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NEW SOUTH WALES

**DEPUTY PREMIER  
TREASURER**

Mr M. Brown MP  
Chairman  
Public Accounts Committee  
Legislative Assembly  
Parliament House  
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SYDNEY NSW 2000

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Our Reference: 143748

Dear Mr Brown

**Government Response to Public Accounts Committee's Report 10/53  
Reporting and Auditing Requirements for Small Agencies**

Attached is the Government's response to the Public Accounts Committee's Report 10/53 *Reporting and Auditing Requirements for Small Agencies*. The Government supports those recommendations directed to the Government. Some of the report's recommendations are directed to the Auditor-General, an Officer of Parliament. These recommendations should be addressed by the Auditor-General.

Premier's Department is leading the Central Reporting Requirements Project, an inter-departmental review of reporting requirements applicable to NSW Public Sector agencies. The project is being overseen by the Chief Executives Committee. Annual and financial reporting requirements are being reviewed as part of this project. The project is examining various options to streamline reporting, including the transfer of less relevant compliance reporting to a cost-effective central data base. If implemented, this type of initiative could help simplify annual reporting requirements for agencies and improve the usefulness of annual reports.

Yours sincerely

Andrew Refshauge MP  
Treasurer

**Recommendation 1:** The Treasurer or responsible Minister should periodically review the continued need for the Auditor-General to audit each entity not administering public funds on the "invited audit" list (those prescribed in the regulation for the purposes of section 45 of the *Public Finance and Audit Act 1983*). If the audit is no longer deemed necessary, then the entity should be removed from the list.

Response: Agreed

Treasury will review the list of prescribed audits (clause 20 of the *Public Finance and Audit Regulation 2000*) in consultation with the Auditor-General. Agencies which may no longer require audit by the Auditor-General will be identified. Treasury will write to these agencies requesting their views on whether audit by the Auditor-General remains necessary or desirable. Where it is considered appropriate, the Treasurer will withdraw the previous invitation to the Auditor-General. The list of prescribed audits (clause 20 of the *Public Finance and Audit Regulation 2000*) will be adjusted to reflect the Treasurer's decision.

**Recommendation 2:** The Treasurer should review the continued appropriateness of reporting arrangements in light of advice issued by the Australian and International standard setting bodies about the treatment of small and medium enterprises if this advice applies to public sector agencies and recommend appropriate changes to Parliament.

Response: Agreed

Small and medium enterprises which are reporting entities are currently required to comply with the same Australian Accounting Standards applicable to large reporting entities.

Treasury continues to monitor Australian and international developments in accounting for small and medium enterprises.

All Australian entities (in both the private and public sector) will adopt Australian equivalents of International Financial Reporting Standards (AEIFRS) for their first accounting period commencing on or after 1 January 2005. The Australian Accounting Standards Board released AEIFRS standards which are based on standards issued by the International Accounting Standards Board (IASB).

The IASB's "Accounting Standards for Small and Medium-sized Entities" has been renamed "Accounting Standards for Non-Publicly Accountable Entities (NPAEs)". The IASB plans to have round-table discussions on recognition and measurement issues for NPAEs in late 2005.

Treasury will continue to monitor the IASB's project and other developments. Where necessary, Treasury will recommend appropriate changes to Parliament.

**Recommendation 3:** In exceptional cases where a financial reporting requirement is imposing an "unreasonable burden" on agencies, agencies should approach the Treasurer for an exemption from that requirement. Guidelines should be developed to determine what constitutes an "unreasonable burden".

Response: Agreed

The Treasurer can only exempt agencies from legislative requirements. As noted in the report there is a presumption that “if Parliament decides that an entity needs a separate legal existence, Parliament also requires the agency to prepare separate financial reports.” Accordingly, for the purpose of public accountability, the Treasurer would only use this power in truly exceptional circumstances. Such circumstances are probably too rare for the development of Guidelines.

All NSW Public sector entities are also required to comply with Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board. The Treasurer is not empowered to exempt agencies from AAS requirements.

**Recommendation 4:** In discussing planned audits, the Audit Office should provide information to agencies so that cost-effective auditing practices are used and the appropriate level of audit effort is applied where agencies are small and low risk.

Response: This recommendation should be addressed by the Auditor-General who is not subject to the direction of the Government.

**Recommendation 5:** Senior managers of agencies should monitor auditing costs for small agencies under their control. Where there is a greater than 25% change between years, a review of the reasons for this change should occur and be discussed with Treasury and the Audit Office.

Response: Partly agree. Treasury does not control the cost of the Auditor-General’s audits.

Managers should monitor all costs, including audit costs and take action to reduce them where necessary (ie irrespective of percentage change between years). Agencies should discuss reasons for significant increases in audit costs with the Audit Office who may be able to suggest strategies for their reduction. These could include agencies improving their record keeping or draft financial statements.

**Recommendation 6:** Ministers should review the suitability of the structure of the organisations that they control taking into consideration accountability, as well as legislative and service delivery constraints, on a regular (ideally annual) basis. At a minimum, the structure of an agency should be reviewed when the auditing costs become more than 5% of whichever is the smallest of its income or its expenses or its assets.

Response: Agreed

The Government regularly reviews its structure. Where it is considered appropriate, smaller agencies are amalgamated into large agencies. For example, during 2004 the Department of Primary Industries was created from three former agencies – the Department of Agriculture, the Department of Fisheries and the Department of Natural Resources. In addition, Premier’s Memorandum 91-2 places constraints on the establishment of subsidiary companies by departments and statutory authorities.

All agency costs, including audit costs should be actively managed by the senior public servants responsible for those agencies (ie irrespective of the audit fee as a percentage of income, expenditure or assets).

**Recommendation 7:** Guidelines should be developed by the Premier's Department to assist Ministers and agencies to consider the full costs of complying with financial and annual reporting requirements prior to establishing an agency. In particular, consideration of reasons for establishing as a separate entity should be balanced against the marginal cost of auditing decreasing with the increasing size of the agency.

Response: Agreed

The Premier's Department has been concerned for some time about the impost of reporting requirements on small agencies. The Premier's Department has produced the Strategic Management Framework and Calendar to better inform agencies about their reporting requirements. In addition, a review is currently being conducted of reporting requirements for the Chief Executives Committee. The Public Accounts Committee's recommendation will be considered in that context.

**Recommendation 8:** The Minister for Primary Industries should propose amendments to the *Rural Lands Protection Act 1998* in order to change the date for the financial and annual reporting for the Rural Lands Protection Boards to a more administratively convenient date. In the short term, the Minister should request the Treasurer to determine a more convenient reporting date.

Response: Agreed

The Department of Primary Industries is currently reviewing the operations of the *Rural Lands Protection Act 1998* including reporting and auditing requirements for the Rural Lands Protection Boards. This recommendation will be considered as part of the review of the *Rural Lands Protection Act 1998*.

**Recommendation 9:** Engagement letters for audits undertaken under section 45 of the *Public Finance and Audit Act 1983* should be revised to include a consideration of whether the audit continues to be required.

Response: This recommendation should be addressed by the Auditor-General who is not subject to the direction of the Government.

**Recommendation 10:** The Treasurer should write to responsible Ministers concerning the continued need for agencies to be included in the “invited audit” list at five yearly intervals prior to the statutory review of the regulation.

Response: Agreed

As previously noted (recommendation 1) the list of prescribed audits will be reviewed. Treasury will initiate a similar process at five-yearly intervals.