
Department of Services, Technology and Administration

AUDIT OPINION

The audits of the Department and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

People First - New South Wales Government ICT Strategic Plan

People First - New South Wales Government ICT Strategic Plan was released in July 2006 and covered the period to June 2010. It set priorities for government spending on ICT resources.

A key outcome of People First is anticipated savings and benefits of \$565 million over four years to July 2010. I previously reported that an independent review commissioned by the Department confirmed savings and economic benefits of \$176 million up to 30 June 2008 could be validated and that \$565 million was achievable by July 2010. The Department advises that a further independent review of the final outcome is in progress.

A process to develop a new Government ICT strategy is underway.

Electronic Information Security

In 2010, I conducted a performance audit that examined the extent to which the Government can provide credible assurance that it is safeguarding its holdings of sensitive personal information. In October 2010, I concluded that Government could not provide this assurance. My findings included that the GCIO does not have current and reliable information on how well individual agencies are safeguarding private information.

The Government's current policy on electronic information security is within 'Ministerial Memorandum 2007-04 Security of Electronic Information'. This policy, among other things, requires that agencies report their security status at least annually to the Government Chief Information Office (GCIO).

Whilst the recommendations coming out of my performance audit were to the Department of Premier and Cabinet, implementing these recommendations may impact the GCIO. The report is available on our website www.audit.nsw.gov.au.

The GCIO has a leadership role in developing and driving information and communications technology whole-of-government initiatives.

Government Licensing Project

In 2009, I conducted a performance audit on the Government Licensing Project and found that it was running late and over budget and was expected to produce less savings than originally planned. My report included recommendations to the Department and these are supported by management.

The Government Licensing Project is an information technology project that crosses over a number of New South Wales licensing agencies. The outcome of the Project is a Government Licensing System (GLS) intended to standardise and simplify the licensing processes of all licensing agencies except for the Roads and Traffic Authority. The project started in 2001 and was expected to be running in all relevant agencies by 2005.

The number of licences administered by the GLS in recent years appears in the table below.

| Year ended | Target | Actual | | | |
|--|--------|--------|-------|-------|-------|
| | 2010 | 2010 | 2009* | 2008* | 2007* |
| Government licences administered through the GLS ('000s) | 2,400 | 2,100 | 1,600 | 1,160 | 940 |

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

In July 2010, further licence records were transferred to the GLS. The Department advises the GLS currently administers 3.4 million records across 80 licence types. The Department expects full implementation by 2014.

The performance audit report is available on our website www.audit.nsw.gov.au.

Government Services

The Government Services Division was created in December 2009 and brought together previously discrete business units that focused on providing whole-of-government services. The division comprises NSW Procurement, ServiceFirst and StateFleet.

NSW Procurement

The State Contracts Control Board (SCCB) is responsible for arranging the supply of goods and services to New South Wales Government agencies. The Board was restructured during the year and now comprises a Chair independent of the Department and five members, all appointed by the Minister for Commerce. NSW Procurement supports the Board.

State contracts are standing offers by suppliers, which apply for a specific time. Premier's Memorandum 2006-11 'Procurement Reforms' requires all agencies, except State Owned Corporations, to use SCCB contracts. Expenditure through SCCB contracts in recent years, and estimated cost savings from their use, appears in the table below.

| Year ended | Target | Actual | | | | |
|--|--------|--------|-------|-------|-------|-------|
| | 2010 | 2010 | 2009* | 2008* | 2007* | 2006* |
| SCCB contracts (\$m) | 3,900 | 3,675 | 3,578 | 3,640 | 3,600 | 3,410 |
| Aggregated procurement cost savings from whole-of-government contracts (not including duplication avoidance savings) (\$m) | 335 | 322.5 | 360 | 330 | ** | ** |

