

# 2015/16

## annual report



# annual report 2015–16

This annual report summarises the activities and performance of the Audit Office of New South Wales for 2015–16 against the main goals, strategies and targets in its strategic plan. As well as reporting on the financial results for the past year, the report looks to the year ahead. This and earlier annual reports are available on our website.

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Under section 12A of the *Annual Reports (Statutory Bodies) Act 1984*, I have pleasure in submitting for information of members, the reports of the activities of the Audit Office of New South Wales for the year ended 30 June 2016.

**Margaret Crawford**  
Auditor-General

9 September 2016

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## The history of the Auditor-General

**1824** William Lithgow appointed Colonial Auditor-General, to compile and examine the colony's accounts and report on government departments to the Governor.

**1855** The *UK Constitution Act 1855* formalised government in New South Wales, and the Auditor-General was made a member of the government.

**1870** Powers and duties of the Auditor-General first set in legislation, in the *Audit Act 1870*.

**1902** *Audit Act 1902* prohibited the Auditor-General from being a member of the Executive Council or of the parliament.

**1929** *Audit (Amendment) Act 1929* changed the tenure of office of the Auditor-General from life to ceasing at 65.

**1984** *Public Finance and Audit Act 1983* established the Auditor-General's Office (6 January 1984).

**1989** Auditor-General's Office declared a statutory body, allowing it to be both more independent and more commercial.

**1991** The *Public Finance and Audit Act 1983* expanded the Auditor-General's role to include performance audits, limited tenure to seven years (no age limit), and prevented acceptance of any other post in the NSW public service.

**2001** Auditor-General's role expanded to report on issues of waste, probity and financial judgement.

**2004** Auditor-General given power to employ staff directly, and set wages and conditions.

**2013** Tenure of Auditor-General extended to eight years.

Cover L–R: Sherrilyn Lal Financial Auditor

Leilani Gan Financial Auditor

Walter Watkin-Fairless Financial Auditor



# Our organisation

## Built on strategic foundations

### Our vision

Making a difference through audit excellence.

### Our mission

To help parliament hold government accountable for its use of public resources.

### Our values

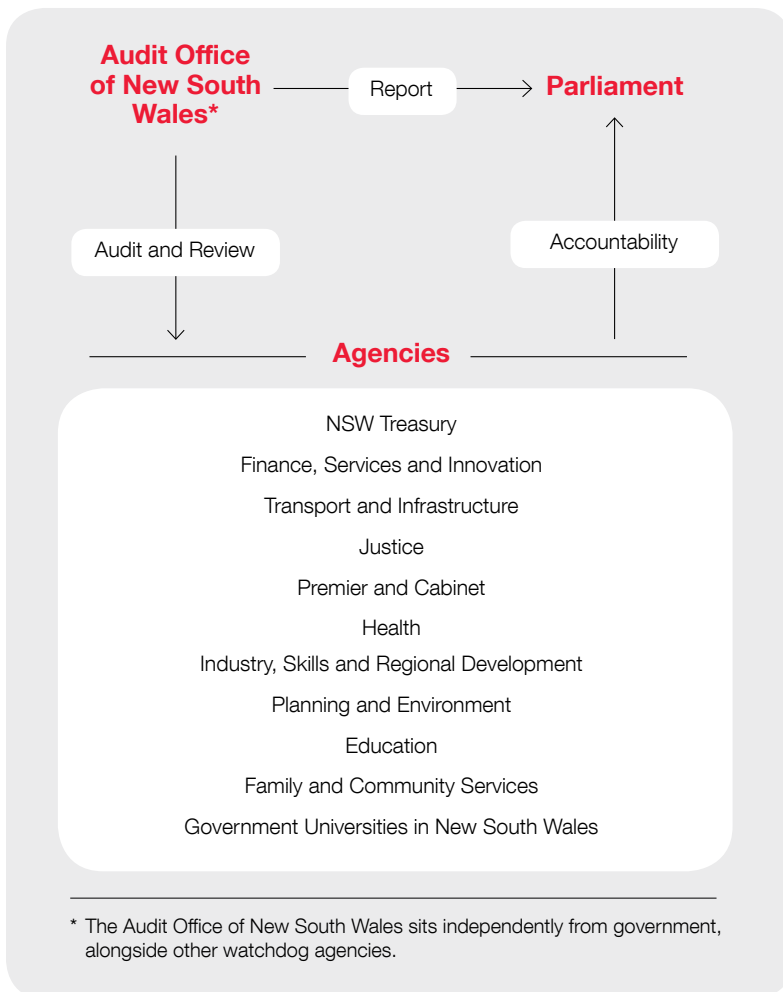
**Purpose** – we have an impact, are accountable, and work as a team.

**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.

### Our main clients

- Parliament of New South Wales
- NSW Government agencies
- The people of New South Wales.



### Who we are

The Audit Office of New South Wales is a statutory authority, established under the *Public Finance and Audit Act 1983*, that conducts audits for the Auditor-General.

The Auditor-General helps parliament hold government accountable for its use of public resources.

### What we do

The Auditor-General is responsible for audits and related services.

The Audit Office conducts financial and performance audits, principally under the *Public Finance and Audit Act 1983* and the *Corporations Act 2001*.

Financial audits provide an independent opinion on NSW Government agencies' financial statements. They identify whether agencies comply with accounting standards and relevant laws, regulations and government directions.

Performance audits build on our financial audits by reviewing whether taxpayers' money is spent efficiently, effectively, economically and in accordance with the law.

Special reports seek to confirm that specific legislation, directions and regulations have been adhered to by government agencies.

The Auditor-General also provides certain assurance services over Commonwealth grants and payments to the State under Commonwealth legislation.

### Our resources

273 full-time equivalent staff at the Audit Office at 30 June 2016.

\$37 million revenue from government agencies and universities for audits of their financial statements.

\$8 million from the government for our performance and compliance audits and reports to parliament.

10 external contract audit agents assist with our financial statement audits, representing about 12 per cent of our financial audit work.



# 2015–16 highlights

## Parliament

90% of parliamentarians satisfied with the Audit Office's reports and services

97 per cent agreed we operate independently from government.

94 per cent agreed we perform financial audits with integrity.

87 per cent believed our financial audit reports assist in monitoring the financial performance of the NSW public sector.

94 per cent believed our performance audit reports are easy to understand.

100 per cent of 30 June financial audits reported to parliament on time.

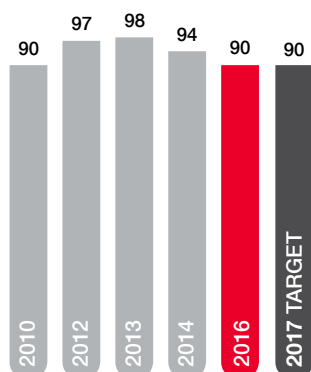
100 per cent of 31 December financial audits reported to parliament on time.

11 performance audits followed up by parliament's Public Accounts Committee.

◦ Refer to page 11

### Overall satisfaction %

% satisfied or very satisfied  
Survey not conducted in 2011 or 2015



## Agencies

97% of financial audit recommendations accepted

67 per cent of performance audit recommendations accepted.

Overall CFO performance index for financial audits our highest since 2012, up to 78 from 74.

Overall performance index for performance audits remains at 70.

419 financial audits completed.

13 new modified audit opinions issued and 4 cleared.

91 per cent of financial audit opinions issued within ten weeks.

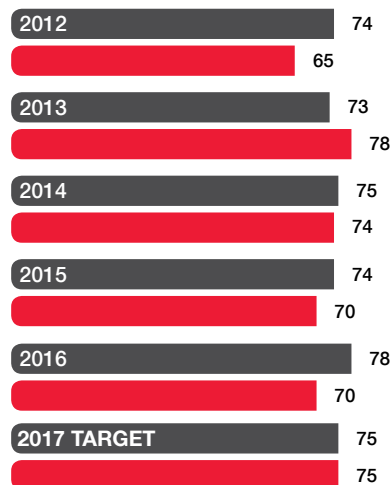
16 performance audits completed.

◦ Refer to page 19

### Overall performance index

Aggregate performance indices

Financial audit clients (CFO only)  
Performance audit clients



## People

18% staff turnover, down from 24% last year

79 per cent staff satisfaction, up from 67 per cent last year.

90 per cent of staff describe the Audit Office as 'a great place to work', up from 72 per cent.

82 per cent of staff were moderately to highly engaged, up from 67 per cent.

79 per cent of staff report reasonable to very high morale, up from 52 per cent.

52 per cent of middle management are women, down slightly from 54 per cent.

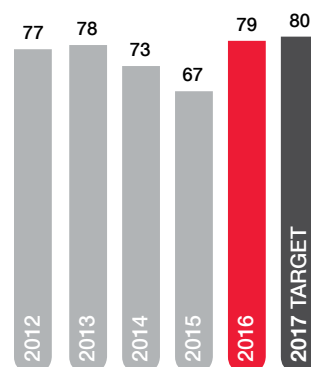
70 per cent staff productivity, up from 67 per cent.

12 reported safety incidents and 4 new workers' compensation claims.

4.5-star greenhouse building rating maintained.

◦ Refer to page 37

### Staff satisfaction %



## Profession

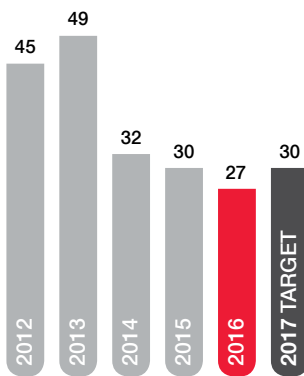
27 presentations made, three less than last year

Hosted the Australasian Council of Auditors-General (ACAG) Performance Audit Managers Workshop.

7 submissions made on proposed changes to accounting and auditing standards.

○ Refer to page 49

### Presentations delivered



## Governance

Our governance framework reflects the 8 core principles of the ASX Corporate Governance Principles and Recommendations

The Audit Office received three formal GIPA access applications.

We received and examined seven public interest disclosures.

○ Refer to page 53

## Finances

\$1.0 million surplus (excluding superannuation adjustments)

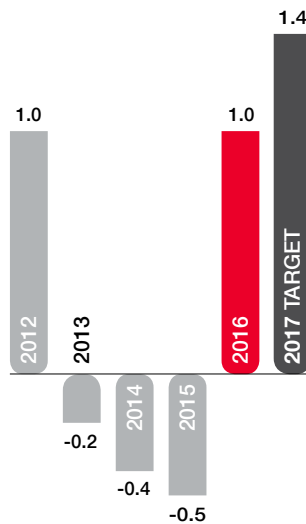
Current ratio (solvency) is healthy.

99 per cent of our creditors were paid on time.

○ Refer to page 65

### Operating results/\$m

Excluding superannuation



## Benchmarks

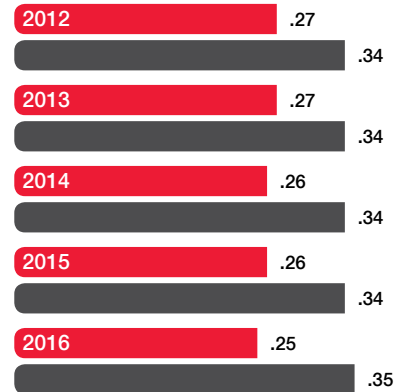
Our costs compare favourably with other Australian audit offices

We benchmark ourselves against the national average for audit offices.

### Total audit costs (excluding payroll tax) per \$'000 of public sector transactions \$

#### Audit Office of New South Wales

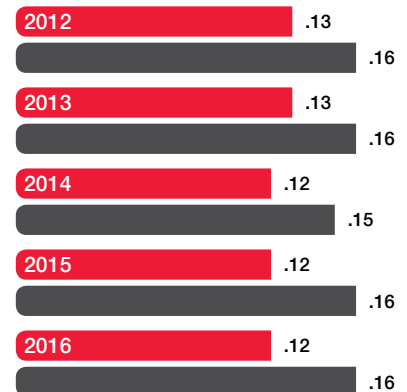
Average of all Australian audit offices



### Total audit costs (excluding payroll tax) per \$'000 of public sector assets \$

#### Audit Office of New South Wales

Average of all Australian audit offices



# Auditor-General's message

I am pleased to present my first annual report as the Auditor-General for New South Wales

I am pleased to present my first annual report as Auditor-General for New South Wales.

Firstly, I would like to acknowledge the excellent work and commitment of Tony Whitfield who acted as Auditor-General in 2015–16 until I started in April this year. Tony ensured the Audit Office performed well and provided ongoing value to the NSW Parliament and our audit clients. He continues as Deputy Auditor-General where he is respected and well known throughout the accounting profession and NSW public sector.

## A year of achievement

In the short time I have been Auditor-General, I have found the Audit Office to be highly professional and accomplished. It is pleasing to see this view reinforced by the annual surveys of key stakeholders; parliamentarians, agencies, and our own staff. The Audit Office also continues to compare well on client satisfaction measures benchmarked against other Australian audit offices.

## Our audit programs

In Tony's message in last year's annual report, he referenced changes to the structure of the performance audit branch. I am pleased to report that his prediction of improved productivity has been realised with 16 performance audits tabled in 2015–16, up from 11 in 2014–15 and from a low of eight in 2012–13.

In 2016–17, we aim to further increase the number of performance audit reports to 17, but our focus will also be on raising the 'value index' of these reports, the area where our audit clients are least satisfied (see page 21).

Over the last few months, I was pleased to meet with all departmental secretaries, heads of other integrity bodies, and other stakeholders to obtain their input to the performance audit program for the next three years (see page 36). External input and stakeholder engagement is critical to ensure our audits remain relevant and have the greatest impact to improve public sector administration and performance overall.

In terms of financial audits, the Audit Office produced 419 opinions, down from 436 last year. The number of financial audits undertaken is a factor of the total number of NSW public sector agencies required to be audited under the *Public Finance and Audit Act 1983*. Of greater significance is the independent assurance our financial audit opinions provide to parliament to assist them monitor the accountability and financial performance of the NSW public sector.

## Our people and systems

In our last annual report, Tony also reported his concerns regarding staff turnover levels, running at 24 per cent at that time. It is pleasing that turnover has returned to a more sustainable level of around 18 per cent, and staff engagement has risen to 82 from 67 per cent. This is due in part to a very concerted effort to work collaboratively with our staff to finalise a new industrial Award. The Award appropriately balances flexible work practices, leave arrangements and remuneration.

I am particularly pleased that 100 per cent of our people have performance agreements in place. Each person's plan aligns with the Audit Office strategic plan and branch business plans, and provides the basis for regular discussions with managers about performance, career aspirations and development.

I have been struck by the broad diversity of our workforce with staff coming from some 39 countries. Next year I would like to improve the representation of Aboriginal and Torres Strait Islander people, and continue to support and develop more women into leadership roles. This will capitalise on the talent we have in the office and encourage a diversity of ideas and approaches.

I am also pleased to see the level of investment that the Audit Office makes in both professional development and in systems and technology to support our staff. An innovative staff secondment program enhances the experience of our audit staff by allowing them to work for a period of time with external auditing firms. And we recently commenced a mentoring program for our staff in which I am a participant.

In 2016–17, the Audit Office will further investigate how new technologies and the promise of 'big data' will impact the audit profession. We will look outwards to assess trends and invest where appropriate to equip our staff for the future and increase the value of our audits.

## **A new mandate – local government**

The strength of our audit programs and our investment in people and systems provide a solid platform to manage the challenges of the future. Foremost of these is the passage of legislation by the NSW Parliament appointing me as the auditor of all NSW local government councils from 1 July 2016.

This is the most significant change to the mandate of the Auditor-General since 1991 when parliament assented to the Auditor-General conducting performance audits of NSW agencies.

When proclaimed, the *Local Government Amendment (Governance and Planning) Act 2016* will provide that I apply the same level of scrutiny to local councils as currently applies to the State government agencies and universities I audit. I will report publically, and to the Minister for Local Government and parliament, on the financial statements of councils and on local council performance. Up until now, councils have engaged their own auditors and there has not been consolidated reporting on the outcomes of audits. This change in mandate brings NSW into line with most other Australian audit offices and is intended to support improved financial and operational performance of our third tier of government.

Transitional arrangements to fulfil our new obligations are in train but my intention is to consult broadly with local government and with current audit providers to ensure the arrangements are efficient and effective and add value to our new clients and to the citizens of New South Wales.

## **Public Accounts Committee**

Since commencing in this role I have had the opportunity to meet with parliament's Public Accounts Committee on some three occasions to present our audit findings. Our relationship with this committee is important as we collaborate to improve public administration and hold government to account for the effective use of public resources. I would like to thank the committee for its interest and support of the Audit Office.

## **Thank you to staff**

Finally, I would like to sincerely thank the leadership team and all staff of the Audit Office for the welcome they have extended to me. I continue to be very impressed with the dedication of our staff and by the quality of the work we produce.



A handwritten signature in black ink, which appears to read 'Margaret Crawford'.

**Margaret Crawford** Auditor-General

# Office Executive

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## **Experience and performance**

The Office Executive provides the leadership necessary for the Audit Office to achieve its strategic direction and goals. The Office Executive is led by the Deputy Auditor-General and draws on the expertise of other staff when required.

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### **Margaret Crawford**

#### **Auditor-General**

Commenced as the Auditor-General of New South Wales in April 2016

Margaret has over 20 years of experience as a senior executive across many large, complex public sector organisations – local, State and the Commonwealth governments – including the Victorian Department of Human Services, the Australian Taxation Office, the NSW Roads and Traffic Authority and Australia's largest local government, Brisbane City Council. Most recently, before becoming Auditor-General, she held the position of Deputy Secretary at the NSW Department of Family and Community Services.

Margaret has worked across a diverse range of sectors, including housing and homelessness, community and disability services, road transport policy and regulation, taxation administration and gaming regulation.

### **Tony Whitfield**

#### **Deputy Auditor-General**

PSM, B.Comm, FCA

Before joining the Audit Office in 1994, Tony Whitfield spent 29 years in the private sector, including 17 years as an audit partner in a 'Big Four' accounting firm. During that time, he was responsible for delivering audit and other services to a portfolio of clients, and for audit technology within the firm. Tony has also worked in the USA, and is a past NSW State Chairman of the Institute of Chartered Accountants in Australia. Tony was awarded the Public Service Medal (PSM) in 2015 for outstanding public service to public sector financial performance and reporting. Tony was Acting Auditor-General from 9 June 2015 to 3 April 2016.

### **Kathrina Lo**

#### **Assistant Auditor-General, Performance Audit**

B.Ec, LLB, LLM, Grad Dip Leg Prac

Before joining the Audit Office in October 2014, Kathrina Lo held senior policy and legal roles in the NSW public sector, most recently as Director of Justice Policy in the Department of Justice. Kathrina also previously held a number of statutory and chief executive appointments in an acting capacity, including NSW Information Commissioner, NSW Privacy Commissioner and Chief Executive of NSW Juvenile Justice.

### **John Viljoen**

#### **Assistant Auditor-General, Financial Audit**

B.Acc, FCPA

John Viljoen joined the Audit Office in 1996, after 18 years in the private sector. He spent nine years with a 'Big Four' accounting firm, where he was responsible for delivering audit services to clients in Australia and Africa. John is responsible for financial audit quality and methodology, technical audit support, information systems audit and compliance audits.

### **Scott Stanton**

#### **Assistant Auditor-General, Financial Audit**

B.Comm, FCPA

Scott Stanton joined the Audit Office in 1987, and has significant experience in leading the delivery of audit services to a diverse range of public sector clients including those in the transport, electricity and university sectors. He is a previous Chair of CPA Australia's NSW Public Sector Committee and is currently serving on CPA Australia's NSW Divisional Council. Scott was Acting Deputy Auditor-General from 9 June 2015 to 3 April 2016.

### **Steven Martin**

#### **Assistant Auditor-General, Financial Audit**

B.Bus, CA

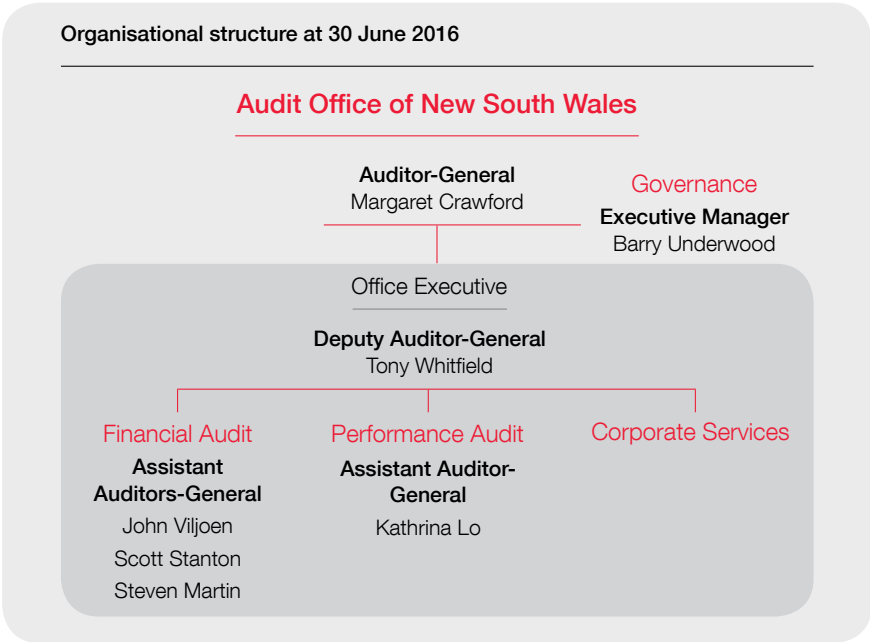
Steven Martin joined the Audit Office in 2008 after 18 years with a 'Big Four' accounting firm where he was responsible for delivering audit services to clients. This included ten years in Europe where he specialised in advisory on cross-border transactions and acquisitions. He also worked as the commercial accountant in the head office of a blue chip multinational logistics company based in Sydney.





**Back:** John Viljoen, Scott Stanton, Tony Whitfield, Steven Martin  
**Front:** Margaret Crawford, Kathrina Lo

Organisational structure at 30 June 2016



# The year ahead

Our activity in 2016–17 will be driven by our corporate plan

## Corporate plan

Our activity in 2016–17 will be driven by our corporate plan, which has three levels – our three-year strategic plan, annual branch business plans and staff performance agreements. Each level supports the Audit Office's vision and mission, and has the same four key result areas and accompanying goals:

**Products** – Our quality products and services have impact, relevance and value

**Systems and Processes** – Our contemporary systems and processes are integrated, efficient and fit for purpose

**People and Culture** – Our people are engaged, confident, capable and adaptable, working together in a constructive environment

**Finances** – Our financial frameworks are fiscally responsible, future-focused and ensure our sustainability.

Our Leadership Team, made up of the Office Executive and leaders from Financial Audit, Performance Audit and Corporate Services, work together to develop clear goals, strategic initiatives and targets for the Audit Office.

The strategic plan, branch business plans and staff performance agreements include their own set of indicators to measure progress. These indicators connect to create a set of measures that track performance across the Audit Office. Improvement initiatives are also included at all levels – recognising that all levels of the organisation need to contribute to achieving the Audit Office's vision.

Our Financial Audit, Performance Audit and Corporate Services branches each have a business plan which is aligned to the overall strategic goals of the organisation.

## Key performance indicators

We have a set of key performance indicators that will provide vital feedback on how well we are progressing towards our vision and goals. Our indicators for 2016–17 are:

### Products

- Parliamentarians' satisfaction with our products and services
- Clients' satisfaction with our products and services
- Percentage of parliamentarians that believe our products and services provide valuable information on public sector performance

- Percentage of parliamentarians that believe we act with integrity
- Percentage of Auditor-General's Report recommendations actioned.

### Systems and Processes

- Percentage of financial audit staff available hours charged to audits
- Performance audit reports tabled per annum
- Average charge-out rate per hour for our financial audits
- Percentage of total annual expenditure allocated to corporate support.

### People and Culture

- Employee engagement
- Measures on:
  - how constructive our culture is
  - the extent and quality of formal and informal performance feedback given to staff
  - how well we understand our audit clients' business
- Staff turnover.

### Finances

- Expense growth rate
- Maintain sufficient cash to meet outflows
- Actual revenue and expenditure versus that budgeted
- Annual net result percentage of revenue
- Growth in financial audit revenue from audit fees consistent with the government's expenditure constraints placed on agencies.

## Strategic initiatives

We have set four new strategic initiatives that focus on areas of particular importance to achieving our goals.

### Products

#### Local Government

This initiative is to prepare the Audit Office for a possible expansion of our mandate to include the audit of NSW local government entities. In June 2016, the NSW Government introduced the Local Government Amendment (Governance and Planning) Bill which proposes to appoint the Auditor-General as the auditor of local government entities from 2016–17. The proposed legislation also gives the Auditor-General the power to conduct performance audits in the sector. In his speech, the Minister for Local Government noted 'this is a major reform that brings New South Wales into line with most other Australian jurisdictions and New Zealand, and that will provide greater consistency and certainty across the

sector'. Parliament debated and passed the Bill in August 2016. Much work has already been done by the Audit Office on understanding the local government reform agenda and working with stakeholders to identify ways to best audit local government and build our capability should the legislation proceed.

**See page 17 for further details.**

#### Influencing for Impact

The Audit Office has a strong desire to engage better with all our stakeholders to ensure we deliver audits that are of a high quality and lead to improved public sector reporting and performance. Embedding an open and constructive approach to dealing with all our stakeholders – particularly our audit clients and parliamentarians – and exploring more contemporary and innovative ways of delivering value will be a strong focus of this initiative.

**See pages 13, 15, 17, 21, 23 and 64 for further details.**

### Systems and Processes

#### Reporting Process

This initiative will implement efficient systems, tools and processes to publish high quality reports that clearly communicate the issues our audits are finding, why they are important and what we are recommending. It will also ensure the reporting process is easier for our staff. This initiative is fundamentally important to the success of our Influencing for Impact initiative detailed above, as without clear and easily understood findings and recommendations we are unlikely to have the impact we are striving to achieve.

**See pages 21, 23 and 64 for further details.**

### People and Culture

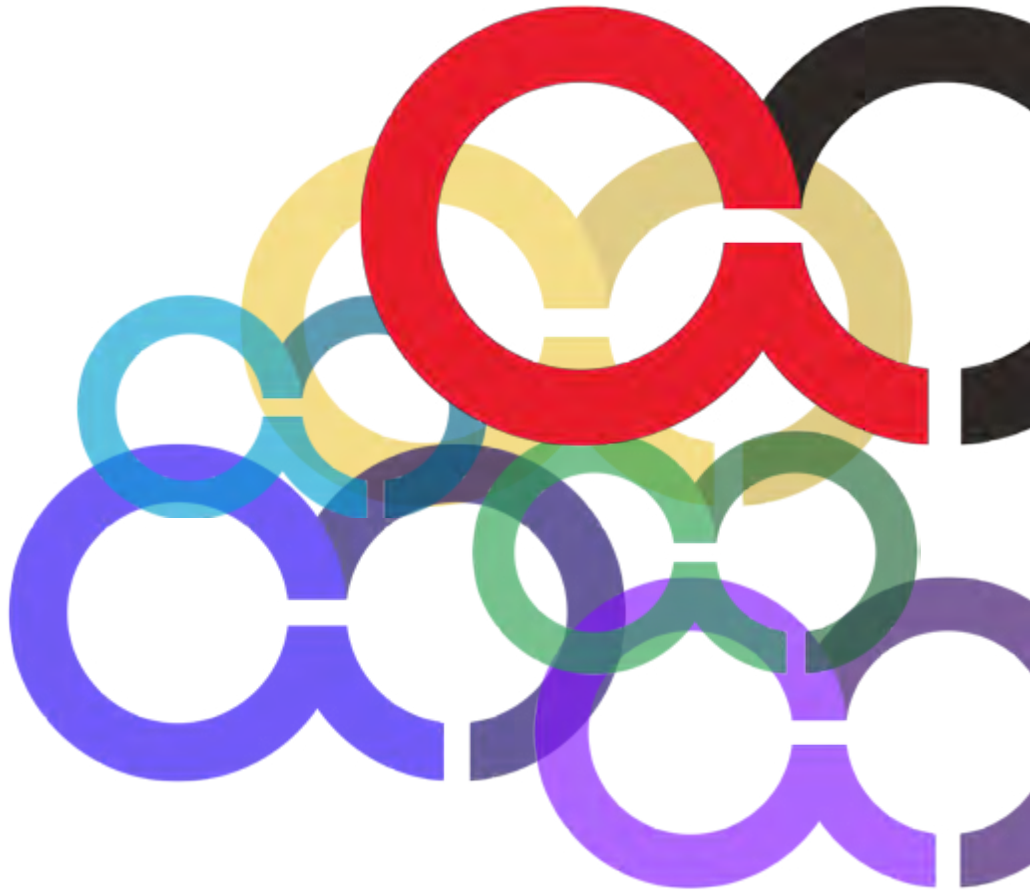
#### Working Better, Working Together

This initiative is essentially designed to bring the various areas of the Audit Office closer together to achieve better outcomes for our staff, audit clients and parliamentarians. We will do this by exploring ways of bringing our people together across teams and branches to improve:

- communication and collaboration
- development opportunities for our staff
- resourcing and staff engagement.

**See pages 23, 38, 41 and 67 for further details.**





# Parliament

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## **Regularly seeks and uses our advice**

The Auditor-General and the Audit Office of New South Wales provide assurance on the performance and accountability of NSW Government agencies by:

- reporting to the Parliament of New South Wales on our audits
- working closely with parliamentary committees

# Satisfaction

## Parliamentarians satisfied with reports and services

90% satisfied overall with our reports and services  
 97% agreed we operate independently from government

### Surveying our parliamentarians

Our mission is to help parliament hold the NSW Government accountable for its use of public resources, and it is critical that we understand parliamentarians' views on our performance through their direct feedback on our reports and services.

We continually strive to ensure parliamentarians value our work and that we meet their expectations. We are committed to enhancing our public sector knowledge to ensure our work is relevant and impactful. This was driven by our 'Product Delivery' strategic focus area in 2015–16 (see page 55).

In 2015, our scheduled survey of parliamentarians coincided with the March 2015 State election. Accordingly, we deferred the survey to 2016 as the participation rate would likely have been low during the caretaker and settling-in periods surrounding the election. Therefore the comparisons for the 2016 survey results are with those of the 2014 survey.

The 2016 survey of parliamentarians was conducted over three months in April, May and June. Of the 144 parliamentarians invited to complete the survey, 33 per cent responded, compared to 25 per cent in 2014.

### Overall satisfaction remains high

Parliamentarians continue to have high overall satisfaction with the Audit Office's reports and services. Ninety per cent were satisfied in 2016, a slight drop from 94 per cent in 2014. Parliamentarians were particularly positive about:

- the Audit Office providing high quality reports and services, with 100 per cent in agreement, up from 97 per cent in 2014
- our financial audit reports and services helping to improve public sector administration, with 94 per cent agreeing, up from 91 per cent in 2014
- the Audit Office operating independently from government, 97 per cent agreeing, up from 91 per cent in 2014
- our responsiveness to parliamentarians' needs, which 100 per cent rated good or very good, up from 90 per cent in 2014.

These survey results also provide us with clear areas for improvement. While nine in ten parliamentarians provided very positive ratings on all aspects of our reports and services, it is clear we need to focus on the frequency of report usage. Only 29 per cent of parliamentarians refer to our financial audit reports often or very often. Thirty-four per cent refer to our

performance reports often or very often. Our strategic planning process in 2015–16 identified this as a key area requiring focus next year to ensure parliamentarians are getting the most value from our reports as possible (see 'The year ahead' on the following page for further details).

### Satisfaction with financial audit reports remains high

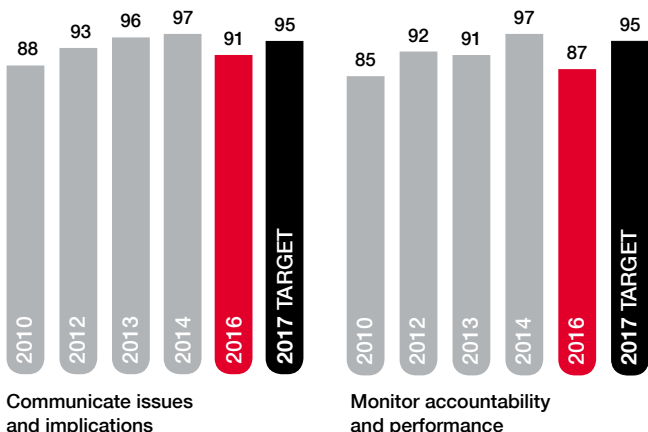
The percentage of parliamentarians who agreed our financial audit reports clearly communicated the significant issues and their implications remained high, although there was a fall to 91 per cent from 97 per cent in 2014. There was a small drop in the number who agreed that the reports were effectively presented in terms of layout and design, from 97 per cent in 2014 to 95 per cent.

There is also potential to improve how the reports help parliamentarians monitor the accountability and financial performance of the NSW public sector, as 87 per cent agreed with the proposition, compared to 97 per cent in 2014.

While still a good result, the number of parliamentarians who agreed the Audit Office performs audits with integrity declined from 100 per cent in 2014 to 94 per cent this year.

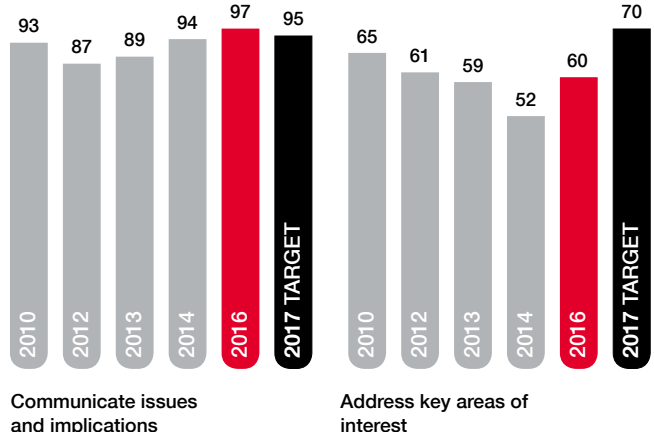
### Satisfaction with financial audit reports %

Survey not conducted in 2011 or 2015 due to election years.



### Satisfaction with performance audit reports %

Survey not conducted in 2011 or 2015 due to election years.



## Performance audit satisfaction improved

Parliamentarians continue to rate the Auditor-General's Reports to Parliament for performance audits highly, with results generally improved on 2014. Ninety-four per cent agreed the reports were easy to understand, consistent with 94 per cent in 2014. Similarly, 97 per cent of parliamentarians agreed the reports clearly communicated significant issues and their implications, up from 94 per cent in the previous survey. There was, however, a slight drop in agreement that the reports were effectively presented in terms of layout and design, down to 88 per cent compared with 93 per cent in 2014.

Sixty per cent of parliamentarians felt the performance audits addressed their key areas of interest to a high or very high extent, up from 52 per cent in 2014. A new question in the 2016 survey asked parliamentarians to assess whether the reports helped them monitor the performance of the area being audited, to which 94 per cent agreed or strongly agreed, an encouraging response.

## Our reports and services rate above other audit offices

Since 2005, we have been comparing our parliamentary survey results against results from other participating Australian audit offices. The Australian National Audit Office and the audit offices in Queensland, Victoria and Western Australia participated in the 2016 benchmarking survey. The 2015 survey results of Tasmania's audit office, the most recent available, are included for benchmarking purposes.

On an overall measure of satisfaction with reports and services, 90 per cent of our parliamentarians were satisfied. This is a drop from 94 per cent in 2014 (the last available comparative results) and slightly above the 89 per cent average of participating audit offices.

We rated above the average of the six audit offices on three key areas. Ninety-five per cent of parliamentarians agreed that our reports provide valuable information on public sector performance, compared to the 91 per cent average. Ninety-seven per cent agreed that our reports communicate issues clearly, well above the 90 per cent average.

Ninety-four per cent agreed that our reports help improve public sector administration, against the average of 87 per cent.

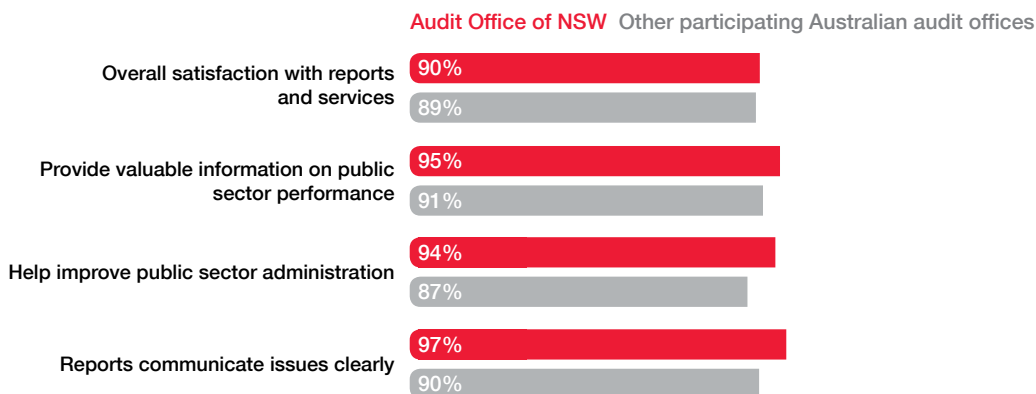
## The year ahead

In 2016–17, through our 'Influencing for Impact' strategic initiative, we will:

- build on our knowledge of public sector reforms and government priorities
- investigate ways to better engage with parliamentarians and ensure our reports are impactful, relevant and easily accessible via varied distribution channels
- strengthen government accountability through our collaborative relationship with the Public Accounts Committee (PAC) (see page 18 for further details on our relationship with the PAC)
- continue to ensure we live up to stakeholder expectations and fulfil our mandate.

(See page 10 for further details on our 2016–17 strategic initiatives.)

