

# Overview of 2010

26

NSW Auditor-General's Report

Volume One 2011

OVERVIEW OF 2010

Last year, I tabled 11 financial audit reports and 17 performance audit reports in the New South Wales Parliament. Financial audit reports are discussed below and performance audit reports are discussed later in this overview.

## Financial Audit Reports

My 2010 financial audit volumes, and the sectors they related to, were as follows:

Volume 1 – Containing 30 June 2009 audit results not included in the 2009 volumes

Volume 2 – Universities

Volume 3 – Total State Sector

Volume 4 – Electricity

Volume 5 – Public Financing Enterprises

Volume 6 – Human Services and Technology

Volume 7 – Environment, Climate Change & Water

Volume 8 – Law & Order and Emergency Services

Volume 9 – Transport, Planning and Industry

Volume 10 – Education and Communities

Volume 11 – Health and Ports

Contained in these 2010 volumes were 247 significant items and 270 recommendations. I will review the implementation status of these recommendations during 2011. During 2010 I noted that a majority of my 2009 financial audit recommendations were actioned or partially implemented (Volume 3, page 13).

The information in this overview has been drawn and collated from my 2010 financial audit report volumes Three to Eleven, which focussed on the 30 June 2010 audits. The 202 recommendations in these volumes are analysed in this overview.

In this overview, I summarise the key themes and messages from my audits. This will assist readers understand the common findings arising from my audits and could also be used by agencies and their audit committees to guide a self assessment to identify issues that may be relevant to their organisation.

The Audit Office undertook 495 financial audits last year and I included commentary and analysis on 141 significant agencies in my 2010 financial audit volumes. This coverage is sufficient to identify common themes that apply across government.

In those audits, I conducted a review of human resource issues across agencies focussing on contract staff, excessive overtime, management of annual leave and flex leave, and the age profile of employees. Many of my recommendations were made in the human resources area and the results of this review are summarised in this report.

An important component of my financial audits is my review of controls over agency computerised information systems. I have also included in this report an overview of common issues identified from my information system audits.

## Administrative Restructure

In 2009, the New South Wales Government announced a comprehensive reform of the public sector, amalgamating 160 government agencies and offices into 13 new clusters containing 12 principal or 'super' departments. These clusters, the principal departments and some of the other bodies in each cluster that remain separate reporting entities for statutory and other purposes are as follows:

Cluster	Principal Department	Other Bodies
<b>Communities NSW</b>	Communities NSW	Arts, Sports and Recreation bodies, Sydney Cricket & Sportsground Trust, NSW Institute of Sport
<b>Education &amp; Training</b>	Department of Education and Training	TAFE Commission, Institute of Teachers, Board of Studies
<b>Environment, Climate Change &amp; Water</b>	Department of Environment, Climate Change and Water	Catchment Authorities, Water Corporations, Jenolan Caves Reserve Trust, Zoological Parks Board
<b>Health</b>	Department of Health	Area Health and Ambulance Services, Cancer Institute, Justice Health
<b>Human Services</b>	Department of Human Services NSW	Housing NSW, Aboriginal Housing, Home Care Service of NSW, Businesslink Pty Ltd
<b>Industry &amp; Investment</b>	Department of Industry and Investment	Primary Industries, Energy Corporations, Food and Rural Assistance Authorities
<b>Justice &amp; Attorney General</b>	Department of Justice and Attorney General	NSW Trustee and Guardian, Information and Privacy Commission, Legal Aid Commission, Industrial Relations, Director of Public Prosecutions
<b>Planning</b>	Department of Planning	Luna Park, Sydney Harbour Foreshore Authority, Barangaroo Delivery, Land and Property Management Authority
<b>Police &amp; Emergency Services*</b>	None	NSW Police Force, Fire Brigades (now Fire and Rescue NSW), NSW Rural Fire Service, State Emergency Service, Crime Commission
<b>Premier &amp; Cabinet</b>	Department of Premier and Cabinet	Ministry for Police, Local Government, Women's Policy, Veterans Affairs, ICAC, IPART, Ombudsman, Police Integrity Commission
<b>Services, Technology &amp; Administration</b>	Department of Services, Technology & Administration	Rental Bond Board, State Records Authority, Internal Audit Bureau
<b>Transportation</b>	Transport NSW	RTA, RailCorp, State Transit, Sydney Metro, Sydney Ferries, Transport Construction Authority and Port Corporations
<b>Treasury</b>	The Treasury	Financial Management, State Revenue, Self Insurance, Compensation Authorities, TCorp, Pillar

\* This cluster was abolished but we have grouped these agencies for reporting purposes in this Overview.

As a result of the restructuring process, government agencies have undergone substantial changes since the completion of the 2008-09 reporting period.

I made 202 recommendations in my 30 June 2010 financial audit volumes to improve the performance of New South Wales Government agencies, 46 of which were repeat recommendations

New South Wales Parliament's Public Bodies Review Committee has highlighted the challenges faced by the principal departments in adapting their performance evaluation and annual reporting processes to incorporate any new areas of responsibility. Complex agencies have a particularly onerous task in presenting a large volume of information in a format that is clear, concise and meaningful to an audience with a widely varied range of information needs and levels of interest. I will continue to work with agencies to address these challenges.

For further details on the allocation of New South Wales Government agencies to clusters refer to the following websites:

[www.directory.nsw.gov.au/departments.asp](http://www.directory.nsw.gov.au/departments.asp)

[www.dpc.nsw.gov.au/publications/news/stories/allocation\\_of\\_bodies\\_to\\_super\\_departments](http://www.dpc.nsw.gov.au/publications/news/stories/allocation_of_bodies_to_super_departments)

## Recommendations in 2010 Reports to Parliament

I made 202 recommendations in my 30 June 2010 financial audit volumes to improve the performance of New South Wales Government agencies, 46 of which were repeat recommendations. The recommendations and the clusters they relate to were as follows:

Cluster	Number of Agencies in Cluster <sup>1</sup>	Number of Recommendations	Repeat Recommendations
Health	53	62	34
Transportation	25	34	3
Communities NSW	32	18	1
Human Services	15	17	4
Environment, Climate Change & Water	43	16	0
Justice & Attorney General	13	13	0
Planning	23	12	4
Police & Emergency Services	8	10	0
Industry & Investment	44	10	0
Services, Technology & Administration	14	3	0
Education & Training	17	4	0
Treasury	37	3	0
Premier & Cabinet	16	0	0
<b>Total</b>	<b>340</b>	<b>202</b>	<b>46</b>

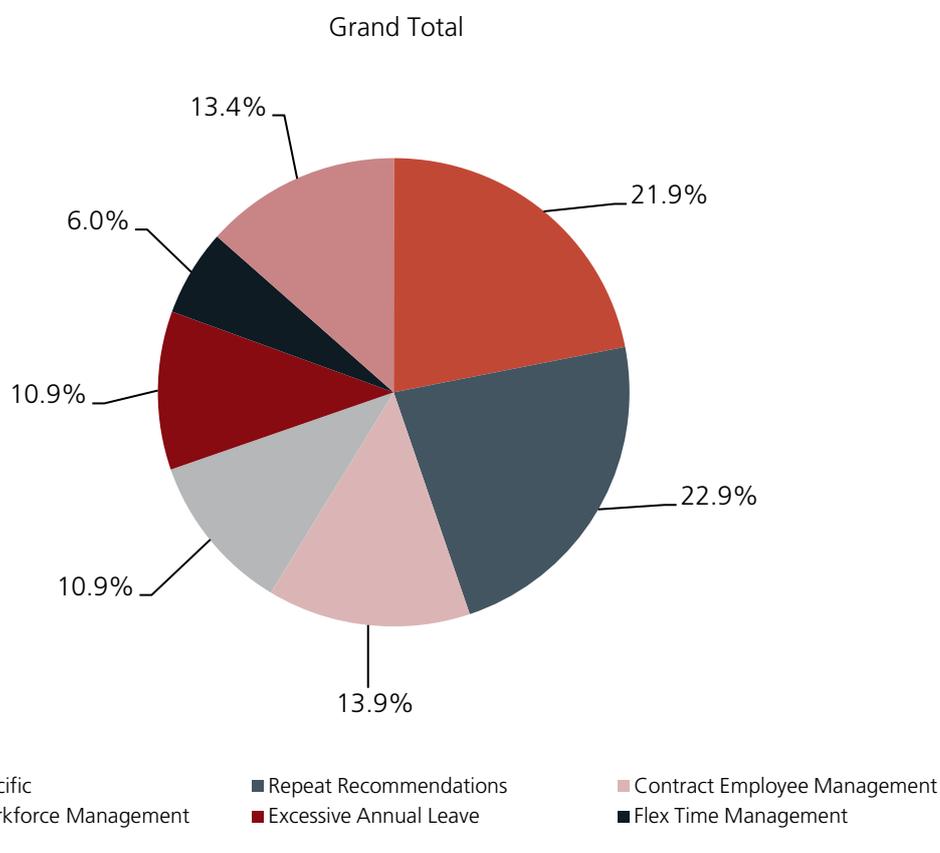
<sup>1</sup> Represents the number of reporting entities in the cluster with 30 June year ends only

In the table above, a significant number of recommendations and repeat recommendations were in the Health cluster. The large number of repeat recommendations related to the following areas: accounts payable and creditor management; effectiveness of the budget monitoring processes; management of plant and equipment including medical equipment; management of trust funds; development of Key Performance Indicators for its service centres; and general internal control deficiencies. The NSW Department of Health has advised they have progressed in implementing a number of the recommendations.