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

** No comparative available due to changes in savings assessment

Premier's Memorandum 2006-11 'Procurement Reforms' required all major agencies to participate in the electronic marketplace by June 2007. At 30 June 2010, eight of the fourteen major agencies had implemented smartbuy® (seven at 30 June 2009). smartbuy® is an electronic procurement system for government agencies. Some of the performance indicators used by the Department to evaluate smartbuy® are included in the following table.

| Year ended 30 June | Target | Actual | | | | |
|-----------------------------------|--------|--------|-------|-------|-------|-------|
| | 2010 | 2010 | 2009* | 2008* | 2007* | 2006* |
| Value of purchase orders (\$m) | 600 | 2,011 | 455 | 359 | 224 | 109 |
| Number of purchase orders ('000s) | 134 | 404 | 109 | 67 | 44 | 23 |

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

The significant increase in utilisation of smartbuy® in 2010 occurred due to its adoption by NSW Health and the Department of Education for Building the Education Revolution purposes.

eTendering is an electronic tendering system for government agencies. One of the performance indicators used by the Department to evaluate eTendering is in the following table.

| Year ended 30 June | Target | Actual | | | |
|---|--------|--------|-------|-------|-------|
| | 2010 | 2010 | 2009* | 2008* | 2007* |
| Number of Government tenders published on the eTendering system | 3,000 | 2,216 | 3,083 | 3,281 | 1,841 |

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

From 1 April 2009, the threshold over which agencies must seek tenders increased from \$150,000 to \$250,000 contributing to a reduction in the number of tenders in recent years. However, suppliers have increased their use of eTendering in 2009-10, with the Department reporting 71 per cent (46 per cent) of tender responses were lodged electronically.

All 46 agencies required to adopt eTendering by June 2007, under Premier's Memorandum 2006-11, have implemented the eTendering website (six agencies were outstanding in 2008-09).

I have previously recommended the Department of the Premier and Cabinet implement a review mechanism to ensure agencies comply with the Government's procurement reforms within Premier's Memorandum 2006-11. I support the restructure of the SCCB and its 2010-13 business plan, which includes a review of compliance mechanisms. I am currently reviewing compliance with the aspects of Premier's Memorandum at a selection of agencies and will report the results of that review later in 2010.

NSW FAIR TRADING

NSW Fair Trading promotes a fair marketplace for consumers and traders. Some of the performance indicators used by the Department to evaluate the division are included in the following table.

| Year ended 30 June | Target | Actual | | | | |
|--------------------------------------|--------|--------|-------|-------|-------|-------|
| | 2010 | 2010 | 2009* | 2008* | 2007* | 2006* |
| Fair marketplace | | | | | | |
| Customers satisfied with service (%) | 90 | 91 | 85 | 85 | 90 | 90 |
| Successful prosecutions (%) | 90 | 90 | 96 | 92 | 95 | 86 |

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

The Department advises it has around seven million instances of contact with the public annually including 1.19 million telephone enquiries through its information centre.

NSW Industrial Relations

NSW Industrial Relations communicates and enforces workplace regulation to ensure the rights of workers and employers are protected and obligations met. Some of the performance indicators used by the Department to evaluate the division are included in the following table.

| Year ended 30 June | Target | Actual | | | | |
|---|--------|--------|-------|-------|-------|-------|
| | 2010 | 2010 | 2009* | 2008* | 2007* | 2006* |
| Fair and productive workplaces | | | | | | |
| Enquiries and complaints satisfactorily resolved within targeted time frames (%) | 85 | 89 | 87 | 89 | 92 | 90 |
| Non-compliant employers who complied or were prosecuted within six months of notification (%) | 85 | 91 | 88 | 87 | 87 | 87 |

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce

The Department advises it received in excess of 96,000 telephone enquiries and in excess of 4,000 email enquiries during the year, and that its website had 2.83 million visits. This level of activity is down from 2009. From 1 January 2010, many New South Wales employers and employees moved into the national workplace relations system administered by the federal government and this has impacted on the role of NSW Industrial Relations.

NSW Public Works

NSW Public Works helps other New South Wales Government agencies and local government plan, design, deliver and maintain building and infrastructure projects. NSW Public Works provides professional engineering, architectural and project management services.

