

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

**Organisation:** NSW Health  
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**Date Received:** 7/11/2011

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**Theme:**

**Summary**

Mr Jonathon O'Dea MP  
Chair  
Public Accounts Committee  
Parliament of NSW  
Macquarie Street  
SYDNEY NSW 2000

Dear Mr O'Dea

I refer to your letter of 7 September 2011 concerning recommendations contained in the 2010 Auditor-General's Annual Report to Parliament. Please accept my sincere apology for the delay with this response. Unfortunately, the timing of your request coincided with substantial work being undertaken to complete the Auditor-General's audit of NSW Health's financial statements for 2010-11.

In relation to your request, I wish to submit the following advice:

**1. Payment of Creditors within Agreed Terms**

Audit Recommendation

*I again recommend the Department ensures Area Health Services 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.*

*Note: Area Health Services have now been abolished and replaced with Local Health Districts. This recommendation is still applicable for the Department in ensuring the Districts pay their creditors in a timely manner.*

*Auditor General's Report, Financial Audits, 2010, Volume 11, p. 24*

Ministry Response

The health system pays around \$11.5 million every day to suppliers who provide goods and services to our hospitals and other health care facilities. 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.

It is advised that as at the end of June 2011, NSW Health's benchmark for payment of creditor invoices ready for payment was 45 days. Trade creditors correct and ready for payment over 45 days at end June 2011 was \$0.9M. It is important to note that all Local Health Districts had sufficient cash to pay these creditors and only the timing of

month end payment cycles (eg cheque runs) prevented payments being made. The phrase "ready for payment" requires that a creditor has issued a GST compliant tax invoice for goods (or services) that have been received in good order, in the quantity required, at the agreed price, at the correct location, and, where appropriate, in accordance with an approved official purchase order. Meeting these requirements is necessary under NSW Health's accounting policy as well as Treasury Directions and for audit compliance.

Management of debtors and the timely receipt of funds owed to Local Health Districts from third parties, including private health funds, coupled with the implementation of financial turnaround plans and efficiency improvement plans assists Health Districts to improve their liquidity and continue to pay creditor invoices that are correct and ready for payment within the NSW Health benchmark period.

NSW Health is working with suppliers to improve invoice procedures including electronic purchase orders and invoicing (B2B) and ensure goods and services are not supplied without an approved purchase order in place. Suppliers are also being asked to forward their invoices directly to Health Support Services (NSW Health's shared corporate services provider) for processing. Local Health Districts are required to have escalation procedures, for in dispute invoices in place for creditors and contact telephone numbers are provided on purchase orders.

## **2. Development of System to monitor contractor use**

### Audit Recommendation

*I recommend the Department 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 need to be strengthened. A similar exercise should be performed at Area Health Service for non-medical contractors.*

*Auditor General's Report, Financial Audits, 2010, Volume 11, p. 26*

### Ministry Response

The use of agency staff / contractors to assist with time limited project work is a cost effective way of delivering project outcomes.

The Department has used agency personnel / contractors to assist with such projects as the NSW Population Health Survey, rollout of the Notifiable Conditions Information Management System and other IT system improvements.

As part of the 2009-10 audit, the Auditor-General requested a detailed analysis of the hours worked by contractors. This information is not routinely aggregated and, in general, it should be noted that at the time of engagement (and throughout the engagement period), contractors are subject to review in terms of expenditures measured against the available budget by the executive branch/ divisional manager.

To satisfy the Auditor-General's 2010 request, it was necessary to perform a labour intensive manual review of invoices from accounts payable systems and tabulate this data into a suitable form, consistent with the information sought.

The Ministry acknowledges that a contractor management software system would have been of assistance in the compilation of the response to the Auditor-General's 2009-10 request.

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.

Future consideration of accounting system upgrades will need to be prioritised within available funds.

### **3. Finalisation of Review of Special Purpose & Trust Funds**

#### Audit Recommendation

*I recommend the Department, in conjunction with the Area Health Service, 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.*

*Note – Area Health Services have now been abolished and replaced with Local Health Districts. This recommendation is still applicable for the Department and the Districts.*

*Auditor General's Report, Financial Audits, 2010, Volume 11, p. 27*

#### Ministry Response

The management of Special Purpose & Trust accounts is a responsibility of Local Health Districts in accordance with the Accounts & Audit Determination and accounting policies issued by the Ministry.

Instructions last issued to all Health Services on 17 March 2011 advised the need to resolve all outstanding documentation issues for Special Purpose monies as part of the 2010-11 financial audit. In any instance where a Health Service has been unable to identify the purpose of the donation or satisfy the particular conditions of the donation, it has been requested that advice be referred to the Ministry which will, if necessary, consult with the Crown Solicitors Office.

In relation to the other aspect of your request regarding the effectiveness of the audit process I wish to advise that the Ministry maintains effective liaison with the Audit Office and is generally satisfied with the professionalism displayed, the preparedness of the Audit Team to offer workable system improvements, consider the acceptability of risks when offering recommendations and actively participate in the Risk and Audit Committees of both the Ministry and its various controlled agencies.

The 2010-11 year involved the conduct of approximately 70 audits, This is a significant increase of around double the number from the prior year owing to revised structures and new governance arrangements within NSW Health. The majority of the audits for 2010-11 have now been completed, either within the time frames permitted under the Public Finance & Audit Act, or close thereto.

Only one long standing qualification has been offered, this relating to the inability of the Sydney Children's Hospitals Network to confirm that adequate controls are exercised over Charitable Fund raising monies provided to the Network. Such qualification is provided each year and is common in respect of agencies where "cash" fundraising is performed outside that entity's direct control.

I believe that the successful completion of these audits further attests the value of audit work performed at a time when NSW Health has undergone significant restructure with the dissolution of Area Health Services, establishment of Local Health Districts and Health Reform Transition Organisations. Further governance reforms have been announced for 2011-12 and the Audit Office, though not a partner to the change, will be regularly consulted with a view to ensuring that effective controls are in place and systems operate with due efficiency.

At this time I also wish to place on record my appreciation of the efforts of Health Service managers and accounting staff for their significant contributions to the successful completion of the 2010-11 financial statements. Health Service staff reacted positively to the challenges which are incumbent in any restructure and they are highly valued as we move forward in 2011-12 to further changes in the governance framework, accounting and budgetary mechanisms as well as reporting under the Commonwealth's National Health Reform agenda.

In 2011-12, the Ministry expects that a series of audit efficiencies will be realised which will serve to contain audit costs. Such efficiencies will stem from the use of a corporate services model for various accounting, payroll, procurement and inventory management services.

Greater emphasis will also be placed on the preparation of "early close" financial statements at 31 March 2012, a process which will then be repeated in future years and is consistent with Treasury's program of financial reporting improvement. The production of early financial statements will improve accounting disciplines within Health Services and will serve to reduce the time taken in year end reconciliations and the preparation of financial statements.

The availability of reliable work papers at this time will also enable the Audit Office to bring forward much of its audit work and reduce the demands on its resources at year end.

The Ministry is committed to successfully implementing this change for 2011-12 and is planning to conduct formal workshops to issue-manage prior year experiences with Health Services and the Audit Office to ensure that the benefits available through the exercise are realised.

Should any additional information be required I invite you to contact either the Ministry's Chief Financial Officer, Mr John Roach on 9391 9178 or myself on 9391 9645.

Yours sincerely



Dr Mary Foley  
Director-General