

**Submission
No 2**

EFFICIENCY AND EFFECTIVENESS OF THE AUDIT OFFICE OF NSW

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22 April 2013

The Committee Manager
Public Accounts Committee
Parliament House
Macquarie St
Sydney NSW 2000

Dear Committee Manager

Submission: Inquiry into the efficiency and effectiveness of the Audit Office of NSW

The University of Newcastle (UoN) welcomes the opportunity to make a submission to the Inquiry into the efficiency and effectiveness of the Audit Office of NSW. As a public University formed under the *University of Newcastle Act 1989 (NSW)*, UoN, together with its controlled entities, must have its financial reports subjected to audit by the Audit Office in accordance with the *Annual Reports (Statutory Bodies) Act 1984*.

Historically, the Audit Office has undertaken its audit directly. However, as a result of a request by the NSW Vice-Chancellors' Committee, the Auditor-General agreed to appoint an agent to undertake the audit of the 2012 financial reports of UoN and its controlled entities. This submission therefore incorporates feedback relating to the periods when the Audit Office undertook its audit directly as well as the 2013 experience when a firm of public accountants undertook the audit as an agent of the Auditor-General.

COMMENTS ON THE EFFICIENCY OF THE AUDIT OFFICE

The time taken to complete the audit process

UoN is a large and complex organisation that undertakes a wide range of activities, some of which involve particularly technical disclosure or accounting treatments. Accordingly, it is necessary for the University's auditors to possess the skills and experience necessary to undertake its audit efficiently, effectively, and on a timely basis. At UoN the main phase of the audit process commences in mid February with the submission of draft financial reports and concludes when the Independent Auditor's Report is issued. Prior to 2012 this process did not conclude until late April. This impacted heavily on the university as it demanded the ongoing involvement of Financial Services personnel generally and the close daily interaction of senior managers for almost a four month period. Due to the significant burden that such a long period of audit activity caused, in mid 2011 UoN requested the Audit Office commence its audit earlier in 2012 and aim to provide audit clearance by the end of March. That change did occur in 2012 and the Audit Office was successful in achieving audit clearance by the end of March. This was a significant improvement over prior years.

In 2013, with the appointment of a commercial audit firm as the Auditor-General's agent, the audit process was even shorter than prior years despite involving a smaller audit team than that assembled by the Audit Office in previous years. Through the involvement of a commercial audit firm UoN was able to gain the benefit of a more efficient audit process that, because of its smaller size and shorter process, meant that the burden upon the University was significantly reduced. In addition, as 2013 was the first year that the commercial audit firm was in place, it is anticipated that the 2014 audit process should be even more efficient and timely if that firm is reappointed.

On this basis, it is evident that while the Audit Office did improve its processes significantly in 2012 there is further scope for efficiency improvements when compared to the commercial audit firm.

Audit fees

The statutory obligation for financial reports to be audited by the Auditor-General imposed by the *Annual Reports (Statutory Bodies) Act 1984* causes some difficulty in assessing whether the fees charged by the Audit Office represent value for money. The view commonly held amongst Universities in NSW and shared by UoN is that the audit fees are higher than those that could be achieved if the audit services were taken to the market.

UoN did not achieve any fee savings through the appointment of the commercial audit firm as the Auditor-General's agent in 2013. However, we understand that this is due to the Audit Office specifying the hours that would be required to undertake the audit and structuring the agency arrangements so that the overall fee charged to UoN did not increase significantly.

However, in light of the evidence that the commercial audit firm was able to conduct the audit using a smaller team across a shorter time frame, it is considered likely that fee savings should be available.

COMMENTS ON THE EFFECTIVENESS OF THE AUDIT OFFICE

Arrangements to address certain technical areas

While UoN does from time to time enter into transactions that have technically complex accounting and reporting consequences these are often exceptional and it is common for expert advice to be taken to ensure that they are correctly recorded. In recent years various UoN controlled entities have had a number of relatively straightforward tax matters that have attracted the particular attention of the Audit Office. Resolution of these matters and helping the Audit Office to understand the treatment has been quite an involved process and one that we were only able to resolve through obtaining external taxation advice, which ultimately confirmed that UoN's treatment was correct. On this basis, it appears that there may be scope for the Audit Office to enhance the effectiveness and efficiency of its audit processes by reviewing the arrangements it has in place to deal with taxation and other fields that are not within the areas it ordinarily deals with when auditing NSW government departments and other statutory bodies.

Communications involving the Audit Office's Technical Team

Prior to the introduction of the commercial audit firm in 2013 UoN experienced some difficulties when disagreements over the correct treatment of a complex transaction arose that involved decision by the Audit Office's Technical Team. In such circumstances it was observed that the approach adopted by the Audit Office was to invite a paper outlining the university's position and rationale for a particular treatment. In response the Technical Team would issue its decision, which the Audit Office would adopt. Unfortunately, no further discussion or engagement would occur after that point. In our experience this approach did not enable the University to understand the rationale for the Technical Team's decision or of its rejection of the University's position.

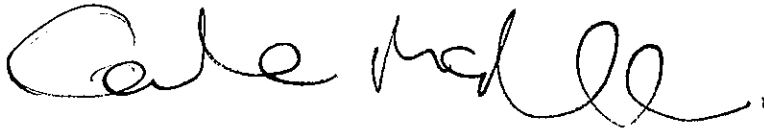
During the 2013 audit process all matters of technical complexity were dealt with by the commercial audit firm referred to above. This process was very effective and enabled the professional engagement and discussion that typically would occur between an auditor and its client on matters of technical complexity.

In light of the foregoing, we consider that a review of the processes involving the Technical Team and its communications with Audit Office clients would be helpful in improving the effectiveness of the Audit Office processes in this area.

We trust that the foregoing comments are helpful to the Committee in its Inquiry. We recognise the improvements that the Audit Office has made in recent years and look forward to other enhancements that may result from this process.

Should there be any any queries relating to the feedback provided in this submission please contact the University's Financial Controller, Mr Tony Hall, on 4921 5133 or at tony.hall@newcastle.edu.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Caroline McMillen', with a stylized flourish at the end.

Caroline McMillen
Vice-Chancellor and President