For further details, refer to my Financial Audit Volume 11.

## Common Audit Recommendations

Common themes identified from the 202 recommendations made in my financial audit volumes that related to 30 June 2010 audits are as follows:



Client specific recommendations in the chart above concern those recommendations made to individual agencies that cannot be grouped into a particular theme. These are not analysed in this report but were separately highlighted in my 2010 Volumes. The nature of repeat recommendations has been discussed earlier in this section.

A significant number of recommendations were made in the human resources area in 2010. These are summarised in the following paragraphs.

### Contract Employee Management

I recommended that agencies:

- create and maintain a single register of all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
  - reliance on contract employees is not excessive
  - use of contract employees instead of permanent employees is appropriate
  - contractors do not become de facto employees by virtue of being with the agency for an extended period of time
  - use of contract employees continues to represent value for money.

I identified:

- high numbers of contract employees with limited evidence of an appropriate management review system operating
- contract employees being engaged for long periods of time. A number of contract employees were identified as being engaged for over three years and as high as 11 years

A significant number of recommendations were made in the human resources area in 2010.

I made 27 recommendations regarding contract employee management to individual agencies in 11 out of 13 clusters.

I made 22 recommendations regarding managing an ageing workforce to agencies in seven out of 13 clusters.

- significant numbers of contract employees being engaged for more than \$1,000 per day some earning over \$400,000 per annum.

While, the use of contract employees may have benefits for entities, particularly on projects or where specialist skills are needed, extensive reliance on this employment source and the engagement of long term contract employees, particularly in senior roles, generally results in higher employment costs and less ownership and commitment to organisational goals and objectives.

### Aging Workforce Management

I recommended agencies continue to develop and implement effective policies to manage their ageing workforce.

I made 22 recommendations regarding managing an ageing workforce to agencies in seven out of 13 clusters. The following table shows the percentage of employees over 50 and over 55 years of age in each of the clusters:

Cluster	Number of Agencies in Cluster <sup>1</sup>	Number of Agencies Analysed <sup>2</sup>	Total Number of Employees Analysed <sup>2</sup>	% of Employees Aged Over 50 Years <sup>2 &amp; 3</sup>	% of Employees Aged Over 55 Years <sup>2 &amp; 3</sup>
<b>Education &amp; Training</b>	17	2	53,602	46.5	25.2
<b>Human Services</b>	15	5	11,481	46.3	25.0
<b>Planning</b>	23	3	1,967	45.0	27.4
<b>Services, Technology &amp; Administration</b>	14	1	3,500	43.0	25.0
<b>Industry &amp; Investment</b>	44	1	3,572	40.0	24.0
<b>Justice &amp; Attorney General</b>	13	3	13,794	39.3	24.3
<b>Health</b>	53	20	93,335	39.0	22.1
<b>Transportation</b>	25	15	29,386	39.0	23.0
<b>Communities NSW</b>	32	8	2,583	37.1	19.4
<b>Environment, Climate Change &amp; Water</b>	43	5	8,265	36.7	20.9
<b>Treasury</b>	37	1	1,301	36.0	22.0
<b>Premier &amp; Cabinet</b>	16	1	903	26.9	7.6
<b>Police &amp; Emergency Services</b>	8	1	18,955	20.2	10.1
<b>Total <sup>4</sup></b>	<b>340</b>	<b>66</b>	<b>242,644</b>	<b>39.5</b>	<b>22.2</b>

1 Represents the number of reporting entities in the cluster with 30 June year-ends only

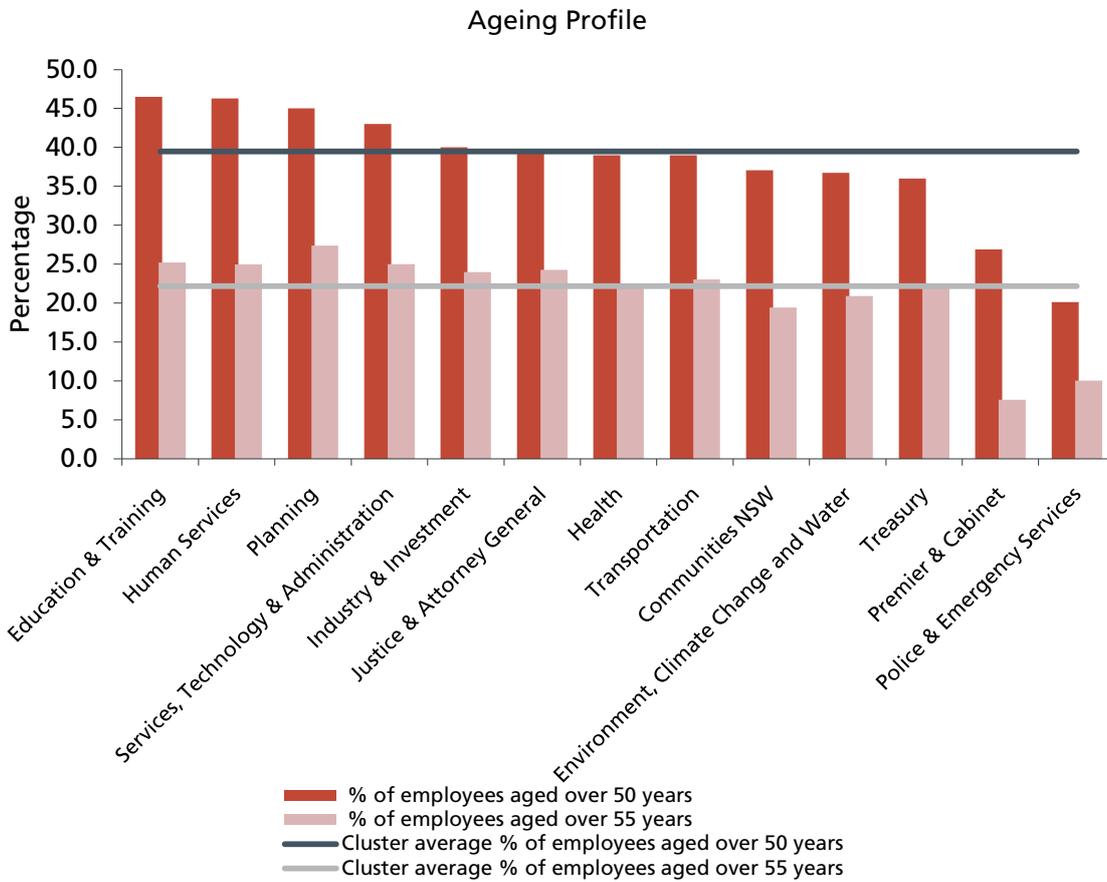
2 Represents significant agencies reported and analysed in Auditor-General's 2010 Financial Audit Report Volumes 3-11. Human resources details were not reported on for agencies where there were no significant findings as a result of our analysis.

3 The percentage is based on the weighted average of those agencies analysed within each cluster.

4 According to the New South Wales Department of Premier and Cabinet's 2009-10 Workforce Profile Snapshot Report there were 317,233 full time equivalent public sector employees in 2010. The number of employees noted in the table above is based only on the significant agencies analysed and reported in our 30 June 2010 financial audit volumes.

The table above shows that the percentage of employees over 50 is most pronounced in the Education & Training cluster and least pronounced in those agencies we have grouped as Police & Emergency Services.

The following table shows how the individual clusters compare to the average of all clusters, being 39.5 per cent of employees over 50 years of age and 22.2 per cent over 55 years of age:



To ensure an adequate supply of employees in the future, agencies should continue to actively monitor workforce age profiles and have appropriate strategies in place to develop, attract and retain employees whose skills are aligned with the strategic direction of the agency.

Many agencies have made efforts to respond to the trends identified with a more comprehensive human resources strategy. The full impacts of such strategies are yet to be seen.

I made 22 recommendations regarding excessive annual leave balances to agencies in 11 out of 13 clusters.

## Excessive Annual Leave

I recommended entities review the effectiveness of their policies for managing excessive annual leave balances.