## Satisfaction compared with other participating Australian audit offices



# Assurance

## Our financial audits provide assurance to parliament

419 financial audits and 98 other assurance audits and reviews completed

13 new modified audit opinions issued

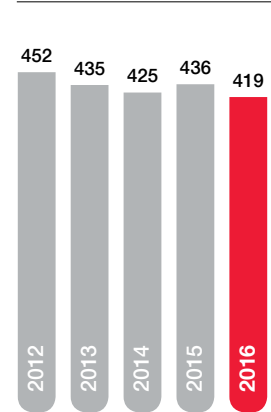
### Providing an independent opinion

Parliament requires reliable information on the operation of NSW public sector agencies. We provide parliament with independent audit opinions on agencies' financial statements, increasing their reliability and credibility. Our audits comply with professional quality and independence requirements as parliament needs to be assured our audits are independent. Our mandate further assures our independence by restricting us from providing non-audit services that other accounting firms provide. We completed 419 financial audits this year compared to 436 last year.

In addition to audits of individual agencies, we audit the financial statements at the whole-of-government level, the Total State Sector Accounts. These accounts provide financial information to parliament on a State-wide basis, for example total State borrowings.

We also provided 98 other assurance audits and reviews (70 last year) to help agencies attest compliance or acquit their grant revenues. The Treasurer requested we review the annual budget process in 2015–16. Our review focused on the reasonableness of estimates and forecasts used by NSW Treasury in preparing the 2016–17 Budget Papers.

### Number of audited entities



### Modified auditor's opinions and conclusions

During 2015–16, we issued 18 modified audit opinions and conclusions in our Independent Auditor's Reports. This represented four per cent of the assurance engagements we conducted (see pages 24–26). Modified opinions and conclusions included:

- 3 qualified opinions on agency financial statements
- 2 qualified opinions on a service organisation's description of controls, their design and operating effectiveness
- 4 qualified conclusions on compliance audits
- 4 adverse conclusions on compliance reviews
- 5 qualified conclusions on compliance reviews.

Modifications of audit opinions or review conclusions can be qualified, adverse or disclaimed:

- Qualified opinions and conclusions are issued when financial statements contain material misstatements or sufficient appropriate audit evidence is not available; and the impact is material but not pervasive
- Adverse opinions and conclusions are issued when misstatements in the financial statements are material and pervasive
- Disclaimed opinions and conclusions are issued where sufficient appropriate audit evidence is not available and the effects may be material and pervasive.

### Repeat modifications

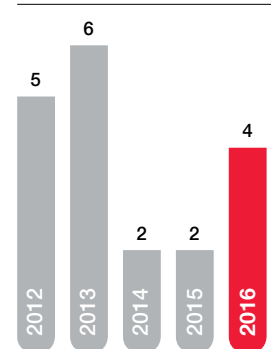
During 2015–16, we repeated five modifications, two fewer than last year. We continue to notify parliament of these

modifications and encourage the agencies concerned to act on our recommendations to address the underlying causes.

### New modifications

We issued 13 new modified opinions and conclusions in 2015–16. For details of these modifications see page 25.

### Modified audit opinions and conclusions as a % of total audit opinions

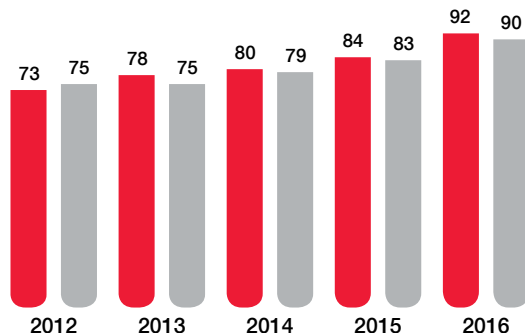


### Comparing costs with other audit offices

We compare our financial audit costs with other Australian audit offices. In 2015–16, our cost per financial audit opinion was \$91,628, nine per cent more than last year. Our cost per financial audit opinion was slightly higher than the average of other Australian audit offices.

### Cost per financial audit opinion (\$'000)

Audit Office of NSW Average of all Australian audit offices



### Our financial audit volumes

The results of our 2015 financial statement audits were reported to parliament in 13 volumes of the Financial Audit Auditor-General's Report to Parliament in 2015–16.

One volume focused on major themes from audits in the previous calendar year, while another focused on members of parliament and their entitlements. The remainder focused on a particular cluster or industry in the current year. All volumes included significant issues and activities broadly classified into four areas: financial and performance reporting, financial controls, governance, and service delivery.

Volumes published covered:

- Education and Communities
- Electricity
- Family and Community Services
- Health
- Law, Order and Emergency Services
- Planning and Environment
- Premier and Cabinet
- Trade and Investment, TAFE and Water
- Transport
- Treasury and State Finances
- Universities.

### Timeliness of reporting to parliament

We recognise parliament and other stakeholders need timely reports to allow prompt scrutiny of agencies' financial position and performance. For agencies with a 30 June balance date (most of our clients) our internal benchmark is to report to parliament before the end of the calendar year. Our other financial audits (mainly universities) have a 31 December balance date and our reporting to parliament benchmark is by the end of May each year.

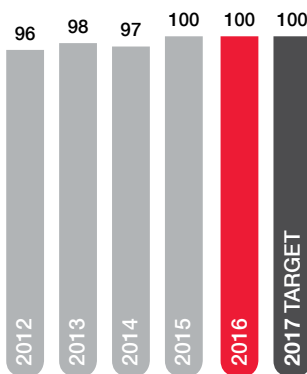
### The year ahead

In 2016–17, we will continue to provide assurance to parliament by focusing on the following in our 'Influencing for Impact' strategic initiative:

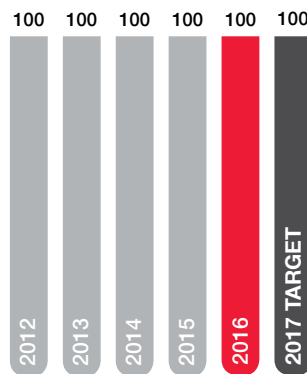
- improve engagement with our external stakeholders to ensure our products meet their needs
- explore alternate audit approaches that improve the relevance, value and impact of our financial and performance audits.

(See page 10 for further details on our strategic initiatives for 2016–17.)

### Financial audit reports to parliament



30 June audits reported by end of December %



31 December audits reported by end of May %



# Effectiveness, efficiency and economy

## Our performance audits help parliament assess agency performance

16 performance audits completed

### Helping to improve public administration

We reported on 16 performance audits in 2015–16, five more than last year. This is the largest number of performance audit reports the Audit Office has produced in a single financial year. In these 16 reports, we made 132 recommendations to improve public administration.

Performance audits aim to inform parliament and the public about how well government programs are delivered and ultimately improve public administration. They examine whether taxpayers' money is spent efficiently, effectively, economically and in accordance with the law.

These audits may review all or part of an agency's operations. Some audits consider particular issues across a number of agencies. Where we find performance gaps, we make practical recommendations.

The extracts in the box below from published agency responses to our reports indicate the value agencies attach to our recommendations in improving public administration, and the collaborative approach we adopt.

### Adding value to parliament

Parliament is our primary stakeholder and our work supports its role in holding the government to account. Our reports are frequently referred to in parliamentary debates and in budget estimates hearings.

Parliament is an important source of suggestions for performance audit topics and audits required by specific legislation.

The value we add to the parliamentary process is illustrated by the comments made by parliamentarians in our most recent 2015–16 survey:

'I think the Audit Office is doing a good job at the moment. Their suggestions are very relevant.'

'I think the Audit Office's reports are good. I always look forward to them as they provide good insights.'

'The Audit Office's reports are extremely useful.'

See page 12 for more information on our parliamentary survey.

## Published agency responses to our reports

I would like to thank you and your team for working with the Ministry of Health and Local Health Districts to make this audit a worthwhile and constructive exercise.

The team who worked on this audit were professional, approachable and willing to listen.

Their engaged and collegiate approach ensured open and transparent dialogue and this is reflected in the final audit report and in the acceptance of all the recommendations made.

### Ministry of Health

I would like to thank the Audit Office review team for their work and acknowledge that much of the feedback the Department of Education has provided to your office has been considered in the formulation of your final report.

I would like to thank the Audit Office team for their work looking into the Department's provisions in this important area of education. The recommendations will enable the Department and schools to build on current reforms and achievements.

### Department of Education

The audit was undertaken professionally and we had ongoing communication and consultation throughout.

I have participated in audits in the past and this one was very collaborative and the level of ongoing feedback provided enabled us to ensure we delivered the right evidence packages in an efficient manner.

### Department of Family and Community Services





### Cost of performance audits improved

The average cost of performance audits published in 2015–16 was \$266,726. This was below the target of \$300,000 and below the previous year’s result of \$308,000.

A key factor in this positive result was the restructure implemented in 2014–15. This:

- o replaced two director and 11 audit leader positions with five principal analyst positions
- o changed the senior auditor position to senior analyst with refined responsibilities
- o introduced five new analyst positions.

The introduction of a three-year rolling performance audit program has also helped us more efficiently and effectively plan our audits and utilise our time. We have also benefitted from branch and organisation-wide initiatives to streamline processes, improve our methodology, liaise better with agencies, and work more closely with our Financial Audit branch.

### Choosing performance audit topics

Our three-year performance audit program focuses on the NSW Government’s ‘NSW – Making it Happen’ priority areas and key public sector reforms. Alongside this program, we continue to work with parliament’s Public Accounts Committee and other key stakeholders (see page

18), to continue to focus on important issues. Our program is sufficiently flexible to allow us to respond to any emerging priority issues, and is regularly reviewed and updated. For a full overview of our three-year performance audit program, including proposed audit topics over the next 12 months, see page 36.

### Leveraging internal and external expertise

In more complex audits, Performance Audit draws on support from senior management and from expertise across our organisation. This provides industry knowledge, agency liaison and data analysis. Performance audits also use specialist advisers for cultural advice, survey design, industry expertise, research and analysis. Three audits tabled in 2015–16 used external advisors.

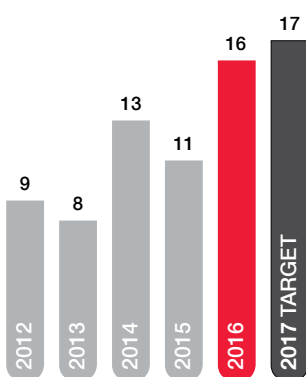
### The year ahead

In 2016–17, we will build on our recent efforts to further target areas of government focus and of strong public interest. In our ‘Influencing for Impact’ strategic initiative we will be developing a strategy to better engage with our external stakeholders, including parliamentarians, in an effort to improve the impact and relevance of our audits and increase the value we deliver to the public sector.

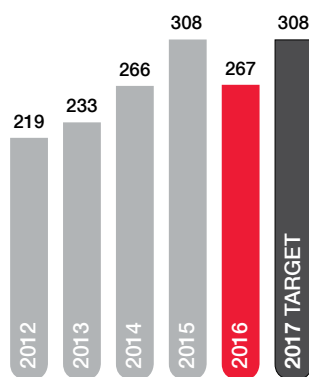
In our ‘Local Government’ strategic initiative we are also working closely with the Office of Local Government to prepare for the possible transition of local government audits to the Audit Office. We will be well-prepared if this change should go ahead.

(See page 10 for further details on our strategic initiatives for 2016–17).

Number of performance audits completed



Average cost of performance audits \$'000



# Parliamentary response to our work

## Promoting improvements

Supported the Public Accounts Committee in following up 11 earlier performance audits

### Parliament follows up on agency progress in implementing our recommendations

The Public Accounts Committee (PAC) holds agencies to account for implementing the actions they agree in response to performance audit and financial audit recommendations. It does so through follow-up inquiries conducted a year after the reports are tabled. The PAC makes further recommendations for action when it considers them necessary.

In 2015–16, the PAC completed one inquiry on reports we tabled in 2013–14, following up on 11 of our performance audits. As part of the review process, the PAC seeks details from agencies about their response to our recommendations and may, if required, hold public hearings. We also provide comments on agencies' submissions and appear at inquiries.

The Chair of the PAC said in his foreword to its March 2016 report 'Examination of the Auditor-General's Performance Audit Reports September 2013 – July 2014':

'The Committee has a well-established process of reviewing performance audits conducted by the Auditor-General, in order to follow up on action taken by agencies in response to the Auditor-General's recommendations ... The process has proven to be an effective means of testing action taken on performance audits and maintaining a high level of scrutiny of the agencies under review.'

With some noted exceptions, the Committee is generally satisfied that the responsible agencies are now implementing the Auditor-General's recommendations.

I am pleased to present this Report and thank the Auditor-General and Audit Office staff for their assistance in this inquiry.'

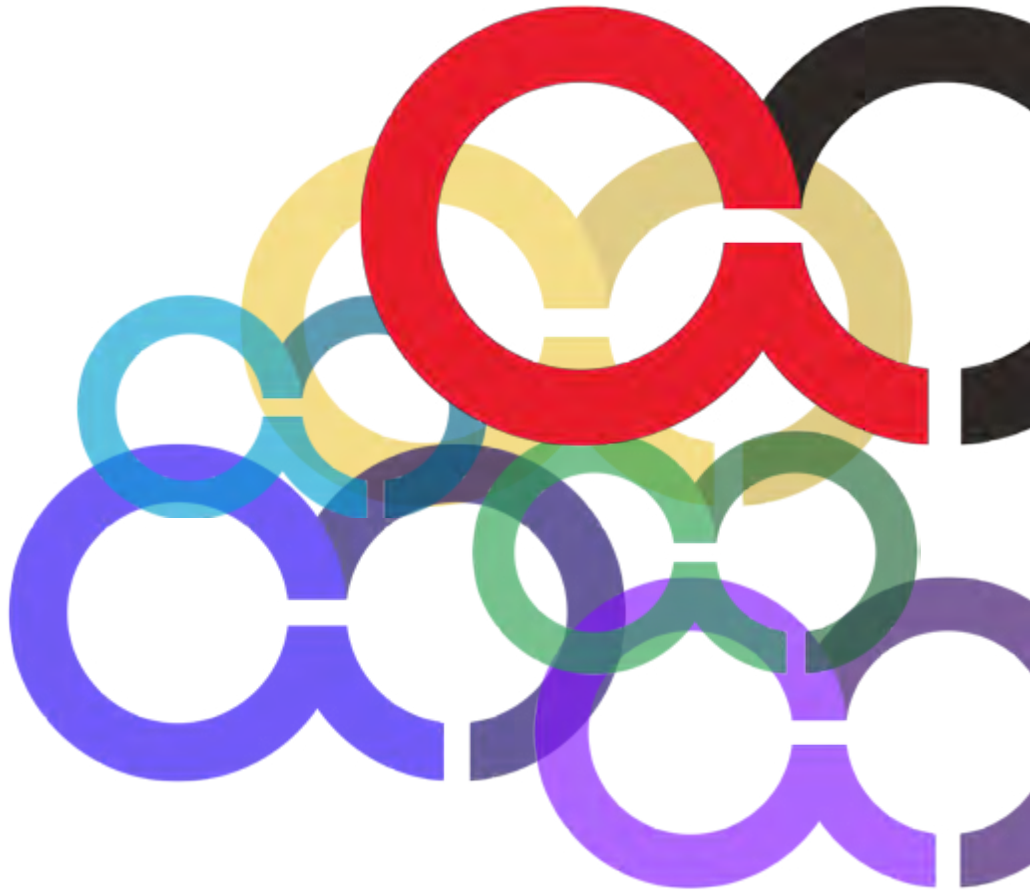
This PAC report makes four recommendations designed to improve the performance of government agencies, building on matters already identified by the Auditor-General. This includes improving the ability of the Department of Education and Communities to identify and respond to casual teachers with performance issues, and whole-of-government measures to improve legal and safe driving among Aboriginal people. The Committee notes that:

'Significant work has been undertaken to address issues raised in the audits. It is clear that agencies have taken the audits seriously and instigated processes to implement recommendations that were accepted. Some of the recommendations will take time to implement or are being addressed through the implementation of larger projects. The Committee encourages agencies to follow through on the work already started and commitments made, so that the potential benefits of the audits are fully realised.'

## The year ahead

In 2016–17, we plan to further strengthen our support to parliament and the PAC by:

- developing a strong relationship with the Public Accounts Committee, led by our new Auditor-General
- supporting changes to the *Public Finance and Audit Act 1983* which strengthen our efficiency and independence
- continuing to respond promptly and thoroughly to all requests from parliament for Audit Office support, including all audit suggestions
- producing 17 performance audit reports.



# Agencies

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**Act on our recommendations and regularly seek our advice**

- We work collaboratively with the agencies we audit
- Together with our financial audit clients we identify opportunities to improve financial reporting and management
- Our performance audits examine agency programs critically in order to identify potential improvements

# Agency response to our work

## Our audits continue to be well regarded

Overall CFO performance index for financial audits our highest since 2012, up to 78 from 74  
 Overall performance index for performance audits remains at 70

### Surveying our clients

Each year, we measure our audit clients' satisfaction with our services through a survey. The survey results and feedback provide valuable information on our performance and forms part of our stakeholder engagement strategy.

We use an independent research company to conduct the survey and clients have the option of responding anonymously.

In 2015–16, for our financial audit clients, we invited 214 agency Chief Financial Officers (CFOs) and 160 Audit and Risk Committee Chairs (ARC Chairs) to participate. The response rates were similar to last year, with responses from 73 per cent of CFOs and 73 per cent of ARC Chairs.

For our Performance Audit auditees, we invited 41 agency contacts to respond to the survey and received a response rate of 73 per cent.

### Overall performance indices steady or improved

The overall CFO performance index for financial audits increased compared to last year, up to 78 from 74, and our highest result since 2012. ARC Chairs' satisfaction remained steady at 84 from 83 last year.

The overall performance index for performance audits remained at 70.

### Satisfaction with audit process

#### Financial audit satisfaction improves across key measures

The CFO performance index for our audit process increased from 77 to 80 this year with strong performances in some areas counterbalanced in others. A total of 94 per cent of CFOs agreed that our auditors communicated with them effectively, up from 84 per cent, while 92 per cent agreed our auditors were responsive to their needs, up from 78 per cent. Prompt communication of significant issues was another area of improvement, up to 92 per cent from 81 per cent.

There was a small drop from 81 per cent to 79 per cent of CFOs who agreed there was continuity of auditors on their audit. The percentage who agreed that our auditors met agreed deadlines remained steady at 87 per cent compared to 86 per cent in 2015.

ARC Chairs' ratings of our audit process were slightly down from last year's very high scores. Ninety per cent of ARC Chairs agreed that we promptly informed them of significant issues and was the only rating of our audit process below 94 per cent. The percentages of ARC Chairs who agreed there was appropriate involvement of senior staff, and that our auditors adequately understood their organisation, both dropped to 96 per cent, from 99 per cent in 2015.

#### Satisfaction with the performance audit process stable

The audit process performance index for Performance Audit was 73, similar to last year's 72.

Ninety-seven per cent of clients agreed that our performance auditors conducted themselves professionally during the audit, in line with 96 per cent last year. There was an improved response on auditees being promptly informed of significant issues, up from 75 per cent in 2015 to 79 per cent.

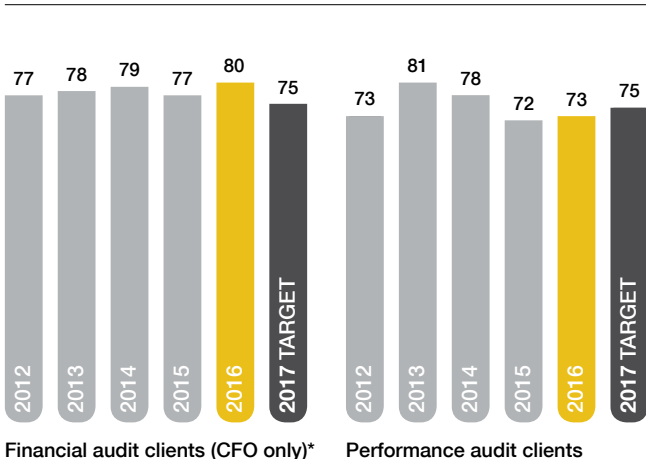
However, the number of clients who agreed auditors communicated with them effectively fell to 79 per cent from 92 per cent in 2015. The percentage of clients who agreed our auditors demonstrated they had the professional skills and knowledge to conduct the audit also fell from 83 per cent to 72 per cent.

### Satisfaction with audit reporting

#### Financial audit results improved across the board

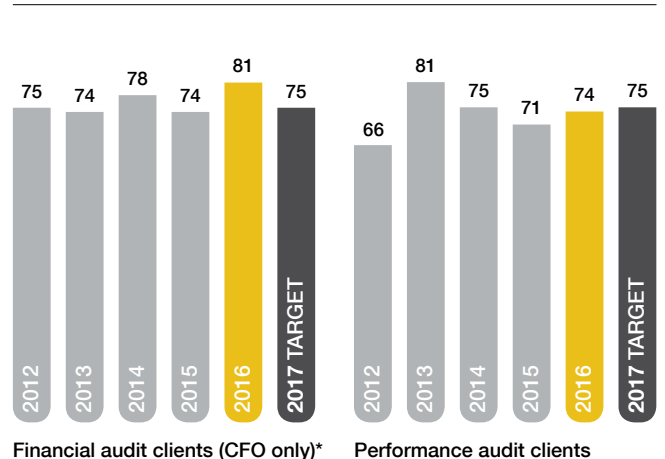
The CFO performance index for audit reporting increased to 81 from 74, and all measures showed an improvement compared with last year's results. This includes an increase from 86 per cent to 94 per cent of CFOs agreeing that the Audit Office's management letters communicated the audit findings and issues clearly. Ninety per cent of CFOs

Satisfaction with audit process %



*\*(for valid comparison, results have been weighted from 2012 onwards)*

Satisfaction with audit reporting %



*\*(for valid comparison, results have been weighted from 2012 onwards)*



also agreed that our management letters contained 'no surprises', an increase from 80 per cent in 2015. Timely issue of management letters also significantly improved, to 87 per cent from 79 per cent last year.

ARC Chairs were also positive about our management letters, with 94 per cent agreeing they were issued in a timely manner, up from 91 per cent in 2015. Ninety-seven per cent of ARC Chairs agreed that management letters communicated the audit findings and issues clearly, in line with 98 per cent in 2015.

#### Performance audit reporting satisfaction up slightly

The performance index for performance audit reporting increased slightly from 71 in 2015 to 74 in 2016.

Positively, the number of auditees who agreed that the Audit Office's media release was balanced and fair increased from 50 per cent in 2015 to 62 per cent this year. Another encouraging result was 97 per cent of auditees agreeing the report contained 'no surprises', in line with 96 per cent last year.

However, the percentage of auditees who felt the report was factually accurate fell from 80 per cent to 69 per cent. Similarly, there was a fall in the number of auditees who agreed the report was balanced and fair, down to 59 per cent compared to 76 per cent in 2015.

### Satisfaction with audit value

#### Financial audits increasingly valued

Our CFO performance index for financial audit value rose to 74 from 70 in 2015. CFOs continue to acknowledge the value of the assurance obtained from the audit of statutory financial statements, steady at 93 per cent compared to 94 per cent last year. They also value our recommendations to improve financial management and internal controls, which increased to 84 per cent from 82 per cent. There were significant increases in CFOs agreeing our audit services provide value for money, up from 62 per cent to 70 per cent this year. Those who agreed our fees are reasonable relative to the scale, complexity and financial risk of their operations, increased to 68 per cent from 58 per cent.

More ARC Chairs agreed that our financial services provided value for money, rising to 82 per cent from 77 per cent last year. Ninety-six per cent agreed that the audit committee values our recommendations to improve financial management, slightly down from 99 per cent.

#### Performance audit value remains steady

The audit value performance index for performance audits remained steady at 65, from 66 in 2015. Although the index remained steady overall, there were some areas of decline. Fifty-seven per cent of respondents agreed that the timing of the performance audit was appropriate, down from 63 per cent last year, while 55 per cent agreed that the audit provided a balanced assessment of the management of activity, down from 58 per cent. When

it came to respondents agreeing that the audit will help improve the performance of the audited activity, there was a significant decrease in the results, from 75 per cent in 2015 to 53 per cent this year.

#### In line with or below other audit offices

We have been comparing our client satisfaction with other Australian audit offices since 2005. In 2016, our financial and performance audit report results were benchmarked against those of the audit offices in Queensland, Victoria, Western Australia, the Australian National Audit Office and the 2015 results for the Tasmanian audit office.

Our results are in line with other audit offices for our financial audit clients. The overall performance index for the Audit Office is 81, compared to 80 across other offices. We are also in line with the other audit offices on audit process, with the Audit Office index at 79 and the average 78, and audit value, with the Audit Office index at 81 and the average 82. The Audit Office is slightly ahead of the other audit offices when it comes to audit reporting, with our performance index at 82 compared to the average of 79.

The performance indices for our performance audits are below the averages for other audit offices across the board, with our overall index sitting at 70 compared to the 73 average. Auditing process is also below the other offices, at 72 compared to 76, and audit reporting at 74 compared to the average of 76. Audit value for performance audits is also below the other audit offices, at 65 compared to the 69 average.

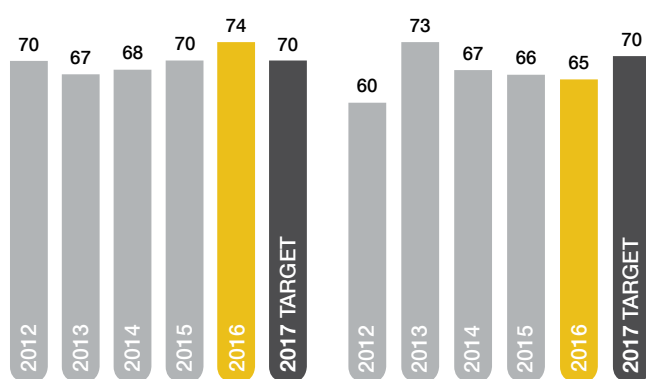
### The year ahead

In 2016–17, we will:

- in our 'Influencing for Impact' strategic initiative, develop a strategy for better engaging with our external stakeholders, including our audit clients. This will ensure we deliver audits that are of a high quality, are valued, and lead to improved public sector reporting and performance
- in our 'Reporting Process' strategic initiative, we will implement efficient tools and processes to publish high quality reports. This will ensure our reports clearly communicate to our agency clients the issues our audits are finding, why they are important and what we are recommending.

See page 10 for further details on our strategic initiatives for 2016–17.

#### Satisfaction with audit value %



Financial audit clients (CFO only)\*

Performance audit clients

*\*(for valid comparison, results have been weighted from 2012 onwards)*



# Influencing for impact

**Our work is topical, relevant and has high impact**

97% of our financial audit recommendations accepted

67% of our performance audit recommendations accepted

## Improving public sector accountability and performance

Our audits identify opportunities for improving public sector accountability and performance. We develop recommendations in consultation with agencies in response to our audit findings. Our recommendations are reported to the agencies involved and, for the more significant matters, to parliament. Most agencies agree with our recommendations.

Of the 409 recommendations we made to our top 50 financial audit agencies in 2015–16, 397 (97 per cent) were accepted by the agencies, above our target of 95 per cent. Sixty-seven per cent of performance audit recommendations were accepted against our target of 90 per cent. Unusually, in 2015–16, we had a high amount of audited agencies not committing to either accepting or rejecting recommendations. In the coming year, we will explore ways to elicit clearer responses from agencies.

The more strategic performance audit recommendations take time to implement. However, it is pleasing to see continuing progress in 2015–16 on recommendations made in earlier years, as the following case studies highlight.

## Case studies

### Vocational Education and Training Reform

In our performance audit on Vocational Education and Training Reform, released in January 2015, we recommended that the Department of Education add information about the demand for qualifications on the Smart and Skilled website for students looking for courses. In response, the department has published more than 50 job guides. These guides provide information on the skills needed in various jobs and occupations, the courses and qualifications needed for these jobs, as well as data on job prospects and pay. This data includes the number of people in each occupation, whether the demand for the occupation is expected to grow or decline in the next four years, and the average weekly income of the occupation compared to other occupations. The department plans to publish a total of 100 job guides by the end of 2016.

### WestConnex and Large Construction Projects

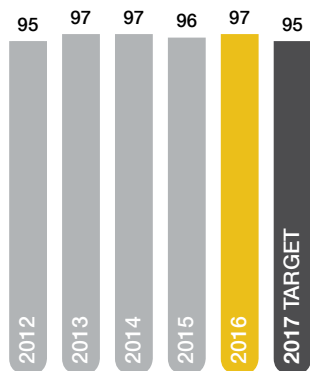
Our December 2014 performance audit report WestConnex: Assurance to the Government, and May 2015 performance audit report Large

Construction Projects: Independent Assurance, found that there was a need to improve the design and implementation of public sector project assurance. As a result, the NSW Government has strengthened its assurance processes. Infrastructure NSW now has clear responsibility for the independent review of major projects throughout their planning and delivery, and advising the government of any risks. To ensure assurance efforts target the areas of greatest importance, Infrastructure NSW has worked with agencies across government to develop a tiered, risk-based approach so that while projects of all sizes are monitored, high profile and high risk projects will be subject to the greatest scrutiny.

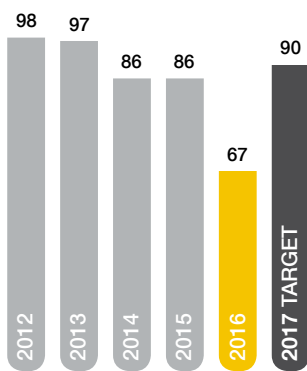
### Security of Critical IT Infrastructure

The recommendations from our January 2015 Security of Critical IT Infrastructure performance audit helped drive improvements in the IT security of the traffic control network and the metropolitan water and wastewater systems. This included enhanced security planning and risk management, improved control and monitoring of access to critical systems, and greater virus protection for applications and operating systems.

Recommendations accepted %



Financial audits



Performance audits

# Timeliness

## Timeframes for reporting to agencies

91% of financial audit opinions issued within ten weeks

### Financial audit timeliness needs to improve

We are required to issue all financial audit opinions within ten weeks of receiving agencies' financial statements. Ninety-one per cent of our opinions were issued within ten weeks in 2015–16, an improvement from 83 per cent. The earlier we give agencies our audit opinions and management letters, the sooner they can make a decision around our recommendations.

The proportion of total opinions issued on or before 30 September for our 30 June clients (that is, all government agencies except for government universities) improved from 64 per cent in 2014–15 to 69 per cent in 2015–16. This significant improvement from three years ago (43 per cent in 2012–13) could still be better.

While we issue interim management letters throughout the audit, we aim to issue our final management letters within six weeks of issuing our respective audit opinions. In 2015–16, we achieved 70 per cent, a significant increase from last year's 56 per cent. We continue to develop and implement strategies to improve the timeliness of our management letters.

We also continue to improve our processes and report our concerns about the quality and timeliness of financial reporting across the sector. High quality and timely financial reporting is essential for the government to make informed decisions. We continued to support NSW Treasury's program to improve the quality and timeliness of financial reporting in response to our recommendations. Enhanced early close procedures and active engagement with Chief Financial Officers and Audit and Risk Committee Chairs have promoted the importance of accurate and timely financial information.

A significant strategy for improving quality is NSW Treasury's requirement for agencies to perform early close procedures. We reviewed the outcomes of agency early close procedures and provided feedback before their year-end

financial statements were submitted for audit, allowing them to address identified issues and correct errors.

### Restructure temporarily impacted on performance audit timeliness

This year our average elapsed time for performance audits increased from nine to ten months.

The time to complete performance audits depends on the scope and number of agencies involved. It can also be affected by reasonable requests from agencies to delay an audit, or branch staffing and resourcing issues.

Two audits tabled this year took a relatively long time to complete due to a combination of agency requests for temporary suspension and branch resourcing issues. The branch issues stemmed largely from our 2014–15 restructure which resulted in a number of redundancies as well as substantial recruitment action. This impacted adversely on staff availability for a period of time.

The average duration of the remaining 14 audits tabled in 2015–16 was eight months. Most of these commenced after the 2014–15 restructure, and present a more accurate picture of timeliness under the new branch structure.

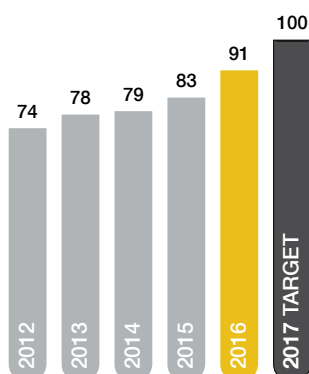
### The year ahead

In 2016–17, we will continue to focus on the timeliness of our audit output through innovation, collaboration and streamlined processes. This includes:

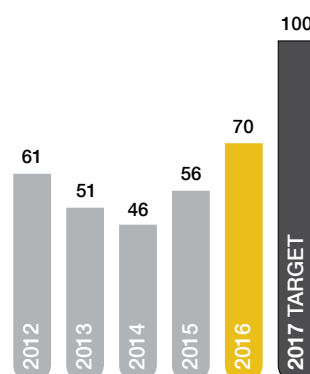
- working with clients and central agencies to achieve improved quality and timeliness of financial and performance audit reports
- using stakeholder feedback to maintain effective relationships through our 'Influencing for Impact' strategic initiative
- improving our resource capacity by spreading the timing of audit work and engaging more fully with providers of audit services
- our branches working together better to improve efficiency and enhance skills and knowledge transfer through our 'Working Better, Working Together' strategic initiative
- exploring opportunities to make greater use of technology to speed up and simplify reporting processes through our 'Reporting Process' strategic initiative.

(See page 10 for further details on our strategic initiatives for 2016–17.)

Audit opinions within 10 weeks %



Management letters to clients within 6 weeks %



# Our financial audits

## Providing value to our financial audit clients

13 new modifications issued and 4 modifications cleared

### What are financial audits?

Financial audits provide independent opinions on NSW Government agencies' financial statements. They identify whether agencies comply with accounting standards and relevant laws, regulations and government directions. Additional financial audits are undertaken each year on the General Government and Total State Sector Accounts. Financial statement audits also highlight opportunities for agencies to improve their accounting and financial systems.

### Our client base

We completed 419 financial audits of NSW Government agencies in 2015–16 (see Appendix Two for the full list of our clients). They provide a diverse range of services and vary in size from large government departments, universities, State superannuation entities and utilities, to small boards and trusts. Excluding universities and controlled entities, these agencies collected income of approximately \$99 billion, spent approximately \$90 billion and managed more than \$454 billion in assets.

### Financial audit clients per sector %

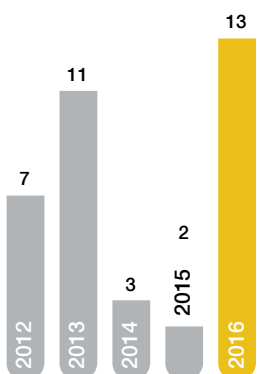


- 27 ● Education and universities
- 15 ● Health
- 11 ● Premier and cabinet
- 10 ● Finance and services
- 9 ● State and regional development
- 9 ● Justice
- 6 ● Transport
- 5 ● Planning and environment
- 4 ● Electricity and water
- 3 ● Family and community services
- 1 ● NSW Treasury

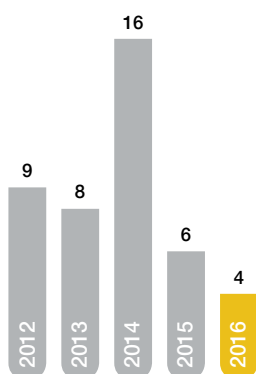
### NSW General Government and Total State Sector opinion

For the third consecutive year, the General Government and Total State Sector Accounts received an unqualified auditor's opinion following more than a decade of qualifications. This outcome shows the government's commitment to improve the quality of financial reporting across the NSW public sector. Compared to previous years, there were fewer significant errors in agencies' 2014–15 financial statements submitted for audit and used for whole-of-government financial reporting.

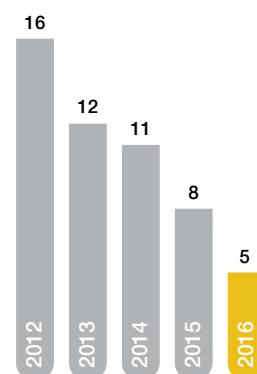
### Number of new modifications



### Number of modifications cleared



### Number of repeat modifications





## New modified auditor's opinions and conclusions

We issued 18 modified auditor's opinions and conclusions on assurance engagements in 2015–16 including 13 new modifications.

