

**FOLLOW UP OF AUDITOR-GENERAL'S 2010 FINANCIAL  
AUDIT REPORTS**

**Organisation:** Audit Office of NSW  
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**Theme:**

**Summary**

Mr Jonathan O'Dea MP  
Chair  
Public Accounts Committee  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

24 April 2012

Dear Mr O'Dea

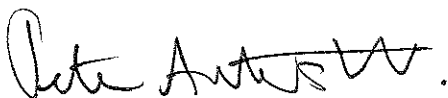
**Examination of Auditor-General's 2010 Financial Audit Reports  
Recommendations and Repeat Recommendations  
Your References: LAC11/085 and D12/08919**

We have reviewed the submission provided by the Department of Transport, NSW Ministry of Health and NSW Health Support Services contained in your letters of 10 and 17 April 2012.

Please find attached our comments on the progress reported in relation to the relevant recommendation in our original report.

I am happy to provide any further assistance the Committee may need in completing its examination.

Yours sincerely



Peter Achterstraat  
Auditor-General

Attachment

**Submission 10: Financial Audit Department of Transport**

<b>Audit Office's Recommendation</b>	<b>Department of Transport Response</b>	<b>Audit Office Comment on Response</b>
1 The Department of Transport should reconsider the employment arrangements for State Transit Authority to prevent further losses of Commonwealth Government Grants.	The Department has advised that employment arrangements are a policy decision of government, and co-ordinated centrally within government. It has therefore raised this issue centrally with the Director General of the Department of Premier and Cabinet.	We accept that the Department of Transport has dealt with the recommendation to the extent possible. We do not intend to raise this matter further with the Department.

**Submission 11: Financial Audit NSW Ministry of Health**

Audit Office's Recommendation	Ministry of Health Response	Audit Office Comment on Response
<p>1 I again recommend the Department (now the Ministry of Health) ensures Area Health Services (now local health districts) pay creditors within agreed payment terms. Area Health Services need to improve cash flow management, ensure purchases are supported by authorised orders, and follow up disputed invoices in a timely manner.</p>	<p>Payment of trade creditors within benchmark is a key performance indicator that is monitored on a monthly basis through NSW Health's Performance Management Framework. At 30 June 2011, creditors correct and ready for payment over 45 days was \$0.9 million.</p> <p>Health Districts have implemented financial turnaround plans and efficiency improvement plans to improve their liquidity.</p> <p>NSW Health is working with suppliers to improve invoice procedures including electronic purchase orders and invoicing.</p>	<p>I can confirm the Ministry of Health and local health districts do monitor and report on creditor payment performance on a monthly basis.</p> <p>As reported on page 13 of Volume 10 of my 2011 Report to Parliament, creditors ready for payment and over 45 days totalled \$0.9 million at 30 June 2011. However, invoices disputed or on hold increased from \$28.7 million at 30 June 2010 to \$34.7 million. I recommended health services:</p> <ul style="list-style-type: none"> <li>• clear long outstanding disputed or on hold invoices by 31 March 2012, and</li> <li>• continue monitoring their procurement practices to minimise future on hold invoices.</li> </ul>
		<p>The use of purchase orders across the sector continues to increase and this should result in far less disputed invoices going forward. For the month of January 2012, most local health districts issued purchase orders for over 70 per cent of purchases which required an order.</p>
		<p>In my 2011 Report to Parliament, I also recommended the Ministry of Health reconsider its 45 day creditor payment benchmark, given the government's policy to pay small creditors within 30 days.</p>

**Submission 11: Financial Audit NSW Ministry of Health**

**Audit Office's Recommendation**

**Ministry of Health Response**

**Audit Office Comment on Response**

2 I recommend the Ministry develop a system to monitor the number of contractors who provide personal or professional services and the length of time they have done so. The review should identify contractors whose services are no longer required. Internal controls over the use of contractors needs to be strengthened. A similar exercise should be performed at local health districts for non-medical contractors.

Contractors are subject to review in terms of expenditures measured against the available budget by the executive branch/divisional manager. Control and review processes for the engagement of contingency labour are in place in the Ministry through senior management on the broader issue of governance, oversight and centralised assessment of contractor requests through Corporate Personnel Services.

The Ministry does not have a contractor management software system. Future consideration of accounting system upgrades will need to be prioritised within available funds.

The Ministry of Health's response to this recommendation was acknowledged on page 17 of Volume 10 of my 2011 Report to Parliament. While I note the funding constraints with upgrading accounting systems, elsewhere in the public sector, some agencies have developed a spreadsheet register to monitor the use of contractors.

My testing of some contractor expenses during the 2010-11 audit did not identify any control deficiencies regarding the appointment of contractors or the approval of payments.

On page 17 of Volume 10 of my 2011 Report to Parliament, I recommended that in the absence of central reporting and monitoring of contractors, local health districts consider performing an internal audit on the hiring and use of contractors. I will follow up the status of this recommendation during the 2011-12 audits.

3 I recommend the Ministry, in conjunction with local health districts, finalise the review of all special purpose and trust funds to confirm the nature and intended purpose of each fund. Where appropriate, approvals should be sought to move funds into the Public Contributions Trust Fund account, to assist in the delivery of health services.

The Ministry issued instructions to all local health districts on 17 March 2011 advising them to resolve all outstanding documentation issues.

As reported on page 15 of Volume 10 of my 2011 Report to Parliament, not all local health districts had completed this review at 30 June 2011. I recommended they:

- complete their review by 31 March 2012
- provide a formal report on the results to the Ministry of Health by 30 April 2012
- make arrangements to transfer funds to the Public Contributions Trust Fund Account by 30 June 2012.