The Department advises that it manages around \$1.0 billion of capital works and asset maintenance projects each year. Some of the performance indicators used by the Department to evaluate the division include:

| Year ended 30 June | Target | Actual | | | | |
|---|--------|--------|-------|-------|-------|-------|
| | 2010 | 2010 | 2009* | 2008* | 2007* | 2006* |
| Projects managed - completed on time (%) | 85 | 92 | 93 | 92 | 89 | 93 |
| Projects managed - completed within budget (%) | 85 | 92 | 87 | 90 | 92 | 95 |
| Satisfaction with asset solutions developed for clients (%) | 80 | 83 | 85 | 89 | 88 | 83 |

Source: Department of Services, Technology and Administration (unaudited).

* Responsibility of the former Department of Commerce.

During the year, the Department provided services to the Department of Education and Training that were funded under the Building the Education Revolution program. These services were provided on a cost recovery basis.

Strategic Communications and Government Advertising

This division is responsible for the co-ordination and management of Government's advertising activity. The Department estimates savings to Government from the use of central placement contracts at \$65.5 million in 2009-10 (\$44.0 million).

OTHER INFORMATION

Shared Corporate Services

The Department provides corporate services to other government agencies via ServiceFirst. ServiceFirst was formed within the Department of Commerce in 2008 bringing together three separate shared service providers.

Our audit engagements to report on internal controls operating within ServiceFirst during the 2010 financial year resulted in unqualified independent auditors' reports.

Human Resources

This year I reviewed the following areas relating to the Department's human resources:

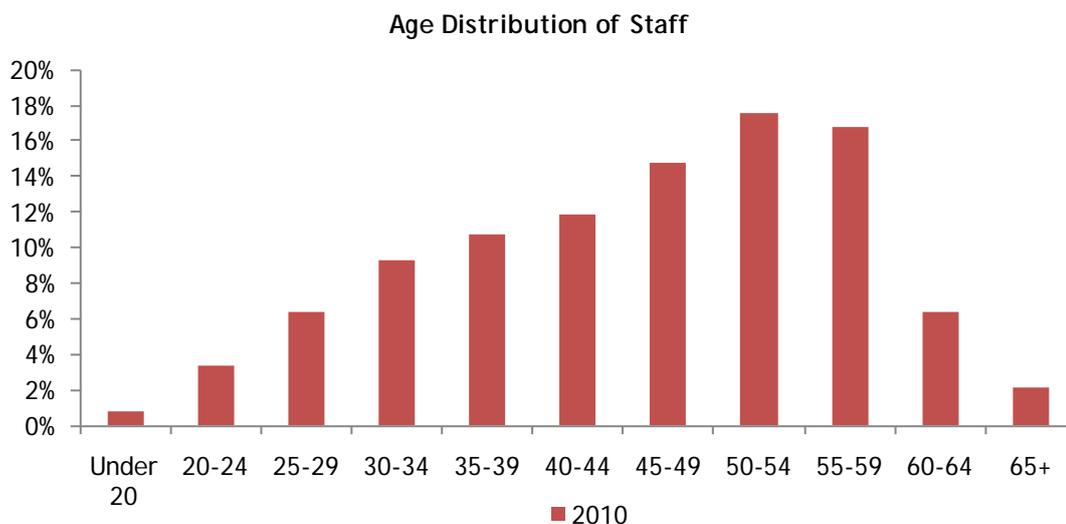
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- extent of overtime
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

Employee Age Profile

Twenty five per cent of the Department's employees are over 55 years of age and 43 per cent are over 50. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills is a risk for the Department.

To ensure an adequate supply of staff in the future and address the associated risks, the Department needs to monitor its workforce age profile and ensure strategies are in place to attract, develop and retain staff. The Department advises that it is developing a mature workforce strategy including better monitoring of employment policies for employees older than 50 years and more flexible approaches to training, working and retiring.