Agency	Reason for modification
<b>Modified opinions and conclusions</b>	
Office of Sport Report on compliance with the NSW Government's Disaster Recovery Planning Requirements	The office did not have a Disaster Recovery Plan.
Local Land Services Report on compliance with the NSW Government's Disaster Recovery Planning Requirements	Local Land Services did not have a Disaster Recovery Plan for the specified systems. The agreement with its external service provider managing the systems did not require Disaster Recovery Plans.
New South Wales Rural Assistance Authority Report on compliance with the NSW Government's Disaster Recovery Planning Requirements	The authority did not have a Disaster Recovery Plan for the specified systems. The agreement with its external service provider managing the systems did not require Disaster Recovery Plans.
Crown Solicitor's Office Report on compliance with the NSW Government's Disaster Recovery Planning Requirements	The office did not have a Disaster Recovery Plan.
HealthShare NSW Parramatta and Newcastle Service Centres Report on the Service Organisation's Description of Controls, their Design and Operating Effectiveness	The service centre's system description stated that supplier Electronic Funds Transfer (EFT) payment files are appropriately encrypted. The EFT payment files for the period from 1 July 2014 to 14 May 2015 were unencrypted text files. The increased risk of unauthorised changes being made to EFT files before they are sent to the bank meant the control objective 'disbursements are made to the appropriate suppliers' was not achieved during that period.
HealthShare NSW Westmead service Centre Report on the Service Organisation's Description of Controls, their Design and Operating Effectiveness	The service centre's system description stated that supplier EFT payment files are appropriately encrypted. The EFT payment files for the period from 1 July 2014 to 14 May 2015 were unencrypted text files. The increased risk of unauthorised changes being made to EFT files before they are sent to the bank meant the control objective 'disbursements are made to the appropriate suppliers' was not achieved during that period.
Long Service Corporation Report on compliance with the NSW Government's Disaster Recovery Planning Requirements	The corporation's Disaster Recovery Plan was not tested in accordance with the plan.
NSW Electoral Commission Report on compliance with the NSW Government's Disaster Recovery Planning Requirements	The commission's Disaster Recovery Plan for the specified system was not tested in accordance with the plan.
Sydney Cricket and Sports Ground Trust Report on compliance with the NSW Government's Disaster Recovery Planning Requirements	The trust's Disaster Recovery Plan was not tested in accordance with the plan.
Technical and Further Education Commission	The commission implemented a new Student Administration and Learning Management (SALM) system in October 2014. The commission used the SALM system to enrol new and existing students into relevant TAFE courses. System limitations prevented the commission from providing sufficient and appropriate audit evidence to support amounts recorded for student revenue and related transactions.
Supplementary Contracts Summary for Westlink M7 Motorway Compliance with Section 5.3 of the 'NSW Public Private Partnership Guidelines'	In preparing the Supplementary Contracts Summary, Roads and Maritime Services did not disclose all the elements listed in section 5.3 of the guidelines. Ten items under the 'Background to the Project' and 12 items under 'Elements of the Contract' were omitted on the basis there was no new relevant information within the listed component, or there was no material change to the revised contracts relevant to that listed component.
Supplementary Contracts Summary for the Lane Cove Tunnel Compliance with Section 5.3 of the 'NSW Public Private Partnership Guidelines'	In preparing the Supplementary Contracts Summary, Roads and Maritime Services did not disclose all the elements listed in section 5.3 of the guidelines. Eight items under the 'Background to the Project' and 13 items under 'Elements of the Contract' were omitted on the basis there was no new relevant information within the listed component, or there was no material change to the revised contracts relevant to that listed component.
M2 Motorway Supplementary Contracts Summary for the M2 Integration Project Compliance with Section 5.3 of the 'NSW Public Private Partnership Guidelines'	In preparing the Supplementary Contracts Summary, Roads and Maritime Services did not disclose all the elements listed in section 5.3 of the guidelines. Four items under the 'Background to the Project' and one item under 'Elements of the Contract' were omitted on the basis there was no new relevant information within the listed component, or there was no material change to the revised contracts relevant to that listed component.



# Our financial audits (continued)

## Modified opinions cleared

We work closely with agencies to resolve qualification issues. This year we resolved four previous qualifications.

Agency	Reason for modification
Delta Electricity	The previous qualification arose as the corporation used the income approach to measure the fair value of power stations, without reference to outcomes from the sale process. The modification was removed because the approach used to value the power stations remaining after the sale was consistent with the accounting framework.
Delta Electricity AFSL	The removal of the qualified opinion issued on the corporation's statutory financial statements (detailed above), also allowed removal of the qualification on the corporation's AFSL Assurance Report, which includes an opinion on the corporation's statutory financial statements.
New South Wales Self Insurance Corporation	The previous qualification arose as the corporation, in accounting for its general insurance contracts, applied the incorrect accounting standard. This resulted in material understatement of its liabilities and failure to disclose some required information about its insurance contracts. The modification was removed as the corporation applied the correct accounting standard.
Sport Knowledge Australia Pty Limited	The previous qualification arose as sufficient and/or appropriate evidence to support material transactions pervasive to the company's operations was not available. The company was deregistered in March 2014.

## Modified opinions remaining

Six modifications remain unresolved. However, one modification, whilst not resolved, was not repeated because it relates to an audit the Audit Office only undertakes every third year. Two modifications relate to instances where agencies find it impractical to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry into their financial record systems. In these instances, a limitation of scope remains as we are unable to confirm the completeness of such revenue.

Agency	Reason for modification
NSW Ministry of Health Report on compliance with the prudential requirements of Division 57 of the <i>Aged Care Act 1997</i> and Division 3 of Part 4 of the <i>User Rights Principles 1997</i>	The Ministry did not: <ul style="list-style-type: none"> <li>comply with the Records standard as required under section 45 to 48 of the Principles</li> <li>comply with the Governance Standard as required under section 49 to 50 of the Principles</li> <li>enter into four Bond agreements with care recipients within 21 days, as required under the <i>Aged Care (Transitional Provisions) Act 1997</i></li> <li>comply with the Rules around charging accommodation payments as required under section 14 to 22 of the Principles and Section 52F-1 of the Act</li> <li>enter into five Refundable Deposit agreements with care recipients (who first entered care after 1 July 2014) within 28 days, as required under the Act</li> <li>refund one bond within the statutory timeframe and did not pay the correct amount of interest for two care recipients' bonds refunded during the year.</li> </ul>
The Legislature Review of compliance with the annual Determination of the Parliamentary Remuneration Tribunal	Five members' claims were not submitted to The Legislature for payment within 60 days of receipt or occurrence of the expense. Five members did not submit their mid-year 'Sydney Allowance' reconciliations to The Legislature by the 31 January 2015 deadline. Five members did not submit their year-end 'Sydney Allowance' reconciliations to The Legislature by the 31 July 2015 deadline. Five members did not complete an annual declaration stating the benefits accrued by way of loyalty/incentive schemes were used for parliamentary duties and not for private purposes.
The Sydney Children's Hospitals Network (Randwick and Westmead) (incorporating the Royal Alexandra Hospital for Children) Review of compliance with specified requirements of the <i>Health Insurance Act 1973</i> , and the Health Insurance (approval of Billing Agents) Guidelines (No.1) 2004	Trust monies were not paid directly into compartmentalised accounts in a timely manner. Patients' statement accounts did not set out the amount payable by the patient for each service.
Charles Sturt University Foundation Trust	The trust finds it impractical to maintain an effective system of internal control over fundraising revenue and voluntary donations until the initial entry of the receipt of this revenue and donations into their financial records system.
State Emergency Service	The State Emergency Service finds it impractical to maintain an effective system of internal control over fundraising revenue and voluntary donations until the initial entry of the receipt of this revenue and donations into their financial records system.



# Our performance audits

## Addressing issues of public concern

### What is a performance audit?

Performance audits are in-depth assessments of whether government agencies are achieving value for money.

A performance audit may cover:

- the whole of an agency's operations
- one particular agency activity
- an activity across a number of agencies.

We report the results of these audits to the CEO of each agency, the responsible minister, the Treasurer and parliament.

### Choosing a topic

When selecting and scoping topics, we combine our own research with suggestions from parliamentarians, agency CEOs and members of the public. We aim to choose topics that reflect the interests of parliament in holding the government to account.

Our three-year program is published on our website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. For a full overview of our three-year performance audit program, including proposed audit topics over the next 12 months, see page 36.

### Are recommendations followed up?

Twelve months after a performance audit is tabled, parliament's Public Accounts Committee (PAC) examines whether agencies have implemented recommendations from performance audits and whether any changes in practice or performance have occurred in response to these audits.

In some cases, the PAC will hold a public hearing and invite the agency and the Auditor-General to attend and answer questions. More information on our work with the Public Accounts Committee is on page 18.

Agencies audited	Performance audit report	Tabled in parliament
<ul style="list-style-type: none"> <li>○ NSW Health</li> <li>○ Department of Education and Communities</li> <li>○ Transport for NSW</li> <li>○ NSW Police Force</li> <li>○ Department of Justice</li> <li>○ NSW Treasury</li> </ul>	Identifying Productivity in the Public Sector	16 July 2015
<ul style="list-style-type: none"> <li>○ Department of Family and Community Services</li> </ul>	Transferring Out-of-Home Care to Non-Government Organisations	2 September 2015
<ul style="list-style-type: none"> <li>○ Transport for NSW</li> </ul>	Sydney Metropolitan Bus Contracts	9 September 2015
<ul style="list-style-type: none"> <li>○ Department of Family and Community Services</li> </ul>	Community Housing	16 September 2015
<ul style="list-style-type: none"> <li>○ Transport for NSW</li> <li>○ Roads and Maritime Services</li> </ul>	Albert 'Tibby' Cotter Walkway	17 September 2015
<ul style="list-style-type: none"> <li>○ NSW Health</li> </ul>	Activity Based Funding Data Quality	4 November 2015
<ul style="list-style-type: none"> <li>○ Department of Trade and Investment, Regional Infrastructure and Services</li> </ul>	Government Assistance to Industry	17 December 2015
<ul style="list-style-type: none"> <li>○ NSW Health</li> </ul>	Mental Health Post-Discharge Care	17 December 2015
<ul style="list-style-type: none"> <li>○ Public Service Commission</li> </ul>	Public Sector Management Reforms	28 January 2016
<ul style="list-style-type: none"> <li>○ Transport for NSW</li> </ul>	Franchising of Sydney Ferries Network Services	4 February 2016
<ul style="list-style-type: none"> <li>○ Service NSW</li> <li>○ Customer Service Commissioner</li> </ul>	Realising the Benefits of the Service NSW Initiative	17 February 2016
<ul style="list-style-type: none"> <li>○ Department of Justice</li> <li>○ Corrective Services NSW</li> </ul>	Performance Frameworks in Custodial Centre Operations	3 March 2016
<ul style="list-style-type: none"> <li>○ Department of Premier and Cabinet</li> </ul>	Managing Unsolicited Proposals in New South Wales	10 March 2016
<ul style="list-style-type: none"> <li>○ Department of Justice</li> <li>○ Juvenile Justice NSW</li> </ul>	Reintegrating Young People into the Community After Detention	28 April 2016
<ul style="list-style-type: none"> <li>○ Department of Education</li> </ul>	Supporting Students with Disability in NSW Public Schools	12 May 2016
<ul style="list-style-type: none"> <li>○ Department of Education</li> </ul>	Early Childhood Education	26 May 2016



# This year's performance audits

## Addressing issues of public concern

### Identifying Productivity in the Public Sector

This report examined selected areas of government activity to see if sufficient information was available to identify and assess changes in productivity. Productivity is commonly defined as the amount of output per unit of input.

Despite its importance, productivity trends in the public sector are not well understood or reported to parliament. All of the agencies examined had an understanding and reported on the input, output and quality indicators that could be used to track their productivity. However, they did not track productivity and they did not have clear guidance or direction about how this information could be used to measure productivity.

Using our methodology, we found that from 1 July 2008 to 30 June 2013 productivity for secondary school education decreased, while productivity improved for public hospital acute inpatient care and the NSW Police Force.

The NSW Local Court also had improved productivity from 1 July 2011 to 30 June 2014. Productivity trends could not be identified for primary school education and CityRail.

Agencies better understood and reported on efficiency, which helps agencies to understand the impact of changing costs by measuring cost per unit of output. The available data showed that efficiency declined for acute inpatient care, the NSW Police Force and primary and secondary school education from 1 July 2008 to 30 June 2013. At CityRail and the NSW Local Court, efficiency improved from 1 July 2009 to 30 June 2013 and 1 July 2011 to 30 June 2014, respectively.

In the agencies we examined, the NSW Government's 2011 wages policy was more effective in suppressing employee expense growth than the 2007 wages policy.

#### Response

The audited agencies recognised the importance of measuring and reporting productivity and efficiency. Some accepted the recommendations, while others indicated they would consider them in the context of continuous improvement efforts. Some agencies also pointed out methodological difficulties in measuring public sector productivity.

📅 Report release date:  
**16 July 2015**

### Transferring Out-of-Home Care to Non-Government Organisations

This audit assessed how well the Department of Family and Community Services has transferred the management of children in out-of-home care to non-government organisations (NGOs).

The department has put considerable effort into developing the out-of-home care sector and is progressing well towards its goal of transferring all children in statutory care to NGOs. Since 2011, the number of children with an accredited NGO has more than doubled. This is a positive outcome as children are more likely to receive quality care because these providers meet NSW standards for out-of-home care.

However, it is difficult to assess whether overall outcomes for children in care have improved. This is because the department has yet to determine what wellbeing outcomes it wants to achieve, such as improvements in a child's health, education and welfare. The department is currently developing a quality assurance framework which will include such outcomes. We also found that the number of children in care returned to their birth family has declined, and the number of adoptions has remained relatively unchanged.

#### Response

The Department of Family and Community Services was broadly supportive of recommendations in the report.

📅 Report release date:  
**2 September 2015**

## Sydney Metropolitan Bus Contracts

All scheduled bus services in the Sydney metropolitan area are provided under contracts with public and private operators. The contracts allow Transport for NSW to determine what bus services are provided and to whom. This audit assessed the effectiveness of Transport for NSW's design and management of these contracts.

Bus services provided under the Sydney Metropolitan Bus Service Contracts have largely been effective and efficient. Operators are mostly meeting their key performance indicators. Customer satisfaction is better than under the previous contracts and improving, patronage is increasing, and the unit costs of providing services are now lower than under the previous contracts.

However, punctuality remains a problem. Private operators are mostly starting their trips on time, but rarely meeting their mid and end-of-trip targets. State Transit Authority's punctuality is improving but is worse than private operators, and other areas of performance are generally below private operators.

The current situation is a substantial improvement over what we found in our 2010 audit on the previous contracts.

### Response

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Transport for NSW was broadly supportive of recommendations in the report.

📁 Report release date:  
**9 September 2015**

## Community Housing

The Department of Family and Community Services has worked collaboratively with community housing providers and industry groups to develop the community housing sector. Although there have been some delays, it has managed the transfer of public housing reasonably well and has improved the sustainability of the sector. The department is close to achieving its goal of 30,000 homes managed by the community housing sector by 2016–17.

The community housing sector is now well-established and more sustainable than it was in 2007. The department has worked collaboratively with the community housing industry to enhance the professionalism of the sector.

However, it is unclear whether the department has achieved its desired outcomes for tenants. For example, it wanted more flexible, tailored services for

tenants and more resilient communities but it did not determine how it would measure these outcomes. However, tenants managed by the non-government sector are more satisfied than those in public housing managed by the department.

Contracts for managing government-owned community housing properties currently run for three years. Longer leases would make it easier for providers to obtain loans and give providers an incentive to invest in the properties they manage, which may help community housing providers to better deliver the department's goals.

### Response

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The Department of Family and Community Services supported the recommendations in the report.

📁 Report release date:  
**16 September 2015**



# This year's performance audits (continued)

## Addressing issues of public concern

### Albert 'Tibby' Cotter Walkway

This audit on the Albert 'Tibby' Cotter Walkway found that Roads and Maritime Services (RMS) delivered the walkway to an extremely tight timeframe. It was operational for the 2015 Cricket World Cup at the Sydney Cricket Ground as promised by the government. However, the World Cup deadline added substantially to the total cost of the walkway, which was projected to be \$38 million.

Transport for NSW and RMS could not provide evidence of a compelling economic or financial argument to support the construction of the walkway, or for the tight deadline. Also, the processes they adopted to provide assurance of the project's value for money were not adequate.

Justification for the walkway and the deadline was weak and processes to ensure value for money were deficient. There was no final business case and no 'gateway review' as required by the government's project assurance system.

RMS never clearly demonstrated that the walkway should be built. It also did not clarify the extra cost required to meet the World Cup deadline or demonstrate it was worth paying.

By extending an existing alliance with a highly experienced and qualified contractor, RMS accepted a cost premium to mitigate the risks associated with the tight timeframe. The deadline meant that there could be no specific competitive tendering for the walkway. It also led to the development of a 'fall-back' design, additional overtime and the inefficient use of equipment and temporary works. The deadline also prevented concurrent delivery with the CBD and South East Light Rail project, which RMS thought would save millions of dollars.

RMS adopted several good governance practices for management of the alliance, including keeping the alliance at arms-length and using an independent cost estimator. However, there were some shortcomings in implementation.

### Response

Transport for NSW and Roads and Maritime Services accepted the recommendations in the report.

📅 Report release date:  
17 September 2015

### Activity Based Funding Data Quality

We found that while data quality governance for Activity Based Funding is adequate, there are some areas for improvement. The key areas that NSW Health can do better in include:

- implementing a comprehensive data quality framework which governs how Local Health Districts collect, manage and use data for Activity Based Funding
- resolving workforce issues related to clinical coding that may impact data quality for Activity Based Funding
- resolving issues related to the use of multiple and unaudited feeder systems by Local Health Districts that present risk to data quality.

The engagement of leadership with Activity Based Funding is an important institutional component for good data quality governance. We found that senior leaders in NSW Health are committed to Activity Based Funding and encourage its use to improve management practice. This keeps the organisation focused on data quality.

### Response

NSW Health accepted and supported all four recommendations.

📅 Report release date:  
4 November 2015

## Government Assistance to Industry

We found the Department of Industry was unable to demonstrate that assistance provided to industry was effective in achieving long term industry development objectives.

We found there was:

- no agreed definition of industry assistance and no overarching rationale for its use
- no comprehensive evaluation of industry assistance programs
- insufficient reporting on industry assistance programs.

The audit examined seven programs that provide at least \$2 million per year in grants and subsidies to industry.

While industry assistance programs set broader goals – largely economic – none set targets for their contribution to government strategic goals. This limited the department's accountability for results.

The department conducted detailed cost-benefit analysis prior to providing assistance for projects over \$200,000. This helped to provide some rigour. Payments were linked to milestone achievement for a number of programs. The department did not follow up to check whether benefits were sustained after industry assistance ceased.

Reporting on industry assistance programs was limited and inconsistent. High level information was published about the expected benefits of assistance programs in terms of jobs, capital investment and exports. Insufficient detail was published on those who received assistance, particularly for two of the largest programs – the Regional Industries Investment Fund and the State Investment Attraction Scheme.

Better collection, analysis and reporting will help to ensure that industry assistance is appropriately targeted and contributing to longer term objectives.

## Response

The department noted that many of the report's findings coincided with the government's decision to replace two of the programs reviewed with the 'Jobs for NSW' program. The department also noted that a number of the recommendations will be of continuing value, some have already been adopted and others will continue to guide the development of future industry assistance programs.

Report release date:  
**17 December 2015**

## Mental Health Post-Discharge Care

Discharge from hospital is a critical transition point in the delivery of mental health care. People leaving hospital after an admission for an episode of mental illness have a heightened level of vulnerability and, without adequate follow-up, may relapse or be readmitted.

We found that, overall, mental health consumers receive good follow-up in the first seven days after their discharge from mental health units. However, there is opportunity for further improvement.

The improved rate of consumers receiving follow-up care has been driven by a range of different practices across Local Health Districts, as well as by the strong commitment of clinicians and management.

There is strong understanding and awareness of the general intent of NSW Health's transfer of care policy directive for mental health consumers, with clinicians and managers displaying commitment to ensuring that consumers receive post-

discharge follow-up. However, there could be better adherence to some aspects of the policy, such as:

- the requirement to establish an estimated discharge date when the patient is admitted
- the need to engage consumers, as well as their families and carers, in planning for their transfer back to the community
- the obligation to provide consumers with individual transfer of care plans tailored to their own needs and capacities.

We found areas for improvement in practices such as:

- ensuring adequate follow-up contact and care is provided when consumers are transferred back to the community in a different Local Health District to where they had been admitted
- the quality of communication and coordination that is needed between mental health inpatient unit staff and community mental health service staff.

## Response

NSW Health supported the recommendations in the report.

Report release date:  
**17 December 2015**



## Addressing issues of public concern

### Public Sector Management Reforms

We found the Public Service Commission (PSC) is making good progress in implementing public sector management reforms, although there are some areas for improvement.

We found that the PSC:

- developed a sound evidence base and built support across agencies for the reforms
- developed good guidance for government agencies to implement the reforms
- could do more to report on the benefits of the reforms and plan for evaluation.

The PSC is leading the roll-out of reforms to work practices, employment structures and conduct of the NSW public service. These include changes to rules and guidelines for recruitment, job classification, the structure of the senior executive service, and ethical conduct.

The PSC provided agencies with adequate support and guidance to help them

implement the reforms. However, it could have:

- been more timely with guidance
- better explained the rationale of the reforms, the links between the reforms, and the best order in which to implement the reforms.

The PSC is currently developing a performance measurement framework to better monitor and report on the impact of the reforms. While it has done a mid-point assessment of how the reforms have been implemented, it has not established a method or plan to evaluate the reforms once they are fully implemented.

The PSC developed a robust case for action in response to the Commission of Audit Interim Report. It has set high level reform objectives, but did not quantify the scale of anticipated benefits and does not actively monitor or manage their realisation.

### Response

The PSC supported the report's seven recommendations, subject to specific comments. In response to recommendations to implement the workforce measurement framework for evaluation and to increase public reporting, the PSC will put emphasis on the impact of the integrated reform package on organisational effectiveness in achieving outcomes (rather than individual reform elements).

📅 Report release date:  
**28 January 2016**

### Franchising of Sydney Ferries Network Services

This audit assessed whether the decision to franchise ferry services on the Sydney Ferries Network in July 2012 was justified, and whether Transport for NSW's management of the franchise has been effective.

We found franchising ferry services to Harbour City Ferries, a private operator, has resulted in reduced contract payments in the order of 12 per cent compared to payments made to the State-owned Sydney Ferries, the operator preceding the franchise. The service performance of Harbour City Ferries against common performance indicators has been as good or better than that of Sydney Ferries.

Transport for NSW, with the support of Treasury, undertook sufficiently robust analysis to conclude franchising would lead to material cost savings, service improvements and effective risk transfer to the private sector. This included drawing on the outcomes of market testing on ferry services it conducted in

2008–09. Transport for NSW adopted a comprehensive process to select Harbour City Ferries.

The audit found that Transport for NSW's contract with Harbour City Ferries was mostly well designed, with performance indicators largely promoting effectiveness, but there were improvement opportunities. The contract did not have performance measures for customer satisfaction or for timely travel information to customers, which are specific government objectives in 'NSW – Making it Happen' and the 'NSW 2012 State Plan'.

Transport for NSW has implemented a comprehensive framework for managing the contract with Harbour City Ferries, with adequate assurance that information it has on the operator's performance is valid and reliable. There were some minor deficiencies in procedures outlining delegations for decision making, and the measurement of the service reliability performance indicators.

### Response

Transport for NSW accepted most of the recommendations of the report.

📅 Report release date:  
**4 February 2016**



## Realising the Benefits of the Service NSW Initiative

Planning for the Service NSW initiative (the initiative) commenced in June 2012 with the objective to improve customer services and cost efficiency by rationalising 394 shop fronts, 8,000 phone numbers and over 800 government web pages that citizens and businesses use to access NSW Government services. In June 2013, a new organisation, Service NSW, commenced operations as the one-stop access point for NSW Government transaction services.

This audit assessed whether there was an effective benefits realisation approach to realise the anticipated benefits of the initiative.

Roads and Maritime Services, NSW Fair Trading and the Registry of Births, Deaths and Marriages were amongst the first user agencies to move their customer and transaction functions to Service NSW.

Together they represent approximately 80 per cent of Service NSW transactions. We examined their participation in the initiative.

Service NSW is tracking the achievement of selected benefits and savings, for example, its financial performance and customer satisfaction. Service NSW provides a convenient and practical way for customers to access all government transaction services. However, agencies involved in the initiative have not adopted an effective benefits realisation approach for the initiative. This means that no one is currently monitoring whole-of-government benefits and savings, and there is insufficient data available to fully value or identify individual agency and whole-of-government savings and benefits.

### Response

Service NSW and the Customer Service Commissioner did not accept our view that the approach to benefits management, no matter how effective, will result in the benefits of the program actually being realised. Whilst acknowledging that effective benefits monitoring is an integral part of the program, Service NSW advised that the realisation of benefits is dependent on the success of the program, not the reporting system. It also noted that, at the time of the audit, it was very early in the life of the overall initiative.

Report release date:  
**17 February 2016**

## Performance Frameworks in Custodial Centre Operations

We found that the effectiveness of Corrective Services NSW's (CSNSW) performance framework is limited because organisational key performance indicators (KPIs) do not cascade to the public correctional centre level.

CSNSW's performance framework specifies organisational KPIs, for which most have targets. However, CSNSW did not specify KPIs or benchmarks for individual public correctional centres. As a result, CSNSW could not assess the performance of these centres. CSNSW's commissioning and contestability project is designed to address this issue.

In 2014–15, CSNSW met five of 12 organisational targets. Targets that were not met include nil prisoner-on-prisoner assaults and eight hours' time out of cells for inmates in secure facilities.

CSNSW advised that these targets reflect government policy and can be difficult to consistently achieve in a high-risk corrective services environment.

Operating standards were set for public correctional centres. Most of these standards were met. Performance Linked Fees (PLFs) and operating specifications were set for private correctional centres. All but one PLF and one operating specification was met in the 2014–15 contract year.

CSNSW put processes in place to set and manage actions in response to variations in performance against operating standards, private correctional centre PLFs and specifications.

### Response

The Department of Justice noted the constructive suggestions made in the report to improve overall system accountability and undertook to carefully consider the report's recommendations.

Report release date:  
**3 March 2016**



## Addressing issues of public concern

### Managing Unsolicited Proposals in New South Wales

We found that the governance arrangements for unsolicited proposals made to NSW Government are adequate. However, there needs to be greater transparency and public reporting on unsolicited proposals received by government.

The Department of Premier and Cabinet (DPC) effectively coordinates unsolicited proposals through its published guide, as well as through the support and advice it provides to agencies and proponents. The guide is clear and comprehensive. Agencies most commonly approached about unsolicited proposals have a good understanding of the process, but this could be improved across the NSW Government as a whole. There is ambiguity regarding the nature of DPC's oversight role. The unsolicited proposals

process would be more transparent and engender greater community confidence by more public reporting about the proposals.

Governance arrangements support the separation of the assessment and approval of unsolicited proposals. This includes the broad arrangements set out in the guide itself, as well as those arrangements that are established through governance plans that are mandated by the guide for proposals that reach Stage Two (the detailed proposal stage) of the assessment process. There is a lack of clarity about what regard government will give other relevant procurement processes and approval requirements when forming governance arrangements for unsolicited proposals.

#### Response

The Department of Premier and Cabinet indicated it will work towards implementation of the majority of recommendations in the report.

📅 Report release date:  
10 March 2016

### Reintegrating Young People into the Community after Detention

Juvenile Justice NSW prepares and assists young people to reintegrate into the community reasonably well. It has many good processes and programs in place to identify and address young people's needs while in detention and link them to relevant support services in the community. However, it still faces significant challenges which make reintegration difficult. Some of these are within its control to fix, such as strengthening discharge planning. Others relate to external factors, such as engagement with other organisations in the community.

Young people can access programs to help address their offending behaviours. However, completion rates vary. Juvenile Justice NSW is reviewing these programs to ensure they are delivered in ways that engage young people and are evidence-based. Juvenile Justice NSW should also clarify what it wants to achieve regarding recreation activities and vocational training, and ensure its programs align

with these outcomes. Staff within centres were also uncertain about the effect of recent changes in the vocational education sector on the availability of training courses.

The proportion of young people being referred to services in the community after release has increased over the last five years. However, access to services can be difficult to arrange, particularly mental health, drug and alcohol, and housing. This is partly due to the complex needs of these young people and the limited capacity of other organisations in the community.

We found that while most young people leaving Juvenile Justice NSW's care have somewhere to live, less than half are working, training, or going to school. Reoffending rates have been relatively stable over the last ten years, with around one in two young people leaving detention reoffending within one year of leaving Juvenile Justice NSW's care.

#### Response

The department supported the recommendations in the report.

📅 Report release date:  
28 April 2016

## Supporting Students with Disability in NSW Public Schools

The Department of Education is doing a reasonable job in managing how well students with disability transition to a new school and in supporting teachers to improve these students' educational outcomes. In recent years, it has put considerable effort into improving support for students with disability. Initiatives include more teacher training, specialist learning and support teachers in schools, and increased disability funding for schools.

However, the level of support provided to students with disability can vary. Some schools support students well, while others have more to do before they adequately meet students' needs. This is partly due to cultural resistance in schools, and the lack of expertise of some teachers, regarding disability.

The department has good processes in place to help teachers identify the needs of students with disability when they transition to a new school. We also found many examples of teachers adjusting support to meet the needs of individual students. However, some barriers remain, including limited time to plan for adjustments and poor understanding by some teachers of their obligations under the disability standards and how to support a student with disability.

While schools collect information on individual students, the department is not yet able to determine overall school performance in improving learning outcomes for students with disability. Schools should also provide clearer information for parents on the support available at their local school and consult more with families on what is being done to address their child's needs.

### Response

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The department was broadly supportive of recommendations in the report.

📁 Report release date:

**12 May 2016**

## Early Childhood Education

The NSW Government wants all children to have access to quality early childhood education in their year before school.

Enrolments in quality early childhood education programs in New South Wales are increasing but are below the national benchmark. While 99 per cent of children in the year before school were enrolled in education programs in 2015, only 77 per cent were enrolled for at least 600 hours. New South Wales performance on the 600 hour benchmark lags behind other States and Territories. Fees for families in New South Wales are higher, and the NSW Government's contribution per child is lower, than in most other States and Territories.

Community preschool subsidies are now better targeted. However, funding for education in long day care is limited and not targeted to disadvantaged children. Government preschools remain relatively expensive and not always located where needed. Also, subsidies are not tied to the government's 600 hour benchmark.

Failure to achieve performance benchmarks cost New South Wales \$68 million in Australian Government financial support between 2013–14 and 2014–15.

National arrangements governing regulation of early childhood education and care are complex, resource intensive and constrain efficient regulation. The department has had some success in achieving reform at the national level. Within the constraints of the national arrangements, the department has been reviewing its regulatory processes and implementing improvements to enhance efficiency.

Elapsed time for completing approvals and assessment and ratings has fallen (improved) coinciding with implementation of process improvements. However, the department does not collect data on the costs of its various regulatory activities. Therefore, it is not able to prove it is providing regulatory services at an efficient cost.

### Response

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The department supported the recommendations in the report.

📁 Report release date:

**26 May 2016**



# The year ahead for performance audit

## Continuing with our three-year program

We refer to the State priorities in 'NSW – Making It Happen'

Section 38B of the *Public Finance and Audit Act 1983* provides the Auditor-General of New South Wales with a mandate to undertake performance audits in NSW Government agencies.

Our audit topics for the coming three years have been developed taking into account the Premier's priorities and State priorities set out in 'NSW – Making It Happen'. The proposed performance audit program covers the activities of the ten clusters responsible for delivering the government's priorities. The program has been informed by consultation with key stakeholders, including NSW Parliament's Public Accounts Committee, department secretaries, and the integrity agencies.

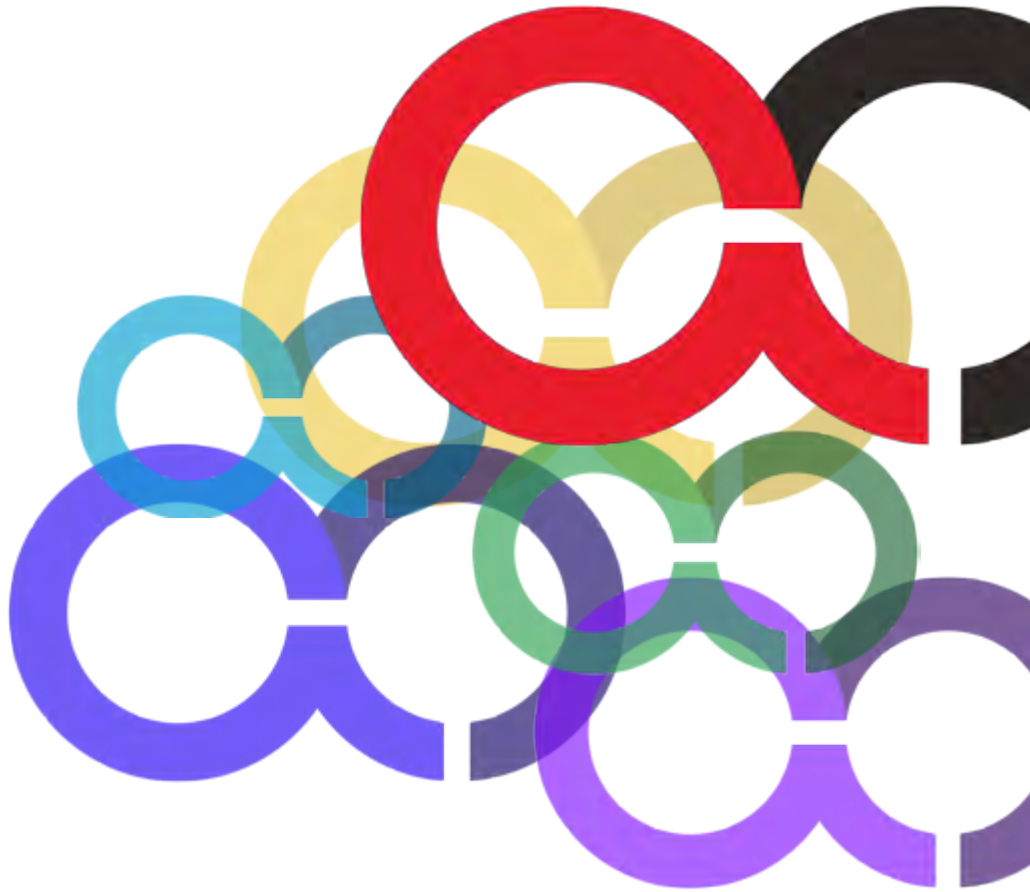
When examining agency performance we expect to refer to some broad themes that are relevant to today's government administration and reform: governance, devolution, partnerships, outsourcing, efficient service delivery and transparency.

The following schedule identifies the audit program for the 2016–17 financial year (subject to any emerging priorities). Our programs for 2017–18 and 2018–19 are on our website, but we expect these will change as we undertake annual reviews and consultation.

Proposed topics for 2016–17	Agency cluster
Government advertising	Premier and Cabinet
Red tape reduction	Premier and Cabinet Finance, Services and Innovation
Implementation of the government's Program Evaluation Framework	Treasury Premier and Cabinet Industry and Skills Planning and Environment Police and Justice
Delivering major projects – NorthConnex	Transport Treasury
Procurement – contingent workforce	Finance, Services and Innovation
Planning for school infrastructure	Education
Use of IT to improve education outcomes and productivity	Education
National Disability Insurance Scheme – Ensuring readiness and capability of non-government sector	Family and Community Services
Asset management in Health	Health
Palliative care	Health
Ensuring food retail businesses comply with food safety standards	Industry and Skills
Sale and lease of Crown land	Industry and Skills
Mining rehabilitation security deposits	Industry and Skills
Planning Assessment Commission determinations	Planning and Environment
Management of injured workers	Police and Justice
Support programs and services in prisons	Police and Justice
Sydney CBD and South East light rail	Transport
Getting rail passengers to their destinations on time	Transport

For further information on these audits, and for our three-year performance audit program, see [www.audit.nsw.gov.au/audit-program/performance-audit-program](http://www.audit.nsw.gov.au/audit-program/performance-audit-program).





# People

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**Our people are highly skilled and dedicated to improving the public sector**

At the Audit Office of New South Wales, we have built a constructive and achievement-oriented working environment that:

- is founded on respect for staff, clients and stakeholders
- strives to maintain a balance between work life and personal life
- fosters and values trust and allows staff to be the best they can be
- attracts and retains highly skilled staff who take opportunities to achieve their potential

# Staff satisfaction

## Our staff indicated improvements across all key staff opinion survey measures

Staff satisfaction increased from 67% to 79%

Staff engagement increased from 67% to 82%

### Staff satisfaction up

The staff opinion survey is an important measure of staff satisfaction. It calculates a weighted satisfaction index and an overall 'gut feel' measure of staff satisfaction.

Participation in the survey was high this year with 82 per cent of staff contributing.

Results for the year showed a considerable improvement compared to 2014–15, with our staff satisfaction index increasing from 67 per cent to 79 per cent.

The 'gut feel' satisfaction measure also improved, with 87 per cent of respondents 'satisfied' to 'extremely satisfied' working at the Audit Office, up from 68 per cent.

Staff sustainability, which effectively measures work-life balance, increased to 51 per cent of our staff rating that they are 'working in a highly sustainable way', up from 37 per cent. The percentage of staff working in a 'moderately sustainable way' remained stable at 35 per cent.

### Staff engagement up

Staff engagement connects measures of staff satisfaction, morale, loyalty and commitment to the Audit Office's success. It further measures whether staff feel trusted and valued. Staff engagement increased significantly from 67 per cent to 82 per cent. Ninety per cent of staff would recommend the Audit Office as a 'great place to work', up from 72 per cent the previous year. Ninety-one per cent of staff indicated they 'are willing to put in extra effort to achieve a professional result', up from 83 per cent.

Morale has markedly improved across the organisation with 79 per cent of staff reporting 'reasonable' to 'very high' morale, increasing from 52 per cent last year.

Over 18 months until early 2015–16, our 'People' strategic focus area delivered 'Project Blue'. Part of the project dealt with proposed changes to employee conditions and the industrial relations framework. This led to a period of change and uncertainty and had a significant negative impact on our 2014–15 staff survey results. We took on board feedback that we needed to improve the way we engage with our staff and over the remainder of 2015–16 we actively worked on improving this area. We particularly focused on improving communication and collaboration with our staff and union representatives in Award negotiations. This work appears to have positively impacted the morale, engagement and satisfaction of our people which is a pleasing result. See page 48 for a case study on our 2015–16 Award negotiations.

### Performance gaps improved

The staff survey tells us what staff consider most important, and identifies the gaps between their expectations of the 'ideal' and how well the Audit Office is currently performing. Gaps of more than 20 points between importance and delivery indicate a need to focus on these areas. When compared to the 2014–15 survey there was improvement across all performance gaps, some significantly.

The five largest performance gaps, from highest to lowest, were:

- good communication exists throughout the office
- I feel valued
- we have a constructive culture at the Audit Office
- the Leadership Team consistently demonstrates constructive behaviours
- I am able to balance work with my personal life.

