutory and sick leave; and productivity.

(iii) Where the cost of audits is not available (due to the audits being provided from central agencies such as Healthshare) we have approximated the cost of that audit to the agency on a one-for-one basis with Wise Group's internal costs. While the actual costs to the audit agency may be higher or lower, the one-for-one cost ratio serves the purpose of providing an approximate cost of auditing to both the funder and to Wise Group, where only an assessment of the Wise Group hourly effort is known.

Key to understanding Tables 1 and 2 below:

Invoices	Actual invoices paid for by Wise Group for the cost of the audit. Where Wise Group is invoiced for an audit, they absorb the full audit cost, not just their own internal costs.
Wise time based cost	Hours provided to us by Wise Group multiplied by $90 per hour
Funder time based cost	Estimated cost to funders of requesting audits based on 1:1 Wise hourly costs.

Table 1 Total costs of auditing over a three year period

	Wise			Funder	Total
Year	**Invoices ($)**	**Time based cost ($)**	**Total ($)**	**Time based cost ($)**	**($)**
2010	18,723	194,220	212,943	135,540	348,483
2011	20,852	171,990	195,362	117,360	310,202
2012	36,073	122,580	158,653	54,540	213,193
Total	**75,648**	**488,790**	**564,438**	**307,440***	**871,878**
Total hours 3 years ($90/hr)	**n/a**	**5,431**	**n/a**	**3,416**	**8,847**
Total hours annually	**n/a**	**1,810**	**n/a**	**1,139**	**2,949**

* The funder costs in Table 1 do not correspond with the 1:1 ratio mentioned in the Key above due to the additional Telarc and DAA costs absorbed by Wise Group.

Table 2 Costs of auditing by audit agency over a three year period

	Wise			Funder	Total	Percentage	
Audit Agency	**Invoices ($)**	**Time based cost ($)**	**Total ($)**	**Time based cost ($)**	**($)**	**Dollars**	**Hours**
Contract related audits and Ministry of Health							
HealthShare		92,340	92,340	92,340	184,680	21%	19%
Central TAS		32,400	32,400	32,400	64,800	7%	7%
DAA Group	20,846	31,500	52,346	0	52,346	6%	6%
HDANZ		102,600	102,600	102,600	205,200	24%	21%
Balance Whanganui		7,200	7,200	7,200	14,400	2%	1%
KPMG		27,360	27,360	27,360	54,720	6%	6%
Nat Health Board		6,120	6,120	6,120	12,240	1%	1%
Total	**20,846**	**299,520**	**320,366**	**268,020**	**588,386**	**67%**	**61%**
Non-contract related audits							
Telarc	54,802	149,850	204,652	0	204,652	23%	31%
NZQA		11,700	11,700	11,700	23,400	3%	2%
ACC		27,720	27,720	27,720	55,440	7%	6%
Total	**54,802**	**189,270**	**244,072**	**39,420**	**283,492**	**33%**	**39%**
Total	**75,648**	**488,790**	**564,438**	**307,440**	**871,878**	**100%**	**100%**

5. One Audit proposal

Defining "One Audit"

Based on the assumption that Wise Group will be able to agree a "One Contract" approach with Government, there is an opportunity to develop a "One Audit" to support this. In effect this would result in one provider (or potentially two) auditing all key functions of Wise Group, and providing assurance to funders that key performance indicators are being attained.

The benefits of One Audit

Through our review of the current audit landscape, and related overlaps we have developed a potential One Audit framework. We have developed this framework based on the assumption that the One Contract will contain outcome measures for monitoring performance.

The implementation of an outcome focussed, One Audit framework, will increase efficiencies and could deliver the following benefits:

1. reduced duplication and associated auditing costs, by engaging only two providers to review the auditable areas. This will in turn lead to strengthened relationships between Wise Group, funders and audit agencies, allowing for more effective relationship management

2. opportunity to identify and respond to common issues/themes identified across the organisation through common auditors being used for all reviews

3. leverage may be utilised from current reviews that will continue regardless of One Audit (such as the external financial audit), capitalising on specialist skills and reducing duplication

4. outcome performance measures provide an opportunity to increase efficiencies through utilising systems based auditing, and reviewing auditable areas, and services, on a rotatable or periodic basis (e.g. once every three years for some areas where change is negligible)

5. outcome based auditing will reduce the range of specialist auditor skills required, as a generalist auditor will be able to review the results based on assurance gained over the systems used for reporting, without necessarily having to understand the intricacies of the specific service being delivered

6. the One Audit agency would gain an organisation-wide perspective of Wise Group. This would provide an opportunity to supply feedback to the Crown on how they can improve contracting efficiency and effectiveness with the Wise Group and with the wider NGO sector.

A detailed analysis of the potential time and cost savings is provided on page 20 of this report.