The age profile of the Department's employees is shown below:



Source: Information provided by Department of Services, Technology and Administration (unaudited)

Overtime

Overtime payments of \$2.9 million during the year represent less than one per cent of total employee related expenditure. Overtime was paid to approximately 25 per cent of all staff and most of these staff did not work significant quantities of overtime. However, there are isolated incidences of apparent excessive overtime that the Department needs to monitor:

- 19 employees worked more than 300 hours overtime and two of these worked more than 500 hours
- 24 employees earned in excess of \$20,000 in overtime payments, which represented between 19.2 per cent and 58.5 per cent of their base earnings.

Overtime expenditure is monitored monthly using the Department's dashboard reporting processes.

Annual Leave Balances

The Department has made significant progress in reducing excessive annual leave balances. At 30 June 2007, over 600 staff within the former Department of Commerce had in excess of 40 days annual leave accrued. At 30 June 2010, the Department of Services, Technology and Administration had 137 employees with in excess of 40 days accrued, which represents approximately four per cent of total employees.

The Department has set a target for all employees to have no more than 30 days annual leave accrued by 30 June 2011. Annual leave balances are monitored monthly using the Department's dashboard reporting processes.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

Contract Staff

The Department uses contract, temporary and casual staff to meet resourcing requirements. In 2010, the Department spent \$20.9 million on 388 contractors, which represents approximately six per cent of total staff costs.

The Department's approved full time positions exceed 3,500. The Department monitors the percentage of positions not filled by permanent employees on monthly basis using its dashboard reporting processes. The Department advises that all contractor appointments and extensions are approved by the Director-General. There are limited incidences of long term use of contractors. The Department needs to monitor total contract terms and costs.

Independent Commission Against Corruption Investigation

The Independent Commission Against Corruption (ICAC) is currently investigating allegations of corrupt conduct within Sydney Water Corporation's Plumbing Inspection and Assurance Service (PIAS). The PIAS is transferring to NSW Fair Trading and the Department is monitoring the ICAC investigation.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

| Year ended 30 June | Consolidated | Department |
|---------------------------------------|----------------|----------------|
| | 2010 \$'000 | 2010 \$'000 |
| Employee related expenses | 350,155 | 345,529 |
| Depreciation and amortisation | 190,335 | 189,015 |
| Other operating expenses | 179,593 | 174,449 |
| Book value of motor vehicles sold | 127,805 | 127,805 |
| Finance costs | 37,481 | 37,255 |
| Government Radio Network expenses | 23,124 | 23,124 |
| OPERATING EXPENSES | 908,493 | 897,177 |
| Motor vehicle leasing | 215,584 | 215,584 |
| Project and asset management services | 208,414 | 208,414 |
| Other services | 170,330 | 158,976 |
| Proceeds from sales of motor vehicles | 155,553 | 155,553 |
| Retained taxes, fees and fines | 44,979 | 44,979 |
| Investment and other revenue | 26,707 | 26,653 |
| OPERATING REVENUES | 821,567 | 810,159 |
| Other losses | 3,528 | 3,528 |
| NET COST OF SERVICES | 90,454 | 90,546 |
| Government contributions | 85,491 | 85,491 |
| DEFICIT BEFORE TAX | 4,963 | 5,055 |
| Deferred tax benefit | 54 | -- |
| DEFICIT FOR THE YEAR | 4,909 | 5,055 |
| Outside equity interest | 63 | -- |
| OTHER COMPREHENSIVE INCOME | | |
| Superannuation actuarial losses | 49,136 | 49,136 |
| TOTAL COMPREHENSIVE EXPENSE | 54,108 | 54,191 |

Abridged Statement of Financial Position

| At 30 June | Consolidated | Department |
|--------------------------|------------------|------------------|
| | 2010 \$'000 | 2010 \$'000 |
| Current assets | 745,941 | 792,030 |
| Non-current assets | 713,413 | 708,437 |
| TOTAL ASSETS | 1,509,354 | 1,500,467 |
| Current liabilities | 689,148 | 317,818 |
| Non-current liabilities | 448,989 | 445,869 |
| TOTAL LIABILITIES | 1,138,137 | 1,131,729 |
| NET ASSETS | 371,217 | 368,738 |

