



Appendix two – Status of 2016 recommendations




For a number of years, the Auditor-General has reported on financial control and governance issues as part of our annual reports to Parliament on each sector or cluster. This year, we have brought together our financial controls and governance audit findings into a single volume. This will help Parliament to better understand the finance and governance issues facing the NSW public sector as a whole.








While taking this strategic approach, the Audit Office continues to monitor how well agencies have implemented the recommendations we made in previous years.










This appendix lists the recommendations we made in our 2015–16 volumes for the 39 agencies covered in this report. Of those 53 recommendations, it was pleasing to see that only three have not been addressed at all. The three agencies involved should do so as a high priority.









At the same time, agencies have only fully addressed 32 per cent (17) of last year’s recommendations. This means that most recommendations (33 or 62 per cent) remain partially addressed.

While agencies should carefully review the findings and recommendations of this year’s financial controls and governance report, they should also continue to address the recommendations listed in this appendix.

Recommendation	Current status
Education	
The Department of Education should:	
<ul style="list-style-type: none"> continue efforts to reduce employees’ excess annual leave balances to meet whole-of-government targets 	The number of staff with excess annual leave balances reduced in 2016–17. Each month the Department analyses leave data and excess leave management reporting. It also asks staff to submit leave plans. 
<ul style="list-style-type: none"> consider the effectiveness of workplace health and safety strategies for addressing the rise in psychological injuries. 	Under its Corporate Safety Strategy, the Department continues to implement initiatives and programs to improve health and safety. These programs encompass injury prevention, support and rehabilitation for injured staff. 
Family and Community Services	
The Department of Family and Community Services should:	
<ul style="list-style-type: none"> self-assess its contract management framework against the Audit Office’s ‘Better Practice Contract Management Framework’ have a central contracts register and regularly update it centrally monitor and report on contract compliance. 	The Department has:  <ul style="list-style-type: none"> used the Framework to review and update its procurement management plans developed a central contract register started central monitoring of contract compliance.

Recommendation	Current status
Finance, Services and Innovation	
Agencies should:	
<ul style="list-style-type: none"> strengthen user access to critical financial systems. 	<p>Agencies have addressed some user access issues identified in prior years. But they still need to improve, as we found further access issues during the 2016–17 audits.</p> <p style="text-align: right;"></p>
The Department of Finance, Services and Innovation should:	
<ul style="list-style-type: none"> re-examine the significant transition breakdowns and apply learnings to projects currently being transitioned to the private sector 	<p>The Department has assessed key learnings and started the GovConnect Restart program to enhance the relationship with GovConnect and improve its performance.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> resolve any transition issues that remain between ServiceFirst and GovConnect immediately 	<p>The Department worked with GovConnect to improve its internal control environment. This avoided repeating the adverse opinion issued the previous year over the payroll process, and led to unqualified opinions for several business processes in 2016–17.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> develop key performance indicators to measure and assess its risk culture 	<p>In this audit, the service auditor issued qualified opinions on:</p> <ul style="list-style-type: none"> information technology services provided by Infosys the department's SAP system general ledger, payroll and accounts payable business process activities. <p>The Department addressed these issues by 30 April 2017.</p> <p>The Department has developed a benchmarking program to measure and assess its risk culture.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> review how risk management at an agency level is reported and monitored at the cluster level and introduce a more robust system to collate, manage, identify and escalate risk. 	<p>The Department reports on and monitors risk through the Quarterly Performance Review process, where each agency reports on its risk. The quarterly performance risk report allows each agency to highlight key risks and escalate risks or associated issues to the Secretary.</p> <p style="text-align: right;"></p>
Health	
The NSW Ministry of Health should:	
<p>issue guidance as soon as possible and work with each health entity to determine what should be done with dormant Restricted Financial Assets or funds whose purpose is unclear.</p>	<p>The Ministry issued guidance in October 2017 to help determine what should be done with:</p> <ul style="list-style-type: none"> dormant Restricted Financial Assets funds whose purpose is unclear. <p>The Ministry has asked health entities to report quarterly on the status of applications it has made to use dormant Restricted Financial Assets for other purposes.</p> <p style="text-align: right;"></p>
Industry	
Agencies should:	
<ul style="list-style-type: none"> improve the model for managing conflicts of interest using guidance from ICAC 	<p>Most agencies have addressed this recommendation, including updating their policies and procedures in line with the Public Service Commission's 'Behaving Ethically: a guide for NSW government sector employees' and the guidance from ICAC.</p> <p>Some agencies still need to improve, with one not regularly maintaining its conflicts-of-interest register.</p> <p style="text-align: right;"></p>

