

**Submission**

**No 1**

## **INQUIRY INTO INQUIRY INTO FINANCIAL REPORTING**

**Organisation:** The Audit Office  
**Name:** Mr Peter Achterstraat  
**Position:** Auditor-General  
**Telephone:** 02-9275 7101  
**Date Received:** 2/07/2010

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**Theme:**

**Summary**



THE AUDIT OFFICE  
OF NEW SOUTH WALES

CONTACT NAME

TELEPHONE

OUR REFERENCE

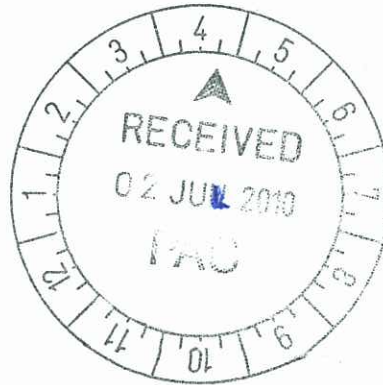
YOUR REFERENCE

P Achterstraat

9275 7101

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Mr Paul Gibson MP  
Chair  
Public Accounts Committee  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000



30 June 2010

Dear Mr Gibson

**Inquiry into the quality and timeliness of financial reporting**

Thank you for your letter dated 2 June 2010 in which the Committee is seeking submissions from interested persons and organisations.

My Financial Audits Volume Four report for 2009 detailed my concerns regarding the quality of financial reports.

“The accuracy of the General Government and Total State Sector Accounts is largely dependent on the quality of accounting information provided by agencies”.

I noted in my Financial Audits Volume Two report for 2010 that some action had been taken to begin the improvement process but I recommended hard close procedures be mandated to improve quality, reliability and timeliness of reporting across the Public Sector.

If the Committee should require further information please contact me.

Yours sincerely

Peter Achterstraat  
Auditor-General

## **The Audit Office of New South Wales**

### **Submission to the Public Accounts Committee Inquiry into the quality and timeliness of financial reporting**

#### **Introduction**

In accordance with the *Public Finance and Audit Act, 1983*, (PF&A Act), the Audit Office audits the financial statements of the General Government and Total State Sector Accounts. These accounts comprise the material agencies controlled by the State.

The audit is conducted in accordance with the PF&A Act and the Australian Auditing Standards. Auditing Standards require me to bring to the attention of those responsible for governance issues misstatements identified during the audit. It was through this evaluation of issues impacting the Total State Sector Accounts that significant errors were identified in the financial reports of the State's 24 largest agencies

#### **Findings and Recommendations**

Twelve of the 24 largest agencies' financial reports submitted for audit contained significant errors in the current year's financial information, while five included significant errors in the prior years' financial information.

I recommended The Treasury develop and implement procedures to improve the quality, reliability and timeliness of financial reporting of the New South Wales public sector.

These errors delayed and increased the costs of preparing and auditing these financial reports. To address these issues financial reports should be prepared periodically throughout the year using full accrual accounting.

#### **Progress to improving the quality of financial reporting**

In response to this recommendation, The Treasury requested 15 agencies pilot hard close procedures for the 2009-10 financial year with a view to expanding hard close arrangements in 2010-11 following evaluation of the 2009-10 pilots.

I do not believe that this action is sufficient to address my concerns and I recommended in my Financial Audits Volume Two report that The Treasury mandate agencies perform hard close procedures at 31 December and 31 March each year. This should contribute to improving the quality, reliability and timeliness of financial reporting across the Public Sector and enhance the annual budget process.

#### **Adequacy of current processes in place to identify and correct errors in a timely manner**

As identified in my Financial Audits Volume Four report for 2009, the current progress identifies and corrects errors but timing is inadequate. Many issues are identified and resolved after the agencies' financial reports are submitted for audit.

When an error is corrected after the financial report is submitted to audit I am obligated to report these adjustments to those responsible for governance. Further, clients must write to me for approval to amend submitted reports.

#### **Identification of best practice procedures for financial reporting**

Many entities in the private sector and a number within our public sector have applied hard close procedures to enable reduction in errors and reduced the timeframe for financial report preparation. NSW Health introduced hard close procedures in 2009 which proved to be beneficial in reducing errors and the time taken to report audited results.

In addition, the Chief Finance Officer and the Audit Committee should review financial statements prior to submission to ensure that they are satisfied that there are no material errors or omissions in the statements.

#### **Impediments to the implementation of best practice procedures**

The primary impediments to implementation of such procedures are:

- lack of quality resources
- lack of commitment
- lack of change management procedures
- cultural issues within organisations.

Best practice procedures are designed to benefit the reporting organisation not the Audit Office. NSW Health has demonstrated that hard close procedures improved the effectiveness of their financial reporting procedures.