The One Audit framework

Based on the assumption of an Outcomes Based contract, and focussing on the benefits noted above, we have developed a potential One Audit approach that will minimise disruption to Wise Group management and staff, reduce costs to funders and enhance the overall value achieved from auditing.

In developing this approach it is also important to understand that some of the external reviews carried out on Wise Group's operations could be classified as assurance activities on the performance of contracted services while other reviews are actually fundamental to delivering services. These types of reviews can be split into the following three activities:

1. ***Reviews providing assurance over service quality***

The assurance exercises can be rationalised as part of a One Audit approach. For example, the Telarc audits and DHB quality audits both provide assurance over service quality. These assurance programmes over service quality can be directly rationalised, based on our suggested approach in section 5 of this report.

2. **Reviews that provide accreditation**

Accreditation occurs with the Wise Group for the MoH's healthcare services accreditation process, and the ACC Partnership Programme, where the level of Health and Safety practices drives discounts in ACC levies. Both these audit activities could fall within the One Audit approach.

The accreditation processes can also be rationalised. The future One Audit provider could be accredited to the MoH and ACC to provide those accreditation services, the One Audit programme including a scope sufficient to cover the accreditation requirements. Conversely, the Accreditation audits could be carried out by the approved MoH and ACC audit providers, but the results would be accepted by the One Audit provider as providing sufficient coverage of the particular areas. Given the nature of the two accreditation processes, the ACC Partnership Programme is more suitable for this second approach, the MoH audit being too broad in scope.

3. **Reviews integral to service delivery**

Some of the review activities are integral components of service delivery and would not fall into the One Audit approach. For example, the NZQA moderation exercises over trainee ratings are part of the service, and are not audits. We suggest that the NZQA reviews are not included in the One Audit proposal, as they are not audits, but part of service provision.

Bearing all of these factors in mind, the table below provides a summary of how the key auditable areas that relate to providing assurance over service quality and/or providing accreditation could be efficiently audited by only two audit agencies:

Summary category	Auditable Area	Audit agency	Frequency
Business Management	Governance	**One Agency**	Annual
	Finance		Annual
	Information Services	**Single audit agency**	Annual
	Human Resources		Every 3 years
Service Quality	Health & Safety and Emergency Management		As required to maintain tertiary accreditation
	Quality management		Every 3 years
	Cultural/Consumer		Every 3 years unless both parties agree that there is benefit in more regular review for reasons such as it the service being a pilot programme.
Service Delivery	Contract specific specifications		
	Health and Disability Service Standards (H&DSS)		

The scope of the financial audit could be extended to include the funders' assurance requirements over governance and financial auditable areas. Alternatively the Single Audit Agency could include this within their auditing scope by contracting in appropriate expertise where required.

There is an opportunity for one audit agency to provide assurance over the remaining auditable areas. However there are two key requirements that would require consideration prior to appointing a single audit agency.

First, under the Health and Disability Services (Safety) Act 2001, as a provider of residential disability care for five or more residents, Wise Group must obtain Ministry of Health certification of these services. Certification requires Wise Group to demonstrate that their services comply with all relevant Health and Disability Services Standards 2008. In order to obtain certification, section 27 of the Act requires providers to be audited. Section 32 of the Act states that audit agencies must be designated by the Director-General of Health. These audit agencies are called Designated Audit Agencies (DAA). Therefore, if the Ministry of Health certification and surveillance audits are to be covered by the One Audit framework, then a single Audit Agency would ideally be a DAA. This would make sense as the H&DSS are currently reviewed by the DHB audit agencies as well. One Audit would reduce this duplication.

Second, as the Wise Group is a participant in the ACC Partnership Programme and holds a tertiary accreditation, there is an opportunity to select a single audit agency who can review the Wise Group's compliance with this programme as well. The analysis of this programme is at a greater level of depth than what other audit agencies investigate while performing their audits. Therefore, arguably if the Wise Group continues to attain Tertiary accreditation this should give funders sufficient evidence to rely upon this without having to review it for themselves.

With this in mind, we recommend that a single audit agency should be selected who is a designated audit agency, and has the ability to provide ACC accreditation services. This agency should then facilitate the specific service audits that are required on an annual basis.

Approach and frequency of auditing

Assuming that an Outcomes Based One Contract approach is agreed between the relevant parties then we recommend that the best approach to auditing will be a mix of detailed testing and systems based controls testing. For example, while ACC accreditation may require a level of detailed testing to occur, auditing of Outcome Measures should rely on testing the reported outcomes. This is best achieved by testing and then relying on the systems and related controls that are in operation to certify the data being reported. These systems could be tested annually and then the outcomes associated with each service could be reviewed on a cyclical three year basis.