Recommendation	Current status	
<ul style="list-style-type: none"> ensure they have an appropriately designed government contracts register that complies with Part 3 Division 5 of the <i>Government Information (Public Access) Act 2009</i> 	Agencies continue to address this recommendation by: <ul style="list-style-type: none"> implementing new procedures to cross-reference contracts with the published GIPA response on e-Tender reconciling registers and finance information monthly implementing a centralised contracts register. 	
<ul style="list-style-type: none"> continue efforts to reduce employee annual leave balances to meet whole-of-government targets. 	Agencies continue to address this recommendation by: <ul style="list-style-type: none"> monthly monitoring and reporting of excessive leave requiring staff with excess leave to submit plans for taking leave. 	
The Department of Industry should:		
<ul style="list-style-type: none"> action internal control issues promptly 	The Department is addressing this recommendation, but some internal control issues remain unresolved.	
<ul style="list-style-type: none"> implement risk management across the cluster 	The Department implemented a revised risk framework as part of its approach to continually improve its risk maturity. Improvements include increasing the links between the cluster's strategic planning and risk frameworks.	
<ul style="list-style-type: none"> sign service agreements with all serviced divisions and agencies. 	The Department has signed agreements with the entities it provides significant services to. These agreements include an annual review process. The Department has completed some simplified agreements for user entities it provides fewer services to. But it is still finalising others.	
The Office of Sport should:		
<ul style="list-style-type: none"> in its capacity as a shared service provider, provide agencies with independent assurance over the operating effectiveness of its controls 	The Office did not give any independent assurance in 2016–17. The Office does not consider itself to be a formal shared service provider as it only provides shared services to agencies within the sport portfolio. And employees of these agencies are employed by the Office.	
<ul style="list-style-type: none"> collect information on purchase orders raised after invoice date and set targets to improve performance 	The Office monitors and follows-up instances where purchase orders are raised after invoice date. However, it does not set targets to improve performance. The Office advised as part of the update of its KPIs, a target will be included and reported against from 2017–18 onwards.	
<ul style="list-style-type: none"> strengthen its asset management by developing: <ul style="list-style-type: none"> both financial and non-financial key performance indicators systems for collecting and monitoring asset management data. 	The Office has partly addressed this recommendation and is implementing key performance indicators.	
The TAFE Commission should:		
<ul style="list-style-type: none"> update, finalise and sign the service level agreement with its shared service provider. 	The Commission changed service providers in 2017 and has a signed service level agreement with the new provider.	







Recommendation	Current status
Justice	
Agencies should:	
<ul style="list-style-type: none"> action management letter recommendations promptly and avoid repeat recommendations 	<p>Agencies continue to address this recommendation, and the number of repeat issues is falling. However, they still need to improve as several issues remain unresolved.</p> 
The Department of Justice should:	
<ul style="list-style-type: none"> establish and finalise service level agreements where it performs finance functions on behalf of independently governed agencies 	<p>The Department has started developing a single, integrated approach to establish service level agreements, covering departmental divisions and relevant external agencies.</p> 
<ul style="list-style-type: none"> implement an overarching risk assessment and treatment plan 	<p>The Department continues to work with cluster agencies, including sharing its enterprise risk management framework and policy and guideline documents. The Department also provides risk forums, oversight and leadership within the cluster.</p> 
<ul style="list-style-type: none"> record, monitor and manage backlog maintenance by individual property 	<p>The Department expects to complete a condition assessment program across most sites, compiled into a management system, by December 2017.</p> 
<ul style="list-style-type: none"> continue to implement risk management across the department 	<p>The Department has progressed this recommendation by:</p> <ul style="list-style-type: none"> approving and issuing its risk management policy, framework and guidelines developing an online learning module drafting a risk appetite statement, which will be circulated more broadly for comment the Audit and Risk Unit (ARU) supporting divisions in developing their risk registers, and facilitating risk identification and analysis workshops outlining risk reporting and escalation processes in the draft ERM Manual. This includes oversight by management and the ARU, with the Audit and Risk Committee providing an independent assessment. 
<ul style="list-style-type: none"> ensure it has systems and controls to effectively maintain, manage and oversight its significant increase in capital projects 	<p>The Department is progressing the implementation of an Enterprise Asset Management System. The Department advises that in 2017–18 it will seek to identify a funding source for full project implementation.</p> 
<ul style="list-style-type: none"> provide annual written certifications to each entity it performs finance functions for 	<p>The Department gave annual certifications to each entity it performed finance functions for.</p> 
<ul style="list-style-type: none"> continue to develop and finalise department and cluster level governance arrangements as a matter of urgency. 	<p>The Department has reviewed its corporate governance arrangements and published new arrangements in the Corporate Governance Framework that is available to all staff. Cluster agencies are encouraged to adopt the principles developed.</p> <p>The Department is changing its approach to dealing with risk, issues and divisional performance. The Department will create a 'Justice Performance and Assurance' group with a view to increase the level of focus and maturity around enterprise governance.</p> 