I made 22 recommendations regarding excessive annual leave balances to agencies in 11 out of 13 clusters. The following table shows the percentage of employees with more than 40 days of annual leave accrued within individual clusters:

Cluster	Number of Agencies in Cluster <sup>1</sup>	Number of Agencies Analysed <sup>2</sup>	Total Number of Employees <sup>2</sup>	Number of Employees With Leave Over 40 Days <sup>2</sup>	% of Total Employees <sup>2</sup>
<b>Police &amp; Emergency Services</b>	8	2	26,098	7,133	27.3
<b>Health</b> <sup>3</sup>	53	20	93,335	23,833	25.5
<b>Justice &amp; Attorney General</b>	13	3	13,794	2,756	20.0
<b>Environment, Climate Change &amp; Water</b> <sup>4</sup>	43	5	9,032	1,737	19.2
<b>Human Services</b>	15	5	13,035	1,768	13.6
<b>Industry &amp; Investment</b>	44	2	4,412	568	12.9
<b>Premier &amp; Cabinet</b>	16	1	903	105	11.6
<b>Communities NSW</b>	32	8	2,678	292	10.9
<b>Planning</b>	23	2	855	88	10.3
<b>Transportation</b>	25	13	29,215	2,165	7.4
<b>Services, Technology &amp; Administration</b>	14	1	3,500	137	3.9
<b>Education &amp; Training</b>	17	3	53,847	1,489	2.8
<b>Treasury</b>	37	2	2,839	64	2.3
<b>Total</b> <sup>5</sup>	<b>340</b>	<b>67</b>	<b>253,543</b>	<b>42,135</b>	<b>16.6</b>

1 Represents the number of reporting entities in the cluster with 30 June year-ends.

2 Represents significant agencies reported and analysed in Auditor-General's 2010 Financial Audit Report Volumes 3-11. Human resources details were not reported on for agencies where there were no significant findings as a result of our analysis.

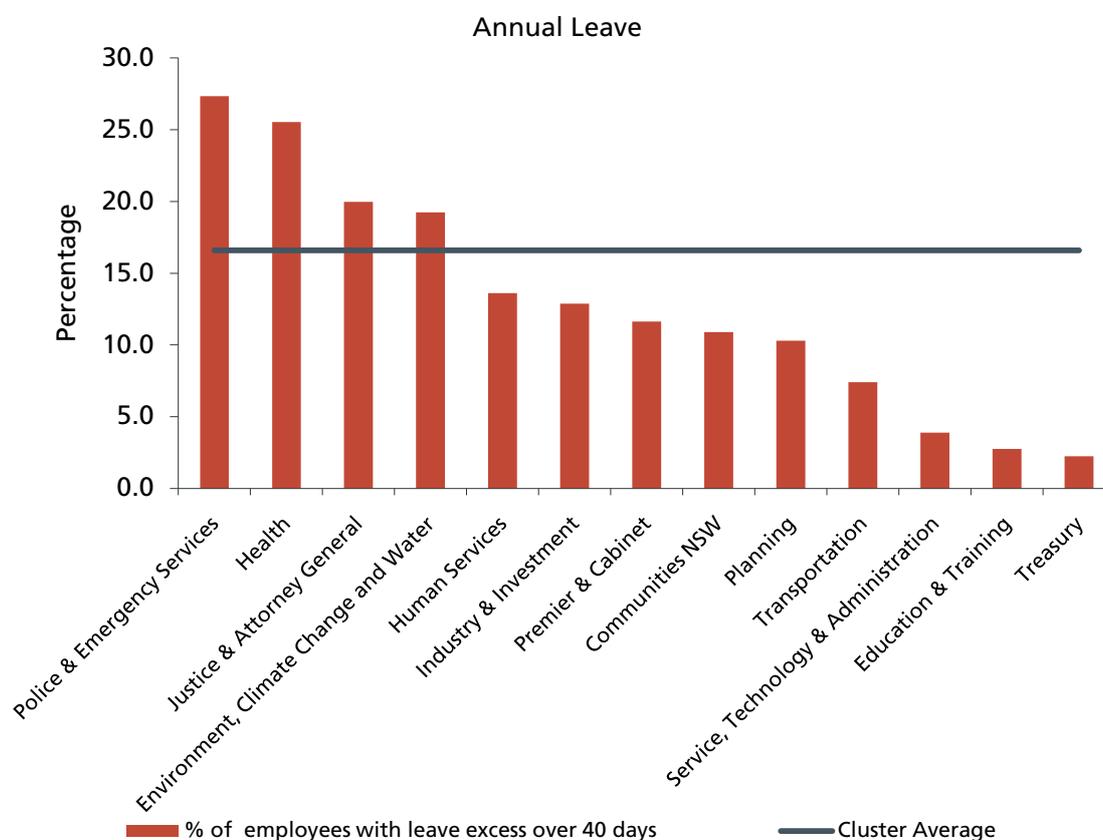
3 A significant number of Health staff attract award entitlements of six weeks annual leave per annum, with entitlements increasing further depending on the incidence of time worked on Sundays and public holidays. In such instances, and using the public sector benchmark of two years accrual as a guide, its staff may not be in an excess leave position until the accrual exceeds 70 days.

4 A significant number of staff in the Department of Environment, Climate Change and Water (1,296 at 30 June 2010) accrue additional annual leave (above 20 days) as compensation for working week-ends or public holidays, or residing in the Western or Central Districts of NSW, and therefore the benchmark may not be appropriate for those staff.

5 According to the New South Wales Department of Premier and Cabinet's 2009-10 Workforce Profile Snapshot Report there were 317,233 full time equivalent public sector employees in 2010. The number of employees noted in the table above is based only on the significant agencies analysed and reported in our 30 June 2010 financial audit volumes.

The table above shows that the percentage of employees with more than 40 days of leave is most pronounced in the Police & Emergency Services and Health clusters. It should be noted that some Health workers are actually entitled to up to six to seven weeks of annual leave a year.

The following graph shows how the individual clusters compare to the average, which is 16.6 per cent of employees having more than 40 days leave:



Whilst there have been many examples where agencies have improved leave management practices and managed to reduce leave balances progressively over the past few years, I identified:

- instances where the management of leave is decentralised and not monitored at the executive level
- many instances where employees had over 200 days of annual leave accumulated and, in one case, 277 days
- many agencies that do not have leave management plans in place for employees with significant leave balances
- agencies where over one quarter of employees had more than 40 days annual leave accumulated
- agencies where the annual leave balances continue to increase year-on-year.

Excess leave entitlements can have adverse effects, including an ever increasing financial liability as salary rates increase over time. Large leave balances expose entities to significant payouts when employees leave the organisation.

The health and welfare of staff can also be adversely affected if they do not take sufficient breaks from work during the year.

I made 12 recommendations regarding managing flex time to agencies in eight out of 13 clusters.

I made six recommendations regarding managing overtime to agencies in four out of 13 clusters.

Allowing excess annual leave balances also means employees performing key control functions may not be rotated regularly, which is a preventive control against fraud. Requiring employees to regularly take annual leave acts as a control mechanism to minimise fraud as fraudulent activities may be detected when perpetrators are on leave.

Entities need to manage excessive annual leave balances on an ongoing basis and maintain appropriate systems so that employees take annual leave regularly and that excessive accumulations do not occur.

### Flex Time Management

I recommended agencies each implement a centralised system for monitoring flex leave arrangements and ensure excessive flex time is not being accrued and forfeited by staff.

In my analysis of flex time management, I identified many instances whereby flex time was accumulated and forfeited by staff. This trend was prominent in agencies with a decentralised record keeping structure and manual approach to the maintenance of flex records.

The majority of agency staff are employed under flexible work practices. However, flex records at many agencies were decentralised and not managed at the corporate level. Accordingly, the extent to which flex time is accrued and used, and the balance accumulated by staff at 30 June 2010 was not able to be provided by many agencies. If not effectively managed, employees may be accruing and/or forfeiting excessive flex time.

### Overtime Management

I recommended many agencies review the effectiveness of their existing policies for managing overtime work and analyse the underlying reasons for overtime payments that are significantly more than base pay.

I identified:

- an instance where an agency's overtime bill was \$128 million with more than 413 employees being paid 50 percent or more of their annual salary in overtime
- instances where employees received overtime payments higher than their base salary.

On the other hand, one agency has reduced its overtime costs to \$32.8 million from \$40.7 million, as well as the number of staff earning more than 50 percent of base salary in overtime from 232 to 114.