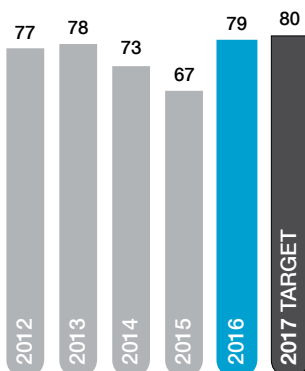
To improve the ability of our staff to balance work and personal life, we implemented a new resource management system, Retain, which is improving resource and workload management across the organisation.

### The year ahead

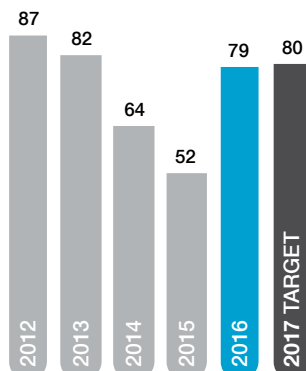
Although our results have improved significantly, we will continue to work to address the performance gaps raised by our staff, particularly in areas of communication, constructive leadership, feeling valued and culture.

Through our 'Working Better, Working Together' strategic initiative, the Leadership Team will develop a clear strategy in 2016–17 for bringing our people closer together across teams and branches to improve communication and collaboration, development opportunities, resourcing, and staff engagement (see page 10).

Staff satisfaction %



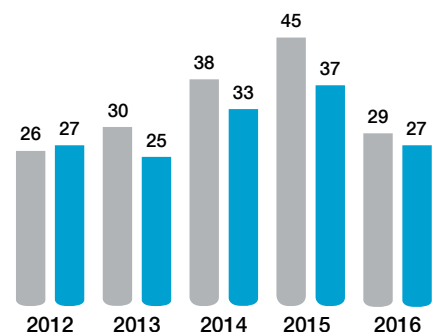
Staff morale %



Significant performance gaps

Good communication exists throughout the office

I feel valued



# Performance

## A focus on effective, quality results

70% productivity achieved, up from 67% last year

100% of staff have performance agreements

### Productivity

The vision of the Audit Office is 'Making a difference through audit excellence', so the result of our work needs to make a difference to the State's performance.

Professional standards and expectations grow continually, and our staff productivity (the percentage of total staffing hours that we charge to our audit work) in 2015–16 increased from 67 per cent to 70 per cent, above our 65 per cent target.

Total staffing hours include time worked by all staff, including those responsible for administration and governance.

During 2015–16, we successfully embedded some major technology and infrastructure strategic initiatives which have resulted in greater efficiencies.

### Enhancing technology infrastructure and systems

In 2015–16, we continued with our technology strategy of enhancing audit delivery through improved systems and processes. Technology achievements included:

- delivering a fully interactive online version of the 2014–15 annual report
- conducting a major upgrade to our records management system from TRIM to HP Records Manager
- enabling greater visibility of information in the Elite practice management system by developing one-click reports
- implementing a collaborative document review tool for our Auditor-General's Reports to Parliament

- launching several human capital management system tools via the MiCareer Project including performance management, compensation, recruitment and learning tools
- upgrading our audit management system, Teammate
- completing the implementation of a resource scheduling platform, Retain, to simplify the management and allocation of our people resources.

We also continued to meet compliance and operational stability requirements by:

- re-certifying the ISO27001:2013 security standard
- maintaining systems availability above the target of 99 per cent
- developing a robust and future-focused cloud strategy
- testing our disaster recovery plan
- participating in the Microsoft SAM (Software Asset Management) review.

### Improving our performance management framework

The performance, behaviour and conduct of our employees are integral to our success. The Audit Office promotes a transparent and consistent performance management approach that aligns personal goals and individual development with the Audit Office strategy and vision.

In 2015–16, a new Performance Management Policy and supporting process was launched with an emphasis on employees and managers sharing responsibility for open, two-way communication and feedback on performance. This policy is based on the NSW Public Service Commission's Capability and Performance Framework which is being rolled out across the NSW public sector.

The Audit Office has managed to achieve one hundred per cent of staff having performance agreements in place in 2015–16.

See the case study on page 48 on our performance management framework.

### Fair and responsible remuneration

The Audit Office has undergone significant changes to performance and remuneration processes over the last twelve months to improve the transparency of these processes.

Employee performance is now assessed twice annually through a mid-year and end-year performance assessment. The results of the performance assessment are moderated across branches through leadership collaboration sessions.

Employee remuneration is then assessed once per year immediately following the end-year performance assessment. In 2015–16, a new online compensation tool was used to administer the remuneration assessments. This was highly successful in streamlining the assessment process and making the process more transparent.

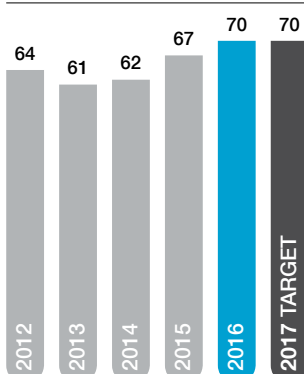
The Remuneration Committee that was first formed in 2014–15 met twice during the year to consider auditor progression and the end-year remuneration review. The purpose of this newly established Remuneration Committee is to review and make recommendations to the Auditor-General on the application of the Audit Office's remuneration policies and practices. These recommendations have ensured improvement in the remuneration assessment process.

### The year ahead

In 2016–17, we will:

- continue to cascade the Audit Office strategic plan down into branch plans and individual performance agreements
- embed improvements to our performance management process, including performance conversations, two-way feedback and the link between performance and remuneration
- implement the new Audit Office Award, including clarification of remuneration level requirements and auditor progression criteria
- continue to ensure our approach to remuneration is procedurally fair and fiscally responsible, and in line with the NSW Government's wages policy
- complete the implementation of the MiCareer human capital management system.

Productivity %



# Staffing and recruitment

## Focus on attracting high quality staff

273 full-time equivalent staff

52% of middle management are women

### Staff turnover improved and our brand remains strong

Our strong brand, excellent reputation and opportunities for personal and career development has enabled the Audit Office to continuously attract high quality staff. This has positively impacted our ability to sustain a regular supply of specialist talent and our capacity to meet client demands.

In 2015–16, our staff turnover decreased from 24 to 18 per cent. Feedback gathered in exit surveys reveals staff:

- felt important issues could be communicated better and more regularly
- enjoyed the work and felt confident that if they performed well that they would be assured of employment
- were happy with the quality of training, but would have liked opportunities to move to or perform at a higher level
- felt their manager listened to them and valued their input
- felt providing more constructive feedback on performance would be good
- believe the Audit Office was a friendly place to work but morale needed to be higher
- felt that they did not have enough time and resourcing to complete their work.

The majority of exiting staff have moved into the private sector. Significantly, nearly 90 per cent of staff would return to the

Audit Office if an opportunity arose.

The number of full-time staff at 30 June 2016 was 273, up from 249 last year. This increase is largely a timing issue as we brought forward our work to meet earlier financial audit close deadlines and supplemented our staff with short-term contractors.

In March 2016, we began our graduate recruitment process for 2017. We worked to ensure our ongoing alliance with professional accounting bodies and universities by attending career events and engaging in other recruitment activity. We shortlisted and interviewed 62 candidates from the 447 applications received, and offered a four-year fixed-term contract to 24 candidates, down on last year's 26.

### Improving staff relations

In 2015–16, the Audit Office worked with employee representatives and the Public Service Association (PSA) to improve the existing Crown Employees (Audit Office) Award 2015 and ensure it reflects current practices, processes and policies.

We undertook an extensive collaboration process between the Audit Office, our staff and the PSA to focus on three key areas: flexible work practices, leave and remuneration.

The result of this collaboration is a more modern industrial instrument that provides our staff with much greater flexibility. In particular, our flex leave system has been

overhauled with far fewer restrictions. Our new Award will ensure we can continue to attract and retain the talent we need to fulfil our mandate now and into the future. See the case study on page 48 for further details.

### Equity and diversity

At the Audit Office we are committed to ensuring we have a diverse workplace that reflects our constantly changing external workforce and client base. We recognise that by embracing the different contributions, perspectives and talents that make up our organisation we create a culture of participation, contribution and respect.

The number of women as a percentage of the total workforce has reduced slightly to 49 per cent. The representation of women in middle management has also decreased slightly, to 52 per cent from the previous 54 per cent. The Audit Office has an ongoing commitment to supporting the growth and development of talented women in the organisation. Although the percentage of women in the executive and senior leadership positions has also decreased from 45 to 42 per cent in the last twelve months, given the size of our organisation, all these percentage decreases represent only one or two positions at most. We now also have a female Auditor-General for the first time in our history.

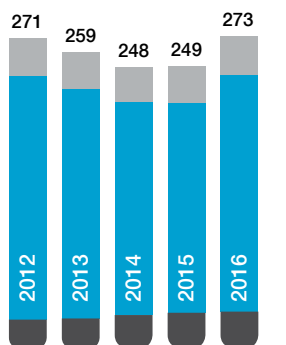
Staff at the Audit Office come from 39 countries and speak 26 languages. In 2015–16, we celebrated many cultural festivals such as Diwali, Eid-ul-Adh, Lunar New Year, Harmony Day, International Women's Day, Australia Day and Remembrance Day. These celebrations help us recognise the diversity of our workplace and encourage our staff to learn more about other cultures.

In 2015–16, we introduced a compulsory Respect and Diversity online learning module for all employees. The module includes detailed information on respect, diversity and inclusion, as well as our zero-tolerance approach to harassment, bullying and discrimination.

For information on equal employment opportunity groups and their distribution, see Appendix 6.

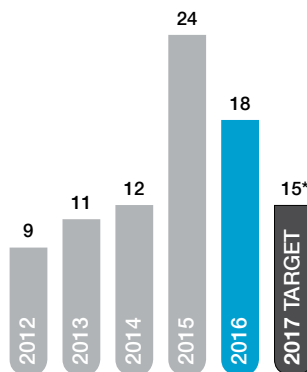
### Total staff at 30 June\*

\*FTE: Full-time equivalent.



Leadership Audit Corporate

### Staff turnover %



\*Target range is 12–15 per cent





## Supporting our staff

The health and wellbeing of our staff remains a strong focus for the Audit Office. In 2015–16, several staff used our Employee Assistance Program, which includes independent, confidential counselling services for staff and their immediate families. We continued to provide assorted fruit every day to promote healthier eating, and provide free flu vaccinations to all staff.

We also continue to offer flexible working arrangements. Employees can have a flexible approach to working hours that help them manage fluctuating workloads and achieve work-life balance. Such flexible arrangements include working from home, a compressed working week, term working, job share and career breaks.

In 2015–16, we provided support to those competing in the Corporate Cup running competition and we introduced a second running team to further commit to our healthy workforce culture. We also maintained our corporate partnership with a local gym, providing low-cost memberships to our staff.

## Recognising our staff

We know from our annual staff survey that being recognised is highly valued. In light of this, we have a formal Recognition Program called 'The Audies'. The Audies has two nomination periods per year for both individuals and teams. Staff and teams are nominated based on how they have contributed to our vision of 'Making a difference through audit excellence'. In 2015–16, we received a total of 55 individual and seven team nominations.

There were ten individual award winners, and one team winner, with all recipients announced at our July and November staff Office Forums.

## Recreation club

The recreation club, known as the ReClub, is a social organisation run by staff, for staff. Approximately 64 per cent of staff are members of the ReClub, a rise from last year's 57 per cent. Reasons for this increase included high participation from incoming staff, especially new graduates. The club is fully funded by staff and run by a representative committee. The ReClub is responsible for organising a number of the Audit Office's key annual and regular events including the Annual Dinner, the Christmas Party and numerous happy hours. Additionally in 2015–16, the ReClub organised:

- Launchies – a welcome event for new graduates joining the Audit Office that sold out in 2016 due to high demand
- Australia's Biggest Morning Tea annual bake-off – our tenth participation which raised almost \$800 for the Cancer Council, a record for the ReClub and well beyond the initial \$500 target
- Futsal – our fiercely competitive indoor soccer competition which this year included six teams with 60 players
- 10,000 steps challenge – a health event challenging staff to walk 10,000 steps per day, with almost every business team across the Audit Office entering a team.

The ReClub has also expanded its focus towards charitable and social engagements. Members will be taking part in the City of Sydney's bi-annual street count to help collect information about the number of homeless people sleeping in the Sydney CBD.

The ReClub is an integral part of our culture, with fun activities and a chance for staff to network with colleagues they may not usually see on a daily basis.

## The year ahead

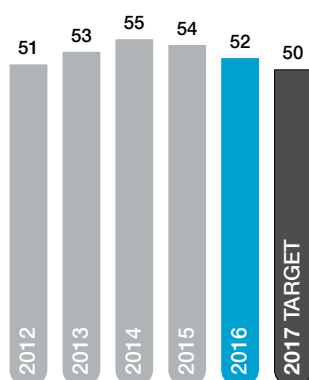
Our 'People and Culture' strategic goal area remains a key priority for our strategic plan and branch business plans. We expect to see improvements in a number of areas by:

- embedding the changes from the new Audit Office Award
- developing and implementing an inclusion and accessibility framework in line with whole-of-government strategy to improve engagement and the way we work together
- developing a workforce plan that ensures we deliver value through the right skills, resources and structure.

Improving the representation of Aboriginal and Torres Strait Islander people at the Audit Office is important to our ongoing commitment to equity and diversity. In 2016–17, the Auditor-General has committed to making it a high organisational priority to improve our representation in this area. We will also focus on the representation of women in our workforce given the slight slip in numbers this year.

(See page 10 for further details on our strategic goal areas.)

## Women in middle management %



# Professional development

## Continuing to invest in our talent

9 training days per employee

### Well-developed skills

Our vision 'Making a difference through audit excellence' is supported by the professional development of our staff and managers. In 2015–16, we:

- commissioned a Learning Management System as part of the MiCareer Project
- developed a suite of online technical learning modules and information security modules
- developed individual online learning modules such as 'Behaving Ethically', 'Diversity and Inclusion' and 'Retain Resource Scheduling'
- established a training event calendar
- implemented an internal mentoring program.

We continued to help staff gain their professional accounting qualifications in 2015–16 by reimbursing 100 per cent of fees. Seven staff qualified as Chartered Accountants, one as a Certified Practising Accountant and five as members of the Institute of Public Accountants. We also support non-audit staff with their further education by paying a percentage of their fees for relevant study. Study leave is granted for all those completing approved studies.

Training days per staff member in 2015–16 averaged nine days and included a combination of online training, on-the-job coaching and face-to-face sessions. The use of internal coaching, and training delivered by internal subject matter experts, remains a focus to ensure we continue to offer cost-effective learning solutions.

### Technical and leadership development

Leadership development in 2015–16 focused on developing the coaching skills of our new managers, as well as performance conversation training as part of the performance framework roll-out. Additionally, each newly promoted manager was given an induction that enabled them to develop a plan for the first 90 days in their new role, and all unsuccessful candidates for manager roles were given development plans to address capability gaps.

We also held an offsite 'Business Simulation' in 2015–16 where participants were put in teams to run the Audit Office over a three-year period. Participants could see the impact of their business decisions on Audit Office performance. Following the simulation, team members were provided with one-on-one coaching by external business coaches.

Financial Audit staff this year were trained across a variety of subject areas, including plain English, audit methodology, accounting standards, on-the-job coaching and government. Corporate Services staff received relevant industry-

specific training and continued to develop through attendance at seminars, training sessions and conferences. Performance Audit staff attended industry conferences, and developed advanced report writing skills through face-to-face training and coaching.

### Staff development

Throughout 2015–16, we continued to offer our staff a variety of work and development opportunities. Staff are given the opportunity for internal movement including acting at higher levels. We have a new mentoring program that enables collaborative discussions around career development and knowledge building. Mentors and mentees have included staff from every level through to the Auditor-General.

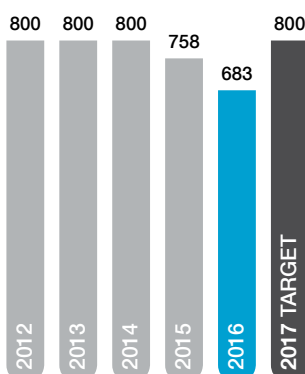
There were many opportunities for staff to work on strategic initiatives in 2015–16, including the chance to be involved in the '100 Day Leaders' program (see page 48). As part of our commitment to offer staff experiences in other organisations, we seconded ten staff to PwC Australia. We also arranged two secondments to other government departments, and numerous internal secondments between branches.

### The year ahead

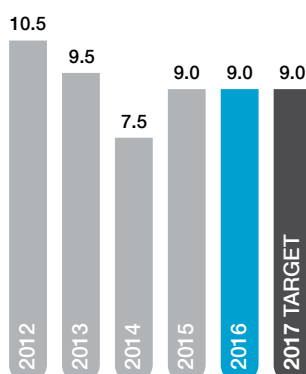
In 2016–17, our learning and development initiatives will include:

- launching the 'Connect' collaboration tool to enable knowledge sharing
- launching the 'Certification' tool to capture Continuing Professional Development (CPD) points
- ensuring learning and development budget owners have transparent expenditure reporting
- implementing a client skills program using senior managers as facilitators
- implementing a new manager program for 'first time' managers
- extending secondment opportunities to other accounting firms
- developing a range of online learning.

Training spending \$'000



Average training days per staff member



# Workplace health and safety

## Keeping our people safe a high priority

12 reported safety incidents

4 new workers' compensation claims

### WHS injuries and incidents

In 2015–16, we recorded a total of 12 notifiable injuries directly related to safety. These were immediately reported and addressed. Reported injury categories were varied and included slips, trips and falls, hitting stationary objects, and being accidentally hit by another person. Four of these injuries resulted in workers' compensation claims (slips, trips and falls), with three of these claims resulting in lost time. We worked closely with all employees and our insurers to support their recovery and a safe and timely return to the workplace.

Our main safety hazard and most frequently reported risk is slips, trips and falls, accounting for 67 per cent of the injuries reported. Hitting stationary objects, being hit by a person accidentally, contact with a sharp object and 'other' factors, all contribute to the remaining 33 per cent of our injuries.

Reported safety hazards and risks are managed by the Audit Office's WHS Committee through ongoing consultation, education and training. In 2015–16, this included the development of a WHS online learning module and a newly updated injury management process and information pack for staff and managers.

Due to a change in our reporting in 2015–16, we are reporting 'notifiable injuries', not 'WHS incidents' as in past years, but with more detailed categories, in compliance with the *Work Health and Safety Act 2011*. Notifiable injuries do not include the near-miss safety incidents previously included in a WHS incident. Going forward we will report on this measure only.

A notifiable injury is defined as

- the death of a person
- a 'serious injury or illness', or
- a 'dangerous incident'

arising out of the conduct of a business or undertaking at a workplace. It may relate to any person – employee, contractor or member of the public.

### Our commitment

We are committed to providing the best possible standard of workplace health and safety for all our staff at both our office premises and at client premises, and for visitors to our head office.



## Case study

### Ensuring safety both at the office and out at clients sites

The Audit Office conducted a WHS staff satisfaction survey this year to gauge staff satisfaction levels on the processes, information, representation and consultation of WHS initiatives. Overall, we received an 87 per cent satisfaction score for our approach to managing safety.

As a part of the survey, feedback from our staff suggested we could improve the induction process at client sites. In response, we launched a WHS Client Site Checklist to ensure an induction takes place at each client site against a minimum set of criteria.

In conjunction with the WHS Client Site Checklist, we developed new internal inspection guidelines to ensure that internal inspections are carried out appropriately, resulting in improved inspection processes within the office.

Since the launch of the WHS Client Site Checklist, staff have been enthusiastic in assessing their client sites and returning the checklist, ensuring we promptly address any WHS concerns:

The checklist is a great initiative. It helps to identify any WHS issues within our teams' work environment when out at clients. The checklist makes me feel more accountable for the health and safety of my team. It also helps speed up the process of dealing with any identified WHS issues.

*Renee Meimaroglou, Director, Financial Audit*

### Notifiable injuries



### Workers' compensation claims

## Keeping our people safe a high priority



### Notifiable injuries by body part and occurrence

In 2015–16, we recorded 12 notifiable injuries, categorised below by body part and how the injuries occurred. We also detail our near miss safety incidents, although we are not obligated to record and report these.

Notifiable injuries by body part	
Body part	Injuries
Face	1
Other stress factors	1
Back	1
Knee	3
Ankle	5
Toe	1
<b>Total</b>	<b>12</b>

Notifiable injuries by mechanisms	
How injuries occurred	Injuries
Slips, trips and falls	8
Hitting stationary objects	1
Being hit by a person accidentally	1
Contact with sharp object	1
Other stress factors	1
<b>Total</b>	<b>12</b>

Near miss safety incidents by body part	
Leg	1
Respiratory systems	2
Vehicle collision incident	1
<b>Total</b>	<b>4</b>

## WHS activities and initiatives

The following table details all our 2015–16 WHS activities and initiatives against nine key reporting categories.

WHS activity by category	
Category	Initiative
Consultation	<ul style="list-style-type: none"> <li>WHS Committee met four times</li> <li>WHS Committee actively consulted with all workgroups throughout the year</li> <li>Election process held for Health and Safety Representatives</li> <li>Office Executive provided with four comprehensive WHS reports with in-depth analysis of all WHS key performance indicators</li> <li>All WHS survey results, including verbatim comments, communicated to all staff.</li> </ul>
WHS Management system/risk management	<ul style="list-style-type: none"> <li>WHS Annual Plan 2015–16 developed</li> <li>WHS Client Site Checklist developed, complete with how-to guide and process map, to reduce client site risks and hazards</li> <li>WHS Roles and Responsibilities document developed</li> <li>WHS Risk Register monitored quarterly and updated as required</li> <li>Injury Management Packs for managers and employees developed and rolled out to all staff, including:               <ul style="list-style-type: none"> <li>– guidelines on what to do for a work injury or incident at work – manager and employee versions</li> <li>– guidelines on what to do for a non-work related injury</li> <li>– process map for managing work or non-work related injuries</li> <li>– fact sheet for employees regarding the impact workers' compensation leave has on their salary</li> <li>– key contact and further information list</li> <li>– Employee Assistance Program (EAP) information.</li> </ul> </li> <li>New improved Return to Work Plan template developed to make it easier for staff to follow.</li> </ul>
Ergonomic	<ul style="list-style-type: none"> <li>11 stand-up desks installed to promote healthy work habits and encourage staff to incorporate regular postural breaks into their work routine</li> <li>14 ergonomic workplace assessments conducted in 2015–16, to minimise and prevent injuries related to posture.</li> </ul>
Information, education and training	<ul style="list-style-type: none"> <li>100 per cent staff completion of WHS online learning module</li> <li>WHS committee refresher training held</li> <li>WHS Coordinator attended the 'Integrated Health – Achieving Physical, Mental and Social Wellbeing in the Workplace' training</li> <li>Compulsory 'Diversity and Inclusion' online learning module created and launched</li> <li>'Bullying and Harassment' training completed by all new employees</li> <li>All first aid officers completed annual first aid and defibrillation refresher training.</li> </ul>
Policies and procedures	<ul style="list-style-type: none"> <li>Stage One of the WHS Policy Review Project completed which included a review of current legislation and an update in line with current practice</li> <li>Stage Two, to update and consolidate WHS policies, will take place in 2016–17.</li> </ul>
Safety alerts	<ul style="list-style-type: none"> <li>WHS Newsletter developed to communicate safety issues and hazards, safety initiatives and safety updates to all staff</li> <li>WHS Communication Plan developed to help communicate and educate all staff on how to report incidents, WHS roles and responsibilities, and increase safety awareness</li> <li>Practiced our evacuation procedure through a fire drill</li> <li>Safety alerts routinely communicated to staff in the event of an incident.</li> </ul>
Electrical	<ul style="list-style-type: none"> <li>Annual check conducted to ensure all electrical equipment is tagged and a review of all Material Safety Data Sheets (MSDS) conducted.</li> </ul>
Physical	<ul style="list-style-type: none"> <li>Four WHS internal inspections conducted</li> <li>New WHS internal inspection guidelines created to ensure Health and Safety Representatives are able to conduct a thorough inspection</li> <li>New WHS internal inspections checklist created.</li> </ul>
Programs	<ul style="list-style-type: none"> <li>Flu Vaccination Program (four strains) successfully held for a higher number of employees than last year</li> <li>Employee Assistance Program communicated twice to ensure staff are aware of the service provided by our EAP.</li> </ul>

## Keeping our people safe a high priority

### We have an engaged and active WHS Committee

In 2015–16, we focused heavily on WHS initiatives to create a proactive safety management system. We strengthened our consultative approach through the Audit Office WHS Committee to proactively meet WHS requirements. The committee is made up of elected staff and nominated management representatives who actively work to identify and resolve safety concerns. The committee reviews and actions the results of internal audits and inspections, identifies WHS hazards and risks, and understands the impact of operational and business requirements on the safety and wellbeing of our staff.

The committee develops a WHS Annual Plan each year to arrange activities and actions that support employee safety across the Audit Office. This year's plan helped us achieve continuous improvement in the awareness and culture of WHS at head office and at client sites. The plan helps ensure that the Audit Office complies with and actively supports the WHS Management System, and ensures safety is a mandatory consideration during any purchase or when commissioning a service for the Audit Office. Additionally, this plan includes a communication strategy to ensure staff understand how to access information and their responsibilities in respect of WHS, including how to report a hazard or incident and how to manage an injury should it occur. A WHS Newsletter was developed by the committee in 2015–16 to keep employees up-to-date with committee activity and to inform employees of any hazards or incidents they need to be aware of.

### Staff satisfaction with WHS

Every year as part of our staff survey, we include questions to measure staff satisfaction with workplace health and safety. We assess this through performance gaps, which is the difference between staff expectation of the 'ideal' and how well we are performing. In 2015–16, the performance gap for the statement 'The Audit Office provides a safe and health work environment' was 9.8, closing the gap from 19.0 in 2014–15. This is pleasing, and reflects the continued focus on WHS within the Audit Office. See page 38 for further information on our staff satisfaction survey.

### We aim to continuously improve WHS initiatives

Injury Management Packs were also developed this year for both managers and employees to ensure everyone knows what they have to do if they are injured at work. The packs also help employees understand their role in a safe and timely return to work.

The WHS Committee reviewed its charter in 2015–16 to ensure it is in line with best practice. New members are currently being elected to serve on the committee. All new members of the committee will undertake a two-day intensive WHS training course. As per previous years, our first aid officers completed first aid and defibrillation refresher training this year.

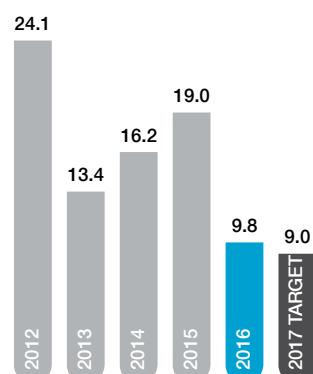
Additionally this year, there was a strong focus on improving our WHS key performance indicators (KPIs). We used benchmarking information from SafeWork Australia and WorkCover to develop new KPI measures to assist us in continuously improving our measures of WHS performance.

### The year ahead

In 2016–17, we plan to build on last year's progress on WHS by focusing on:

- continuing to reduce our lost time injury frequency rate
- increasing compliance with our new WHS Client Site Checklist covering induction at client sites
- continuing to improve communication on WHS initiatives across the Audit Office
- improving our 'healthy at work' initiatives
- completing the review and update of all WHS policies and procedures
- training all new WHS Committee members.

'The Audit Office provides a safe and healthy work environment' performance gap



# Environment

## Reducing our impact on the environment

Maintained 4.5 star greenhouse building rating

Significantly reduced paper storage to encourage electronic document production

### Reducing our environmental impact

The Audit Office continues to implement its Waste Reduction and Purchasing Plan (WRAPP) which guides us towards meeting environmental targets.

We use 50 per cent recycled content paper in all our photocopiers and printers and recycle 100 per cent of wasted paper using secure disposal processes. We recycle 100 per cent of our ink and toner cartridges, and continue to recycle cardboard and other recyclable products. All laptop batteries are disposed of in an environmentally-friendly way.

In 2015–16, we remained focused on reducing our environmental footprint by:

- publishing all of our Auditor-General's Reports to Parliament in online format only
- implementing an online document collaboration tool for our Auditor-General's Reports to Parliament to remove the need for paper-based review
- continuing to convert hard copy forms to self-service online forms, including four new forms on our intranet
- introducing improved recycling sorting bins to encourage recycling
- disposing of 1000 boxes of paper records and ensuring the use of paper-based records is reduced
- disposing of over 20 paper storage cabinets to discourage the storage of paper in the office
- identifying ways of reducing the use of fluorescent lightbulbs in our office
- embedding our electronic mail distribution initiative.

### Greenhouse performance maintained

The Audit Office achieved a greenhouse building rating of four-and-a-half stars, in line with government targets, by:

- buying 40 per cent green electricity
- using timers on lights and equipment
- buying energy efficient equipment
- running small, fuel efficient vehicles in our fleet.

### The year ahead

In 2016–17, we will continue our commitment to reducing our environmental impact by:

- continuing to reduce our paper-based storage to encourage electronic document creation and storage
- transitioning client correspondence to electronic only, to further reduce printing
- opening up fire stair access between our office floors to reduce lift usage.

## Environmental initiatives 2015–16



Introduced improved recycling sorting bins.



Disposed of 1000 boxes of paper records, moving to electronic records.



Continued to convert hard copy forms to self-service online forms.



Embedded our electronic mail distribution initiative.

## *Building a constructive culture through feedback, collaboration and performance management*

### 1 Feedback for managers to improve their leadership

As a part of our strategic focus on constructive leadership, in 2015–16 our '100 Day Leaders' were tasked with delivering a process for people managers to receive upward feedback. After extensive consultation, it was decided that face-to-face, group sessions and online surveys were the most suitable channels for managers to receive feedback from their staff.

Each group of '100 Day Leaders' achieved the following in four stages:

- Group one – conducted a survey to identify what opportunities and challenges there are around implementing upward feedback
- Group two – used the information to identify tools that should be used to receive upward feedback either face-to-face, group or via an anonymous online survey
- Group three – piloted the three tools using the 'stop, start, continue, change' model to provide actionable steps to make improvements
- Group four – implemented the tool by asking people managers to encourage their staff to give upward feedback using their preferred option.

The upward feedback model was then evaluated across the organisation with the results of each stage presented to the Office Executive. The feedback given to managers will be used to develop action plans on improving the constructive leadership capability of our management team.

### 2 Collaborative process for negotiating the new Award

Changes to the conditions of employment for Audit Office staff employed under the Crown Employees (Audit Office) Award 2015 were negotiated in 2015–16. To assist this process, an Award Negotiation Committee (ANC) was established comprising management and Public Sector Association (PSA) representatives.

The ANC agreed to adopt the principles of cooperative negotiation to reach agreement on changes to employment conditions. All agreements reached by the ANC were made after consultation with all affected employees, the Auditor-General, the PSA and other persons or organisations affected by the ANC's recommendations.

Regular communication bulletins were published throughout the course of the negotiations to keep employees informed on progress. A two-week consultation period with drop-in sessions was attended by both management and PSA representatives, allowing staff to ask questions on the proposed changes. Staff were given the opportunity to provide feedback, which was considered and resulted in some adjustments to the Award. PSA members voted to support the Award and it was agreed to by the Industrial Relations Commission in June 2016.

The Award negotiation process was successful due to the collaborative efforts of everyone involved and the Audit Office is pleased to have a new industrial instrument to move the organisation forward.

### 3 Improving our performance management framework

The performance, behaviour and conduct of the Audit Office's employees are integral to organisational success. The Audit Office promotes a transparent and consistent performance management approach that aligns personal goals and individual development with the Audit Office's strategy and vision. The approach to performance centres on employees and managers sharing responsibility for open two-way communication and feedback.

Employees and managers are encouraged to have open and honest communication to:

- set clear expectations of how their agreed responsibilities should be achieved
- provide regular and constructive two-way feedback
- ensure there are no surprises at remuneration review time.

The process helps employees understand what is expected of them, and encourages regular dialogue between staff and their managers. Managers and employees both have a joint responsibility for improving performance and are expected to contribute to successful performance outcomes that are facilitated in a fair, effective and improvement-focused manner.

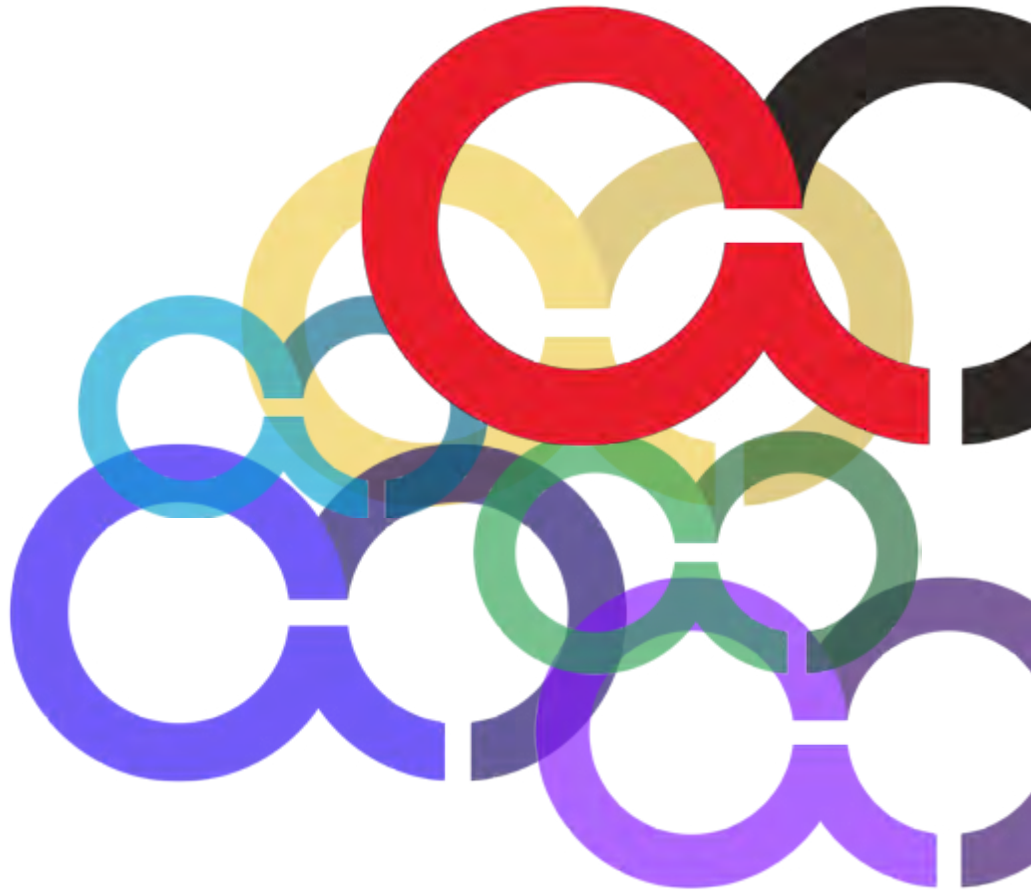
To support our new performance management framework, a new Human Capital Management System called 'MiCareer' was launched in July 2015. This system has a performance management module which has given the Audit Office a modern, easy-to-use tool for managing performance and has made documenting performance agreements much easier.

The performance agreement is a mutual agreement between a manager and employee that defines expectations on 'what' needs to be achieved and 'how' it should be achieved. It is also an essential requirement of the NSW Public Service Commission's Performance and Capability Framework.

Each of the branches developed performance measures that assisted with setting individual objectives aligned to our strategic goals. Members of the Leadership Team delivered performance agreement training for all staff in order to ensure everyone was able to hold constructive performance conversations and develop effective performance agreements. Further training was provided to help understand the mid-year review process.

One hundred per cent of our staff had performance agreements in place in 2015–16. It has also led to more constructive conversations between staff and managers, and a better understanding of performance expectations and how to meet them.





# Profession

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## **We are known for influencing auditing in Australia**

We work closely with the auditing profession, commenting on draft accounting and auditing standards, and present to various forums on auditing and governance.

This helps us maintain our professional presence and influence the direction of auditing in Australia.

# Professional influence

## Making positive and varied contributions

27 presentations delivered to the public and the profession

### Professional services

The Audit Office's Audit Support team provides technical advice on professional standards, legislation and regulations, and monitoring of audit quality.

Audit Support helps our financial auditors maintain their professional knowledge and keep up-to-date with latest developments. Audit Support contributes to high quality public sector financial reporting by ensuring audit staff understand, implement and apply auditing and accounting standards consistently and fairly. Audit Support reviews modifications to clients' audit opinions before they are issued, to ensure they are fair and in accordance with applicable standards.

Audit Support is seen as a leader in the profession, particularly in public sector accounting issues. Their input is regularly sought by professional bodies and NSW Treasury on a wide variety of financial reporting matters, policy development and legislative proposals. Audit Support also contributes to the Australasian Council of Auditors-General when commenting on new pronouncements.

Audit Support produces a monthly publication, 'Professional Update', available on our website. This provides commentary on emerging issues, the activities of standard setters, NSW Treasury and other central agencies, regulators, professional bodies and the courts.

In 2015–16, Audit Support continued to support and maintain our financial audit methodology, Iris, which is based on one used by a 'Big Four' professional services firm. Iris addresses the requirements of the professional standard setters and legislators and uses world-leading audit software. Iris targets risks to deliver effective, value adding audits. Audit Support also helped our Performance Audit branch maintain a software-based solution to document and deliver audits.

### Services to the public sector

The Audit Office aims to be recognised as a leader and expert in the auditing and accounting profession. We do this via presentations, submissions, contributions to external committees, and appearances before parliamentary committees.