Recommendation


Current status

Planning and Environment


Agencies should:









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| <ul style="list-style-type: none"> • self-assess their contract management processes against the Audit Office's 'Better Practice Contract Management Framework' and address any identified gaps in their frameworks promptly | <p>Some agencies have not assessed their contract management processes. We recommend our 'Better Practice Contract Management Framework' as a useful self-assessment tool.</p> |  |
| <ul style="list-style-type: none"> • develop a risk appetite statement to ensure risk tolerance levels are consistently designed and managed and develop key risk indicators to drive risk monitoring and enable prompt escalation, action, reporting and feedback | <p>Agencies continue to address this recommendation. Some agencies have developed, or are developing, risk appetite statements to underpin enterprise risk management. Where there is no risk appetite statement, agencies are developing risk tolerance levels.</p> |  |
| <ul style="list-style-type: none"> • ensure contractors declare conflicts of interest on initial engagement • document safeguards to manage the conflict and have this approved • require staff to disclose secondary employment arrangements, assess the impact on their primary employment and have the arrangement approved • ensure a process is in place to update the declarations annually | <p>Agencies continue to address this recommendation. Some agencies have developed, are developing, or are refreshing policies and procedures.</p> |  |
| <ul style="list-style-type: none"> • self-assess their fraud control framework against the Audit Office's 'Fraud Control Improvement Tool Kit' and regularly update their fraud policies and procedures | <p>Agencies continue to address this recommendation, with some agencies still to self-assess their control framework against the tool kit.</p> |  |
| <ul style="list-style-type: none"> • require contractors to report gifts and benefits offered or received, document this in the gifts and benefits register and assess whether appropriate action has been taken in accordance with the agencies' gifts-and-benefits policy • incorporate regular reporting of breaches or potential breaches identified to their executive | <p>Most agencies have fully addressed this recommendation by enhancing relevant policies and procedures for managing gifts and benefits. One agency still needs to improve its management of gifts and benefits as reporting of breaches is irregular.</p> |  |
| <ul style="list-style-type: none"> • strengthen management of user access over financial systems. | <p>Some agencies have addressed user access issues identified in prior years. But some still need to improve, with user access issues remaining unresolved and further issues identified in 2016–17.</p> |  |

The Department of Planning and Environment should:

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| <ul style="list-style-type: none"> • review compliance with the <i>Government Information (Public Access) Act 2009</i> and report the results to its Audit and Risk Committee. | <p>The Department's Audit and Risk Committee is given regular updates on any non-compliance.</p> |  |
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Essential Energy should:

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| <ul style="list-style-type: none"> • identify where instances of alleged fraud and corruption resulted from weaknesses in internal controls, and address the weaknesses. | <p>Essential Energy engaged an accounting firm to conduct a fraud investigation and as a result, implemented more internal controls to address the identified weaknesses. The progress and implementation status were reported to the Audit and Risk Committee.</p> |  |
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Recommendation	Current status
The Office of Local Government should:	
<ul style="list-style-type: none"> action management letter recommendations relating to internal control weaknesses promptly, with a focus on addressing repeat issues 	<p>The Office has addressed all management letter recommendations apart the recommendation relating to excessive annual leave. The Office has implemented an active program to reduce excessive annual leave. In 2016–17 excessive leave has reduced but remains an issue.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> ensure the chief financial officer (CFO) certifies the effectiveness of internal controls before the agency head signs the financial statements. 	<p>The Office has addressed this recommendation.</p> <p style="text-align: right;"></p>
Premier and Cabinet	
The Department of Premier and Cabinet should:	
<ul style="list-style-type: none"> address the issues preventing invoices from being paid on time 	<p>The Department is working with the shared service provider to resolve this issue. The Department has improved in this area by strengthening its processes to allow better management of the flow of invoices to the shared service provider</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> release a revised NSW Public Sector Governance Framework. This should incorporate legislative and policy changes since February 2013 and define roles and responsibilities within the cluster 	<p>The Department has revised the Framework. The draft was presented to Cabinet for approval in October 2017.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> strengthen procurement processes to ensure purchase orders are approved before goods and services are ordered 	<p>The Department is investigating users who are not complying with policy. It will send identified users a communication outlining what changes they must make to their processes.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> collect information on purchase orders raised after invoice date and set targets to improve performance 	
<ul style="list-style-type: none"> as an agency using a shared service provider, ensure key performance targets and measures are monitored and reported on 	<p>The monitoring and reporting of key performance targets and measures is now addressed in the Service Performance meeting held with the shared service provider.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> determine how risk management at an agency level is reported and monitored at the Premier and Cabinet cluster level 	<p>The Department advised it does not have a role in determining how risk management at the agency level is reported and monitored at the cluster level. The Department has no statutory jurisdiction over its cluster agencies. Cluster agencies' risk management frameworks are separate, with their own accountabilities.</p> <p style="text-align: right;"></p>
<ul style="list-style-type: none"> have a compliance management framework, monitor compliance and report breaches to the Audit and Risk Committee. 	<p>The Department has addressed this recommendation, with compliance managed through:</p> <ul style="list-style-type: none"> annual legislative compliance checks financial certification from senior management and the CFO a Governance Lighthouse compliance check risk management internal audit monitoring of recommendations oversight and reporting on delegations. <p style="text-align: right;"></p>

Recommendation

Current status

Transport



Agencies should:

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| <ul style="list-style-type: none"> continue reviewing the effectiveness of approaches to managing excess annual leave in 2016–17 | <p>Staff continue to have excessive annual leave balances. Agencies advise they have policies to manage this leave, including encouraging managers to discuss this issue with staff and develop leave plans for those with excessive leave.</p> |  |
| <ul style="list-style-type: none"> terminate user access promptly and complete all user reviews so access rights are appropriate | <p>Transport for NSW advised a user access review has been done for every release of the Enterprise Resource Planning (ERP) program into transport agencies. As at 30 June 2017, the ERP program had not been delivered to all transport agencies. The ERP was fully delivered on 1 July 2017.</p> <p>In addition, user access in the Transport Equip (SAP) system is assigned to the position, not the person. So if a user is terminated, the access profile is automatically removed. Segregation of duty checks are also performed each time a new person is assigned to a position with user access.</p> |  |
| <ul style="list-style-type: none"> ensure transparency in the operation of signalling priorities with operators, through the creation of the Transport Asset Holding Entity (TAHE) and the operation of the new Rail Operations Centre in 2018 | <p>Sydney Trains advised that sufficient internal controls and protocols are in place to manage potential conflicts of interest. The creation of the TAHE and the Rail Operations Centre should enhance the transparency of this process.</p> |  |
| <ul style="list-style-type: none"> review project budgets and delivery schedules to address any impact of deferred implementation. | <p>Transport for NSW advised the ERP Program has remained within the allocated budget of \$196.3 million.</p> <p>Transport for NSW closely reviewed the Sydney Trains implementation and found it was within the allocated funding, even with the implementation deferred from January to July 2017.</p> <p>The ERP program was successfully delivered, within budget, to Roads and Maritime Services in July 2016 and NSW Trains in January 2017.</p> |  |

Treasury

These recommendations were made to agencies of the former Finance, Services and Innovation cluster that are now in the Treasury cluster. No recommendations were made to any agency of what was then the Treasury cluster.

Agencies should:

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| <ul style="list-style-type: none"> develop key performance indicators to measure and assess their risk culture | <p>Agencies continue to work on this recommendation and are developing key performance indicators.</p> |  |
| <ul style="list-style-type: none"> strengthen user access to critical financial systems. | <p>Agencies continue to work on this recommendation. Super user monitoring needs to be strengthened to detect any unauthorised activities. Agencies will review super user activity regularly.</p> |  |

Recommendation**Current status**

Insurance and Care NSW should:

- review the outsourcing risks of the current transformation program to set up a strong risk governance framework and address key outsourcing risks early in the program
- develop a business continuity management policy that is consistent with the group's risk management strategy and framework.

Insurance and Care NSW reviewed its risk management framework and concluded they complied materially with APRA standards.



Insurance and Care NSW has implemented a business continuity management policy.

**Fully addressed****Partially addressed****Not addressed**