The following table shows the average overtime received by employees within individual clusters:

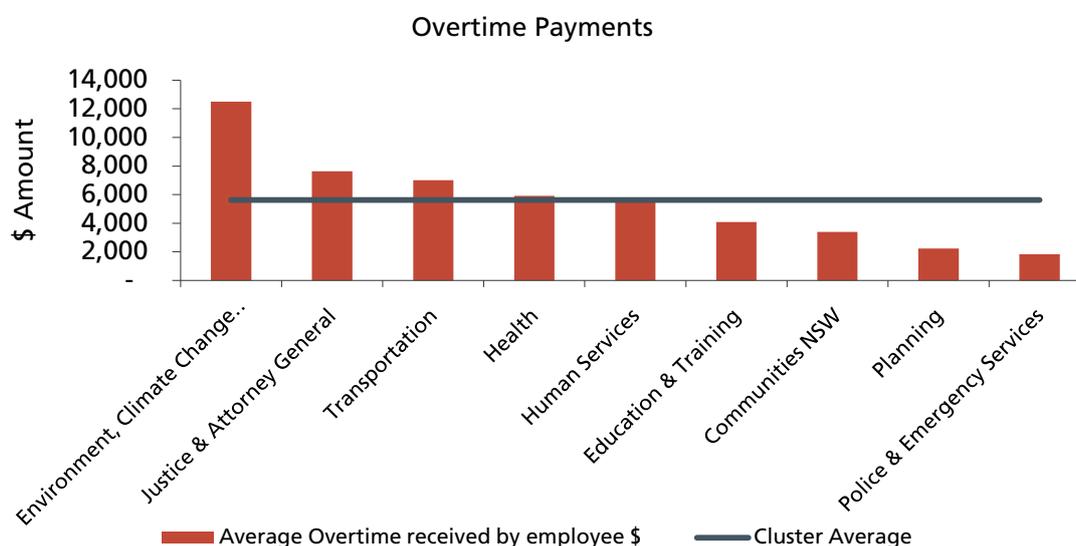
Cluster	Number of agencies in cluster <sup>1</sup>	Number of agencies analysed <sup>2</sup>	Total overtime paid \$'000 <sup>2</sup>	Number of employees receiving overtime <sup>2</sup>	Average overtime received by employee \$ <sup>2</sup>
<b>Environment, Climate Change &amp; Water</b>	43	4	27,658	2,214	12,492
<b>Justice &amp; Attorney General</b>	13	2	33,255	4,354	7,638
<b>Transportation</b>	25	12	218,491	31,138	7,017
<b>Health</b>	53	20	341,000	57,681	5,912
<b>Human Services</b>	15	2	36,368	6,287	5,785
<b>Education &amp; Training</b>	17	2	26,300	6,448	4,079
<b>Communities NSW</b>	32	2	581	171	3,400
<b>Planning</b>	23	1	18	8	2,234
<b>Police &amp; Emergency Services</b>	8	1	35,300	19,390	1,821
<b>Industry &amp; Investment</b>	44	--	--	--	--
<b>Premier &amp; Cabinet</b>	16	--	--	--	--
<b>Services, Technology &amp; Administration</b>	14	--	--	--	--
<b>Treasury</b>	37	--	--	--	--
<b>Total</b>	<b>340</b>	<b>46</b>	<b>718,971</b>	<b>127,691</b>	<b>5,631</b>

1 Represents the number of reporting entities in the cluster with 30 June year ends.

2 Represents significant agencies reported and analysed in Auditor-General's 2010 Financial Audit Report Volumes 3-11. Human resources details were not reported on for agencies where there were no significant findings as a result of our analysis.

The table above shows that employees in the Environment cluster received the highest overtime payments on average. The agencies reported as part of the Environment cluster include Water Corporations which, as State Owned Corporations, fall outside the responsibility of the principal department, the Department of Environment, Climate Change and Water.

The graph below shows how the individual clusters compare to the average overtime amount of \$5,631.



Managing overtime expenditure continues to be a challenge for some agencies. While some are making progress in reducing overtime, overtime continues to represent a significant employee related expense. Overtime can be a cost-effective approach to providing services in areas of low demand (like night time or rural areas), but needs to be managed carefully.

High levels of overtime can adversely affect financial and operational performance. Financially, premiums paid for overtime can lead to higher than necessary costs, while operationally, employees working high levels of overtime may result in health and safety issues.

## Effectiveness of Internal Controls

Each agency is responsible for developing and maintaining an adequate system of internal control to ensure that financial records and other information are complete and accurate, assets are adequately safeguarded, and errors and other irregularities are prevented or detected. Internal control procedures reduce variations in processes and procedures, leading to more predictable outcomes.

A good system of internal controls substantially reduces the risk of fraud and error and provides assurance to management and auditors that the amounts reported in entities' systems and financial statements are materially correct.

An integral part of the audit process is assessing the adequacy of an entity's internal control processes and identifying any weaknesses. In accordance with Australian Auditing Standards, these weaknesses and our recommendations for improvement are brought to the attention of management.

Weaknesses in internal controls identified during an audit will not necessarily result in a qualified auditor's opinion on an agency's financial statements. Often there are other control procedures in place that compensate for these weaknesses. Audit processes can be used to determine the level of risk of a material error occurring. A qualified auditor's opinion may only be required where a lack of appropriate internal controls causes significant uncertainty about the financial information being reported.

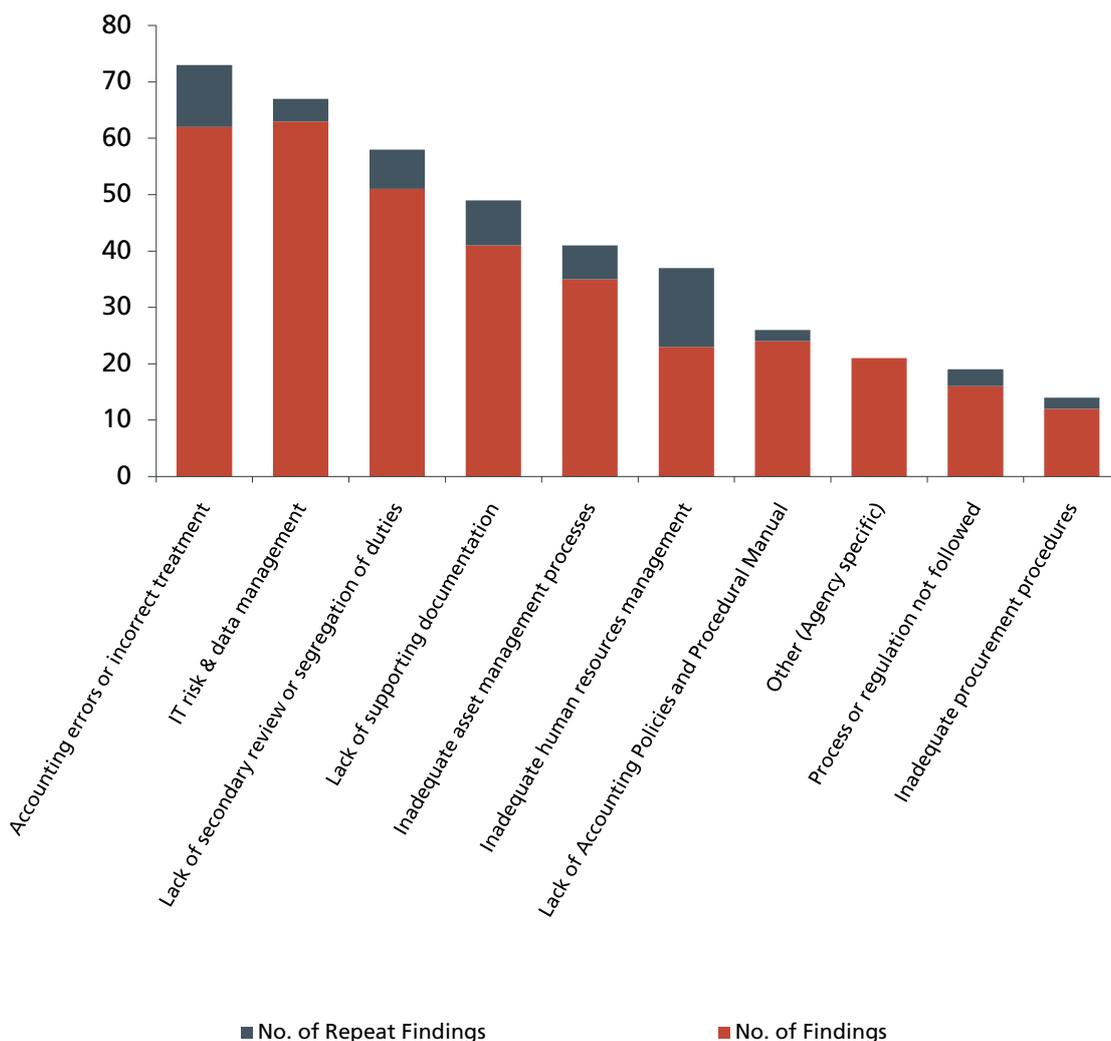
## Management Letters to Agencies

In addition to making recommendations to agencies in my reports to Parliament, I also provide management letters to agencies outlining my observations and recommendations identified in the current year's audit. The management letter also includes those issues identified in previous audits which have not been satisfactorily resolved by management (repeat issues).

Management letters are addressed to the Chief Executive Officer/Department Head or Chair of the Board (where applicable).

I analysed the recommendations made to 69 out of 345 agencies with a 30 June 2010 year end. This sample included a selection of large and small agencies. A total of 405 issues and recommendations were analysed. As a result, I identified a number of common issues where improvements need to be made across a number of agencies. These common issues are summarised in the table below:

Common Management Letter Issues



The top three common issues raised in my management letters to agencies related to accounting errors or incorrect treatment, IT risk and data management, and the lack of secondary review or segregation of duties.