We delivered 27 presentations to a variety of audiences in 2015–16, three less than in 2014–15. Twenty-two of these were to the public sector. Presentation topics included the role of the Audit Office, public-private partnerships, IT audit, issues impacting Australian universities, women in leadership and the leadership role of Chief Financial Officers (see pages 104–105 and 108 for further details).

### Submissions to professional bodies

The Audit Office contributes to the collaborative efforts of Australian audit offices by helping to develop responses to professional bodies on pronouncements exposed for comment. In 2015–16, Audit Support prepared or contributed to seven responses to standard setters (including the AASB's Agenda Consultation) by the Australasian Council of Auditors-General (ACAG) (see page 107 for further details). Audit Support also contributed to ACAG's submission on the Victorian Government review of the role of the Victorian Auditor-General.

### Influencing by educating, mentoring and advising

#### Educating

Our staff have, for many years, been involved in determining the content of course and training modules, leading training and focus sessions and marking examination papers for Chartered Accountants Australia and New Zealand and CPA Australia (see page 106).

Graduates employed by the Audit Office must gain membership of a professional accounting body by completing training and passing exams for a recognised Australian professional accounting qualification.

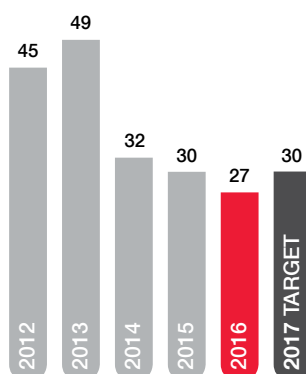
#### Mentoring

The Audit Office provides formal mentoring to all our candidates working towards memberships of a professional accounting body. Our program achieves consistently outstanding results and provides our audit teams with well trained, high calibre professionals.

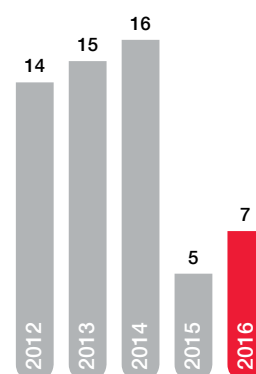
#### Advising

The Audit Office interacts with Australian accounting bodies, participating in their committees, research groups and working parties (see page 106). We help them better understand issues facing the public sector. Our representatives attend roundtables hosted by the standard setters. We develop comments in conjunction with other Australian audit offices to help the boards develop standards that can be applied with equal ease in the public as well as private sectors.

Presentations delivered



Submissions made



## Influencing through the Australasian Council of Auditors-General

The Audit Office is an active participant in ACAG, established in 1993 to encourage sharing and cooperation between audit offices in Australasia.

In 2015–16, the Audit Office provided administrative support for the Executive Director of ACAG. We hosted and chaired meetings of Auditors-General, as well as participated in and supported various ACAG sub-groups and working parties, including:

- Financial Reporting and Auditing Committee, which is responsible for, among other things, developing a consensus view in relation to matters exposed for comment on financial auditing, accounting and financial reporting
- Heads of Financial Audit Group, which shares information between members and supports the development of effective and efficient financial auditing methods and practices by members, and oversees financial audit training for member offices and others
- Heads of Performance Audit Group, which shares information between members and supports the development of effective and efficient performance auditing methods and practices by members, and oversees performance audit training for member offices and others
- Audit Quality Assurance Panel, which seeks to enhance audit quality in Australasian audit offices, meet legal and professional requirements for quality control and establish agreed audit quality indicators and benchmarks
- Information Systems Audit Group, a forum for exchange of knowledge and experience in information systems audit and the use of information technology as a support tool for auditors.

## ACAG Performance Audit Managers Workshop 2015

This workshop, held in October 2015, brought together managers from audit offices in Australia and New Zealand. Two of our staff presented and led discussions at this forum. The forum is focused on current practice issues and emerging challenges of performance auditing.

## ACAG Performance Audit Methodology Workshop 2016

In March 2016, many of our Performance Audit staff attended this workshop, along with staff from other audit offices in Australia and New Zealand. The program defined performance auditing, discussed relevant auditing standards and guidance for assurance engagements, and the ACAG performance audit methodology. It outlined each stage of an audit from planning a performance audit to reporting.

## Knowledge sharing

The heads of Performance Audit in all Australian States and Territories meet twice a year to share ideas on performance audit topics, methodologies and better practice. Through these meetings, and subsequent liaison between audit teams in the different jurisdictions, we have helped other offices develop new audits on topics that have proved useful to them. In turn, our performance audit program has benefited from topics successfully delivered elsewhere.

In 2015–16, we worked with BPK Indonesia, the Audit Board of the Republic of Indonesia, helping them transition from cash to accrual accounting and the implications of this change to their organisation. This involved the Audit Office running training courses for BPK, holding various presentations, as well as facilitating staff secondments.

We also worked closely with the Auditor-General's Office in Papua New Guinea, with staff coming to the Audit Office on secondment. These secondees had the opportunity to work with our audit teams to improve their skills and knowledge in contemporary audit techniques and methodology.

We are currently working to extend this knowledge sharing with other nations by developing a 'twinning' relationship with the Office of the Auditor General in the Solomon Islands, which if successful will

result in secondment opportunities for Audit Office staff to the Solomon Islands and vice versa. This arrangement will focus on helping the Office of the Auditor General in the Solomon Islands implement a modern audit methodology.

## The year ahead

In 2016–17, we will maintain our professional presence by:

- contributing through ACAG to the development of new standards by the Australian Accounting Standards Board (AASB)
- conducting quality reviews that focus on audits in progress, as well as completed audits, providing timely support and feedback to audit teams in the field
- being on the advisory group for the Auditing and Assurance Standards Board's (AUASB) review of the Standard on Assurance Engagements 3500 Performance Engagements
- continuing to liaise with NSW Treasury about the development and implementation of the Financial Management Transformation Program, and development of public sector accounting policy and legislation
- engaging with professional bodies about issues facing the profession, their focus areas, the public sector and the development of educational programs
- engaging with central agencies, standard setters, regulators and audit offices in other jurisdictions
- publishing 'Professional Update', the Audit Office's monthly newsletter
- releasing newly developed better practice guides
- continuing to support the development of audit staff from Papua New Guinea by hosting two secondees.



## Collaboration adds value

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### 1 Extending related party disclosures to the public sector

The most important change in the current reporting framework for application in the 2016–17 financial year is the extension of AASB 124 'Related Party Disclosures' to the not-for-profit sector.

The Audit Office has been working with NSW Treasury, the Department of Premier and Cabinet, the Australasian Council of Auditors-General, the Heads of Treasury Accounting and Reporting Advisory Committee, and the Australian Accounting Standards Board to help the public sector prepare for the application of the standard.

We have:

- helped central agencies with understanding the requirements, sensitivities and application issues
- participated in discussions and teleconferences with key stakeholders in this jurisdiction and across Australia

- facilitated negotiations with central agencies (Treasury and the Department of Premier and Cabinet) with the aim of reducing the burden on agencies and ministers alike
- reviewed and commented on Treasury proposals at each stage of their development
- advised on the requirements of auditing standards and how these might be incorporated.

It is hoped that by the first reporting date under the new requirements a process for collecting, reporting and auditing related party transactions and disclosures is established. We plan to audit the completeness and accuracy of related party disclosures in the coming year.

### 2 A collaborative move to online bank confirmations

Confirmation.com is a new online confirmation service that is being adopted by Australian banks as the primary way for auditors to request and receive bank account confirmations. Until now, bank confirmations have been handled manually using paper-based systems.

We worked closely with the Victorian Auditor-General's Office, the State's bankers (Westpac) and Confirmation.com to achieve this new online confirmation service.

We were able to secure an 'entity-wide confirmation' selection for all Australian audit offices and their contract audit agents.

This feature will allow audit offices to make a single confirmation request where an agency has several accounts with the same financial institution. This saves agencies from having to make multiple individual confirmation requests. The 'entity-wide' facility will save all audit offices and public sector agencies a great deal of time in the execution of this important annual audit step.

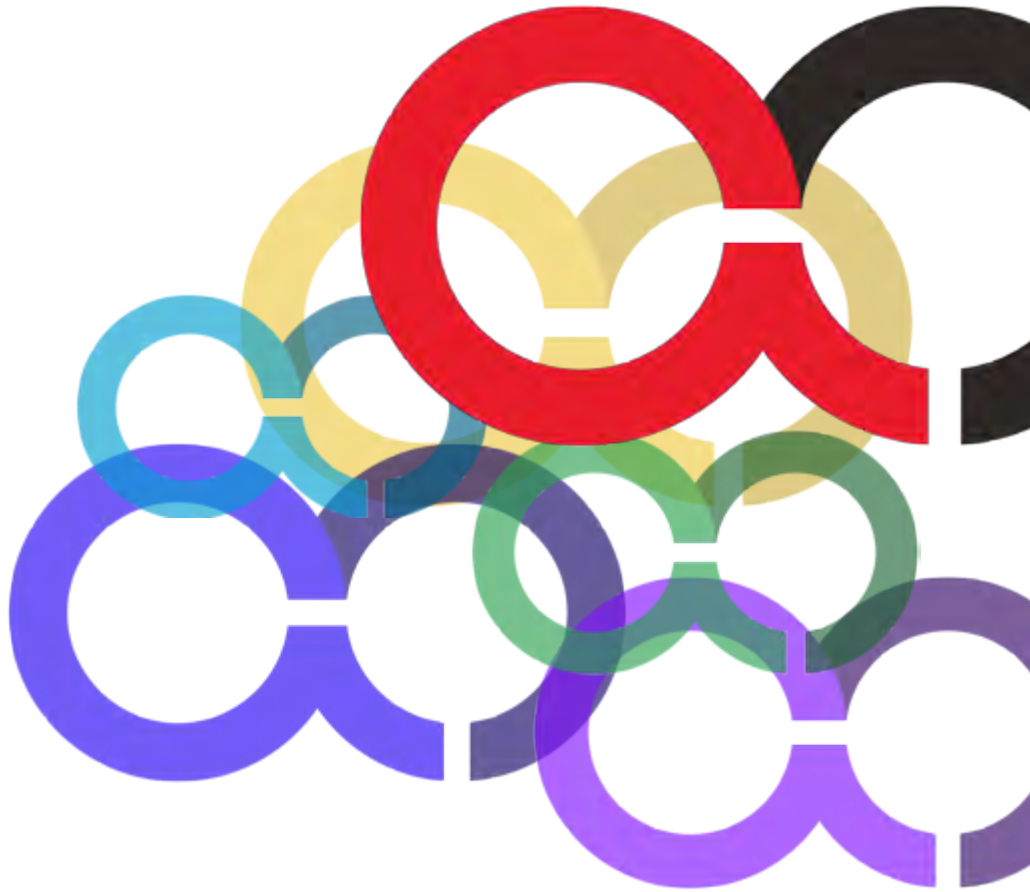
Confirmation.com's Chairman, Tony Hallam, presented the new feature at the April 2016 meeting of the Australasian Council of Auditors-General's Financial Reporting and Auditing Committee.

### 3 Re-writing the Public Finance and Audit Act

The rewrite of the *Public Finance and Audit Act 1983* continues. The Audit Office has provided comment to Treasury on detailed proposals for legislative reform aimed at simplifying and modernising the State's financial governance arrangements. It has also provided comments to Treasury on key policy papers that will underpin reforms in agency management, responsibility and accountability. The reforms are being implemented by NSW Treasury's Financial Management Transformation (FMT) team.

We are continuing to comment on audit provisions currently within the Act. Certain matters are being progressed as part of the FMT proposals that we have provided comment on. These include:

- clarifying secrecy provisions to allow the Audit Office to communicate with audit and risk committees
- reducing the days that agencies have to respond to performance audits from 28 to 15 days
- requiring the Audit Office to publish agency responses to Auditors-General on financial audit reports tabled in parliament.



# Governance

**We have a sound governance framework which guides us to achieve our purpose**

At the Audit Office we:

- have a governance framework that reflects the eight core principles of good corporate governance
- are committed to legislative compliance and ethical behaviour
- meet public expectations of probity, accountability and transparency
- have a dedicated governance unit to administer, support and guide our governance processes

# Strong governance foundations

*Driven by the eight core Australian Securities Exchange (ASX) corporate governance principles*

## Our governance processes leading the way

Our governance processes and behaviours guide us to achieve our purpose, conform to all relevant laws, standards and directions and meet public expectations of probity, accountability and transparency. They provide our employees with a clear sense of purpose and focus, guiding their behaviour when dealing with each other, parliamentarians, our audit clients and other stakeholders.

## ASX Corporate Governance Principles and Recommendations

Our governance framework, the Governance Lighthouse, reflects the eight core Australian Securities Exchange (ASX) Corporate Governance Principles. Under these eight core principles, the Audit Office has developed 17 major points of good governance. We use the Governance Lighthouse as a way to develop, manage and report on our governance arrangements.

## Continuous enhancement

In 2015–16, we continued to strengthen our governance framework by:

- reviewing our ethical framework and releasing our revised Code of Conduct
- developing and rolling out a governance and ethical behaviour online training module
- releasing our new Conflict of Interest Policy
- reassessing enterprise risks against our 2015–16 strategic goals
- developing an office-wide risk appetite statement
- reconsidering our key performance indicators and establishing a centralised reporting and monitoring system for the organisation and individual business units.

## The year ahead

In 2016–17, we will:

- review the structure and role of our governance arrangements to ensure they are focused on:
  - setting direction, policies and values
  - holding management to account for achieving outcomes in an acceptable way and in accord with relevant laws and policies
  - ensuring we have constructive interactions with our key stakeholders and are open and transparent about organisational activities and performance
- place additional focus on building effective relationships with our key stakeholders, particularly parliamentarians.



# Setting direction

## We have a strong commitment to strategic planning

### LIGHTHOUSE PRINCIPLE: MANAGEMENT AND OVERSIGHT

(based on ASX Principle 1)

#### Lay solid foundations

The Audit Office of New South Wales is a statutory authority established under the *Public Finance and Audit Act 1983* to conduct audits for the Auditor-General. The Auditor-General is accountable to the NSW Parliament and is responsible for the Audit Office and its activities.

#### Our strategic plan

Our 2015–16 strategic plan was developed by the Office Executive and the Leadership Team to meet the strategic priorities of the Audit Office. The four focus areas for 2015–16 were as follows.

#### Product Delivery

##### Goal for 2015–16:

We have a strong understanding of the public sector to deliver quality products and services that have impact and relevance, and improve client assessment of value for money.

##### Strategies:

- Establish and communicate expectations for staff knowledge and understanding of the government reform agenda for relevant clients and industries
- Align audit processes and reporting to deliver on Auditor-General and stakeholder expectations.

##### Key achievements include:

- Further refining our financial audit Auditor-General's Reports by:
  - improving executive and chapter summaries
  - refining the analysis around our findings to better support our recommendations
  - better targeting areas of government focus such as asset and risk management
- Revising the structure of our performance audit Auditor-General's Reports and increasing the use of analytical headings to improve readability
- Redesigning our Professional Update newsletter and key agency reports
- Inviting key speakers to our staff Office Forums to talk on emerging issues and developments in the public sector
- Releasing a staff knowledge guide 'Understanding the NSW public sector' on our intranet.

#### Operational Excellence

##### Goal for 2015–16:

We operate in a business-like manner with competitive models for pricing, resourcing and outsourcing. Our structure and skill mix is regularly reviewed, to deliver excellent products in a transparent manner.

##### Strategies:

- Develop a workforce plan
- Cut internal red tape to streamline processes
- Demonstrate value for money and transparency through the implementation of our pricing model.

##### Key achievements include:

- Generating efficiencies through:
  - automating review and approval processes for audit reports
  - automation of payment processes such as petty cash
  - streamlining our delegations manual and travel allowance processes
- Completing work necessary to develop a workforce plan such as:
  - conducting a workforce environmental scan
  - developing a roadmap for planning our resourcing in the longer-term
- Implementing our financial audit pricing model including:
  - publishing the model on our website, to explain how we set our prices for the work we do
  - applying the model to all our financial audit clients.

#### Constructive Leadership

##### Goal for 2015–16:

Our leaders are agile and adaptable. They listen and communicate a shared vision and direction, model constructive behaviours and set challenging but realistic goals that are rigorously pursued with enthusiasm.

##### Strategies:

- Implement upward feedback for people managers
- Identify needs and possible solutions for people managers to become more constructive and confident leaders.

##### Key achievements include:

- Developing and trialling upward feedback models to enable staff to give open and constructive feedback to their managers

- Launching toolkits and guidelines to explain how upward feedback models work and staff roles in the process
- Rolling out a mentoring program to help managers become constructive leaders.

#### People

##### Goal for 2015–16:

We create a constructive and achievement-oriented environment for our people that requires them to take opportunities to achieve their potential. Our people are flexible and receive regular and honest performance feedback.

##### Strategies:

- Operationalise and support new policies and frameworks delivered by Project Blue, our human resources transformation project
- Identify and support staff in achieving their career goals
- Develop a plan to address key staff engagement survey gaps.

##### Key achievements include:

- Implementing our new performance management framework
- Launching Retain, a new resource scheduling system, that allows managers to schedule staff based on their availability, skill level and preferred work locations
- Improving communication to staff on the Audit Office's strategic direction with regular updates at our staff Office Forums and on our intranet
- Implementing the online learning and recruitment modules of our new Human Capital Management System – MiCareer.

#### The year ahead

Our 2016–19 Strategic Plan incorporates newly defined strategic goal areas that will build on the work achieved in 2015–16:

- 1 Products
- 2 Systems and Processes
- 3 People and Culture
- 4 Finances

See page 10 for full details on our strategic goals, initiatives and targets for 2016–17.



# Structured to add value

## Key committees provide leadership and guidance

**LIGHTHOUSE PRINCIPLE:  
STRUCTURE**  
*(based on ASX Principle 2)*

### Office Executive

In 2015–16, the Deputy Auditor-General was chair of the Office Executive, which also included the Assistant Auditors-General from Financial Audit and Performance Audit. The Office Executive met informally each week and formally each month. The Auditor-General attended these meetings.

The Office Executive led and guided the Audit Office towards its strategic priorities and ensured it complied with relevant codes, practices, laws and directions. Strategic priorities were set by the Auditor-General.

A copy of the Office Executive Charter can be found on our website at:

[www.audit.nsw.gov.au/about-us/accessing-information/open-access-information](http://www.audit.nsw.gov.au/about-us/accessing-information/open-access-information).

In 2015–16, the Governance Unit continued to provide secretarial support and helped the Office Executive discharge its responsibilities.

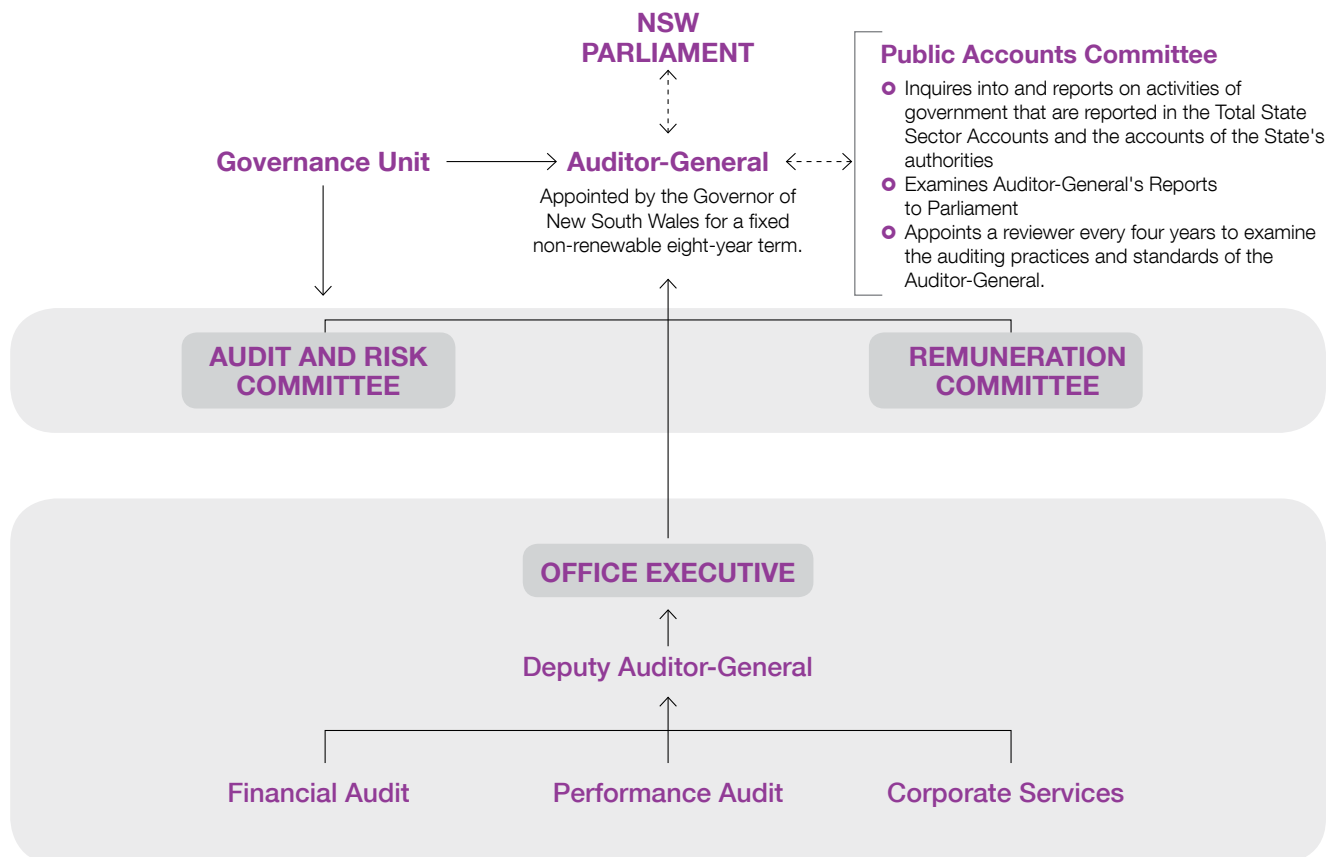
Key focus areas for the Office Executive during 2015–16 included:

- reassessing and tracking progress against the Audit Office strategy and vision (see page 55)
- reviewing the Audit Office's strategic risks, including rigorous assessment and monitoring to mitigate each strategic risk to an acceptable level
- overseeing key Audit Office projects, including MiCareer – the human capital management system project, Retain – the resource scheduling project, and the post implementation review of Elite – the Audit Office practice management system project
- monitoring Audit Office compliance with key laws regulations and policies
- ensuring key policies are regularly reviewed, up-to-date and relevant.

The Office Executive, with input from the Acting Auditor-General, completed a self-assessment to evaluate its performance during the year. They identified that reporting and monitoring of Audit Office performance needed to be improved and the Executive needed to spend more time reviewing its progress against its vision and goals. In response, significant improvements were made to the Audit Office's corporate planning framework to allow for a complete picture of Audit Office performance to be regularly reported to the Office Executive. This framework was used to develop the Audit Office Strategic Plan for 2016–19 (for further details see page 10).

Reports to the Office Executive are prepared by staff and various committees in accordance with the meeting agenda and annual reporting plan. For further details on the experience of members of the Office Executive and the Audit Office's organisational structure, see pages 8–9.

## Our governance framework





## Audit and Risk Committee

The Audit and Risk Committee assisted the Auditor-General by providing oversight and review of:

- the risk management and control framework including review of the Audit Office's enterprise risk register, project risk management, fraud framework, and business continuity and disaster recovery plans
- the internal audit plan, and internal and external audit reports
- Audit Office annual financial statements
- compliance with relevant applicable laws and regulations, relevant government policies and directions, and Audit Office policies.

The Governance Unit assessed the committee's activities to confirm compliance with Treasury Policy Paper 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 15-03). For a copy of the attestation statement see page 62. The committee's charter and annual reporting plan were also updated in line with the requirements of TPP 15-03. For a copy of the charter see our website at [www.audit.nsw.gov.au/about-us/accessing-information/open-access-information](http://www.audit.nsw.gov.au/about-us/accessing-information/open-access-information).

The Audit and Risk Committee consists of three independent members, Brian Suttor (Chair), Greg Fletcher and Dianne Hill. The independence, integrity, and experience of the Audit and Risk Committee members are key strengths, providing insight and enhancing the operations of the Audit Office.

Brian Suttor, who was reappointed on 28 November 2012 for a final four-year term, has been a partner in a major accounting firm and brings an independent perspective to the committee. He is Chair of several audit and risk committees of NSW public sector agencies.

Greg Fletcher was reappointed on 4 December 2013 for a final four-year term, and brings considerable experience as a former partner in a major accounting firm where he specialised in external audit, internal audit and risk management. He is an audit and risk committee Chair for several NSW public sector agencies and a director of a number of publicly listed companies.

Dianne Hill was appointed on 29 August 2013 for a four-year term. She brings considerable experience having been an independent non-executive director at a number of organisations for 20 years, and

currently sits on several boards and audit and risk committees for both NSW public sector agencies and public companies. Her background is in chartered accounting, financial services and project management.

The Auditor-General, Chief Audit Executive, internal and external auditors, and management representatives attend committee meetings. The committee also met independently, without management, with the internal and external auditors and Auditor-General.

Committee members also provided written conflict of interest declarations to the Auditor-General which were verbally confirmed at the start of each meeting. There were no conflict of interests declared that prohibited the continuing engagement of the members of the Audit and Risk Committee.

## Remuneration Committee

Please see page 60 for more information on the Remuneration Committee, under the Lighthouse Principle 'Remuneration'.

### Monthly formal Office Executive meetings attended

A total of 11 formal meetings held

<b>Margaret Crawford</b>	3
<i>Became Auditor-General 4 April 2016</i>	
<b>Tony Whitfield</b>	10
<i>Acting Auditor-General from 9 June 2015 to 3 April 2016</i>	
<i>Chair</i>	
<b>Kathrina Lo</b>	10
<b>Steven Martin</b>	9
<b>Louise Mooney</b>	1
<i>Departed the Audit Office 11 September 2015</i>	
<b>Paola Rigby</b>	11
<i>Secretary</i>	
<b>Scott Stanton</b>	11
<i>Acting Deputy Auditor-General from 9 June 2015 to 3 April 2016</i>	
<b>John Viljoen</b>	10

### Audit and Risk Committee meetings attended

A total of 5 meetings held\*

<b>Brian Suttor</b>	5
<i>Chair</i>	
<b>Greg Fletcher</b>	5
<i>Independent Member</i>	
<b>Dianne Hill</b>	5
<i>Independent Member</i>	
<b>Paola Rigby</b>	5
<i>Secretary</i>	

\*Including one special meeting to review the annual financial statements



# Ethical and responsible decision-making

*We are driven by strong values and ethical behaviour*

## LIGHTHOUSE PRINCIPLE: ETHICS

(based on ASX Principle 3)

### High standards of conduct are instilled

Protecting the reputation of the Audit Office is vital to ensure our credibility and to maintain public trust in what we do. To do this we foster a culture that instils ethical behaviour, integrity, independence, respect and professionalism, which are embedded in our core values of purpose, people and professionalism.

Our Code of Conduct is based on these core values and is the foundation of our ethical framework. In addition to the Code of Conduct, the Audit Office's ethical framework includes policies covering conflicts of interest, gifts and benefits, diversity and inclusion, a respectful workplace, compliance, performance management and privacy management.

During induction, all new staff are trained on the Audit Office's ethical framework before signing the Code of Conduct and completing a Conflict of Interest declaration. These sign-offs are then completed annually. As part of post-induction training and to support this year's sign-off, an online governance and ethical behaviour training module was also rolled out to all staff.

In 2015–16, we also re-assessed our Conflict of Interest Policy (formerly known as the Professional Independence Policy). This included benchmarking against best practice. As a result, we strengthened the policy and supporting procedures by:

- making it relevant to all audit staff not just our professionally qualified staff
- including the potential impact of secondary employment and gifts and benefits
- requiring conflict of interest declarations to be made during high risk activities such as procurement and recruitment
- publicly disclosing the Office Executive's and Audit and Risk Committee's Conflict of Interest registers.

### Protecting privacy

The Audit Office is committed to protecting individual privacy and managing personal information in accordance with the *Privacy and Personal Information Protection Act 1998* (Privacy Act). As required by the Privacy Act, the Audit Office has a Privacy Management Plan that sets out how we manage personal information in line with the Privacy Act and health information under the *Health Records and Information Privacy Act 2002*. This plan can be accessed on our website.

Each year, we undertake a self-assessment of our compliance with privacy legislation. In 2015–16, we assessed how our information management systems and external service providers manage personal information. Areas for improvement will be implemented during 2016–17.

### Prevent, detect and respond to fraud

The Audit Office has a zero tolerance for fraud and is committed to minimising the incidence of fraud by implementing and regularly reviewing strategies that prevent, detect and respond to fraud.

In February 2015, we released an updated 'Better Practice Guide on Fraud Control' for NSW government agencies. The guide sets out the ten attributes of fraud control which are necessary for an effective fraud control framework. During 2015–16, we updated the Audit Office's fraud control policy to ensure it was in line with our guide.

During 2015–16, we conducted our biennial fraud control health check. Staff were asked to provide their views on how the Audit Office is managing fraud. In 2016–17, the results will be analysed to identify any areas for improvement.

One instance of suspected fraud against the Audit Office was detected during 2015–16. The issue was addressed immediately and the Audit Office did not incur any loss.

### Compliance management

The Audit Office has many compliance obligations including legislation, central agency directions, standards and codes. To meet these obligations, our compliance program promotes the importance of compliance to all staff,

identifies obligations and responds to non-compliance.

The Audit Office's compliance framework is based on International Standard ISO 19600-2014 Compliance Management Systems – Guidelines, and includes:

- a Compliance Policy
- a Register of Compliance Obligations that includes a risk assessment formally reviewed by the Office Executive
- annual verification of compliance through the Management Internal Control Sign-Off (see page 59)
- financial and performance audit methodologies mapped to professional standards and legislation
- regular management reviews and reporting to the Office Executive and Audit and Risk Committee.

In 2015–16, we continued to maintain our centralised policy register which captures key internal policies and ensures policies are up-to-date and remain relevant. We also conducted an internal review of our key policies for currency, relevance, accessibility and completeness. Gaps identified have largely been addressed with the remaining few on track to being completed in early 2016–17.

### The year ahead

In 2016–17, we will:

- release online training for staff dealing with personal information
- analyse the results of our biennial fraud control risk assessment and action any areas needing to be improved
- roll out fraud control training for key staff across the Audit Office.



# Safeguarding the integrity of corporate reporting

## Sound financial reporting structure

### LIGHTHOUSE PRINCIPLE: CORPORATE REPORTING

(based on ASX Principle 4)

The integrity of our financial information is safeguarded by a number of key mechanisms.

#### Audit and Risk Committee

The Audit and Risk Committee independently reviews the objectivity and reliability of the Audit Office's financial information, and ensures the financial statements are supported by appropriate management sign-off on the adequacy of internal controls. At each meeting, financial reports and budgets are presented to the committee for review. A special meeting is held annually to review the annual financial statements (see page 57).

#### Internal audit

Our internal auditors add value and improve our operations by monitoring and providing independent and objective assurance to the Audit and Risk Committee, and ultimately the Auditor-General. The internal audit function brings a systematic, disciplined approach to evaluate and improve organisational systems, processes and reporting. The internal auditors attend each quarterly Audit and Risk Committee meeting to report on the progress of the Internal Audit Plan and present the findings of their reviews. Our internal audit function is externally resourced.

In 2015–16, the internal auditors reviewed:

- expenditure
- payroll
- information security management system
- Audit Office readiness for Public Accounts Committee quadrennial review
- budget-setting process
- whether previous internal audit findings had been actioned.

Separately, post implementation reviews were also conducted by external consultants on our Project Blue human resources transformation project and Elite practice management system project.

#### External audit

Pursuant to Section 47 of the *Public Finance and Audit Act 1983*, the Governor of New South Wales appointed an independent audit practitioner to audit the Audit Office's financial statements. The external auditor, Nexia Australia, provides an independent opinion on whether the Audit Office's financial statements are true and fair and comply with applicable Australian Accounting Standards. The external auditor also attends all Audit and Risk Committee meetings.

#### Quality Audit Review Committee

The Quality Audit Review Committee monitors the quality of our audits and gives reasonable assurance on the Audit Office's system of audit quality control. The system needs to be appropriate and comply with the requirements of professional standards and legislation.

The Quality Audit Review Committee is accountable to the Auditor-General and is chaired by the Executive Manager Governance. It comprises at least four people who are:

- appropriately experienced and qualified
- drawn from Performance Audit, Financial Audit or external, independent members of the profession.

#### Auditor-General and Management Internal Control Sign-Off

The Auditor-General certifies that the Audit Office's financial statements give a true and fair view and are prepared in accordance with applicable Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2010, the Financial Reporting Code for NSW General Government Sector Entities and the Treasurer's Directions.

This sign-off is supported by the Management Internal Control Sign-Off (see page 61 for further information). The Executive Manager Finance provides written assurance that the financial statements are founded on a sound system of risk management and internal control. A checklist of minimum required procedures for this process is also completed.

#### Performance reporting

In 2015–16, performance against the Audit Office's strategic plan was regularly tracked and reported to staff. Lead managers and executive sponsors met every 45 days to review milestones and key performance indicators and track progress towards achieving overall outcomes.

Regular financial and operational reports were presented to the Office Executive, Financial Audit Executive and Performance Audit Executive to monitor our audits and related reporting. These were also supported by regular reports on the performance of our corporate services activities.

#### The year ahead

In 2016–17, our internal auditors will review:

- information security management system
- revenue
- procurement
- pricing model
- quality assurance
- performance management framework
- recruitment and retention strategy
- Auditor-General's reporting processes
- previous internal audit findings.

In 2016–17, we will:

- ensure our performance reporting is based on our new strategic plan and branch business plans. Reporting will include new strategic initiatives and a suite of key performance and branch business plan indicators.
- review our quality assurance map to confirm there are no gaps or duplication within our assurance framework.

See page 10 for further details on our strategic plan for 2016–17.



# Disclosure – timely and balanced

## *We are committed to fair and responsible disclosure and remuneration*

### **LIGHTHOUSE PRINCIPLE: DISCLOSURE**

(based on ASX Principle 5)

#### **Accountability and transparency**

The Audit Office supports the principle of accountability and transparency to the public for its use of public funds.

In 2015–16, we proactively released the following on our website:

- Pricing Approach – fundamental to achieving transparency in the way we set our prices
- Performance Audit Guide for Audited Agencies outlining the performance audit process
- Remuneration Committee Charter and Internal Audit Charter.

Other information we proactively release on our website includes our planned audit programs, corporate and auditing policies, Professional Update newsletters, client service resources, presentations and papers, and better practice guides.

#### **Open access information**

We comply with the *Government Information (Public Access) Act 2009* (the GIPA Act or GIPA). The Audit Office holds a significant amount of government information, the majority of which we use for our audit services. We also hold a smaller amount of information dealing with administrative matters. Certain government information is made available to the public under the 'open access' provisions of the GIPA Act. The Audit Office's 'open access' information includes:

- Information Guide – explains who we are, what we do and how to interact with us
- information about the Audit Office contained in any document tabled in parliament
- policy and charter documents
- disclosure log of access applications
- disclosure register
- register of government contracts.

We undertook a review of our compliance with the GIPA Act for 2015–16 using the standard checklist provided by the Information and Privacy Commission. Overall the review found we are compliant with the GIPA Act.

Members of the public can request information held by the Audit Office that is not on our website and we try to deal with requests informally with no charge. Information held by us which relates to our auditing, investigative and reporting functions is classed as 'excluded information' under the GIPA Act and is not released to the public.

During 2015–16, we received three formal GIPA access applications, all of which were deemed to be invalid as they requested access to excluded information.

We also received three informal requests for information. Two of those requests related to excluded information and therefore access was not granted. We also received four requests from other government agencies for our consent to release information. One was approved as the information belonged to the requesting agency, and the remainder were not approved as they related to excluded information. Statistical information about access applications is in Appendix Ten.

#### **Award-winning annual report**

Our annual report is a key part of our commitment to continuous disclosure and we voluntarily adopt full and open reporting on our performance. The report contains extensive comment on what our key stakeholders, parliament and our audit clients think of our services, and whether agencies have accepted and acted on our recommendations.

In recognition of our high standard in annual reporting, we won a Gold Australasian Reporting Award for our 2014–15 Annual Report, the seventh consecutive year we have received this award.

### **LIGHTHOUSE PRINCIPLE: REMUNERATION**

(based on ASX Principle 8)

#### **Remuneration Committee**

The Audit Office's Remuneration Committee consists of two members – an independent Chair, Dianne Hill and the Executive Manager Governance, Barry Underwood. Secretariat support is provided by the Governance Unit. The committee is directly responsible and accountable to the Auditor-General and provides independent advice on the appropriateness and application of the Audit Office's remuneration policies and procedures.

This year was the first full year for the committee in its current form, after being reconstituted to be more independent and provide assurance directly to the Auditor-General. In consultation with the Auditor-General, the committee reviewed its role and made some minor refinements to its charter to make it clear that the committee was providing an advisory role and not taking on any management functions.

In 2015–16, the committee met twice and:

- completed written conflict of interest declarations and confidentiality agreements
- endorsed the committee's updated charter
- reviewed management reports and made recommendations on the appropriateness and application of remuneration policies and procedures
- reviewed management sign-offs, including validating the financial impact of the recommended annual remuneration determination
- reviewed the remuneration risk assessment including associated controls.

See Appendix One for details of our executive remuneration.

#### **The year ahead**

In 2016–17, we will:

- update our Information Guide
- undertake our annual review of compliance with the GIPA Act.

The Remuneration Committee will further develop the assurance it provides over the appropriateness and application of Audit Office remuneration policies and procedures.