I will follow up the status of this recommendation during the 2011-12 audits.

**Submission 14: Financial Audit NSW Health Support Services**

<b>Audit Office's Recommendation</b>	<b>Health Support Services Response</b>	<b>Audit Office Comment on Response</b>
<p>1 I again recommend Health Support Services (HSS) further develop its Key Performance Indicators (KPIs) for its service centres to ensure they include more qualitative indicators as well as quantitative indicators, and to measure these indicators against appropriate targets.</p>	<p>HSS has made incremental improvements to its KPIs and KPI reporting. Where appropriate, KPIs now have targets, trends and in some cases identify responsibility for a particular function. HSS provides strategic and operational KPIs monthly and quarterly to all customers. HSS is currently working on further refining the KPIs and introducing a fully automated dashboard. This will be rolled out over three phases between May – July 2012.</p>	<p>I can confirm HSS has made incremental improvements to its KPIs. This was reported on page 46 of Volume 10 of my 2011 Report to Parliament.</p> <p>I am maintaining a watching brief on the work HSS is doing to further improve how it measures and reports its performance. Where appropriate, I will reflect on this work in Volume 10 of my 2012 Report to Parliament.</p>
<p>2 I again recommend HSS finalise the Service partnership Agreements with its customers under its newly established framework as soon as possible.</p>	<p>Master Service Agreements have been finalised for 2010-11. This process was lengthy and complex.</p> <p>HSS has commenced discussing the 2012-13 agreements with its customers. The agreements will include provisions to deal with disputes and escalating issues. They will also align with the service level agreements that bind the Ministry of Health with local health districts in terms of performance.</p>	<p>I found that very few agreements were signed for the 2011-12 financial year. As reported on page 46 of Volume 10 of my 2011 Report to Parliament, only four of 23 agreements had been finalised and signed at the end of November 2011. I recommended HSS finalise all outstanding agreements as a matter of urgency.</p> <p>I will follow up the status of this recommendation during the 2011-12 audit.</p>

**Submission 14: Financial Audit NSW Health Support Services**

Audit Office's Recommendation	Health Support Services Response	Audit Office Comment on Response
<p>3 I recommend the following control deficiencies I have reported to HSS for the past two years, which have not been addressed, be actioned as a matter of priority. This includes:</p> <ul style="list-style-type: none"> <li>• Insufficient control to ensure all customer transactions are processed</li> <li>• the validity of signatures authorising purchases, approving payments to suppliers and approving manual timesheets are not checked</li> <li>• payroll master file changes are not reviewed on a regular basis and when reviewed they are not always reviewed by an independent officer</li> <li>• final termination payments are not being made in a timely manner to terminated customer employees.</li> </ul>	<p>HSS conducted a comprehensive risk and control analysis review in December 2010. A number of process changes were made as a result of this exercise.</p> <p>In response to the procurement related matters:</p> <ul style="list-style-type: none"> <li>- HSS is implementing invoice scanning technology to reduce the risk of misappropriation</li> <li>- HSS is encouraging local health districts to increase their use electronic purchase orders</li> <li>- the NSW Ministry of Health has changed the procurement policy, resulting in some invoices being returned to the supplier if a purchase order has not been raised.</li> </ul> <p>In response to the payroll related matters:</p> <ul style="list-style-type: none"> <li>- a project to eliminate manual timesheets is well underway and there has been improvement in reducing these numbers. HSS will work with customers to achieve stronger controls around manual processes</li> <li>- staff are regularly reminded that master file changes must be checked by an independent officer</li> <li>- changes have occurred to ensure terminated employees are paid on a timely basis. However timely payments are also dependent on customers entering termination dates on a timely basis.</li> </ul> <p>A 2011 internal audit concluded that there remains a strong manual control environment over payroll processing.</p>	<p>I can confirm that HSS conducted a risk and control analysis in December 2010. It was agreed that following this exercise:</p> <ul style="list-style-type: none"> <li>(i) HSS should obtain formal endorsement from its customers and the NSW Ministry of Health on the outcomes</li> <li>(ii) Customers should prepare process maps to complement the risk and control analysis work.</li> </ul> <p>As reported on page 45 of Volume 10 of my 2011 Report to Parliament, these actions were not completed. I recommended that :</p> <ul style="list-style-type: none"> <li>- the report resulting from the risk and control analysis workshop be shared with all customers</li> <li>- HSS obtain writing confirmation from its customers acknowledging their responsibilities.</li> </ul> <p>HSS has done more work on this issue since the tabling of Volume 10 of my 2011 Report to Parliament. They held a workshop with their customers in December 2011 to discuss and agree on roles and responsibilities. I have been advised that HSS has now finalised its service catalogue and it will commence on 1 July 2012. The service catalogue explicitly outlines roles and responsibilities between HSS and its customers. I will review these developments as part of the 2011-12 audit and report on the outcomes in Volume 10 of my 2012 Report to Parliament.</p> <p>A key theme from my 2010-11 audits was that HSS and its customers do not always agree on who is responsible for key internal controls. As a result, instances have occurred where HSS have made payments which were not approved by a delegated officer.</p>

**Submission 14: Financial Audit NSW Health Support Services**

**Audit Office's Recommendation**

**Health Support Services Response**

**Audit Office Comment on Response**

I can confirm HSS is implementing invoicing scanning technology to reduce the risks associated with manual invoices. Furthermore, the use of purchase orders across the sector continues to increase. For the month of January 2012, most local health districts issued purchase orders for over 70 per cent of purchases which required an order.

From my sample testing of payroll controls, it appeared payroll master file changes were being reviewed and termination payments were paid on a timely basis.