I have identified that many smaller agencies, with limited resources, have difficulties in establishing and maintaining effective systems of internal control as well as in compliance with laws and regulations.

The New South Wales Government should consider, when establishing agencies, that they have sufficient resources and expertise (or access to them) to comply with the requirements of the *Public Finance and Audit Act 1983* and other legislation and regulations.

There appears to be a shortage of suitably qualified finance personnel in many agencies to establish and maintain robust internal control environments, correctly interpret accounting standards and produce quality financial statements. Agencies should review their human resources strategy to retain and attract skilled personnel.

The graph above is analysed in the following paragraphs.

## Accounting Errors or Incorrect Accounting Treatment

Of the 405 management letter issues reported to management over 70 were related to accounting misstatements, incorrect accounting treatment or deficiencies in financial statement disclosures. Misstatements occurred most frequently in agencies that do not undertake secondary reviews of main reconciliations, lack supporting documentation for account balances, or do not have appropriate segregation of duties.

This indicates, in many agencies, misstatements are the result of a combination of control weaknesses. If not addressed properly, the potential for misstatements in reported results and fraud is increased. Agencies must proactively address business process level controls to establish effective internal control environments.

## IT Data and Risk Management

The next most common management letter theme is inadequate IT control environment management. This encompasses the agency's process for addressing IT Security, Data Centre Management, and IT user management. For further details, refer to the Information System Audit section later in this overview.

## Lack of Secondary Review

Many agencies lack secondary review and approval of transactions and documentation. For example, reconciliations are not reviewed by independent officers, changes to financial systems such as accounts payable data and payroll master files are not monitored. Intentional or unintentional errors in the data can have a large effect on the accuracy and validity of transactions. It is, therefore, important that there is adequate management oversight for independent checking and verification.

## Segregation of Duties

A number of agencies were unable to maintain satisfactory segregation of incompatible duties in the revenue, payments and payroll areas due to their small size. Whether by design, or because of resource constraints, a lack of segregation of duties increases exposure to fraud by providing opportunity, without any checks and balances to detect such activity.

## Lack of Documentation

Many agencies were found to not have adequate documentation to support management's assertions for significant account balances. This encompasses a lack of reconciliation between general ledgers and subsystems, incorrect reconciliations, reconciling differences not cleared or explained, and no documentation to support account balances.

## Inadequate Asset Management

Many agencies do not have adequate controls around managing assets, from acquisition, to recording, depreciation, revaluation and disposal. The Audit Office undertook a compliance review on Total Asset Management (TAM) at selected agencies in 2009. None of the agencies reviewed fully complied with the Government's TAM requirements. I identified material issues which resulted in qualification of my compliance review report for each agency.

Refer to the following link for further details:

[www.audit.nsw.gov.au/publications/reports/financial/2009/vol12/pdf/06\\_compliance\\_review\\_report\\_-\\_total\\_asset\\_management\\_volume\\_12\\_2009.pdf](http://www.audit.nsw.gov.au/publications/reports/financial/2009/vol12/pdf/06_compliance_review_report_-_total_asset_management_volume_12_2009.pdf)

## Inadequate Human Resources Management

I conducted a review of human resource issues across agencies, focussing on contract staff, excessive overtime, management of annual leave, the employee age profile and management of flex leave in 2010. There were a large number of repeat findings in this category. The results of this review were summarised earlier in this report.

## Accounting Policies and Procedural Manual

A number of agencies lack or fail to update formal accounting manuals and policies and procedures, including a formal fraud control plan. Having up-to-date accounting policy and procedural manuals is necessary for establishing an effective control environment.

### Agency Specific Issues

Over 20 recommendations were specific to individual agencies, and there is no emerging common theme from them. I do not comment in this overview on agency specific issues.

### Process/Regulation not followed

Many entities received a recommendation for not correctly following policies and procedures, inappropriate expenditure approval levels, or non compliance with legislative requirements or Treasurer's directions. If the procedures set out in the accounting manual are not followed, the potential for fraud is increased.

### Inadequate Procurement Procedures

A small number of agencies had issues relating to expenditure and accounts payable controls including procurement practices, inadequate checking of expenditure transactions processed, lack of controls in managing purchase orders and receipting goods.

Elsewhere in this volume are the results of my e-procurement compliance review.

## Quality and Timeliness of Financial Reporting

I recommended the Premier and the Treasurer implement the recommendations of the Public Accounts Committee relating to the quality and the timeliness of financial reporting and ensure they have appropriate policies and processes to support the successful implementation of the recommendations.

In previous years I have expressed concerns about the quality and timeliness of financial reporting. While I recognise that events occur after the Budget is tabled in early June, I believe improved financial information would better inform the budget process and reduce subsequent variations and revisions.

The quality and timeliness of the General Government and Total State Sector Accounts is largely dependent on:

- the quality and timeliness of financial information provided by agencies
- The Treasury's year end processes including coordination and guidance to agencies
- the competency of those preparing and providing financial information.

Most agencies were required to submit their 30 June 2010 financial statements to the Audit Office by 11 August 2010 and the audits were to be completed within 10 weeks, or by 20 October 2010.

The table below details the number of audit opinions signed on agencies' 30 June 2010 financial statements by month and by cluster in 2010.

Cluster	August	September	October	November	December	Outstanding	Total
<b>Communities NSW</b>	1	2	28			1	<b>32</b>
<b>Education &amp; Training</b>		5	10			2	<b>17</b>
<b>Police &amp; Emergency Services</b>			8				<b>8</b>
<b>Environment, Climate Change &amp; Water</b>		8	31		2	2	<b>43</b>
<b>Health</b>		11	21	5	3	13	<b>53</b>
<b>Human Services</b>		1	13			1	<b>15</b>
<b>Industry &amp; Investment</b>		20	20	1		3	<b>44</b>
<b>Justice &amp; Attorney General</b>	1		10			2	<b>13</b>
<b>Planning</b>		2	15	5		1	<b>23</b>
<b>Premier &amp; Cabinet</b>		5	9	2			<b>16</b>
<b>Services, Technology &amp; Administration</b>			14				<b>14</b>
<b>Transportation</b>		3	22				<b>25</b>
<b>Treasury</b>	1	12	20	4			<b>37</b>
<b>Total <sup>1</sup></b>	<b>3</b>	<b>69</b>	<b>221</b>	<b>17</b>	<b>5</b>	<b>25</b>	<b>340</b>

<sup>1</sup> The table above excludes University audits which have a 31 December year end and the Total State Sector financial statements which are a consolidation of individual agencies.

The table above shows that 65 per cent of my audit opinions on agencies' 30 June 2010 financial statements were signed in October and 14 per cent were signed from November onwards. At the end of the year, 25 (7 per cent) of my audit opinions had not been signed and about half of those outstanding were various Registration Boards in the Health cluster.

The financial reporting and audit processes for these Boards were delayed as a result of changes arising from the abolition of the entities and transition to a national scheme of registration.

The two outstanding audits in the Justice and Attorney General cluster were request audits which have no statutory deadline for completion.

The production of high quality and timely financial reports by agencies is essential for Government decision making and effective delivery of services. It also enhances public sector accountability.

During 2009-10, The Treasury piloted a 'hard close' initiative to improve the quality and timeliness of financial reporting. Because the initiative was only partially implemented by some of the piloted agencies, it is difficult to determine how successful the initiative was. However, I firmly believe the full implementation of hard close procedures across the sector will result in improved quality and timeliness of financial reporting.

In October 2010, the Public Accounts Committee released a report on the Quality and Timeliness of Financial Reporting. The Committee recommended:

- the Treasurer require all agencies to conduct a hard close of their accounts at 31 March from 2011
- the Treasurer propose amendments to the *Public Finance and Audit Act 1983* requiring chief financial officers to certify their financial reporting systems
- the Premier ensure that accountability for accurate and timely financial reporting is included in all chief executive officers' performance agreements
- the Treasurer develop and implement a program to bring forward the deadline for the tabling of annual reports in Parliament to three months after the end of the financial year by 2013 at the latest
- the Treasurer consider proposing amendments to prescribe minimum qualifications of chief financial officers in the *Public Finance and Audit Act 1983*.

Implementing the recommendations will pose significant challenges for The Treasury, my Office and Government agencies, which need to be addressed.

In response to the recommendations, the Treasury has strongly encouraged larger agencies to implement early close procedures for 2011. Treasury Circular 11/01 'Early Reporting Program – Strategy to improve the quality and timeliness of financial statements and Annual Reports' sets out a number of procedures for agencies to perform before 30 June 2011 to improve the quality and timeliness of financial statements.

In 2010, the Treasury wrote to agencies about the need to certify financial systems. In February 2011, the Treasury wrote again providing greater detail as to the certification. The certification will confirm whether agencies have effective systems, processes and internal controls to ensure financial information provided to the Treasury is relevant and reliable. In order for agencies to table their annual reports by 30 September each year (three months after year-end), the Audit Office will need to complete financial audits before that date. In 2010, I issued 72 or 21 per cent of our audit opinions by 30 September.