# Risks – recognised and managed

## *Our risk management framework is embedded in our strategy*

### LIGHTHOUSE PRINCIPLE: RISK MANAGEMENT

(based on ASX Principle 7)

#### Recognising and managing risk

Our Risk Management Framework is embedded in our strategic and operational policies and practices. The Auditor-General assumes ultimate responsibility for our Risk Management Framework.

The Office Executive sets the organisation's Risk Appetite Statement (RAS) and ensures strategic risks are identified, assessed and treated in accordance with the agreed RAS. The Office Executive regularly reviews the enterprise risk register which is supported by detailed analysis of each strategic risk, taking into account the underlying business risks.

The Audit and Risk Committee provides independent advice to the Auditor-General on the risk and internal control frameworks.

#### Our Risk Management Framework

Our Risk Management Framework is developed in line with NSW Treasury's Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 15-03), the Risk Management Toolkit (TPP 12-03), the Australian/New Zealand Risk Management Standard (AS/ NZS ISO 31000:2009), and the Accounting Professional and Ethical Standards Board's professional risk management standard (APES 325 Risk Management for Firms).

During 2015–16, we

- developed a risk appetite statement for the Audit Office. In general, the Audit Office has a low risk appetite for our audit activities, meaning we avoid risk and uncertainty, while we have a more open appetite for risk in our corporate and management activities
- completed a self-assessment of our Risk Management Framework against ISO 31000:2009 and TPP15-03. We identified some areas of improvement around better integrating risk management with our strategic and business planning processes, and risk

reporting that will be addressed during 2016–17

- incorporated risk identification in the annual strategic planning process
- delivered enterprise risk management training for the Office Executive and key staff in financial and performance audit, corporate services and governance. The training provided useful tools to identify and manage risks associated with an organisation's strategic initiatives and objectives.

#### Insurance

Our insurance cover is provided by the Treasury Managed Fund in respect of:

- workers' compensation according to NSW statute
- property (full replacement, new for old, consequential loss, and business continuity costs or losses of revenue)
- liability, including but not limited to public liability, professional indemnity and directors and officers liability
- motor vehicles
- miscellaneous losses including those due to staff dishonesty, personal accident, and protection for local and overseas travel.

Exposures not included are:

- illegal activities
- wear and tear and inherent vice
- pollution (not being sudden and accidental pollution).

#### Strategic risks

In 2015–16, our six key strategic risks remained unchanged and were:

- failure to anticipate, manage and live up to stakeholder expectations and to fulfil our mandate
- failure to achieve efficiencies and demonstrate value for money
- our audit opinions and reports do not meet our quality standards
- internal governance failure
- failure to effectively manage our workforce
- inability to adapt to and influence changes in audit mandate.

#### Risk management and internal control attestation

To provide additional assurance that the Audit Office's Risk Management Framework and related controls are operating properly, two attestations are completed each year. The first is an annual attestation by the Auditor-General on the quality of the Audit Office's risk management and internal audit processes. This is based on our compliance with the core requirements of NSW Treasury Policy 15-03 Internal Audit and Risk Management Policy (see our Internal Audit and Risk Management Attestation statement on page 62).

The second is a Management Internal Control Sign-Off which is completed annually in line with the Audit Office's financial statements and covers the financial year. Managers sign off on the implementation of internal controls as they relate to their business area and staff compliance with our policies.

#### The year ahead

In 2016–17, we will:

- refine the way risk is reported to senior management and the Audit and Risk Committee, taking a more enterprise-wide risk approach
- clarify the relationship between operation and strategic risks, and the strategic and business plans, projects, and business as usual
- incorporate risk analysis in corporate key performance indicator (KPI) reporting
- develop an organisation-wide operational risk register in addition to the current strategic risk register
- review our risk appetite.



# Internal audit and risk management attestation

## Proving assurance of risk management and internal audit processes

### Internal Audit and Risk Management Attestation Statement for the 2015–16 Financial Year for the Audit Office of New South Wales

I, Margaret Crawford am of the opinion that the Audit Office of New South Wales has internal audit and risk management processes in operation that are, excluding the exception or transitional arrangement described below, compliant with the eight (8) core requirements set out in the Internal Audit and Risk Management Policy for the NSW Public Sector, specifically:

Core requirements	Compliant, non-compliant or in transition
<b>Risk Management Framework</b>	
1.1 The agency head is ultimately responsible and accountable for risk management in the agency.	Compliant
1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009.	Compliant
<b>Internal Audit Function</b>	
2.1 An internal audit function has been established and maintained.	Compliant
2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing.	Compliant
2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter.	Compliant with one minor exception
<b>Audit and Risk Committee</b>	
3.1 An independent Audit and Risk Committee with appropriate expertise has been established.	In transition
3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations.	Compliant
3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter.	Compliant

#### Membership

The Chair and members of the Audit and Risk Committee are:

- Independent Chair, Brain Suttor, appointed 28 November 2008, and re-appointed for a final four year term ending on 28 November 2016.
- Independent Member, Greg Fletcher, appointed 4 December 2009 and re-appointed for a final four year term ending on 4 December 2017.
- Independent Member, Dianne Hill, appointed 29 August 2013 for a four year term, ending on 29 August 2017.

#### Departures from core requirements

I, Margaret Crawford advise that the internal audit and risk management processes for the Audit Office of New South Wales depart from the following core requirements set out in the Internal Audit and Risk Management Policy for the NSW Public Sector:

1. The departure from the core requirements is due to the agency implementing measures to achieve compliance with new policy requirements consistent with the permitted transitional arrangements, and
2. The Audit Office of NSW has implemented the following practicable alternative measures to meet the core requirements:

Departure	Reason for departure and description of practicable alternative measures implemented/being implemented
<b>Non-compliance</b>	
TPP 15-03 requirements 2.3.14–2.3.16 under Core Requirement 2.3, relating to an external assessment of the Internal Audit function at least once every five years by a qualified independent assessor, has not been conducted.	To date, this requirement was not considered necessary noting that: <ul style="list-style-type: none"> <li>• the Audit and Risk Committee reviews the performance of the Internal Audit function annually</li> <li>• the contract is tendered every three years and the quality of their work is actively considered</li> <li>• the Internal Audit service provider maintains a quality assurance process and methodology to ensure compliance with the internal audit professional standards</li> <li>• significant cost burden associated with an independent external engagement.</li> <li>• the internal audit service provider also has quality assurance processes to ensure its internal audit activities are conducted in accordance with relevant professional standards including International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors</li> </ul> This has been reconsidered. The Audit Office of NSW will undertake a self-assessment and engage a qualified external reviewer to conduct an independent validation of that self-assessment in the coming year.
<b>In transition</b>	
Core Requirement 3.1 (specifically requirement under 3.1.13). The term of the Chair of the Audit and Risk Committee has exceeded the five year maximum allowed.	For reasons of continuity, especially with significant change of personnel including the Auditor-General, and maintaining robust and effective leadership of the Audit and Risk Committee, the Chair will remain until the end of the final four year term, ending on 28 November 2016. The next Chair of the Audit and Risk Committee will be appointed on a maximum five year term.

These processes, including the practicable alternative measures being implemented, demonstrate that the Audit Office of New South Wales has established and maintained frameworks, including systems, processes and procedures for appropriately managing audit and risk within the Audit Office of New South Wales.



**Margaret Crawford**  
Auditor-General  
18 August 2016



# Stakeholder engagement

## We regularly connect with our stakeholders

### LIGHTHOUSE PRINCIPLE: KEY STAKEHOLDER RIGHTS (based on ASX Principle 6)

#### Building effective relationships

In 2015–16, we maintained our focus on building effective relationships with our key stakeholders:

- NSW Parliament
- NSW Government agencies.

Our 2015–16 strategic focus areas 'Product Delivery' and 'Operational Excellence' (see page 55) were key drivers in achieving effective stakeholder relations through:

- refining our Auditor-General's Reports to Parliament to better communicate our findings, their implications and our recommendations
- publishing our pricing model so clients can better understand the basis for the fees we charge
- regularly meeting with the Public Accounts Committee on the outcomes of our audits
- continuing to build knowledge of public sector reforms and government priorities, and delivering value through the right skills, resources and structure of audits.

#### Stronger audit client engagement

The new Auditor-General has recently completed meeting with all the Secretaries of the ten clusters that make up the NSW public sector. This is part of a stronger focus on promoting audit client engagement while still maintaining our independence.

This stronger focus on engagement will extend to parliamentarians in the coming year. We will develop better ways to meet the diverse needs of parliamentarians through the information and data we gain through our audits, and involve them more

in deciding the areas our audits will focus on in the future.

The Auditor-General and Deputy Auditor-General also meet regularly with NSW Treasury and the Department of Premier and Cabinet.

Our targeted engagement in 2015–16 was supported by our senior management team. This team continues to meet regularly with our audit clients in order to:

- maintain effective and engaging client relationships
- issue recommendations that are accepted and acted on
- achieve positive satisfaction ratings
- be well-regarded, respected, relevant and credible.

We continued to align the themes in our financial audit volumes with the government's 30 'State Priorities' including the 12 'Premier Priorities', and the government's reform agenda. Our reports focus on four themes – financial performance and reporting, financial controls, governance and service delivery. There was a slight change from last year by adding 'performance' to the financial and performance reporting theme.

#### Broader stakeholder engagement

We consulted our stakeholders widely when developing our performance audit three-year plan and published it on our website to promote ongoing comment and feedback.

We conducted our annual survey of parliamentarians, audit clients and Audit and Risk Committee Chairs, to gain their feedback on our performance and target areas where we can improve (see pages 4, 12–13, 16 and 20–21).

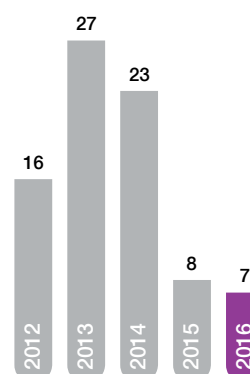
#### Public interest disclosures

The Auditor-General has the power to examine allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*. This Act protects public officials who make such public interest disclosures in good faith. We examined seven public interest disclosures in 2015–16, none of which demonstrated serious and substantial financial waste.

The Audit Office has an internal and external public interest disclosures policy establishing a reporting system for staff and public officials to report allegations of serious and substantial waste. These policies are consistent with the NSW Ombudsman's model policy and the requirements of the Act. The policies also outline our public interest disclosures officers.

During 2015–16, all staff members from the Governance Unit, and senior management across financial and performance audit, completed public interest disclosures training. It covered our responsibilities under the Act and the roles and responsibilities of parties involved in disclosures.

Number of public interest disclosures



## *We regularly connect with our stakeholders*

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### Complaints management

We are committed to actively seeking and using feedback to improve our performance and services. We regularly report to the Office Executive on complaints received.

In 2015–16, we received 37 complaints. Of these:

- there were no complaints made about the Audit Office
- nine complaints were about agencies we did not have the mandate to address because they were about non-government agencies or local government. In these instances, we provide appropriate alternative contacts for the complainant
- 28 complaints were about other NSW Government agencies.

The 28 complaints about other NSW Government agencies were varied in nature and across most government clusters. The most common complaints (29 per cent) were about the Transport and Infrastructure cluster, particularly on the construction of the Albert ‘Tibby Cotter’ Walkway, received when we were conducting a performance audit on the walkway.

Many of these complaints were referred to our Financial Audit and Performance Audit branches for information and/or action.

### Working with the public and other watchdog agencies

We work closely with other watchdog agencies in New South Wales and audit offices in other jurisdictions to improve our services and increase the impact of our work. This includes our important work in responding to public complaints and public interest disclosures where serious and substantial waste is involved. We refer complaints involving allegations of corruption, maladministration or privacy to the Independent Commission Against Corruption, the NSW Ombudsman, the Information and Privacy Commission or to other watchdog agencies.

### The year ahead

Our strategic initiatives ‘Influencing for Impact’ and ‘Reporting Process’ will be key drivers for achieving effective stakeholder relationships which will ultimately deliver our vision ‘Making a difference through audit excellence’.

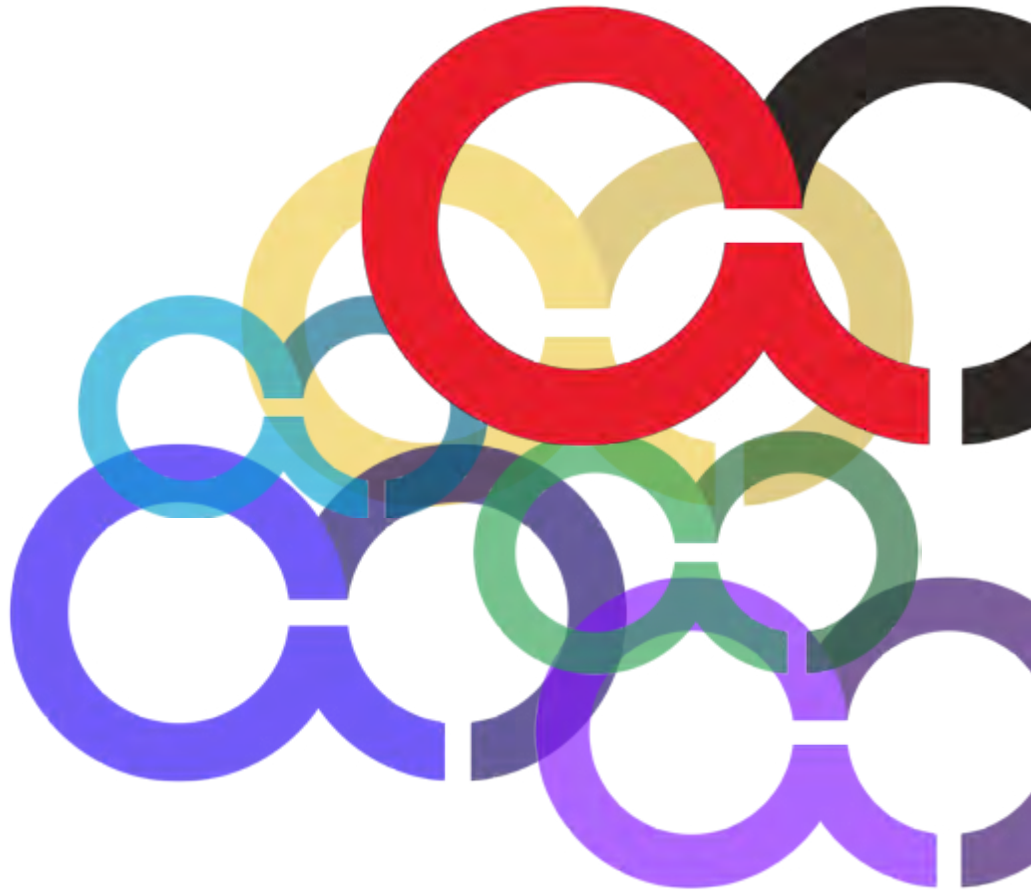
We will:

- revisit our key external stakeholder communication and engagement plan to strengthen our relationship with parliament and the Public Accounts Committee
- ensure a stronger focus on audit client engagement that is open and collaborative while still maintaining our independence
- develop better ways to meet the diverse needs of parliamentarians.

See page 10 for further details on our strategic initiatives for 2016–17.

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# Finances

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**We have a financial framework that supports our business objectives**

We aim to:

- collect our debts within a reasonable time
- pay our creditors promptly
- break even over the medium-term

# Financial performance

## Close to our goal to break even over the medium-term

\$0.9 million surplus (excluding superannuation adjustments), a five-year cumulative result above our medium-term break-even target

### Close to our break-even target

The work of the Audit Office is largely self-funded, generated from audit fees paid by our clients. These fees are set to cover our expenses while maximising value for the NSW public sector. Unlike private sector auditors, we aim to break even overall rather than make a profit.

In monitoring our financial performance, we exclude the impact of the annual superannuation adjustments that affect our operating results. Like all government agencies with staff in the State's defined benefit superannuation schemes, the schemes' assessment of our liability to them varies substantially from year to year. These annual variations are outside our control and reflect the investment performance of the schemes and changes in actuarial assumptions and disclosure requirements of the Australian Accounting Standards.

These superannuation adjustments are fully reflected in our audited financial statements, but are excluded from the information presented here so we can focus on our own performance.

Our 2015–16 result was a profit of \$1.0 million, excluding defined benefit superannuation adjustments. Over the five years to 2015–16, the cumulative result was a profit of \$0.9 million representing 20 per cent of average turnover and above our medium-term break-even target.

Our 2015–16 revenue of \$45 million was \$2 million more than the previous year's \$43 million. Government agencies and universities paid \$37 million for the audit of their financial statements. Parliament contributed \$7.5 million towards our performance audits and reports to parliament. Our 2015–16 total expenditure of \$44 million, excluding the defined benefit schemes superannuation adjustments, was \$0.5 million less the previous year's \$43.5 million.

Audit fees increased by \$2 million compared to the previous year. Total expenditure, excluding superannuation adjustments, is similar to last year. Employee related expenses increased \$2 million on last year. This is consistent with the increase in revenue. Other expenditure also remained consistent with the prior year. Contract audit agent costs decreased by \$0.4 million, consistent with our ongoing strategy around the rotation of contracted out work which, among other things, allows us to measure our performance against the private sector. Travel also increased by \$0.4 million due to the change in accounting treatment of recoverable costs during the financial year.

### Budgeting

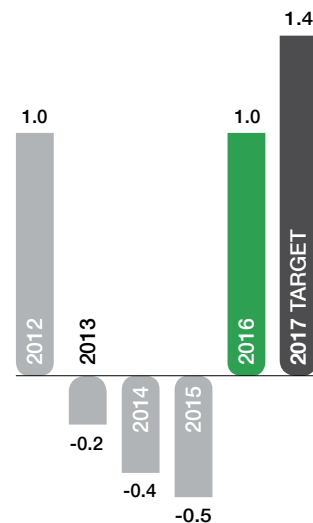
We are budgeting for a \$1.4 million surplus in 2016–17. Revenue is expected to be \$46.5 million, about three per cent more than the 2015–16 actual of \$45 million. Expenditure is budgeted at \$45 million, an increase of three per cent on the 2015–16 actual of \$44 million.

Our 2015–16 operating profit was \$0.3 million over budget. This was due to an increase in income from seconded staff, and reduced depreciation than budget due to reduced spending on capital.

Total expenses were \$0.2 million over budget. This was due to higher staff costs including agency resources, higher recruitment and consultancy costs, and lower than expected capitalised expenses.

### Operating results/\$m

Excluding superannuation



# Financial position

## Our financial management is sound

### Our financial position is sound

Most of our assets and liabilities are of a financial rather than physical nature, as we do not own major buildings or machinery.

We report a net liability position as a result of the actuarial losses on the defined benefit superannuation schemes. While we have a net liability position, we are a going concern as we have a sustainable level of cash with positive cashflows.

Cash remains our largest asset with \$11 million at 30 June 2016. The increased cash balance was primarily due to the efficiency of our new practice management system by e-mailing client invoices, an improved focus on our collection of receivables and reduced capital investment in 2015–16.

Our assets include \$7 million for the Crown's assumption of the liability for our staff's long service leave entitlements. This offsets the liability in our accounts. We also have \$5 million in receivables from government agencies for our auditing services.

Our liabilities at 30 June 2016 were \$73 million, increased from \$53 million in the previous year. This is due to an increase in superannuation liabilities to \$61 million, from \$41 million in 2015.

### Effective solvency, debtor management needs to improve

Our current ratio at 30 June 2016 shows we had \$2.10 in current assets to meet every \$1.00 of our current liabilities. This is an increase on the previous year's ratio and still at the upper level of our target range of between \$1.00 and \$2.00.

Some of our debtors continue to take longer to pay than our agreed invoice terms of 14 days. In 2015–16, it took us an average of 40 days from invoice to collection which is an improvement from 2014–15 of 44 days.

### Timely creditor payments

During the year we paid 99 per cent of our creditors on time. We are expected to pay all creditors within 30 days, unless contracts state otherwise.

For more detail on our performance with creditor payments, see Appendix Seven.

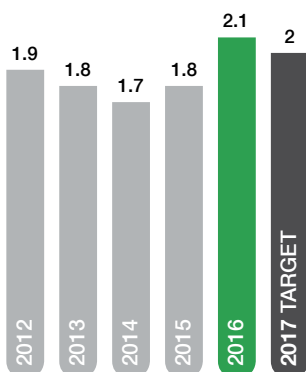
### The year ahead

In 2016–17, we will be driven by our 'People and Culture' and 'Finances' strategic goal areas to:

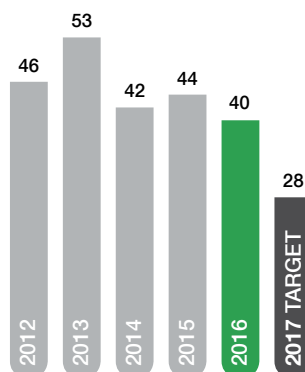
- use our new performance management framework to reinforce the financial responsibilities of all staff
- improve our efficiency and productivity by making financial management information available to all levels in the business via a self-service reporting tool
- design a future-focused resource and capital planning model.

(See page 10 for further details on our strategic goal areas for 2016–17.)

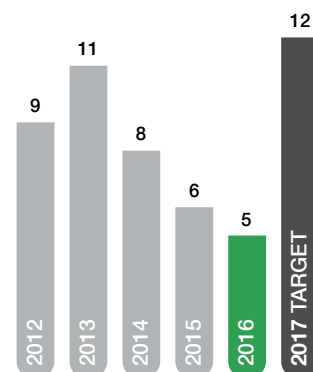
Solvency – current ratio



Debtor management – average days to collect



Work in progress – at 30 June 2016



# Key financial statistics

	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000
<b>Five year trend</b>					
<b>Financial performance<sup>1</sup></b>					
Total revenue	42,859	42,541	42,271	43,021	44,978
Total expenses	41,869	42,659	42,658	43,534	43,975
(Loss) on disposal	0	(38)	(22)	0	0
Operating profit/(loss)	990	(156)	(409)	(513)	1,003
<b>Financial position</b>					
Total assets	28,823	28,555	27,587	26,020	27,005
Accumulated funds	(31,303)	(19,601)	(20,288)	(26,696)	(45,970)
<b>Solvency and debtor management</b>					
Current ratio	1.9	1.8	1.7	1.8	2.1
Average days to collect debts	46	53	42	44	40

	2015-16 Budget \$'000	2015-16 Actual \$'000	2016-17 Budget \$'000
<b>Performance against budget<sup>1</sup></b>			
<b>Revenue</b>			
Audit fees	44,540	44,409	46,216
Interest	150	175	150
Other revenue	206	394	206
<b>Total revenue</b>	<b>44,896</b>	<b>44,978</b>	<b>46,572</b>
<b>Expenditure</b>			
Salaries and related expenses	33,424	32,753	34,805
Other expenses including operating expenses, maintenance, loss on disposal and finance costs	6,802	6,956	6,730
Contract audit agent costs	2,135	2,723	2,443
Depreciation and amortisation	1,761	1,543	1,158
<b>Total expenditure</b>	<b>44,122</b>	<b>43,975</b>	<b>45,136</b>
<b>Operating profit</b>	<b>774</b>	<b>1,003</b>	<b>1,436</b>

<sup>1</sup> Excludes defined benefit superannuation scheme adjustments of \$1,802,592 in 2015-16 (\$1,733,000 in 2014-15 and \$1,843,000 in 2013-14).



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# Independent Auditor's Report

to the Members of the New South Wales Parliament



## To the Members of the New South Wales Parliament

I have audited the accompanying financial statements of The Audit Office of New South Wales (the 'Audit Office'), which comprises the Statement of Financial Position as at 30 June 2016, the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

## Auditor-General's Responsibility for the Financial Statements

The Auditor-General of New South Wales is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Public Finance and Audit Act 1983* (PF&A Act), and for such internal control as the Auditor-General determines is necessary to enable the preparation of financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor-General of New South Wales, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. My opinion does not provide assurance:

- about the future viability of the Audit Office;
- that it has carried out its activities effectively, efficiently and economically;
- about the effectiveness of its internal control;
- about the assumptions used in formulating the budget figures disclosed in the financial statements;
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented; and
- about other information which may have been hyperlinked to or from the financial statements;

## Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements.

## Auditor's Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Audit Office as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards; and
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* Act and the Public Finance and Audit Regulation 2010.

## Lester Willis

Chartered Accountant  
Sydney, 7 September 2016

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# Statement by Auditor-General of New South Wales

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*for the year ended 30 June 2016*

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Under section 41C of the *Public Finance and Audit Act 1983*, I state that, in my opinion, the accompanying financial statements and notes thereto exhibit a true and fair view of the financial position of the Audit Office of New South Wales at 30 June 2016 and its performance for the year then ended.

I further state:

(a) that the financial statements and notes thereto comply with applicable Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2015, the Financial Reporting Code for NSW General Government Sector Entities and the Treasurer's Directions.

(b) that I am not aware of any circumstances which would make any details in the financial statements misleading or inaccurate.



**Margaret Crawford**

Sydney, 7 September 2016

# Audit Office of New South Wales

## Statement of comprehensive income for the year ended 30 June 2016

	Notes	Actual 2016 \$'000	Budget 2016 \$'000	Actual 2015 \$'000
<b>Expenses excluding losses</b>				
<b>Operating expenses</b>				
– employee related	2(a)	34,556	33,424	32,619
– other operating expenses	2(b)	9,558	8,777	10,848
Depreciation and amortisation	2(c)	1,543	1,761	1,727
Finance costs	2(d)	13	19	19
Other expenses	2(e)	108	141	54
<b>TOTAL EXPENSES EXCLUDING LOSSES</b>		<b>45,778</b>	<b>44,122</b>	<b>45,267</b>
<b>Revenue</b>				
Sale of goods and services	3(a)	44,409	44,540	42,567
Investment revenue	3(b)	175	150	148
Other revenue	3(c)	394	206	306
<b>TOTAL REVENUE</b>		<b>44,978</b>	<b>44,896</b>	<b>43,021</b>
<b>Loss on disposal</b>	4	–	–	–
<b>NET RESULT</b>		<b>(800)</b>	<b>774</b>	<b>(2,246)</b>
<b>Other comprehensive income</b>				
Items that will not be reclassified to net result:				
Superannuation actuarial loss on liabilities	5	(18,531)	–	(9,241)
Superannuation actual return on Fund assets less interest income	5	57	–	5,079
<b>Total remeasurement in other comprehensive income</b>	<b>5</b>	<b>(18,474)</b>	<b>–</b>	<b>(4,162)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(19,274)</b>	<b>774</b>	<b>(6,408)</b>

The accompanying notes form part of these financial statements.



# Audit Office of New South Wales

## Statement of financial position as at 30 June 2016

	Notes	Actual 2016 \$'000	Budget 2016 \$'000	Actual 2015 \$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	11,000	6,321	8,871
Receivables	7	4,671	5,447	4,885
Other financial assets	8	575	-	871
Other	11	6,570	7,933	6,083
<b>Total current assets</b>		<b>22,816</b>	<b>19,701</b>	<b>20,710</b>
<b>Non-current assets</b>				
Property, plant and equipment	9			
– plant and equipment		309	948	504
– leasehold improvements		2	135	428
<b>Total property, plant and equipment</b>		<b>311</b>	<b>1,083</b>	<b>932</b>
Intangible assets	10	3,307	5,760	3,849
Other	11	571	357	529
<b>Total non-current assets</b>		<b>4,189</b>	<b>7,200</b>	<b>5,310</b>
<b>Total assets</b>		<b>27,005</b>	<b>26,901</b>	<b>26,020</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Payables	12	1,445	2,336	2,380
Provisions	13	9,683	9,487	8,789
Other	14	3	37	37
<b>Total current liabilities</b>		<b>11,131</b>	<b>11,860</b>	<b>11,206</b>
<b>Non-current liabilities</b>				
Provisions	13	61,844	35,922	41,507
Other	14	-	40	3
<b>Total non-current liabilities</b>		<b>61,844</b>	<b>35,962</b>	<b>41,510</b>
<b>Total liabilities</b>		<b>72,975</b>	<b>47,822</b>	<b>52,716</b>
<b>Net liabilities</b>		<b>(45,970)</b>	<b>(20,921)</b>	<b>(26,696)</b>
<b>Equity</b>				
Accumulated funds		(45,970)	(20,921)	(26,696)
<b>Total equity</b>		<b>(45,970)</b>	<b>(20,921)</b>	<b>(26,696)</b>

The accompanying notes form part of these financial statements.



# Audit Office of New South Wales

## Statement of changes in equity for the year ended 30 June 2016

	Notes	Accumulated Funds \$'000
Balance at 1 July 2015		(26,696)
Net result for the year		(800)
Other comprehensive income:		
– Superannuation actuarial loss and return on Fund assets	5	(18,474)
<b>Total comprehensive income for the year</b>		<b>(19,274)</b>
<b>Balance at 30 June 2016</b>		<b>(45,970)</b>
Balance at 1 July 2014		(20,288)
Net result for the year		(2,246)
Other comprehensive income:		
– Superannuation actuarial gain and return on Fund assets	5	(4,162)
<b>Total comprehensive income for the year</b>		<b>(6,408)</b>
<b>Balance at 30 June 2015</b>		<b>(26,696)</b>

The accompanying notes form part of these financial statements.

# Audit Office of New South Wales

## Statement of cash flows for the year ended 30 June 2016

	Notes	Actual 2016 \$'000	Budget 2016 \$'000	Actual 2015 \$'000
<b>Cash flows from operating activities</b>				
<b>Payments</b>				
Employee related		(33,105)	(33,424)	(30,046)
Other		(16,380)	(8,937)	(19,454)
<b>Total payments</b>		<b>(49,485)</b>	<b>(42,361)</b>	<b>(49,500)</b>
<b>Receipts</b>				
Sale of goods and services		46,790	44,540	47,357
Interest received		160	150	164
Other		5,044	206	4,807
<b>Total receipts</b>		<b>51,994</b>	<b>44,896</b>	<b>52,328</b>
<b>Net cash flows from operating activities</b>	20	<b>2,509</b>	<b>2,535</b>	<b>2,828</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(32)	(540)	(647)
Intangible assets		(348)	(1,700)	(259)
<b>Net cash flows from investing activities</b>		<b>(380)</b>	<b>(2,240)</b>	<b>(906)</b>
<b>Net increase in cash</b>				
		<b>2,129</b>	<b>295</b>	<b>1,922</b>
Opening cash and cash equivalents		8,871	6,026	6,949
<b>Closing cash and cash equivalents</b>	6	<b>11,000</b>	<b>6,321</b>	<b>8,871</b>

The accompanying notes form part of these financial statements.



### 1. Summary of Significant Accounting Policies

#### (a) Reporting entity

The Audit Office of New South Wales (the 'Audit Office') is a NSW government entity. The Audit Office is a not-for-profit entity (as profit is not its principal objective). Its financial report is consolidated as part of the NSW Total State Sector Accounts.

These financial statements for the year ended 30 June 2016 have been authorised for issue by the Auditor-General on 7 September 2016.

#### (b) Basis of preparation

The Audit Office's financial statements are general purpose financial statements which have been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulation 2015 and
- the Financial Reporting Directions published in the Financial Reporting Code for NSW General Government Sector Entities or issued by the Treasurer.

#### Going Concern

The Audit Office incurred a deficit of \$800,000 (2015: \$2,246,000) and a net liability position is reported as a result of the recognition of the actuarial valuation losses on the defined benefit superannuation schemes. The liability is a long-term non-current liability. A triennial review was undertaken at 30 June 2015, where the economic assumptions and significant risks were reviewed. The valuation resulted to an increase of \$20.277m of long-term liability for the Audit Office. The Audit Office had not been required to make employer contributions for a number of years to these schemes and does not foresee any contributions in the near future. The solvency ratio (short-term) of the Audit Office increased to 2.1 (2015: 1.8) and the cash balance is at a sustainable level with positive actual cash flows from operating activities. The assumption that the Audit Office is a going concern is justified.

Property, plant and equipment are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars and expressed in Australian currency.

#### (c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

#### (d) Insurance

Insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government entities. The expense (premium) is determined by the Fund Manager based on past claim experience.

#### (e) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST except for:

- the amount of GST incurred as a purchaser that is not recoverable from the Australian Taxation Office (ATO), which is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing activities which are recoverable from, or payable to the ATO are classified as operating cash flows.

#### (f) Income recognition

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

##### (i) Rendering of services – audit fees

Revenue from rendering of service is recognised by reference to the stage of completion of audit assignments at the reporting date. The revenue is recognised when:

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b) the probable economic benefits associated with the transaction will flow to the Audit Office.

The stage of completion of audit assignments at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

##### (ii) Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial Instruments: Recognition and Measurement.

#### (g) Assets

##### (i) Acquisitions of assets

Assets acquired are initially recognised at cost. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration

given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

##### (ii) Capitalisation thresholds

Property, plant and equipment and intangible assets individually costing \$1,000 and above or forming part of a network costing more than \$1,000 are capitalised.

##### (iii) Revaluation of property, plant and equipment

Physical non-current assets are valued in accordance with the 'Valuation of Physical Non-Current Assets at Fair Value' Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 Fair Value Measurement and AASB 116 Property, Plant and Equipment.

Property, plant and equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financially feasible. The highest and best use must be available at a period that is not remote and take into account the characteristics of the asset being measured. In most cases, after taking into account these considerations, the highest and best use is the existing use.

Fair value of property, plant and equipment is based on market participant's perspective, using valuation techniques (market approach, cost approach, income approach) that maximise relevant observable inputs and minimise unobservable inputs.

Under AASB 13 Fair Value Measurement, non-specialised assets with short useful lives measured using depreciated historical cost as an approximation of fair value do not require fair value hierarchy disclosures. Our plant and equipment are measured by this method and it has been assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

##### (iv) Impairment of property, plant and equipment

As a not-for-profit entity with no cash generating units, impairment under AASB 136 Impairment of Assets is unlikely to arise. AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means, that where



an asset is already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

### (v) Depreciation of property, plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets to write off their depreciable amount as it is consumed over its useful life as follows:

- computer equipment – three years
- office equipment – five years
- furniture and fittings – ten years
- leasehold improvements over the term of the lease.

### (vi) Restoration costs

The estimated cost of restoration for leasehold improvements is included in this asset to the extent it is recognised as a liability.

### (vii) Maintenance

Day-to-day servicing costs or maintenance of assets are charged as expenses as incurred. Where they relate to the replacement of a part or component of an asset, the costs are capitalised and depreciated.

### (viii) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases where the lessor does not transfer substantially all the risks and benefits. Operating lease payments for office accommodation and motor vehicles are recognised as expenses on a straight-line basis over the period of the lease term.

### (ix) Intangible assets

Intangible assets are recognised only if it is probable that future economic benefits will flow to the Audit Office and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value at the date of acquisition.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for our intangible assets, the assets are carried at cost less any accumulated amortisation.

All intangible assets are amortised using the straight-line method over a period of three to ten years, as follows:

- audit methodology software – ten years

- management information systems (MIS) software – five years
- other software licences – three to five years.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

### (x) Receivables

Receivables are recognised at fair value based on the original invoice amount. The receivables are due for settlement within fourteen days from the date of issue of the invoice, hence are not amortised or discounted as the effect of discounting is immaterial.

### (xi) Other financial assets

Work in progress (WIP) represents staff time measured at standard charge rates and other expenses directly chargeable to the client, which were unbilled to the client at balance date.

WIP is assessed for impairment annually and is not carried at an amount in excess of its recoverable amount.

### (xii) Impairment of financial assets

All financial assets, most notably, receivables, are reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that the amounts due will not be collected. The amount of the allowance is the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the effective rate.

The amount of the impairment loss is recognised in the net result for the year. Any reversals of impairment losses are through the net result for the year, where there is objective evidence of recovery.

### (xiii) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or if all the risks and rewards have substantially been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### (xiv) Other assets

Other assets are recognised on a historical cost basis.

The 'Crown Acceptance of Long Service Leave Liability' is recognised as an asset, which is offset by the liability.

### (h) Liabilities

#### (i) Payables

The Audit Office carries liabilities for trade creditors and other payables, which are initially

recognised at fair value, usually based on the transaction cost or face value. These payables are subsequently measured at an amortised cost using the effective interest rate method. Trade payables with no stated interest rate are measured at the original invoice amount where the effect of the discounting is immaterial.

#### (ii) Employee benefits and related on-costs provisions

##### (a) Salaries and wages, annual leave, sick leave and on-costs

Liabilities for salaries and wages, including non-monetary benefits, annual leave and sick leave are measured on an undiscounted basis. Where annual leave is not expected to be settled within 12 months, it is accounted for as a long-term benefit at the present value in accordance with AASB 119 Employee Benefits.

Unused non-vested sick leave entitlement does not give rise to a liability as it is considered that sick leave taken in the future will not be greater than the benefits accrued in the future.

##### (b) Long service leave

The Crown Finance Entity takes on the Audit Office's liability for long service leave. The liability is accounted for and then offset by showing a corresponding asset as 'Crown Acceptance of Long Service Leave Liability'. It is a statutory asset/liability and not considered as a financial asset/liability within the scope of AASB 7 Financial Instruments: Disclosures.

A long service leave liability is recognised as a long-term employee benefit and measured for all employees with five or more years of service. The present value method based on remuneration rates approved to be payable post 30 June, is used to measure the liability. The on-cost factors specified in Treasury Circular 15/09 are applied when calculating the liability.

##### (c) Superannuation

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (i.e. First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (i.e. State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contribution.

The superannuation schemes for the Audit Office are:

- the State Superannuation Scheme (SSS)
- the State Authorities Superannuation Scheme (SASS)
- the State Authorities Non-Contributory Superannuation Scheme (SANCS - Basic Benefits Scheme)
- the First State Super Scheme (FSS) and other schemes to receive Superannuation Guarantee Contributions (SGC).



The first three schemes are multi-employer defined benefit schemes. At least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. The Pooled Fund holds in trust the investments of these closed NSW public sector superannuation schemes.