Cash held by the Department at 30 June 2010 includes \$44.9 million (\$57.8 million) held in the Motor Vehicle Reserve account. This account is maintained to quarantine and manage risk arising from the Government's motor vehicle fleet operations (StateFleet). In December 2009, the balance had increased to over \$75.0 million and the Treasurer approved withdrawal of \$56.3 million by the Department in lieu of funding appropriations. At the end of September 2010, the balance of the account was \$50.8 million.

The Department has borrowings of \$541 million from New South Wales Treasury Corporation to fund StateFleet operations. These borrowings comprise current and non-current portions. The total available facility is \$650 million. StateFleet motor vehicles are included in non-current assets.

Provisions comprise mainly employee entitlements. Other liabilities include an amount owing to the Consolidated Fund of \$21.0 million with the balance being mainly unfunded superannuation obligations.

ABRIDGED SERVICE GROUP INFORMATION

The Department's net cost of services on a service group basis is detailed below:

| Year ended 30 June | Net Cost of Services | | Net Assets |
|-------------------------------------|--------------------------|--------------------------|--------------------------|
| | 2010 Budget \$'000 | 2010 Actual \$'000 | 2010 Actual \$'000 |
| Fair Trading | 54,880 | 68,660 | 147,820 |
| Industrial Relations | 22,415 | 22,082 | (186) |
| Procurement | (32,905) | (49,922) | 65,240 |
| Public Works and Services | 22 | (15,067) | 90,374 |
| Communications and Advertising | 6,490 | 4,697 | (1,889) |
| Government Chief Information Office | 47,022 | 49,142 | 60,588 |
| Corporate Services | 33,212 | 10,954 | (2,810) |
| Not attributable | -- | -- | 9,601 |
| Total all service groups | 131,136 | 90,546 | 368,738 |

The Department advises that the favourable variance from budgeted net cost of services was mainly attributable to better than expected profits from disposal of StateFleet motor vehicles at the end of lease terms and variances in superannuation.

DEPARTMENT'S ACTIVITIES

The Department was formed effective 1 July 2009 via the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009'. This Order abolished the Department of Commerce and transferred all branches of the Department of Commerce to the Department of Services, Technology and Administration. In addition, the restructure included transfer of:

- staff of the Teacher Housing Authority and Internal Audit Bureau to the Department
- staff of NSWBusinesslink Pty Limited from the former Department of Commerce to the Department of Human Services
- the Retail Tenancy Unit to the Department from the former Department of State and Regional Development.

The Department's main role is to provide services to New South Wales Government agencies. These services are provided via the following divisions:

- Government Chief Information Office
- Government Services (comprising NSW Procurement, ServiceFirst, and StateFleet)
- NSW Fair Trading
- NSW Industrial Relations
- NSW Public Works
- Strategic Communications and Government Advertising.

The Department has five major goals:

- maximise value for government agencies in delivering services to clients, customers and the community
- simplify processes for dealing with government
- promote a fair marketplace for consumers and traders
- promote fair and productive workplaces
- contribute to a credible, efficient and effective organisation.

For further information on the Department, refer to www.services.nsw.gov.au.

CONTROLLED ENTITIES

The Department of Services, Technology and Administration has two controlled entities.

The New South Wales Government Telecommunications Authority is a dormant entity that is controlled by the Department for accounting purposes. In October 2010, Government decided to transfer the Government Radio Network to the Authority. Details of the transfer and implications for the Authority are expected to be finalised during the 2011 financial year. The purpose of the Network is to provide a state wide whole-of-government radio network. The Network supports over 40 government agencies including emergency services.

Comment on Australian Centre for Advanced Computing and Communications Pty Limited appears elsewhere in this Volume.