## Audit Opinions

I issued audit opinions based on the results of my audit procedures on 30 June 2010 financial statements. The types of opinions that I issued included the following:

Unqualified opinion: the opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the financial reporting standards.

Qualified opinion: the opinion expressed when the auditor concludes that the financial statements are materially misstated or when the auditor is unable to obtain sufficient appropriate audit evidence to support an unqualified opinion.

Emphasis of matter: a paragraph included in the auditor's report to highlight a matter affecting the financial statements. This does not affect the auditor's opinion.

In the following table I have summarised the types of audit opinions that were issued for completed financial statement audits for 30 June 2010 by cluster.

Cluster	Unqualified	Qualified	Emphasis of matter	Outstanding	Total
<b>Communities NSW</b>	30	1		1	<b>32</b>
<b>Education &amp; Training</b>	15			2	<b>17</b>
<b>Police &amp; Emergency Services</b>	8				<b>8</b>
<b>Environment, Climate Change &amp; Water <sup>1</sup></b>	39	1	1	2	<b>43</b>
<b>Health</b>	38	2		13	<b>53</b>
<b>Human Services</b>	13		1	1	<b>15</b>
<b>Industry &amp; Investment</b>	37		4	3	<b>44</b>
<b>Justice &amp; Attorney General</b>	11			2	<b>13</b>
<b>Planning</b>	19	1	2	1	<b>23</b>
<b>Premier &amp; Cabinet</b>	16				<b>16</b>
<b>Services, Technology &amp; Administration</b>	13		1		<b>14</b>
<b>Transportation</b>	25				<b>25</b>
<b>Treasury</b>	33	3	1		<b>37</b>
<b>Total</b>	<b>297</b>	<b>8</b>	<b>10</b>	<b>25</b>	<b>340</b>

<sup>1</sup> The qualified independent audit report was provided to a Water Corporation.

The reasons for the qualified opinions were:

- an inability to obtain all relevant information required to recognise and value certain assets
- an inability to conclude on the completeness of income from voluntary contributions to trusts and charities
- agencies incorrectly applying accounting standards.

## Financial Reporting Systems

Last year I recommended that The Treasury and Department of Premier and Cabinet take lead roles in monitoring, supporting and reporting on the implementation of common financial reporting and support systems within the new principal departments.

During my audits of amalgamated agencies I identified:

- some agencies are yet to make significant progress on implementing common financial reporting and support systems to leverage synergies expected from the amalgamations
- additional costs associated with the amalgamations are not readily identifiable
- systems have not been put in place to capture and report cost savings associated with the initiative
- seven of the 24 largest agencies' financial statements for the year ended 30 June 2010 submitted for audit contained 24 errors exceeding \$20.0 million.

The financial reporting process is complicated by the structure and number of reporting entities in the New South Wales public sector. The Public Accounts Committee has recognised the challenges faced by principal departments following the reorganisation in reporting comprehensively and succinctly on several diverse functions. If we consider the objective of improving the timeliness of Government reporting, these changes represent a real challenge to the public sector.

The importance of implementing quality financial reporting systems is further emphasised when the number and dollar value of misstatements, corrected and uncorrected, identified in my 30 June 2010 financial audits is considered. I identified 957 misstatements of which 510 needed to be corrected by the agencies before I could issue my audit opinions. There will need to be a significant reduction in the number of misstatements if the public sector is going to improve the timeliness of its reporting.

Four out of 13 clusters had more than 100 individual misstatements. I have summarised these errors by cluster in the table below:

I identified 957 misstatements of which 510 needed to be corrected by the agencies before I could issue my audit opinions.

Clusters	Number of agencies in cluster <sup>1</sup>	Number of corrected misstatements	Number of uncorrected misstatements	Total	Number of misstatements per agency (average) <sup>2</sup>
<b>Planning</b>	23	65	48	<b>113</b>	5
<b>Justice &amp; Attorney General</b>	13	27	27	<b>54</b>	4
<b>Human Services</b>	15	37	18	<b>55</b>	4
<b>Police &amp; Emergency Services</b>	8	16	8	<b>24</b>	3
<b>Communities NSW</b>	32	54	32	<b>86</b>	3
<b>Health</b>	53	70	101	<b>171</b>	3
<b>Transportation</b>	25	20	45	<b>65</b>	3
<b>Education &amp; Training</b>	17	33	16	<b>49</b>	3
<b>Industry &amp; Investment</b>	44	74	39	<b>113</b>	3
<b>Environment, Climate Change &amp; Water</b>	43	50	55	<b>105</b>	2
<b>Premier &amp; Cabinet</b>	16	16	16	<b>32</b>	2
<b>Treasury</b>	37	32	37	<b>69</b>	2
<b>Services, Technology &amp; Administration</b>	14	16	5	<b>21</b>	1
<b>Total</b>	<b>340</b>	<b>510</b>	<b>447</b>	<b>957</b>	<b>3</b>

1 Represents the number of reporting entities in the cluster with 30 June year-ends.

2 Calculated as the total number of misstatements divided by the number of agencies in the cluster.

It should be noted in the above table that the average number of misstatements statistic can be distorted where there are a large number of non-operating entities and employment divisions with a low incidence of errors.

In dollar terms, the impact of the above-mentioned corrected and uncorrected misstatements on net assets and income is summarised in table below:

Cluster	Corrected misstatements		Uncorrected misstatement <sup>1</sup>		Total	
	Net assets	Income	Net assets	Income	Net assets	Income
	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)	Increase / (decrease)
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Transportation</b>	3,281.5	3,285.7	(174.6)	(217.1)	3,106.9	3,068.6
<b>Treasury</b>	122.6	147.5	1.9	(2.9)	124.5	144.6
<b>Health</b>	(198.4)	23.7	(41.1)	40.4	(239.5)	64.1
<b>Planning</b>	(27.9)	57.2	(43.4)	2.1	(71.3)	59.3
<b>Communities NSW</b>	57.1	49.1	(0.1)	(0.3)	57.0	48.8
<b>Industry &amp; Investment</b>	(20.8)	(39.6)	2.3	3.1	(18.5)	(36.5)
<b>Human Services</b>	(12.2)	(18.0)	291.2	(1.8)	279.0	(19.8)
<b>Education &amp; Training</b>	(11.5)	(10.9)	(2.5)	(5.8)	(14.0)	(16.7)
<b>Police &amp; Emergency Services</b>	1.8	1.8	0.4	0.6	2.2	2.4
<b>Premier &amp; Cabinet</b>	(0.4)	(1.5)	(0.1)	(0.1)	(0.5)	(1.6)
<b>Services, Technology &amp; Administration</b>	1.6	1.6	(0.1)	(0.1)	1.5	1.5
<b>Environment, Climate Change &amp; Water</b>	30.5	4.3	(8.1)	(4.6)	22.4	(0.3)
<b>Justice &amp; Attorney General</b>	0.1	(4.2)	3.1	4.4	3.2	0.2
<b>Total</b>	<b>3,224.0</b>	<b>3,496.7</b>	<b>28.9</b>	<b>(182.1)</b>	<b>3,252.9</b>	<b>3,314.6</b>

1 Uncorrected misstatements were not corrected as they were immaterial to the financial statements.

Further details of the five largest misstatements are provided below:

Significant errors included:		
Agency	Amount	Nature of error
<b>Roads and Traffic Authority</b>	\$4.3 billion <sup>1</sup>	Misstatement of earthwork assets <sup>2</sup>
<b>Roads and Traffic Authority</b>	\$1.0 billion <sup>1</sup>	Spreadsheet error in roads valuation <sup>3</sup>
<b>Department of Health</b>	\$188 million <sup>1</sup>	Misstatement in property, plant and equipment values
<b>Crown Finance Entity</b>	Commercial in confidence	Non-deferral and amortisation of components of NSW Lotteries transaction
<b>Crown Finance Entity</b>	\$147 million <sup>1</sup>	Misstatement in tax receivables

1 Corrected in individual agency financial statements

2 The misstatement of earthwork assets related to the determination of the balance of accumulated depreciation for these assets. The process of determining the fair value of earthwork assets is complex and requires significant judgment. The Roads and Traffic Authority took all reasonable steps to revise its accounting estimates well in advance of year end.

3 The misstatement identified represents less than 2% of the Authority's infrastructure asset base. The Roads and Traffic Authority advises that it will review all valuation models as part of the 2010-11 year end accounts preparation process.

## Information Systems Audit

I completed information system related audit and review activities to support my financial statement audits. The key focus of these reviews is to assess agency General Computing Controls (GCC) whose primary purpose is the attestation of control effectiveness over data integrity, availability and security.