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916*, *State Authorities Superannuation Act 1987*, *Police Regulation (Superannuation) Act 1906*, *State Authorities Non-Contributory Superannuation Scheme Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed at 30 June 2015. The next actuarial investigation will be performed at 30 June 2018.

### Other entities' responsibilities for the governance of the fund

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations.

### Risks

There are a number of risks to which the Fund exposes the Audit Office. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment

returns will be lower than assumed and the Audit Office will need to increase contributions to offset this shortfall.

- Longevity risk – The risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk – The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

### Significant events

There were no fund amendments, curtailments or settlements during the year.

### Asset-Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

### Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the Audit Office, SAS Trustee Corporation (STC) and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

AASB 119 requires detailed narrative information regarding the key actuarial assumptions underlying the reported superannuation figures. Note 5 details the disclosures provided by the Schemes Administrator's actuary.

Actuarial gains and losses are recognised immediately in other comprehensive income in the year in which they occur.

The Audit Office has no ongoing liability for First State Superannuation (FSS) and the other SGC schemes because they are accumulation schemes.

### d) Consequential on-costs

Consequential costs to employment are recognised as liabilities and expenses where the employment benefits to which they relate have been recognised. This includes outstanding amounts of payroll tax, workers' compensation

insurance premiums, fringe benefits tax and superannuation.

### (iii) Other provisions

The provisions are recognised when there are legal or constructive obligations as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for the restoration costs of our leasehold improvements asset are recognised.

### (i) Equity and reserves

Accumulated funds:

The accumulated funds include all current and prior period retained funds.

### (j) Budgeted amounts

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament. Other amendments made to the budget are not reflected in the budgeted amounts. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained in Note 19.

### (k) Comparative information

Where necessary, the comparatives are reclassified and repositioned to be consistent with current year disclosures except when an Australian Accounting Standard permits or requires otherwise.

### (l) Changes in accounting policies

#### (i) New Australian Accounting Standards issued but not yet effective

At the reporting date, a number of accounting standards and interpretations adopted by the AASB had been issued but not yet operative and have not been early adopted by the Audit Office. The initial application of these standards will have no material impact on our financial results. The standards are operative for annual reporting periods ending after 30 June 2016.

#### (ii) Recognition of audit related expenses

From 1 July 2015 we changed our accounting policy to recognise audit travel related expenses, as an operating expense. Previously these expenses were charged directly to Work in Progress and recognised as revenue when invoiced to clients. Our Pricing Model includes travel expenses in our hourly charge rate and these are no longer separately recorded as WIP. As a result audit related travel increased the expenses of the Audit Office but were offset by increased revenue.

From 1 July 2015 we changed our accounting policy to cease offsetting audit related consultants and audit related fees for services rendered against the revenue received, to now recognise them as operating expenses and their recovery as revenue. There has been no impact to the operating result as this is a change in presentation only.



# Audit Office of New South Wales

## Notes to and forming part of the financial statements for the year ended 30 June 2016

	2016 \$'000	2015 \$'000
<b>2. Expenses excluding losses</b>		
<b>(a) Employee related expenses</b>		
Salaries and wages (including annual leave)	25,502	24,909
Superannuation – defined benefits plans (Note 5)	1,803	1,733
Superannuation – defined contribution plans	2,365	2,369
Long service leave	687	653
Workers' compensation insurance	59	73
Payroll tax and fringe benefits tax	1,709	1,650
Redundancy	248	767
Temporary employees	2,183	465
	<b>34,556</b>	<b>32,619</b>
Employee related expense of \$179,000 (2015: \$75,000) has been capitalised to fixed and intangible asset accounts and are excluded from the above.		
<b>(b) Other operating expenses include the following:</b>		
Auditor's remuneration		
– audit of the financial statements	38	37
Operating lease rental expense		
– minimum lease payments	1,664	1,609
Maintenance*	644	570
Insurance	38	42
Consultants	302	361
Other contractors	3,903	4,838
Staff development and training (excluding salaries)	685	868
Fees for services rendered	754	920
Other operating expenses	1,530	1,603
	<b>9,558</b>	<b>10,848</b>
Fees for services rendered of \$nil (2015: \$139,000) have been capitalised to fixed and intangible asset accounts and are excluded from the above.		
<i>*Reconciliation – total maintenance</i>		
Maintenance expense – contracted labour and other (non-employee related), as above	644	570
Employee related maintenance expense included in Note 2(a)	–	–
<b>Total maintenance expenses included in Note 2(a) + 2(b)</b>	<b>644</b>	<b>570</b>
<b>(c) Depreciation and amortisation expense</b>		
Depreciation		
– leasehold improvements	426	425
– plant and equipment	227	352
	<b>653</b>	<b>777</b>
Amortisation		
– intangible assets	890	950
<b>Total depreciation and amortisation expense</b>	<b>1,543</b>	<b>1,727</b>
<b>(d) Finance costs</b>		
Unwinding of the discount rate for the make-good of premises	<b>13</b>	<b>19</b>
<b>(e) Other expenses</b>		
Legal	<b>108</b>	<b>54</b>



# Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2016

	2015 \$'000	2014 \$'000
<b>3. Revenue</b>		
<b>(a) Sale of goods and services</b>		
Rendering of services – audit fees	44,409	42,567
<b>(b) Investment revenue</b>		
Interest received	175	148
<b>(c) Other revenue</b>		
Recoupment of salaries and oncosts	388	286
Other	6	20
	<b>394</b>	<b>306</b>
<b>4. Loss on disposal</b>		
Plant and equipment	–	–



# Audit Office of New South Wales

## Notes to and forming part of the financial statements for the year ended 30 June 2016

### 5. Superannuation

The defined benefit schemes from 30 June 2015 have remained at an unfunded liability position, a net movement of \$20,277,000 (2015: \$5,895,000). Employer contributions to all funds have been suspended since 1 December 2005.

The following information has been prepared by the Scheme actuary.

	2016 \$'000	2015 \$'000
<b>Reconciliation of the Net Defined Benefit Liability</b>		
<b>Net Defined Benefit Liability at start of year</b>	<b>40,232</b>	<b>34,337</b>
<b>Expenses:</b>		
Current service cost	584	507
Net interest on the net defined benefit liability	1,219	1,226
<b>Superannuation expense in profit and loss*</b>	<b>1,803</b>	<b>1,733</b>
<b>Other comprehensive income:</b>		
Actual return on Fund assets less Interest income	(57)	(5,079)
Actuarial losses arising from changes in demographic assumptions	3,224	65
Actuarial losses arising from changes in financial assumptions	16,554	8,699
Actuarial (gains)/losses arising from liability experience	(1,247)	477
<b>Amount recognised in other comprehensive income</b>	<b>18,474</b>	<b>4,162</b>
<b>Net Defined Benefit Liability at end of year</b>	<b>60,509</b>	<b>40,232</b>
<b>Reconciliation of the Fair Value of Fund Assets</b>		
<b>Fair value of Fund assets at beginning of the year</b>	<b>67,587</b>	<b>64,011</b>
Interest income	1,990	2,212
Actual return on Fund assets less Interest income	57	5,079
Employer contributions	-	-
Contributions by participants	229	273
Benefits paid	(4,534)	(4,368)
Taxes, premiums & expenses paid	180	380
Transfers in	-	-
Contributions to the accumulation section	-	-
Settlements	-	-
Exchange rate changes	-	-
<b>Fair value of Fund assets at end of the year</b>	<b>65,509</b>	<b>67,587</b>



# Audit Office of New South Wales

## Notes to and forming part of the financial statements for the year ended 30 June 2016

	2016 \$'000	2015 \$'000
<b>Reconciliation of the Defined Benefit Obligation</b>		
Present value of defined benefit obligations at beginning of the year	107,819	98,348
Current service cost	584	507
Interest cost	3,209	3,438
Contributions by participants	229	273
Actuarial losses arising from changes in demographic assumptions	3,224	65
Actuarial losses arising from changes in financial assumptions	16,554	8,699
Actuarial (gains)/losses arising from liability experience	(1,247)	477
Benefits paid	(4,534)	(4,368)
Taxes, premiums & expenses paid	180	380
Transfers in/out due to business combinations and disposals	–	–
Contributions to accumulation section	–	–
Past service cost	–	–
Settlements	–	–
Exchange rate changes	–	–
<b>Present value of defined benefit obligations at end of the year</b>	<b>126,018</b>	<b>107,819</b>

### Fair value of Fund assets

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers. Assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

### As at 30 June 2016

Asset category	Quoted prices in active markets for identical assets	Significant observable inputs	Unobservable inputs	Total	Percentage invested in each asset class
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000		
Short Term Securities	2,044,454	5,960	-	2,050,414	5.4%
Australian Fixed Interest	2,724	2,717,865	-	2,720,589	7.1%
International Fixed Interest	(1,358)	835,731	-	834,373	2.2%
Australian Equities	9,171,767	549,087	24	9,720,878	25.4%
International Equities	9,026,207	2,078,766	988,694	12,093,667	31.7%
Property	1,113,253	618,946	1,918,068	3,650,267	9.6%
Alternatives	470,130	3,122,185	3,523,634	7,115,949	18.6%
<b>TOTAL*</b>	<b>21,827,177</b>	<b>9,928,540</b>	<b>6,430,420</b>	<b>38,186,137</b>	<b>100.0%</b>

\* Additional to the assets disclosed above, at 30 June 2016 the Pooled Fund has provisions for receivables/(payables) estimated to be around \$2.83 billion. This gives total estimated assets of \$41.01 billion.

Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 – inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.



### Fair value of entity's own financial instruments

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets as at 30 June 2016 include \$189.6 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

- SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of \$222 million (30 June 2015: \$159 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value of \$243 million (30 June 2015: \$204 million).

### Significant Actuarial Assumptions at the Reporting Date

As at	30 June 2016	30 June 2015
Discount rate	1.99% pa	3.03% pa
Salary increase rate (excluding promotional increases)	2.50% pa 2016/2017 to 2018/2019; 3.50% pa 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter	2.50% pa 2015/2016 to 2018/19; 3.50% pa 2019/2020; 3.00% pa 2021/2022 to 2024/2025; 3.50% pa thereafter
Rate of CPI increase	1.50% 2015/2016; 1.75% 2016/2017; 2.25% 2017/2018; 2.50% pa thereafter	2.50% 2015/2016; 2.75% 2016/2017 & 2017/2018; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.	The pensioner mortality assumptions are as per the 2012 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.

### Sensitivity analysis

The Audit Office's total defined benefit obligation as at 30 June 2016 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2016. Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	1.99%	0.99%	2.99%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$'000)	126,018	148,742	107,929

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$'000)	126,018	136,040	116,966

	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation (A\$'000)	126,018	126,664	125,395

	Base case	Scenario G Higher Mortality*	Scenario H Lower Mortality**
Defined benefit obligation (A\$'000)	126,018	124,539	128,448

\* Assumes the long-term pensioner mortality improvement factors for years post 2021 also apply for years 2016 to 2021.

\*\* Assumes the short-term pensioner mortality improvement factors for years 2016-2021 also apply for years after 2021.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

# Audit Office of New South Wales

## Notes to and forming part of the financial statements for the year ended 30 June 2016

### Surplus/deficit

The following is a summary of the 30 June 2016 financial position of the Fund calculated in accordance with AAS 25 'Financial Reporting by Superannuation Plans':

	2016 \$'000	2015 \$'000
Accrued benefits*	60,766	57,199
Net market value of Fund assets	(65,510)	(67,587)
<b>Net surplus</b>	<b>(4,744)</b>	<b>(10,388)</b>

\* There is no allowance for a contribution tax provision within the Accrued Benefits figure for AAS 25. Allowance for contributions tax is made when setting the contribution rates.

### Contribution recommendations

Recommended contribution rates for the Audit Office are:

	SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
	NIL	NIL	NIL

### Economic assumptions

The economic assumptions adopted for the 30 June 2015 actuarial investigation of the Pooled Fund are:

Weighted average assumptions	30 June 2016	30 June 2015
Expected rate of return on Fund assets backing current pension liabilities	7.8% pa	8.3% pa
Expected rate of return on Fund assets backing other liabilities	6.8% pa	7.3% pa
Expected salary increase rate (excluding promotional salary increases)	3.0% to 30 June 2019 then 3.5% pa thereafter	2.7% pa to 30 June 2018, then 4.0% pa thereafter
Expected rate of CPI increase	2.5% pa	2.5% pa

### Expected contributions

	SASS	SANCS	SSS
			Financial year to 30 June 2017
Expected employer contributions	-	-	-

### Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 15.2 years.

6. Current assets – cash and cash equivalents	2016 \$'000	2015 \$'000
Cash at bank and on hand	11,000	8,871

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and cash on hand.

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

Cash and cash equivalents (per statement of financial position)	11,000	8,871
<b>Closing cash and cash equivalents (per statement of cash flows)</b>	<b>11,000</b>	<b>8,871</b>

Refer Note 21 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.



<b>7. Current assets – receivables</b>	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Sale of goods and services	4,111	4,368
Less: Allowance for impairment	(16)	–
Prepayments	323	311
Accrued income	18	–
Interest receivable	86	71
GST receivable from ATO	149	135
	<b>4,671</b>	<b>4,885</b>

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 21.

## 8. Other financial assets

Work in progress	<b>575</b>	<b>871</b>
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Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 21.

# Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2016

## 9. Non-current assets – property, plant and equipment

	Plant and Equipment \$'000	Leased Assets (Leasehold Improvements) \$'000	TOTAL \$'000
<b>2016:</b>			
<b>At 1 July 2015 – fair value</b>			
Gross carrying amount	2,200	3,107	5,307
Accumulated depreciation	(1,696)	(2,679)	(4,375)
<b>Net carrying amount</b>	<b>504</b>	<b>428</b>	<b>932</b>
<b>At 30 June 2016 – fair value</b>			
Gross carrying amount	2,053	3,107	5,160
Accumulated depreciation	(1,744)	(3,105)	(4,849)
<b>Net carrying amount</b>	<b>309</b>	<b>2</b>	<b>311</b>

### Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below:

#### Year ended 30 June 2016

Net carrying amount at start of year	504	428	932
Additions	32	–	32
Disposals	(179)	–	179
Depreciation expense	(227)	(426)	(653)
Write-back of depreciation on disposal	179	–	179
<b>Net carrying amount at end of year</b>	<b>309</b>	<b>2</b>	<b>311</b>

### 2015:

<b>At 1 July 2014 – fair value</b>			
Gross carrying amount	2,063	3,096	5,159
Accumulated depreciation	(1,344)	(2,254)	(3,598)
<b>Net carrying amount</b>	<b>719</b>	<b>842</b>	<b>1,561</b>
<b>At 30 June 2015 – fair value</b>			
Gross carrying amount	2,200	3,107	5,307
Accumulated depreciation	(1,696)	(2,679)	(4,375)
<b>Net carrying amount</b>	<b>504</b>	<b>428</b>	<b>932</b>

### Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the prior reporting period is set out below:

#### Year ended 30 June 2015

Net carrying amount at start of year	719	842	1,561
Additions	137	11	148
Depreciation expense	(352)	(425)	(777)
<b>Net carrying amount at end of year</b>	<b>504</b>	<b>428</b>	<b>932</b>



## 10. Intangible assets

	Systems Software \$'000	Intangible Assets Under Development \$'000	TOTAL \$'000
<b>2016:</b>			
<b>At 1 July 2015</b>			
Cost (gross carrying amount)	5,489	241	5,730
Accumulated amortisation	(1,881)	–	(1,881)
<b>Net carrying amount</b>	<b>3,608</b>	<b>241</b>	<b>3,849</b>
<b>At 30 June 2016</b>			
Cost (gross carrying amount)	6,078	–	6,078
Accumulated amortisation	(2,771)	–	(2,771)
<b>Net carrying amount</b>	<b>3,307</b>	<b>–</b>	<b>3,307</b>

The Human Capital Management System became operational during the year and has been included under Systems Software.

### Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current reporting period is set out below:

#### Year ended 30 June 2016

Net carrying amount at start of year	3,608	241	3,849
Transfer from systems development to software	241	(241)	–
Additions	348	–	348
Amortisation (recognised in 'depreciation and amortisation')	(890)	–	(890)
<b>Net carrying amount at end of year</b>	<b>3,307</b>	<b>–</b>	<b>3,307</b>

### 2015:

#### At 1 July 2014

Cost (gross carrying amount)	4,362	1,890	6,252
Accumulated amortisation	(1,712)	–	(1,712)
<b>Net carrying amount</b>	<b>2,650</b>	<b>1,890</b>	<b>4,540</b>

#### At 30 June 2015

Cost (gross carrying amount)	5,489	241	5,730
Accumulated amortisation	(1,881)	–	(1,881)
<b>Net carrying amount</b>	<b>3,608</b>	<b>241</b>	<b>3,849</b>

### Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the prior reporting period is set out below:

#### Year ended 30 June 2015

Net carrying amount at start of year	2,650	1,890	4,540
Transfer from systems development to software	1,890	(1,890)	–
Additions	18	241	259
Retirements/Disposals	(781)	–	(781)
Amortisation (recognised in 'depreciation and amortisation')	(950)	–	(950)
Write-back of amortisation on disposal	781	–	781
<b>Net carrying amount at end of year</b>	<b>3,608</b>	<b>241</b>	<b>3,849</b>



# Audit Office of New South Wales

## Notes to and forming part of the financial statements for the year ended 30 June 2016

	2016 \$'000	2015 \$'000
<b>11. Current/non-current assets – other</b>		
Crown acceptance of long service leave liability – current	6,570	6,083
Crown acceptance of long service leave liability – non-current	571	529
	<b>7,141</b>	<b>6,612</b>

### 12. Current liabilities – payables

Accrued salaries, wages and on-costs	–	876
Creditors and accruals	821	943
Payroll tax	191	121
GST payable to ATO	433	440
	<b>1,445</b>	<b>2,380</b>

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in Note 21.

### 13. Current/non-current liabilities – provisions

<b>Employee benefits and related on-costs</b>		
Annual leave	2,090	1,784
Long service leave	7,141	6,612
Superannuation (Note 5)	60,509	40,232
Related on-costs	1,084	978
<b>Employee benefits provision</b>	<b>70,824</b>	<b>49,606</b>
Accrued salaries, wages and on-costs (Note 12)	–	876
<b>Aggregated employee benefits and related on-costs</b>	<b>70,824</b>	<b>50,482</b>
<b>Provisions</b>		
<b>Current</b>		
– employee benefits provision	<b>9,683</b>	<b>8,789</b>
<b>Non-current</b>		
– employee benefits provision	61,141	40,817
Other provisions – leasehold improvements – restoration costs	703	690
<b>Non-current</b>	<b>61,844</b>	<b>41,507</b>
<b>TOTAL PROVISIONS</b>	<b>71,527</b>	<b>50,296</b>



# Audit Office of New South Wales

## Notes to and forming part of the financial statements for the year ended 30 June 2016

### a) Employee benefits and related on-costs

#### Annual leave

The liability at 30 June 2016 was \$2,090,000 (2015: \$1,784,000). This is based on leave entitlements at 30 June using remuneration rates to be payable post 30 June.

Of this liability, the value expected to be paid within twelve months is \$1,415,000 (2015: \$1,181,000) and \$675,000 (2015: \$603,000) after twelve months. This calculation of leave for the next twelve months is the minimum required to be taken to achieve the target of a maximum of 30 days at 30 June 2017.

Leave paid and entitlement for the year are as follows:	2016 \$'000	2015 \$'000
Balance at beginning of the financial year	1,784	2,145
Less: Value of leave paid during the year	(2,165)	(2,520)
	(381)	(375)
Add: Value of increased entitlement during the year	2,471	2,159
<b>Balance at the end of the financial year</b>	<b>2,090</b>	<b>1,784</b>

The amount of annual leave as disclosed above is increased by on-costs in the determination of the total provision.

#### Long service leave

The total liability at 30 June 2016 was \$7,141,000 (2015: \$6,612,000) shown as current \$6,570,000 (2015: \$6,083,000) and non-current \$571,000 (2015: \$529,000). This liability comprises:

Short term – expected to be settled within 12 months	252	198
Long term – not expected to be settled within 12 months	6,889	6,414
	<b>7,141</b>	<b>6,612</b>

Contributions of \$734,000 (2015: \$762,000) were made to the Crown Finance Entity pool account during this financial year.

Reimbursements from the Crown Finance Entity because of payments to staff, or transfers of entitlements to other agencies, were \$988,000 (2015: \$1,789,000).

The amount of long service leave as disclosed above is increased by on-costs in the determination of the total provision.

### (b) Other provisions

#### Restoration costs

The costs of restoration for the leasehold improvements at 1 Margaret Street are recognised as a provision in accordance with AASB 137 – Provisions, Contingent Liabilities and Contingent Assets. The provision for the costs of restoration is reviewed to cover three financial years. The latest valuation was conducted in this current financial year with the assistance of Government Property Authority.

Movements in provision during the financial year are set out below:

Carrying amount at the beginning of financial year	690	671
Unwinding / change in the discount rate	13	19
<b>Carrying amount at end of financial year</b>	<b>703</b>	<b>690</b>

## 14. Current/non-current liabilities – other

Current – other		
Rental incentive	3	37
	<b>3</b>	<b>37</b>
Non-current – other		
Rental incentive – other	–	3
	<b>3</b>	<b>40</b>

### 15. Commitments for expenditure

#### (a) Capital commitments

Aggregate capital expenditure for the acquisition of intangible assets contracted for at balance date and not provided for:

	2016 \$'000	2015 \$'000
Not later than one year	72	–
<b>Total (including GST)</b>	<b>72</b>	<b>–</b>

#### (b) Operating lease commitments

Future non-cancellable operating lease rentals not provided for and payable:

	2016 \$'000	2015 \$'000
Not later than one year	1,783	1,957
Later than one year and not later than five years	3,870	131
<b>Total (including GST)</b>	<b>5,653</b>	<b>2,088</b>

Commitments exist for leased accommodation and motor vehicles under operating leases.

These commitments include GST of \$520,000 (2015: \$190,000). A contingent asset exists for the calculated GST, being an input tax credit recoverable from the ATO after these payments.

### 16. Contingent assets and contingent liabilities

At the reporting date, aside from those mentioned in Note 15, the Audit Office was not aware of any other contingent assets or contingent liabilities.

### 17. Auditor's remuneration

In April 2014, the Governor appointed Mr Lester Wills, a partner of Nexia Court & Co, to audit our accounts for a period of three years, commencing in the 2013–14 financial year. Nexia Court & Co does not provide any other services to the Audit Office. Refer to Note 2(b).

### 18. Audit and Risk Committee

The Audit Office has three independent members on the Audit and Risk Committee. Mr Brian Suttor was appointed as Chair on 28 November 2008 and is paid \$12,552 per year. His appointment as chairperson has been extended for a final four year term. Mr Greg Fletcher was appointed as a member on 4 December 2009 and is paid \$6,275 per year. His appointment as an independent member has been extended for a final four year term. Ms Dianne Hill was appointed as an independent member on 29 August 2013. Her term is for four years and is paid \$6,275 per year.

### 19. Budget Review

#### Net Result

The actual net result was unfavourable to the budgeted net result by \$1,574,000. The major variations to budgets are:

Total Revenue was \$82,000 favourable to budget, mainly from other revenue. The increase in other revenue is due to the higher recoupment of salaries for seconded staff to other agencies and an external organisation.

Total Expenses were \$1,656,000 unfavourable to budget, primarily due to higher employee related expenses. The employee related expenses were \$1,132,000 higher than budget because of the superannuation expense on defined benefit schemes, which was not budgeted for as this is outside of the Audit Office's normal operation.

#### Assets and liabilities

**Net Liabilities:** The actual negative equity of \$45,970,000 was primarily due to the actuarial valuation of the defined benefit superannuation schemes, which resulted in an unfunded liability of \$60,509,000 that is significantly greater than the valuation of \$42,232,000 for 2014-15. The Net Liabilities were higher than budget by \$25,049,000. The major factors are:

Total Assets were favourable to budget by \$104,000 mainly due to higher cash balance but is offset by lower investment in plant & equipment and intangible assets.

Total Liabilities were higher than budget by \$25,153,000 mainly due to the impact of the actuarial valuation for the defined benefit superannuation schemes. The budgeted provision was based on the result of prior year because any change in the valuation could not be ascertained at the time of budget submission.



### Cash flows

The actual cash movement was \$4,679,000 favourable to budget. This is mainly due to reduced capital expenditure and lower receivables and payables.

### 20. Reconciliation of Cash Flows from Operating Activities to Net Results

Reconciliation of cash flows from operating activities to the net result as reported in the statement of comprehensive income	2016 \$'000	2015 \$'000
Net cash from operating activities	2,509	2,828
Depreciation and amortisation	(1,543)	(1,727)
Finance costs	(13)	(19)
Decrease/(Increase) in provisions	(2,707)	(615)
Increase/(Decrease) in prepayments and other assets	19	(2,169)
Decrease/(Increase) in creditors	935	(544)
<b>Net result</b>	<b>(800)</b>	<b>(2,246)</b>

### 21. Financial instruments

The Audit Office's principal financial instruments and the main risks associated are outlined below. These financial instruments arise directly from operations. The Audit Office does not enter into or trade financial instruments for speculative purposes.

Quantitative and qualitative disclosures together with our objectives, policies and processes for measuring and managing risk are included throughout this financial report.

The Office Executive has overall responsibility for the establishment and oversight of risk management and reviews and agreed policies for managing each of these risks. Risk management policies are established to identify and analyse risks, to set risk controls and to monitor the risks faced by the Audit Office. Compliance with policies is reviewed by the Audit and Risk Committee on a continuous basis.

#### (a) Financial instrument categories

Financial assets	Note	Category	Carrying Amount 2016 \$'000	Carrying Amount 2015 \$'000
<b>Class:</b>				
Cash and cash equivalents	6	N/A	11,000	8,871
Receivables*		Receivables	4,199	4,439
Work in progress	8	Other financial assets	575	871
<b>Financial liabilities</b>				
<b>Class:</b>				
Payables**		Financial liabilities measured at amortised cost	821	1,819

\* Excludes statutory receivables and prepayments (i.e. Not within scope of AASB 7).

\*\* Excludes statutory payables and unearned revenue (i.e. Not within scope of AASB 7).

# Audit Office of New South Wales

## Notes to and forming part of the financial statements for the year ended 30 June 2016

### (b) Credit risk

Credit risk is the risk of financial loss arising from another party to a contract or financial obligation. The Audit Office's maximum exposure to credit risk is represented by the carrying amounts of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets held, which are cash, receivables and work in progress. The Audit Office does not hold collateral and has not granted any financial guarantees.

### Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest rate as determined by NSW Treasury is earned on daily bank balances and paid twice yearly.

### Receivables – trade debtors

All trade debtors are recognised as amounts receivable at balance date. Debtors are reviewed on an ongoing basis and their status is reported to the Office Executive on a regular basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that we are not able to collect all amounts due. No interest is earned on our receivables. Invoices are made on 14 day terms.

The Audit Office is not materially exposed to concentrations of credit risk to a single debtor or group of debtors. Most of the debtors are government agencies whose credit ratings are considered less risky. There are no debtors whose terms have been renegotiated.

The following table outlines financial assets that are past due or impaired, which are in the receivables category in the statement of financial position.

	Total \$'000	Past due but not impaired* \$'000	Considered impaired* \$'000
<b>2016</b>			
< 3 months overdue	622	622	–
3 months – 6 months overdue	17	17	–
> 6 months overdue	16	–	16
	<b>655</b>	<b>639</b>	<b>16</b>
<b>2015</b>			
< 3 months overdue	1,247	1,247	–
3 months – 6 months overdue	126	126	–
> 6 months overdue	–	–	–
	<b>1,373</b>	<b>1,373</b>	<b>–</b>

\* The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the 'total' will not reconcile to the receivables total recognised in the statement of financial position.

### Work in progress (WIP)

WIP is recognised as an amount receivable not billed at the balance date. WIP is reviewed and monitored by the Directors responsible for the audit assignments and the Office Executive monthly. A provision for unrecoverable amounts is raised when there is objective evidence that the WIP may not be recoverable.



### (c) Liquidity risk

Liquidity risk is the risk that the Audit Office will be unable to meet its payment obligations when they fall due. The risk is continuously managed through monitoring future cash flows to ensure adequate holding of liquid assets.

During the current and prior year, there were no defaults of loans payable. No assets have been pledged as collateral. An exposure to liquidity risk is deemed insignificant based on prior period's data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW TC 11/12. For small business suppliers, where terms are not specified, payment is made not later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. For small business suppliers, where payment is not made within the specified time period, simple interest must be paid unless an existing contract specifies otherwise. For payments to other suppliers, the Audit Office may pay the supplier simple interest. The rate of interest applicable during the year was 10.28% (2015: 10.15%).

The table below summarises the maturity profile of the Audit Office's financial liabilities, together with the interest rate exposure.

	Nominal Amount	Interest Rate Exposure			Maturity Dates		
		Fixed Interest Rate	Variable Interest Rate	Non-Interest Bearing	< 1 year	1–5 yrs	> 5 yrs
	\$'000	\$'000			\$'000		
<b>2016</b>							
Payables	821	–	–	821	821	–	–
	<b>821</b>	–	–	<b>821</b>	<b>821</b>	–	–
<b>2015</b>							
Payables	1,819	–	–	1,819	1,819	–	–
	<b>1,819</b>	–	–	<b>1,819</b>	<b>1,819</b>	–	–

The amounts disclosed are the contractual undiscounted cash flows, therefore, the amounts disclosed above will not reconcile to the statement of financial position.

### (d) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Audit Office has no exposure to foreign currency risk and does not enter into commodity contracts.

### Interest rate risk – sensitivity analysis

The sensitivity analysis is performed based on risk exposures in existence at the balance sheet date to show how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. This is determined after taking into account the economic environment in which the Audit Office operates and the time frame for the assessment (i.e. until the end of the next annual reporting period).

At reporting date, if interest rates had been 100 basis points higher and all other variables were held constant, the profit and equity would have increased by \$110,000 (2015: \$89,000).

### (e) Credit facility

The Audit Office has no current standing credit facility. The Audit Office's cash position has been consistently adequate to meet its liquidity requirements.

### (f) Fair value measurement


Financial instruments as shown in Note 21(a) are recognised in the statement of financial position at amortised cost, which approximates the fair value because of the short-term nature of these financial instruments.

## 22. Events after the Reporting Period

There were no events subsequent to reporting date that require disclosure.

### End of audited financial statements





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# Senior executive and leadership positions

## 1 Appendix one

### Public Service Senior Executive remuneration band equivalent range and average remuneration\*

Band	2014-15		2015-16	
	Range	Average	Range	Average
Band Four (equivalent)	430,451-497,300	436,392	441,201-509,750	495,868
Band Three (equivalent)	305,401-430,450	309,199	313,051-441,200	315,956
Band Two (equivalent)	242,801-305,400	273,778	248,851-313,050	279,200
Band One (equivalent)	170,250-242,800	201,128	174,500-248,850	211,490

\*Due to the nature of our business, 22 per cent of the Audit Office's employee-related expenditure in 2015-16 was related to senior executive, compared with 22 per cent in 2014-15.

### Public Sector Senior Executive remuneration band equivalent and gender

Band	2014-15		2015-16	
	Female	Male	Female	Male
Band Four (equivalent)	0	1	1	1
Band Three (equivalent)	0	1	0	1
Band Two (equivalent)	2	3	1	3
Band One (equivalent)	12	12	11	14
Total		31		32

### Number of executive and leadership positions filled by women





# Financial audit clients, reviews and other related services

## 2 Appendix two

### Financial audit clients

Aboriginal and Torres Strait Islander Health Practice Council of New South Wales

Aboriginal Housing Office

Agricultural Scientific Collections Trust

Art Gallery of New South Wales Foundation, The

Art Gallery of New South Wales Trust

Art Gallery of New South Wales Trust Staff Agency

Australian Institute of Asian Culture and Visual Arts Limited, The

Arts Education Foundation Trust

Ausgrid

Ausgrid Pty Limited

Australian Centre for Advanced Computing and Communications Pty Limited

Australian Museum Trust

Australian Museum Trust Staff Agency

Barangaroo Delivery Authority

Barangaroo Delivery Authority Staff Agency

Office of Barangaroo Delivery Authority

Belgenny Farm Agricultural Heritage Centre Trust

Biamanga National Park Board of Management

Board of Studies, Teaching and Educational Standards

Board of Studies, Teaching and Educational Standards Staff Agency

Board of Surveying and Spatial Information

Brett Whiteley Foundation, The

Building Insurers' Guarantee Corporation

Building Professionals Board

Bush Fire Coordinating Committee

C.B. Alexander Foundation

Cemeteries and Crematoria NSW

Centennial Park and Moore Park Trust

Central Coast Regional Development Corporation

Charles Sturt University

Charles Sturt University Foundation Trust  
Charles Sturt Campus Services Limited

Chief Investigator of the Office of Transport Safety Investigations

Chipping Norton Lake Authority

City West Housing Pty Limited

Coal Innovation Fund NSW

Cobar Water Board

Cobbora Holding Company Pty Limited

Cobbora Coal Mine Pty Limited

Cobbora Rail Company Pty Limited

Combat Sports Authority of NSW

Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act 1979'

Corporation Sole 'Minister Administering the Heritage Act 1977'

Cowra Japanese Garden Maintenance Foundation Ltd

Cowra Japanese Garden Trust

Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund

Crown Entity, The

Crown Solicitor's Office

Dams Safety Committee

Delta Electricity

Department of Education and Communities

Department of Family and Community Services

John Williams Memorial Charitable Trust

Department of Justice

Department of Trade and Investment, Regional Infrastructure and Services

Department of Planning and Environment

Department of Premier and Cabinet

Department of Transport

Transport Cleaning Services

Transport for NSW

Transport Services of NSW

MTS Holding Company Pty Limited

Destination NSW

Destination NSW Staff Agency

Election Funding Authority of New South Wales

Electricity Assets Ministerial Holding Corporation

Endeavour Energy

Energy Industries Superannuation Scheme

EIF Pty Limited

Energy Industries Superannuation Scheme (EISS) – Pool A and Pool B

Energy Industries Superannuation Scheme Pty Limited

Energy Investment Fund

Essential Energy

Fair Trading Administration Corporation

Financial Counselling Trust Fund

Fire and Rescue New South Wales

Forestry Corporation of New South Wales (trading as Forests NSW)

Gaagal Wanggaan (South Beach) National Park Board of Management

Game and Pest Management Trust Fund

Gosford Water Supply Authority

Government Property NSW

Gulaga National Park Board of Management

Health Care Complaints Commission

Health Care Complaints Commission Staff Agency

Health Professional Councils (13)

Historic Houses Trust of New South Wales

Foundation for the Historic Houses Trust of NSW

Foundation for the Historic Houses Trust of NSW Limited

Home Building Compensation Fund

Home Care Service of New South Wales

Home Care Service Staff Agency

Home Purchase Assistance Fund

Hunter Development Corporation

Hunter Water Corporation

Hunter Water Australia Pty Limited

Illawarra Health and Medical Research Institute Limited

Independent Commission Against Corruption

Independent Liquor and Gaming Authority

Independent Liquor and Gaming Authority Staff Agency

Independent Pricing and Regulatory Tribunal

Independent Pricing and Regulatory Tribunal Staff Agency

Independent Transport Safety Regulator

Independent Transport Safety Regulator Staff Agency

Information and Privacy Commission NSW

Infrastructure NSW

Infrastructure NSW Staff Agency

Internal Audit Bureau of New South Wales

Jenolan Caves Reserve Trust

Judicial Commission of New South Wales

Lake Illawarra Authority

Landcom

Lands Administration Ministerial Corporation



# Financial audit clients, reviews and other related services

## 2 Appendix two (continued)

Legal Aid Commission of New South Wales Legal Aid Commission Staff Agency	Mental Health Commission Staff Agency	- Northern NSW Local Health District Special Purpose Entity
Legal Profession Admission Board	Mine Subsidence Board	- Northern Sydney
Legislature, The	Ministerial Corporation for Industry	- Northern Sydney Local Health District Special Purpose Entity
Legislature (Audit of Members' Additional Entitlements), The	Ministerial Holding Corporation	- South Eastern Sydney
Liability Management Ministerial Corporation	Ministry of Health	- South Eastern Sydney Local Health District Special Purpose Entity
Library Council of New South Wales Library Council of NSW Staff Agency State Library of New South Wales Foundation	Agency for Clinical Innovation Special Purpose Service Entity	- Southern NSW
Lifetime Care and Support Authority of New South Wales	Albury Base Hospital	- Southern NSW Local Health Network Special Purpose Entity
Local Government Superannuation Scheme Pty Ltd	Albury Wodonga Health Employment Division	- South Western Sydney
Local Government Superannuation Scheme Trustee	Bureau of Health Information	- South Western Sydney Local Health Network Special Purpose Entity
Local Land Services Local Land Services Staff Agency	- Bureau of Health Information Special Purpose Service Entity	- Sydney
Long Service Corporation	Cancer Institute NSW	- ANZAC Health and Medical Research Foundation Trust Fund
Lord Howe Island Board	- Cancer Institute Special Purpose Service Entity	- Sydney Local Health Network Special Purpose Service Entity
Lotteries Assets Ministerial Holding Corporation	Clinical Excellence Commission	- Sydney Children's Hospital Network
Luna Park Reserve Trust	- Clinical Excellence Commission Special Purpose Service Entity	- The Sydney Children's Hospital Network Special Purpose Service Entity
Macquarie University Access Macquarie Limited Australian Proteome Analysis Facility Ltd CMBF Limited COH Property Trust Macquarie University Clinical Associates Pty Ltd Macquarie University Professorial Superannuation Scheme Macquarie University Property Investment Company Pty Limited Macquarie University Property Investment Company No 3 Pty Limited Macquarie University Property Investment Trust MGSM Ltd MUH Hospital Pty Limited MUH Operations Pty Limited MUH Operations No. 2 Limited MUPH Clinic Pty Limited Risk Frontiers Flood (Australia) Pty Limited Risk Frontiers Group Pty Limited U@MQ Limited	Graythwaite Charitable Trust Health Administration Corporation - Public Health System Support Division Special Purpose Service Entity Health Education and Training Institute - Health Education and Training Institute Special Purpose Service Entity Justice Health and Forensic Mental Health Network - Justice Health and Forensic Mental Health Network Special Purpose Service Entity Local Health Networks - Central Coast - Central Coast Local Health District Special Purpose Entity - Far West - Far West Local Health District Special Purpose Entity - Hunter New England - Hunter New England Local Health District Special Purpose Entity - Illawarra Shoalhaven - Illawarra Shoalhaven Local Health District Special Purpose Entity - Mid North Coast - Mid North Coast Local Health District Special Purpose Entity - Murrumbidgee - Murrumbidgee Local Health District Special Purpose Entity - Nepean Blue Mountains - Nepean Blue Mountains Local Health District Special Purpose Entity - Northern NSW	- Western NSW - Western NSW Local Health District Special Purpose Entity - Western Sydney - Western Sydney Local Health District Special Purpose Entity NSW Kids and Families
Marine Estate Management Authority		Ministry for Police and Emergency Services
Marine Parks Authority		Motor Accidents Authority of New South Wales
Mental Health Commission of New South Wales		Motor Vehicle Repair Industry Authority
		Multicultural NSW Multicultural NSW Staff Agency
		Mutawintji Board of Management
		Mt Grenfell National Park Board of Management
		National Art School
		Natural Resources Commission Natural Resources Commission Staff Agency
		Networks NSW Pty Limited
		New South Wales Aboriginal Land Council
		New South Wales Crime Commission New South Wales Crime Commission Staff Agency
		New South Wales Electoral Commission New South Wales Electoral Commission Staff Agency
		New South Wales Government Telecommunications Authority