We also recommend that the single audit agency should confirm through annual interviews with management that Quality Management Systems and Human Resource processes have not changed. These should then only be tested in greater detail on a three year basis.

Savings from operating a One Audit framework

An accurate calculation of savings from implementing this One Audit approach is difficult to estimate as it will depend largely on an agreement of costs with the selected audit agencies. However, we have provided a conservative analysis below approximating the possible high-level savings to the Wise Group, based on hours currently spent in the audit process.

The process we followed to calculate the approximate savings from the One Audit approach was:

We excluded NZQA audit costs as this does not relate to an actual audit but forms part of service delivery in the education sector, and backed out the Balance Whanganui audit costs as this was a one-off audit that is not part of the normal auditing processes. This gave an approximate annualised cost of auditing Wise Group of $278,026 as detailed in Table 3 below:

Table 3 Real cost of auditing pre-One Audit approach

	3 year cost	Annual cost
Total cost pre-One Audit approach	**$871,878**	**$290,626**
Less NZQA audit cost	($23,400)	
Less Balance Whanganui audit cost	($14,400)	
Real cost pre-One Audit approach	**$834,078**	**$278,026**

We then performed the following steps to provide an approximate comparison of costs post the implementation of the One Audit approach:

We excluded Telarc costs as these auditable areas are already reviewed by other agencies and will be audited by the successful One Audit agency. If Wise Group decide to retain ISO 9001 accreditation then Wise Group could require the selected One Audit Agency to be an ISO certifier. This gave an approximate cost of auditing after removing Telarc costs of $209,809 as detailed in Table 4 below:

Table 4 Real cost of auditing pre-One Audit approach and excluding Telarc costs

	3 year cost	Annual cost
Real cost pre-One Audit approach	**$834,078**	**$278,026**
Less Telarc costs from Table 2	($204,652)	($68,217)
Total after removing Telarc costs	**$629,426**	**$209,809**

We then broke down the remaining costs by the percentage of time spent auditing each specific auditable area. These percentages were approximated based on our review of audit tools and experience in the sector. Table 5 below outlines our estimated percentages:

Table 5 Percentage of effort spent on each auditable area

Approximate percentage of time spent by audit agency during each audit on										
Audit Agency	**Governance**	**Finance**	**IS**	**HR**	**H&S**	**Quality Management**	**Cultural & Consumer**	**Contract Specs**	**H&DSS**	**Total**
ACC				10%	80%	10%				**100%**
DAA Group	10%		5%	10%	10%	10%	10%		45%	**100%**
HDANZ	10%	10%	5%	10%	10%	10%	5%	20%	20%	**100%**
TAS	10%	10%	5%	10%	10%	10%	5%	20%	20%	**100%**
HealthShare	10%	10%	5%	10%	10%	10%	5%	20%	20%	**100%**
KPMG	10%	10%	5%	10%	10%	10%	5%	20%	20%	**100%**
NHB		95%	5%							**100%**

We then applied these percentages to the current costs of auditing the Wise Group by the various audit agencies (refer to Table 2 for details). This provided a summary of estimated hours (at $90/hr) spent by Wise group currently and under a One Audit approach. These calculations are illustrated in Table 6 below:

Table 6 Time spent by Wise Group during reviews of auditable areas

Hours spent by Wise Group				
	Current hours over 3 years ($90/hr)	**Current annual hours**	**Future hours under One Audit**	**Commentary**
Governance	318	106	5	*Time required of Wise Group staff in addition to that already provided to meet the requirements of the external financial audit is estimated to be minimal.*
Finance	348	116	20	
H&S	564	188	77	*Based on average time spent in prior two ACC audits*
Information Systems	162	54	18	*Based on a third of total time spent under the current process*
HR	349	116	39	
Quality Mngt	349	116	39	
Cultural & Consumer	177	59	20	
H&DSS	724	241	80	
Contract specifications	566	189	189	*On a rotational basis assume the same time will be spent*
Total	**3,556 hrs**	**1,185 hrs**	**487 hrs**	

We then built these hourly estimates back into the annual total cost of auditing under a One Audit approach as illustrated in Table 7 below:

Table 7 Annual cost of auditing under One Audit approach

Auditable area	Wise Costs		Agency cost
	Hours	**Cost ($90/hr)**	
Finance	20	$1,800	To be tendered to one agency
Governance	5	$450	
Information Systems	18	$1,624	To be tendered to one audit agency
H&S	77	$6,930	
HR	39	$3,488	
Quality Mngt	39	$3,488	
Cultural & Consumer	20	$1,765	
H&DSS	80	$7,235	
Contract specifications	189	$16,980	
Total	**487**	**$43,760**	**To be determined**

We then compared these post-One Audit costs to the pre-One Audit costs we calculated in step 1. The results of this analysis are summarised below in Table 8:

Table 8: Summary of costs pre and post One Audit:

	Cost to Wise Group	Cost to Funder	Total cost	Commentary
Pre-One Audit	$181,846	$96,180	$278,026	Wise Group costs include their hours spent on Telarc audits and Telarc Invoices.
Post-One Audit	$43,760	**To be determined once audit agencies have been engaged.**		
Reduction in auditing costs	**$138,086**			

As illustrated in the analysis above, the reduction in costs to the Wise Group will be equal to approximately $138,086. This may change depending on how the costs of the audit agencies are spread across Wise Group and funders.