I also undertook Application Implementation reviews which are completed for selected high risk information technology projects. These two activities are described as follows:

GCC reviews address four areas:

GCC Audit Area	Description
<b>Information Security</b>	Verification of the controls that lead to the prevention or detection of unauthorised use of, and changes to, data, systems or programs including the establishment of system-based segregation of duties.
<b>Data Centre and Network Operations</b>	Verification of the controls over the integrity of information as it is processed, stored, or communicated by the relevant components of the Information Technology infrastructure.
<b>Disaster Recovery Planning</b>	Verification of the controls surrounding the establishment and testing of plans relating to disaster recovery (including back-up), protecting the capability of critical systems availability and recovery.
<b>System Change Control</b>	Verification of the controls over application systems, database management systems, network and communication software, systems software, and hardware – verifying that they have been effectively acquired, developed, implemented, and maintained.

Weaknesses in information security management and practices accounted for 61 per cent of the issues raised from my information system audits of the largest 60 agencies.

I noted that many agencies are migrating to new enterprise and financial systems, and this introduces financial and technology management risks. Accordingly, I have initiated Application Implementation Reviews to be completed for selected large projects. The purpose of these reviews is to assess key project governance and management activities, addressing the following four areas:

Application implementation review	Description
<b>Project Governance</b>	Review of mandate and activities of oversight bodies, review of risk management procedures and processes.
<b>Project Management</b>	Review of project methodology and plans and an assessment of change management, training, communication, testing procedures and stakeholder engagement.
<b>Financial Management</b>	Verification of financial accounting and reporting, as well as budget and expenditure tracking to deliverables.
<b>IT Solution Management</b>	Assessment of activity management within the resources and capabilities of the organisation.

In late 2009, I undertook a review of the Information Technology (IT) landscape and developed a three year strategy that includes broadening the Audit Office's coverage of IT risk and to add value. Accordingly, my information system audit approach changed with a greater emphasis on IT technical skills and knowledge supported by automated security analyses and data mining tools.

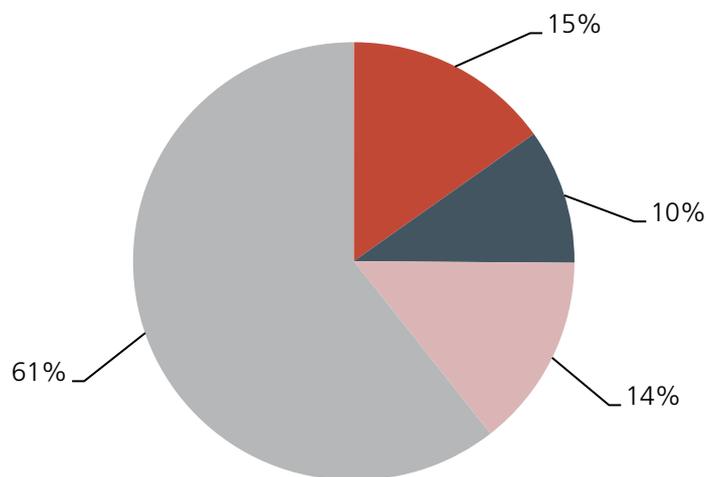
These activities resulted in:

- improved and augmented use of data mining and interrogation tools to examine and query both data and transactions
- an increased use of automated tools to assist with security assessments of IT environments supporting key financial systems
- tailored technical IT audit programs to specifically focus on application security and segregation of duties for critical financial application systems in particular, Enterprise Resource Planning (ERP) applications such as SAP, Oracle and PeopleSoft.

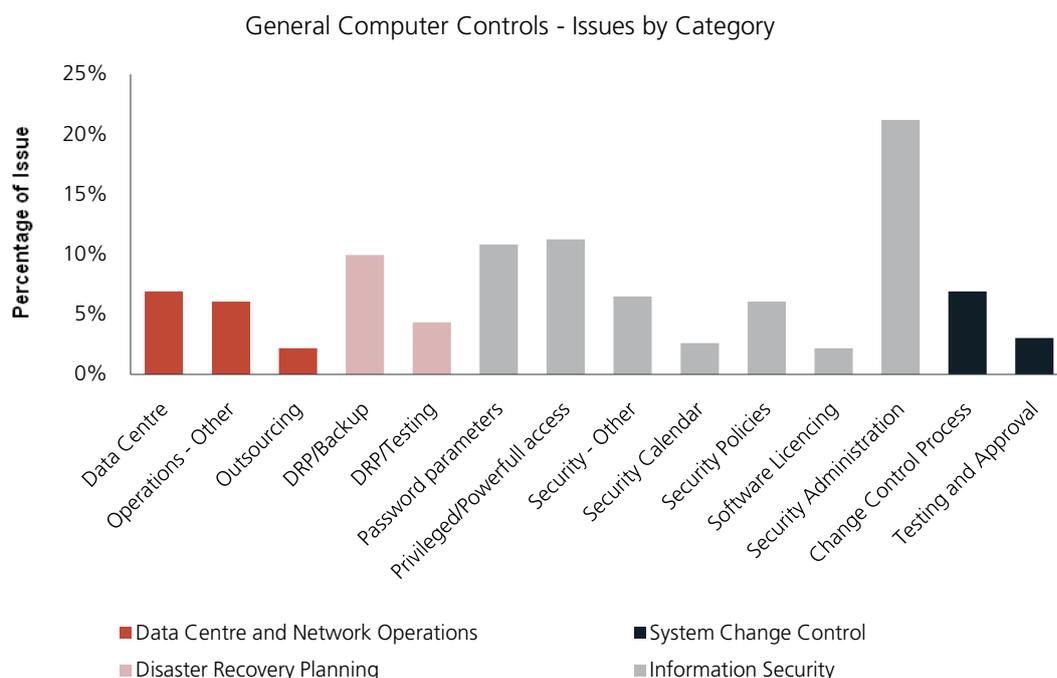
### What Did I Find in 2010 – General Computing Controls

In reviews of the largest 70 agencies, I noted issues with respect to all four GCC areas as indicated in Figure 1. The majority of issues identified pertain to information security management and practices (61 per cent), data centre and network operations (15 per cent), disaster recovery planning (14 per cent), and system change control (10 per cent).

General Computer Controls - Issues by Audit Area



■ Data Centre and Network Operations ■ System Change Control ■ Disaster Recovery Planning ■ Information Security



The following are 'examples' of the type of common weaknesses that were identified in a variety of agencies:

- security features that provide user accountability and enforce data security are not effectively used and configured. For example:
  - at one agency, 547 users (83 per cent) had never changed their passwords
  - at one agency, 71 per cent of user accounts had been inappropriately granted access to install their own software
- terminated contractors retaining access to the financial system
- network users with administrative access allowing the installation of unlicensed software. Further, there is no process to track unlicensed software
- external service providers with unrestricted access to privileged user accounts
- non-compliance with change control procedures allowing unauthorised users to make program changes
- no testing of the disaster recovery plans.

In large agencies, there are a myriad of business systems, complex networks and a large number of users. Managing information security in such environments is complex. In addition, there are many components that form a security environment and these components must be managed in a holistic manner to allow for good information security practices. As noted by many before me - information security is only as strong as the weakest link.

Many agencies use large Enterprise Resource Planning (ERP) applications such as SAP. I noted that a number of these agencies did not understand or identify security risk within the ERP and had not established an effective security framework including segregation of duties. As ERP security management is relatively new to most agencies, I recommend that the government establish guidelines, principles and training for all agencies that use ERP systems.

Software licencing is an area of risk. I noted that some agencies were not complying with licence agreements and many agencies did not have an effective process for proactively managing licence usage as agreed in software contracts. This issue places agencies at risk of severe fines by the software vendors. In fact, I did note one agency that paid a fine of almost \$500,000 for exceeding the use of approved licences.

Many agencies use external service providers to support day-to-day IT operations. These providers are often granted highly privileged access. While outsourcing can be an appropriate business strategy, there seems to be a view by some agencies that they can outsource both operational and reputational risk to the provider, and accordingly, do not monitor the provider's activities. I have highlighted to those agencies the need to monitor outsourced activities and the corresponding risk. However, some agencies still do not fully appreciate the resulting risks.

I also noted issues with respect to the management of disaster recovery planning. While many agencies have effective and tested recovery procedures and plans, there are also a number that are not adequately managing their risk of loss of information technology services. As a result, for some agencies there is a real risk of not being able to provide services should they lose some or all of their information technology resources.

My reports recommended that agencies should:

- establish minimum security standards, policies, and rules while recognising that individual agencies need to assess their own risk and may need to put in place a higher level of protection
- build awareness of the need to understand and manage information security and availability risk
- implement effective security administration processes
- implement a formal process to track software licenses and track unauthorised installations
- implement monitoring and review procedures so that all external service provider activities are effectively and appropriately managed
- develop and test disaster recovery plans.

### What Did I Find in 2010 – Application Implementation Reviews

In 2010, I undertook two Application Implementation Reviews. In both cases I noted that project governance practices were implemented. These practices included oversight committees and the regular reporting of project progress, issues and cost monitoring. While these practices were appropriate for the projects, I noted that the governance committees were too far removed from the project and were not receiving complete and transparent information.

In one project, I noted poorly communicated risks and issues. Specifically, critical issues were not being raised and in fact, were being closed without following due process. As a result, the committees did not have a fair view of the project issues, risks and progress - placing the entire project at risk.

In any project there are three competing challenges, being - cost, time and quality. I noted that project management practices were implemented in line with industry standards to help manage all three challenges. However, while there were processes to comply with these standards, I noted that cost and time were often managed at the expense of quality.

I am particularly concerned with the lack of effective user engagement and feedback resulting in poorly designed and implemented processes. I also noted that there was a culture of blaming users by both the project and senior management. Project management and senior management must make every effort to ensure transparency and that users are respectfully engaged and assisted in the transition to ensure quality outcomes.

### Landscape for 2011

Plans and efforts are being made by agencies to streamline systems and processes into common platforms which have led to a number of major initiatives and projects. Barring any changes to these IT strategies and initiatives, I will be adjusting our focus to identify their related potential risk exposures.

As a result, I plan to:

- develop strategies and tactics to address concerns regarding possible procurement frauds
- boost my capacity to identify agency officers who make deals with their own companies

- perform more detailed technical IT audits to identify risks and exposures associated with the core General Computer Control areas
- address the existence and appropriateness of automated controls within key financial applications to identify the extent of preventive controls, ensuring accuracy, validity and completeness of data
- carry out selected Application Implementation Reviews to ascertain and report the effectiveness of project management and control of application solutions prior to implementation.

## Performance Audit Reports

Performance audits provide independent assurance to Parliament and the public that government activities are being undertaken efficiently, economically, effectively, and in accordance with the law. Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government services.

### Common Themes in Recent Performance Audits

In the 18-month period from 1 July 2009 to 31 December 2010, I published 23 performance audit and performance review reports.

These reports identify a number of common weaknesses in management arrangements for government programs. The table overleaf shows that over half the programs I examined had limitations in accountability, performance measurement and information quality. Some also showed a lack of interagency coordination and prevention, despite these being government priorities.

### Lack of Transparency And Accountability

Accountability is a cornerstone of good governance and management arrangements. Clear accountability in roles and contracts supported by well documented and transparent decision making are key to accountable government. However, in nearly two thirds (14 out of 23) of the programs I examined I found weaknesses in transparency and accountability. This included lack of clear responsibilities, poor management oversight and reporting, or the absence of supporting information for the decisions made.

For example, the Electronic Information Security audit found that the Government is not able to provide assurance that it is safeguarding its holdings of sensitive personal information because its policy has not been properly implemented. I recommended strengthening the responsibility of CEOs to sign-off on security arrangements and to enforce strong action when security breaches occur. They should also be held to account through their performance agreements.

The absence of adequate supporting information is best illustrated in the NSW Lotteries Sale Transaction report, where there was no audit trail of supporting information retained for key recommendations of the Sale Transaction Review Committee. The absence of documentation conflicts with one of the principles outlined in the Probity Plan for the Sale which focused on transparency and accountability.

### Poor Information

I also found poor quality of information hampered management in around half (12 out of 23) of the programs I examined. Quality includes completeness and accuracy of information to support decision making, but also extends to relevance, timeliness and accessibility.

In the Mental Health Workforce report, for example, I found it impossible to obtain accurate information on the size of the mental health workforce, or of recent increases, because data is inconsistent and in places inaccurate. This reduces NSW Health's capacity to plan its services and workforce effectively.

Over half the Performance Audits recently conducted identified limitations in accountability, performance measurement and information quality.

In my report on the Australian Museum, Knowing the Collections, the lack of a complete central database meant that management did not know the size, location, condition or value of its collections. This made it difficult to set priorities and strategies for managing and storing the collection and left it vulnerable to theft and deterioration.

Similar issues are likely in other museums and in departments with substantial (manual) record keeping.

### Poor Performance Management

I found poor performance management occurred in nearly half (10 out of 23) of the activities audited in the last 18 months. Setting service delivery standards in contracts or service agreements, and monitoring performance against them, is becoming increasingly important as more and more of the delivery of government services is outsourced.

Too often, such service arrangements are set up without proper performance management in place. An example of this I found was reported in Improving the Performance of Metropolitan Bus Services. While I noted that service delivery, payments and budgets are closely monitored, four years after their contracts came into effect, a performance management regime is still being developed.

I identified similar weaknesses in monitoring performance in the Environmental Grants Administration and Electronic Information Security reports. And I can see continuing risks in this area with the expansion of shared service providers and Non Government Organisations in service provision to and for government.

### Poor Coordination between Agencies

Government agencies often have to work together to implement Government policy in a consistent and equitable way. Five of the activities I examined in performance audits recently suffered from poor coordination of services. These occurred between government departments, and between them and the Non Government Sector.

For example, the Administering Domestic Waterfront Tenancies audit found operational differences between the two government departments involved that resulted in different rents and conditions for similar tenants. Fragmented and delayed reviews by the departments of practices had triggered criticism by tenants.

One of the government's aims with the 2009 amalgamations of departments into 'super agencies' (see earlier) is to improve coordination of services for such clients. I will continue to monitor the implementation of such changes in 2011, including those associated with the creation of new Local Health Networks and Clusters within NSW Health, as well as progress on the State Plan itself.

### Limited Focus on Prevention and Early Intervention

Another emerging theme in my work over the last 18 months is the limited implementation of prevention and early intervention initiatives. This is despite the fact that a priority of the NSW State Plan (published in 2006, and revised in 2010) was to embed early intervention into the core workings of Government.

In the Helping Aboriginal Defendants through MERIT audit, for example, I found that, although MERIT is recognised as a highly appropriate intervention program for Aboriginal defendants, in 2007-08 it reached only 273 out of around 19,000 Aboriginal defendants who appeared before the court. Since 2006, despite its proven potential, MERIT has only been rolled out to one additional court. There are a number of very busy courts with a high proportion of Aboriginal defendants where MERIT is not available. Likewise, I found participation had declined in another program with potential to divert offenders from prison: *Home Detention*. This is despite four reviews of the program since 2004 recommending it be expanded.

Title	Transparency and accountability	Information quality	Performance management	Interagency coordination	Prevention and early intervention
Mental Health Workforce	✓	✓		✓	✓
Sick Leave	✓	✓			
Coal Mining Royalties	✓	✓	✓		
NSW Lotteries Sale Transaction	✓				
Electronic Information Security	✓		✓	✓	
Helicopter Emergency Medical Service Contract					
Pollution Incidents		✓	✓		
Home Detention		✓			✓
Knowing the Collections		✓			
Government Investment in V8 Races at Sydney Olympic Park	✓	✓		✓	
Severance Payments to Special Temporary Employees	✓				
Access to Overnight Centre-Based Disability Respite	✓	✓	✓	✓	✓
Injury Management	✓	✓	✓		
Improving the Performance of Metropolitan Bus Services			✓		
Road Safety in School Zones					
Working With Children Check	✓	✓	✓		
Managing Forensic Analysis: Fingerprints and DNA		✓	✓		
Government Advertising	✓				
Handback of the M4 Tollway	✓				
Government Licensing Project	✓				
Administering Domestic Waterfront Tenancies				✓	
Environmental Grants	✓	✓	✓		
Helping Aboriginal Defendants through MERIT			✓		✓
<b>23 reports</b>	<b>14</b>	<b>12</b>	<b>10</b>	<b>5</b>	<b>4</b>

Source: Auditor-General's Performance Audit and Performance Review Reports, Numbers 189 to 210.

## The Wider Watch

I have maintained watching briefs on a wide range of government programs and initiatives in recent years to inform the selection of performance audits or other reviews. Some of these translated into reports published in the last 18 months, including Government Advertising, Government Investment in V8 Supercars, the NSW Lotteries Sale Transaction. Others will be published in 2011, including: Planning to Support the Barangaroo Development, Planning for the State's Solar Bonus Scheme and possibly, the Sale of Electricity Assets and the Sale of Waste Services.

Not all watching briefs end up as performance audit reports. Some are reported elsewhere in my Financial Audit Volumes (such as my work on the government's discontinued projects to build the Sydney Metro and the Tillegra Dam, and on the 'Be Aware Take Care' government advertising campaign run by the WorkCover Authority of NSW).

Others do not proceed to any published report. These include a number where my initial examination has found no serious or substantial waste to justify further work. These include 27 protected disclosures containing a range of allegations covering mainly employment, contracting and purchasing matters.

My staff have proceeded no further on some potential performance audit topics because, after initial enquiries, I am satisfied that agencies are aware of these issues and have plans in place to address them. Examples include: Overcrowding in Juvenile Justice Centres and Performance of Taxi Services. It would be a waste of my limited resources to undertake a performance audit whilst such steps are in progress. I will keep these, and others like it, under watch in 2011, and consider undertaking further work if no improvements result.