Supporting the One Audit framework

The Wise Group implemented ISO 9000 in the early 1990's before there were health; and then mental health; sector standards, utilising its generic quality management structures. This decision was based on the Groups goal to be recognised as a provider of high quality services.

As an evolutionary next step in its innovation and quality programme the Group adopted Sustainable Peak Performance in early 2000. Developed by Professor Mike Pratt this now internationally recognised methodology of exceeding ones personal and organisational best is embedded throughout the Group. By following this way of working the Group and its subsidiaries develop purpose statements underpinned by top ten leading challenges and performance scorecards that drive organisational performance. These could form the basis of future auditing exercises, moving away from input-based compliance assurance to outcome based service performance.

Other existing internal assurance processes include quality management structures, using Total Quality Management techniques, lately called Lean Thinking. Quality management is also evaluated through the ISO 9000 accreditation process across the Wise Group.

The Wise Group has a complaints process using a formal reportable event report, with the opportunity to send the report to another line manager. The reportable event report can be anonymous to the line manager, with the author’s identity only available to some staff with administration rights to the reporting software package.

Appendix I - Costing

The table below details the costs (actual and estimated) for performing audits at Wise Group. All data has been sourced from Wise Group and should be read with reference to the assumptions outlined in the body of this report.

Assumed hourly rate		$90						
		Wise Group			Audit Agency		Total	
Audit Date	**Audit Agency**	**Hours**	**Cost**	**Direct Invoice**	**Approx time (x1)**	**Approx Cost**	**Time**	**Cost**
2009 Sep	ACC	124	$11,160		124	$11,160	248	$22,320
2010 Feb	Healthshare	192	$17,280		192	$17,280	384	$34,560
2010 Feb	Telarc	88	$7,920	$2,133			88	$10,053
2010 March	Telarc	208	$18,720	$5,111			208	$23,831
2010 March	TAS	360	$32,400		360	$32,400	720	$64,800
2010 April	KPMG	304	$27,360		304	$27,360	608	$54,720
2010 May	HADNZ	476	$42,840		476	$42,840	952	$85,680
2010 June	Telarc	40	$3,600	$1,157			40	$4,757
2010 June	Telarc	164	$14,760	$2,783			164	$17,543
2010 June	Telarc	152	$13,680	$7,539			152	$21,219
2010 June	NZQA	50	$4,500		50	$4,500	100	$9,000
2010 Sept	Telarc	80	$7,200	$1,846			80	$9,046
2010 Oct	Telarc	264	$23,760	$5,430			264	$29,190
2010 Oct	Healthshare	128	$11,520		128	$11,520	256	$23,040
2010 Nov	Telarc	29	$2,610	$1,783			29	$4,393
2010 Nov	HDANZ	664	$59,760		664	$59,760	1328	$119,520
2011 February	NZQA	80	$7,200		80	$7,200	160	$14,400
2011 March	Healthshare	432	$38,880		432	$38,880	864	$77,760
2011 May	Telarc	40	$3,600	$1,226			40	$4,826
2011 June	DAA Group	194	$17,460	$8,505			194	$25,965
2011 June	Telarc	0	$0	$2,063			0	$2,063
2011 Sept	Telarc	136	$12,240	$5,656			136	$17,896
2011 Sept	ACC	184	$16,560		184	$16,560	368	$33,120
2011 Dec	Balance Whanganui	80	$7,200		80	$7,200	160	$14,400
2011 Dec	Telarc	128	$11,520	$5,261			128	$16,781
2012 March	HealthShare	274	$24,660		274	$24,660	548	$49,320
2012 April	Telarc	128	$11,520	$4,563			128	$16,083
2012 May	Telarc	74	$6,660	$3,342			74	$10,002
2012 May	Telarc	134	$12,060	$4,911			134	$16,971
2012 June	DAA Group	156	$14,040	$12,340			156	$26,380
2012 June	National HealthBoard	68	$6,120		68	$6,120	136	$12,240
	Cost for 3 Years	**5,431**	**488,790**	**75,648**	**3,416**	**307,440**	**8,847**	**871,878**
	Annual cost	**1,810**	**162,930**	**$ 25,216**	**1,139**	**102,480**	**2,949**	**290,626**

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