New South Wales Health Foundation	Police Integrity Commission	Sydney Cricket and Sports Ground Trust
New South Wales Home Building Compensation Fund	Policy Integrity Commission Staff Agency	Sydney Cricket and Sports Ground Trust Staff Agency
New South Wales Institute of Psychiatry	Port Authority of New South Wales	Sydney Ferries
New South Wales Institute of Psychiatry Staff Agency	Port Botany Lessor Pty Limited	Sydney Harbour Foreshore Authority
New South Wales Institute of Sport	Port Kembla Lessor Pty Limited	Sydney Olympic Park Authority
New South Wales Rural Assistance Authority	Port of Newcastle Lessor Pty Ltd	Sydney Opera House Trust
New South Wales Rural Fire Service	Ports Assets Ministerial Holding Corporation	– Sydney Opera House Trust Staff Agency
New South Wales Treasury Corporation	Public Reserve Management Fund	Sydney Trains
TCorp Nominees Pty Limited	Public Service Commission	Sydney Water Corporation
Treasury Corporation Division of the Government Service	Public Trustee NSW Common Fund	Taronga Conservation Society Australia
NSW Architects Registration Board	Rail Corporation New South Wales	Teacher Housing Authority of New South Wales
NSW Businesslink Pty Ltd	Trainworks Limited	Technical and Further Education Commission, New South Wales
NSW Environment Protection Authority	Rental Bond Board	TAFE Commission (Senior Executives) Staff
Environment Protection Authority Staff Agency	Residual Business Management Corporation	Technical Education Trust Funds
NSW Environmental Trust	Responsible Gambling Fund	The Office of the Children's Guardian of NSW
NSW Fire Brigades Superannuation Pty Limited	Rice Marketing Board for the State of New South Wales	TransGrid
NSW Food Authority	Roads and Maritime Services	Treasury
NSW Government Telecommunications Authority	Sydney Motorway Corporation	Trustees of the ANZAC Memorial Building
NSW Land and Housing Corporation	WestConnex Delivery Authority	Trustees of the Farrer Memorial Research Scholarship Fund
NSW Ovine Johne's Disease Transaction-Based Contribution Scheme	Royal Botanic Gardens and Domain Trust	Trustees of the Museum of Applied Arts and Sciences
NSW Police Force	SAS Trustee Corporation	Trustees of the Museum of Applied Arts and Sciences Staff Agency
NSW Self Insurance Corporation	SAS Trustee Corporation Staff Agency	Trustees of the Parliamentary Contributory Superannuation Fund
NSW Skills Board	SAS Trustee Corporation – Pooled Fund	Universities Admission Centre (NSW & ACT) Pty Limited
NSW Trains	Buroba Pty Limited	University of Newcastle, The
NSW Trustee and Guardian	Valley Commerce Pty Limited	Newcastle Innovation Limited
NSW Trustee and Guardian Common Fund – Financial Management	State Super Financial Services Australia Limited	UON Singapore Pte Ltd
Office of Finance and Services	State Super Retirement Fund	University of New England
Office of the Children's Guardian	State Super Fixed Term Pension Plan	Agricultural Business Research Institute Limited
Office of the Director of Public Prosecutions	State Super Investment Fund	Sport UNE Limited
Office of Environment and Heritage	Service NSW	UNE Foundation
Office of Local Government	Sesquicentenary of Responsible Government Trust Fund	UNE Foundation Limited
Office of Sport	Southern Cross University	UNE Life Pty Ltd
Office of the NSW State Emergency Services	Norsearch Limited	UNE Partnerships Pty Limited
Ombudsman's Office	State Rail Authority Residual Holding Corporation	University of New South Wales
Parliamentary Contributory Superannuation Fund	State Records Authority of New South Wales	UNSW Global Pty Limited
Parliamentary Counsel's Office	State Rescue Board	– Australian Education Consultancy Limited
Parramatta Park Trust	State Sporting Venues Authority	– UNSW Global India Pvt Limited
	State Transit Authority of New South Wales	– UNSW (Hong Kong) Limited
	State Water Corporation	– UNSW Global (Singapore) Pte Limited
	Stockton Bight Board of Management	
	Superannuation Administration Corporation (trading as Pillar Administration)	



# Financial audit clients, reviews and other related services

## 2 Appendix two (continued)

NewSouth Innovations Pty Limited	CCCU Trust
- Cystemix Pty Limited	UOWD Limited
Qucor Pty Limited	- UOWC Limited
Scientia Clinical Research Limited	The University of Wollongong USA
The New South Wales Minerals Industry/ University of New South Wales Education Trust	Foundation
UK Friends of UNSW Australia	Sydney Business School Pty Limited
University of New South Wales Foundation Limited	University of Wollongong Asset Trust
University of New South Wales Foundation	University of Wollongong Recreation and Aquatic Centre Limited
University of New South Wales Press Limited	Wollongong UniCentre Limited
UNSW Hong Kong Foundation Limited	<b>Urban Growth NSW Development Corporation</b>
UNSW Study Abroad – Friends and US Alumni Inc	Australian Technology Park Sydney Limited
<b>University of Technology, Sydney</b>	<b>Venues NSW</b>
accessUTS Pty Limited	Newcastle International Sports Centre Club
AustLii Foundation Ltd	<b>Veterinary Practitioners Board</b>
Insearch Limited	<b>Waste Assets Management Corporation</b>
Insearch Education International Pty Limited	<b>Water Administration Ministerial Corporation</b>
Insearch (Shanghai) Limited	<b>Water NSW Corporation</b>
Pivot Pty Limited	<b>Wentworth Park Sporting Complex Trust</b>
Sydney Educational Broadcasting Limited	<b>Western Sydney Parklands Trust</b>
UTS Global Pty Limited	<b>Wild Dog Destruction Board</b>
<b>University of Sydney, The</b>	<b>Wine Grapes Marketing Board for the City of Griffith and the Shires of Leeton, Carrathool and Murrumbidgee</b>
A14 Holdings Limited	<b>Worimi Board of Management</b>
SydneyLearning Pty Limited	<b>WorkCover Authority of New South Wales</b>
Sydney Talent Pty Limited	<b>Workers' Compensation (Dust Diseases) Board</b>
The Warren Centre for Advanced Engineering Limited	<b>Workers' Compensation Nominal Insurer (trading as The NSW WorkCover Scheme)</b>
United States Studies Centre Limited	<b>Wyong Water Supply Authority</b>
University of Sydney Professorial Superannuation System	
Westmead IVF Pty Limited	
<b>University of Western Sydney, The</b>	
Television Sydney (TVS) Limited	
University of Western Sydney Foundation Limited	
University of Western Sydney Foundation Trust	
UWS College Pty Limited	
UWS Early Learning Limited	
UWS Enterprises Pty Limited	
uwconnect Limited	
Whitlam Institute within the University of Western Sydney Limited and Whitlam Institute within the University of Western Sydney Trust	
<b>University of Wollongong</b>	
Community College of City University Limited	

## **Audit-related services requested by the Treasurer under s. 27B(3)(c) of the *Public Finance and Audit Act 1983***

Any audit or audit related services for which:

- a Commonwealth or State Government Body requires, for regulatory purposes, a NSW public sector agency to have information, reports or returns audited, reviewed, examined or certified by an auditor, and
- a NSW public sector agency asks the Audit Office to undertake the audit, review, examination or certification.

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Audit of concise financial reports of NSW public sector agencies

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Audit or audit related services to enable NSW public sector agencies to meet requirements under the *Corporations Act 2001* or the *Superannuation Industry (Supervision) Act 1993*

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Audit reports required by s. 24 of the *Charitable Fundraising Act 1991* for NSW Government agencies that conduct fundraising appeals

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Audit of financial reports for funds within the Special Deposits Account

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Audit or audit related services requested by a NSW Government agency in relation to information, reports of returns required to be provided by NSW Government agencies under the terms of a contract, lease or agreements between the NSW Government agency and third parties

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Audit of data returns or reports required under the Australian Government/State Agreements

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Audit of data returns or reports to acquit Disaster Relief Payments from the Commonwealth

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Audit of data returns or reports to acquit grants provided by the Commonwealth and other donors to NSW Government agencies

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Review of agencies' compliance with the requirements of NSW Government Treasury Directions – Section 744.05 'Disaster Recovery Plan' and the NSW Government Digital Information Security Policy

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Audit of universities' Higher Education Research Data Collection (HERDC) Return – Return 1 as required by Commonwealth funding arrangements and/or agreements

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Audit of general purpose financial statements of the:

- NSW Trustee and Guardian Common Fund – Trustee
- NSW Trustee and Guardian Common Fund – Financial Management
- Commissioner for Uniform Legal Services Regulation
- The Legal Services Council

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Audit of special purpose and trust funds for controlled entities of the Ministry of Health

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Certify financial management, control systems and other matters for the Audit Office's clients required by AusAID as a condition of AusAID funding

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Issue letters of comfort to interested parties of NSW Treasury Corporation regarding its domestic and offshore funding activities

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Review of the reasonableness of the estimates and forecasts in the 2016–17 Budget

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# Financial audit clients, reviews and other related services

## 2 Appendix two (continued)

### Overseas visits

Staff member	Date of travel	Return date	Destination	Reason
John Viljoen Susanti Tedja	1 August 2015	9 August 2015	Indonesia	To participate in a forum discussion and workshop with BPK Indonesia regarding accrual reporting and provide insight of change management
Radhika Reddy Divya Anand John Cantlon	14 September 2015	26 September 2015	Lord Howe Island	To audit Lord Howe Island Board in accordance with the <i>Public Finance and Audit Act 1983</i>
Tony Whitfield	12 October 2015	18 October 2015	Port Vila, Vanuatu	To attend Pacific Association of Supreme Audit Institution (PASAI) Congress
Chris Clayton	9 November 2015	22 November 2015	Hong Kong and Dubai	To undertake an audit of UOW Enterprises' campuses in Hong Kong and Dubai
Raja Gnanasundaram	13 November 2015	22 November 2015	Dubai	To undertake an audit of UOW Enterprises' campus in Dubai
Susanti Tedja Yuliane Tjandra	30 November 2015	11 December 2015	Indonesia	To participate in the forum discussion and workshop with BPK Indonesia and assist in auditing
Bola Oyetunji	22 February 2016	27 February 2016	Nanjing, China	To undertake an audit of the University of New South Wales (Nanjing)
Bola Oyetunji	27 February 2016	2 March 2016	Hong Kong	To undertake an audit of Australian Education Consultancy Limited, UNSW Hong Kong Limited and UNSW Hong Kong Foundation Limited
Chris Phillips Nirupama Mani	27 February 2016	5 March 2016	Hong Kong and Singapore	To undertake an audit of Australian Education Consultancy Limited, UNSW Hong Kong Limited, UNSW Hong Kong Foundation Limited and UNSW (Singapore) Pte Limited

# Services to the public sector

## 3 Appendix three

### Appearances before parliamentary committees

We appeared before the following parliamentary committees.

Date	Committee	Event	Who
9 November 2015	Public Accounts Committee	Examination of the Auditor-General's Performance Audit Reports September 2013 – July 2014	Tony Whitfield Kathrina Lo
9 November 2015	General Purpose Standing Committee No. 6	Inquiry into vocational education and training in New South Wales	Tony Whitfield Kathrina Lo Giulia Vitetta

### Memberships

Audit Office staff were members of the following public sector organisations and committees.

Margaret Crawford	Australasian Council of Auditors-General – Member Australian Institute of Company Directors – Fellow Institute of Public Administration Australia – Fellow and NSW Council
Tony Whitfield	Australasian Council of Auditors-General – Financial Reporting and Auditing Committee
Peter Barnes	Taxation Hardship Relief Board
Alison Gatt	Australasian Council of Auditors-General – Financial Reporting and Auditing Committee Australian Prudential Regulatory Authority (APRA) – Superannuation National Audit Consultative Committee
Kathrina Lo	Australasian Council of Auditors-General – Heads of Performance Audit Group Project Advisory Group for Review of Standard on Assurance Engagements ASAE 3500 'Performance Engagements' by Auditing and Assurance Standards Board
James Sugumar	NSW Public Sector Community of Finance Professionals – Advisory Board
Barry Underwood	Corruption Prevention Network – Board Member (ex officio) Public Interest Disclosure Steering Committee – Auditor-General's Representative
John Viljoen	Australasian Council of Auditors-General – Quality Assurance Review Panel
Michael Thistlethwaite	NSW Public Sector Community of ICT Professionals – Member NSW Public Sector Community of Change Professionals – Member
Karen Duke	Institute of Public Administration Australia – Member
Giulia Vitetta	Institute of Public Administration Australia – Member



# Services to the public sector

## 3 Appendix three (continued)

### Presentations

Audit Office staff gave the following presentations to various public sector audiences.

Title	Presenter(s)	Date	Who
Performance Audit Report on Identifying Productivity in the Public Sector	Kathrina Lo Trevor Puckering	4 August 2015	Public Sector Union Consultative Forum
Transition to Accrual Accounting (Presentation Series)	John Viljoen Susanti Tedja	4 – 6 August 2015	The Audit Board of the Republic of Indonesia
CFOs as Leaders	Tony Whitfield	13 August 2015	NSW Public Sector Community of Finance Professionals – CFO Forum
COSO – An Integrated Approach, Context and Framework	Lambros Lambropoulos	13 October 2015	The University of Sydney
Developing and Delivering a Corporate Strategy	Alison Gatt	28 October 2015	Macquarie University
Auditing Accrual Based Financial Statements	Susanti Tedja Yuliane Tjandra Steven Martin Alison Gatt Richelle Geelan Aaron Green Chariee Bultitude Farisha Ali Monique Bartley Ray Bailey Chris Phillips Cathy Wu Brett Chaiyawat Jonathan Lam Liz Basey Nirupama Mani	2 – 6 November 2015	The Audit Board of the Republic of Indonesia
Preparation of an Audit Program Under Accrual Accounting	Susanti Tedja Yuliane Tjandra	30 November 2015 – 11 December 2015	The Audit Board of the Republic of Indonesia
Contract Audit Agents' Forum	Steven Martin David Daniels	23 February 2016	Contract Audit Firms that Work with the Auditor-General
NSW Health Audit Update – Audit Office Reflections	Steven Martin Chris Clayton	24 February 2016	NSW Health Directors of Finance and Chairs of Audit and Risk Management Committees



# Services to the public sector

## 3 Appendix three (continued)

### Presentations

Audit Office staff gave the following presentations to various public sector audiences (continued).

Title	Presenter(s)	Date	Who
Performance Audit Report on Public Sector Management Reforms	Kathrina Lo	1 March 2016	Public Sector Union Consultative Forum
NSW Health Audit Update – Audit Office Reflections	Chris Clayton David Klein	9 March 2016	NSW Health Financial Accountants Forum
Assessing Controls in an IT World	Brett Chaiyawat	14 March 2016	Chartered Accountants Australia and New Zealand – 2016 Audit Conference, Brisbane
Building an Audit Function Fit for the Future	Alison Gatt	17 March 2016	Chartered Accountants Australia and New Zealand – 2016 Audit Conference, Sydney
Assessing Controls in an IT World	Brett Chaiyawat	17 March 2016	Chartered Accountants Australia and New Zealand – 2016 Audit Conference, Sydney
The Value of Compliance	Scott Stanton	31 March 2016	Information and Privacy Commission (IPC) University Forum
Women in Leadership – Achieving and Flourishing	Margaret Crawford	5 April 2016	Australia and New Zealand School of Government (ANZSOG)
Assessing Controls in an IT World	Brett Chaiyawat	5 April 2016	Chartered Accountants Australia and New Zealand – 2016 Audit Conference, Adelaide
Assessing Controls in an IT World	Brett Chaiyawat	11 April 2016	Chartered Accountants Australia and New Zealand – 2016 Audit Conference, Melbourne
Building Resilience and Embracing Challenges	Margaret Crawford	5 May 2016	Australian School of Applied Management
State Update on Environmental Auditing, and Reporting for Impact	Giulia Vitetta	12 May 2016	Pacific Association of Supreme Audit Institutions (PASAI)/Australasian Council of Auditors-General (ACAG) Regional Working Group on Environmental Auditing (RWGEA) Meeting
Working with the Audit Office	Steven Martin	16 May 2016	Local Government Auditor's Association Annual Conference
NSW Health Audit Update – Audit Office Reflections	Chris Clayton	17 May 2016	NSW Health Audit Working Party (NSW Health Chief Audit Executives and Internal Auditors)



# Services to the profession

## 4 Appendix four

### Memberships

Audit Office staff were members of the following committees, professional associations, panels or working parties.

Margaret Crawford	Australian Institute of Company Directors
Alison Gatt	Macquarie University Departmental Advisory Board – Department of Accounting and Corporate Governance – Member Chartered Accountants Australia and New Zealand – Sydney Research Group – Member
Chris Giumelli	CPA Australia – Public Sector Committee, Chairman and Member
Lambros Lambropoulos	Information Systems Audit and Control Association (ISACA) – Director, Academic Relations
Barry Li	CPA Australia – Deputy Chair of the Young Professionals Committee (NSW)
Kathrina Lo	Law Society of New South Wales – Member
Steven Martin	Chartered Accountants Australia and New Zealand – Accounting, Assurance and Governance Discussion Group
Bola Oyetunji	Global Association of Risk Professionals (GARP) Financial Services Institute of Australasia (FINSIA)
Scott Stanton	CPA Australia – NSW Division, Divisional Councillor CPA Australia – NSW Divisional Council, Divisional Council Representative to the NSW Public Sector Committee CPA Australia – NSW Division, Network Public Sector Liaison Officer CPA Australia – Representative Council, Councillor
Tony Whitfield	International Governance and Performance Research Centre – Advisory Panel
Xin Yin Ooi	Institute of Actuaries Australia – Associate Member

### Education

Audit Office staff contributed to these professional publications, resources and qualification programs.

Alison Gatt	Chartered Accountants Australia and New Zealand – Member Advisory Panel Audit and Assurance Module
Lambros Lambropoulos	Macquarie University – Curriculum Development – Information Systems Audit and Assurance Subject
Weini Liao	CPA Australia – Exam Developer – Advanced Audit and Assurance 2016 Subject
Xin Yin Ooi	Institute of Actuaries of Australia – Chartered Enterprise Risk Actuary

# Services to the profession

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## 4 Appendix four (continued)

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### Submissions to professional bodies

The Audit Office contributes to the collaborative effort of all Australian audit offices by helping to develop responses to professional bodies on pronouncements exposed for comment. We have prepared or contributed to the following responses by the Australasian Council of Auditors-General.

Title	Date
<b>AASB – Australian Accounting Standards Board</b>	
Exposure Draft ED 261 'Service Concession Arrangements: Grantors'	27 July 2015
Exposure Draft ED 260 'Income of Not-for-Profit Entities'	14 August 2015
Exposure Draft ED 264 'Conceptual Framework for Financial Reporting'	2 October 2015
Exposure Draft ED 269 'Recoverable Amount of Non-cash-Generating Specialised Assets of Not-for-Profit Entities'	16 November 2015
Invitation to Comment (ITC 34) 'AASB Agenda Consultation 2017–2019'	11 March 2016
Exposure Draft ED 270 'Reporting Service Performance Information'	29 April 2016
<b>IASB – International Accounting Standards Board</b>	
Exposure Draft ED/2015/3 'Conceptual Framework for Financial Reporting'	2 October 2015

# Services to the profession

## 4 Appendix four (continued)

### Presentations

Audit Office staff gave the following presentations to various professional auditing and accounting, and other audiences.

Title	Presenter(s)	Date	Who
Audit Office of New South Wales – Financial Auditing	Steven Martin Barry Underwood	29 October 2015	Department of Finance, Fujian Province, China
The Cross City Tunnel Project – Public Private Partnerships (PPPs) Overview	Tony Whitfield	23 February 2016	Japanese Delegation – Government Financial Institutions Audit Division
Public Sector Auditing Methods	Barry Underwood	27 April 2016	Korean Board of Audit and Inspection
IT Audit at the Audit Office of New South Wales	Barry Underwood William Haigh Brett Chaiyawat	16 May 2016	Korean Board of Audit and Inspection
Transparency in Public Sector Reporting	Tony Whitfield	9 June 2016	Australasian Reporting Awards Seminar

# Publications

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## 5 Appendix five

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### Financial audit reports

Volume	Focus	Date released
Volume Four 2015	Treasury and Finances	15 October 2015
Volume Five 2015	Premier and Cabinet	17 November 2015
Volume Six 2015	Transport	19 November 2015
Volume Seven 2015	Part One Law and Order, Part Two Emergency Services	24 November 2015
Volume Eight 2015	Family and Community Services	26 November 2015
Volume Nine 2015	Planning and Environment	3 December 2015
Volume Ten 2015	Health	8 December 2015
Volume Eleven 2015	Education and Communities	10 December 2015
Volume Twelve 2015	Part One Trade & Investment and TAFE, Part Two Water	15 December 2015
Volume Thirteen 2015	Electricity	15 December 2015
Volume One 2016	Areas of Focus from 2015	25 February 2016
Volume Two 2016	Focusing on Universities	2 June 2016
Volume Three 2016	Additional Entitlements for Members of Parliament	30 June 2016

## Performance audit reports

Agencies audited	Performance audit report	Date released
<ul style="list-style-type: none"> <li>○ NSW Health</li> <li>○ Department of Education and Communities</li> <li>○ Transport for NSW</li> <li>○ NSW Police Force</li> <li>○ Department of Justice</li> <li>○ NSW Treasury</li> </ul>	Identifying Productivity in the Public Sector	16 July 2015
<ul style="list-style-type: none"> <li>○ Department of Family and Community Services</li> </ul>	Transferring Out-of-Home Care to Non-Government Organisations	2 September 2015
<ul style="list-style-type: none"> <li>○ Transport for NSW</li> </ul>	Sydney Metropolitan Bus Contracts	9 September 2015
<ul style="list-style-type: none"> <li>○ Department of Family and Community Services</li> </ul>	Community Housing	16 September 2015
<ul style="list-style-type: none"> <li>○ Transport for NSW</li> <li>○ Roads and Maritime Services</li> </ul>	Albert 'Tibby' Cotter Walkway	17 September 2015
<ul style="list-style-type: none"> <li>○ NSW Health</li> </ul>	Activity Based Funding Data Quality	4 November 2015
<ul style="list-style-type: none"> <li>○ Department of Trade and Investment, Regional Infrastructure and Services</li> </ul>	Government Assistance to Industry	17 December 2015
<ul style="list-style-type: none"> <li>○ NSW Health</li> </ul>	Mental Health Post-Discharge Care	17 December 2015
<ul style="list-style-type: none"> <li>○ Public Service Commission</li> </ul>	Public Sector Management Reforms	28 January 2016
<ul style="list-style-type: none"> <li>○ Transport for NSW</li> </ul>	Franchising of Sydney Ferries Network Services	4 February 2016
<ul style="list-style-type: none"> <li>○ Service NSW</li> <li>○ Customer Service Commissioner</li> </ul>	Realising the Benefits of the Service NSW Initiative	17 February 2016
<ul style="list-style-type: none"> <li>○ Department of Justice</li> <li>○ Corrective Services NSW</li> </ul>	Performance Frameworks in Custodial Centre Operations	3 March 2016
<ul style="list-style-type: none"> <li>○ Department of Premier and Cabinet</li> </ul>	Managing Unsolicited Proposals in New South Wales	10 March 2016
<ul style="list-style-type: none"> <li>○ Department of Justice</li> <li>○ Juvenile Justice NSW</li> </ul>	Reintegrating Young People into the Community After Detention	28 April 2016
<ul style="list-style-type: none"> <li>○ Department of Education</li> </ul>	Supporting Students with Disability in NSW Public Schools	12 May 2016
<ul style="list-style-type: none"> <li>○ Department of Education</li> </ul>	Early Childhood Education	26 May 2016

# Publications

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## 5 Appendix five (continued)

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### Professional Update

Professional Update is produced by our Audit Support team with the main purpose of informing our readers of current issues in the accounting and auditing industry.

Professional Update was published in the following months:

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July 2015

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August 2015

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September 2015

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October 2015

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November 2015

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February 2016

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March 2016

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April 2016

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May 2016

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June 2016

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### Annual report

#### Annual Report 2014–15

Total external production costs for the Annual Report 2015–16: \$0.



# Workplace diversity and disability inclusion action plan

## 6 Appendix six

### Trends in the representation of Workforce Diversity groups

	Benchmark/Target*	2013-14	2014-15	2015-16
Workforce Diversity Group	%	% of total staff		
Women	50	51.3	50.2	49.3
Aboriginal people and Torres Strait Islanders	2.6	0	0	0
People whose first language spoken as a child was not English	19	43.2	40.4	38
People with a disability	n/a	2.2	2.7	2.5
People with a disability requiring work-related adjustment	1.5	1.5	2.0	1.8

### Trends in the distribution of Workforce Diversity groups

	Benchmark/Target*	2013-14	2014-15	2015-16
Workforce Diversity Group	%	% of total staff		
Women	100	96	100	97
Aboriginal people and Torres Strait Islanders	100	n/a	n/a	0
People whose first language spoken as a child was not English	100	94	98	98
People with a disability	100	n/a	n/a	n/a
People with a disability requiring work-related adjustment	100	n/a	n/a	n/a

\* Provided by the Public Service Commission.

<sup>1</sup> A Distribution Index of 100 indicates that the centre of the distribution of the Workforce Diversity group across salary levels is equivalent to that of other staff. Values less than 100 mean that the Workforce Diversity group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the Workforce Diversity group is less concentrated at lower salary levels.

<sup>2</sup> The Distribution Index is not calculated where Workforce Diversity group or non-Workforce Diversity group numbers are less than 20.



# Workplace diversity and disability inclusion action plan

## 6 Appendix six (continued)

### Workplace Diversity outcomes

In 2015–16, the Audit Office prioritised the following policies and programs:

- educated and trained all new employees on behaving ethically which includes code of conduct and bullying and harassment training as a part of our induction process
  - continued our approach to championing flexible working practices with the introduction of specific flexibility policies for Award and contract staff
  - implemented a performance management system with 100 per cent take up rate
  - started pilot to create 'Connect' tool to share topics, learning material and create discussion
  - developed an online recruitment tool providing an improved application process for candidates
  - launched a compensation module as a part of the continuous improvement of the remuneration assessment process
  - updated safety key performance indicators to assist with benchmarking across the wider sector
  - WHS policy review started with Stage One focusing on the review of WHS policies against legislation and ensure current processes are reflective of best practice
  - developed a Respect and Diversity online learning module that was launched to the business to encourage workplace diversity, and further our education on harassment, bullying and discrimination
  - a four-year disability and inclusion action plan has been drafted and is currently being consulted on
  - our staff celebrated diversity on a regular basis through workplace gatherings
  - worked with various internal stakeholders to review the Audit Office Award for the 2016 year.
- In 2016–17 we will focus on the following policies and programs:
- progressing Stage Two of the WHS policy review
  - ensuring all new and existing employees complete compulsory Respect and Diversity online learning

- complete consultation and implement the first year of the disability and inclusion action plan
- investigate practical initiatives for increasing the employment of Aboriginal and Torres Strait Islander people
- continuing to support female participation in the workplace
- continuing to champion work-life balance and flexible working practices across the organisation
- continuing diversity celebrations
- piloting the 'Connect' social tool with two graduate intake groups to further develop the concept ahead of launch to the rest of the organisation
- continuing our focus on inclusion and accessibility.

### Multicultural Policies and Services Program

The Audit Office's activities are centred on providing services to parliament and government agencies, not directly to members of the public. Therefore we have limited capacity to address multicultural services issues.

We respect the rights of Australian citizens and residents who wish to become citizens to seek employment from advertised vacancies in the Audit Office.

Our employment record is evidence of the support for cultural diversity. Our commitment is reflected in the number of racial, ethnic and ethno religious groups that comprise our staff.

Our Multicultural Policies and Services Program Statement is our planning document showing we will address the needs of a culturally diverse society.

Our Diversity Communication Plan 2015–16 is designed to communicate diversity activities, which includes initiatives across the Audit Office so that employees:

- are informed about diversity activities
- know their responsibilities and rights
- understand the Audit Office's commitment to diversity
- understand the legislation and/or associated requirements underlying diversity
- are supportive of and engaged with the Audit Office's diversity activities and events.

### Disability Inclusion Action Plan

The *Disability Inclusion Act 2014* (the Act) demonstrates the ongoing commitment of the NSW Government to building an inclusive community.

In keeping with the Act, the Audit Office has a strategic goal to make the Audit Office an inclusive and accessible workplace. Our goal is to develop and implement an inclusion and accessibility framework in line with whole-of-government strategy to improve engagement and the way we work together.

A key part of this framework is our commitment to inclusion for people with disability and we will do so through the development, consultation, implementation and evaluation of the Audit Office Disability Inclusion Action Plan. This plan will play an important role in promoting inclusion and will provide the practical measures the Audit Office can action to continuously improve in this space.

Our new Disability Inclusion Action Plan is in the consultation phase and is a four-year plan that will continue to meet the needs of people with a disability, both employees and clients, by:

- increasing accessibility to information, services and workplaces for people with disability
- ensuring positive attitudes and behaviours towards people with disability in all communication and interactions in and with the Audit Office
- attracting and retaining people with disability to work for the Audit Office
- improving accessibility to Audit Office internal and external systems, processes and information for people with disability
- measuring the quality of our strategies and the effectiveness of our processes and procedures.



# Accounts payable performance

## 7 Appendix seven

### Aged analysis at the end of each quarter

Quarter	Current (i.e. within due date) \$'000	Less than 30 days overdue \$'000	Between 30 and 60 days overdue \$'000	Between 60 and 90 days overdue \$'000	More than 90 days overdue \$'000
<b>All suppliers</b>					
September	425,882	122,725	4,125	162,821	–
December	27,005	19,569	–	–	–
March	62,033	1,775	–	–	–
June	383,976	9,949	–	–	–
<b>Small business suppliers</b>					
September	83,671	4,950	–	4,821	–
December	2,071	1,320	–	–	–
March	1,540	–	–	–	–
June	–	6,634	–	–	–

### Accounts due or paid within each quarter

Measure	September \$'000	December \$'000	March \$'000	June \$'000
<b>All suppliers</b>				
Number of accounts due for payment	771	547	483	843
Number of accounts paid on time	747	545	481	842
Actual percentage of accounts paid on time (based on number of accounts)	97%	100%	99.6%	99.6%
Dollar amount of accounts due for payment	6,222,319	4,955,838	4,054,956	6,087,659
Dollar amount of accounts paid on time	6,028,628	4,937,718	4,038,165	6,080,438
Actual percentage of accounts paid on time (based on \$)	97%	100%	99.6%	99.9%
Number of payments for interest on overdue accounts	–	–	–	–
Interest paid on overdue accounts	–	–	–	–
<b>Small business suppliers</b>				
Number of accounts due for payment to small businesses	48	23	14	15
Number of accounts due to small businesses paid on time	46	23	14	15
Actual percentage of small business accounts paid on time (based on number of accounts)	96%	100%	100%	100%
Dollar amount of accounts due for payment to small businesses	197,881	99,367	15,028	71,467
Dollar amount of accounts due to small businesses paid on time	189,636	99,367	15,028	71,467
Actual percentage of small business accounts paid on time (based on \$)	96%	100%	100%	100%
Number of payments to small business for interest on overdue accounts	–	–	–	–
Interest paid to small businesses on overdue accounts	–	–	–	–

#### Commentary

During the year we paid our accounts on time, and exceeded our target of 90 per cent for the year. When compared to the previous year, the actual payment of accounts on time at 99 per cent is an increase on last year's 94 per cent. Processes are continually improving as the practice management system is fully embedded within the organisation and procedures are improved by transferring to online versions.

#### Interest on late payments

We had no instances of penalty interest for delayed payments to a supplier for the year.

#### Credit Card Certification

The Purchasing Card Policy was last reviewed and updated in June 2016 and is considered current. The policy and controls applied to the use of credit cards are applicable and applied to the use of purchasing cards. The rules are consistent with government policy as outlined in Treasurer's Directions and NSW Treasury Circulars. For the 2015–16 financial year, credit/purchasing card use by officers of the Audit Office has been in line with government requirements.

# Consultants

## 8 Appendix eight

### Consultants

A consultant in the Audit Office is referred to as a person or organisation that provides expert advice professionally to assist decision making. Audit Office consultancy expenses for 2015–16 were \$302,136. The consultancy services were provided for audit services, system services and strategic consulting.

Consultant	Nature of service	Amount \$
<b>Contracts \$50,000 or more</b>		
Harriss Wagner Pty Ltd	Consulting on Elite System and processes	75,000
Deloitte Access Economics Pty	Audit – Review of Total State Sector NSW 2016–17 Budget	52,604
<b>Total</b>	<b>(2 contracts)</b>	<b>127,604</b>
<b>Contracts \$30,000 to \$50,000</b>		
KPMG	Performance Audit – Corrective Services best practice performance management	47,425
Value Network Pty Ltd	Performance Audit – Expert advice, reviews and better practice advice	31,680
<b>Total</b>	<b>(2 contracts)</b>	<b>79,105</b>
<b>Contracts less than \$30,000 (total)</b>	<b>(16 contracts)</b>	<b>95,427</b>
<b>Total expenditure for 2015–16</b>		<b>302,136</b>



# Digital information security annual attestation statement

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## 9 Appendix nine

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### Digital Information Security Annual Attestation Statement for the 2015–16 Financial Year for the Audit Office of New South Wales

I, Margaret Crawford, am of the opinion that the Audit Office of New South Wales had an Information Security Management System in place during the 2015–2016 financial year that is consistent with the Core Requirements set out in the NSW Government Digital Information Security Policy.

The controls in place to mitigate identified risks to the digital information and digital information systems of the Audit Office of New South Wales are adequate.

There is no agency under the control of the Audit Office of New South Wales which is required to develop an independent ISMS in accordance with the NSW Government Digital Information Security Policy.

The Audit Office of New South Wales has maintained certified compliance with ISO 27001 Information technology – Security techniques – Information security management systems – Requirements by an Accredited Third Party during the 2015–2016 financial year.



**Margaret Crawford**

Auditor-General

# GIPA application information

## 10 Appendix ten

Commentary on applications for information under the *Government Information (Public Access) Act 2009* (the GIPA Act) can be found on page 60.

**Table A: Number of applications by type of applicant and outcome\***

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of parliament	0	0	2	0	0	0	0	0
Private sector business	0	0	0	0	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	0	0	0	0	0	0	0	0
Members of the public (other)	0	0	1	0	0	0	0	0

\* More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to table B.

**Table B: Number of applications by type of application and outcome**

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Personal information applications*	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	0	0	3	0	0	0	0	0
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

\* A 'personal information application' is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

**Table C: Invalid applications**

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	3
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	3
Invalid applications that subsequently became valid applications	0



**Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act**

	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	3
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

\* More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

**Table E: Other public interest considerations against disclosure: matters listed in table section 14 of the Act**

	Number of occasions when application not successful
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice	0
Business interests of agencies and other persons	0
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

**Table F: Timeliness**

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	3
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
<b>Total</b>	<b>3</b>

**Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)**

	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner*	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by Administrative Decisions Tribunal	0	0	0
	<b>Total 0</b>	<b>Total 0</b>	<b>Total 0</b>

\* The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.

**Table H: Applications for review under Part 5 of the Act (by type of applicant)**

	Number of applications for review
Applications by access applicants	0
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

**Table I: Applications transferred to other agencies under Division 2 of Part 4 of the Act (by type of transfer)**

	Number of applications transferred
Agency-initiated transfers	0
Applicant-initiated transfers	0

# Public interest disclosures information

## 11 Appendix eleven

Commentary on public interest disclosures and the *Public Interest Disclosures Act 1994* can be found on page 63.

### Statistical information on Public Interest Disclosures (PIDs) for the period 1 July 2015 to 30 June 2016

	Categories of wrongdoing																	
	Corrupt conduct			Mal-administration			Serious and substantial waste			Government information contravention			Local government pecuniary interest contravention			TOTAL		
	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other
Number of public officials who made PIDs direct to the Audit Office	-	-	-	-	-	-	1	-	5	-	-	-	-	-	-	1	-	5
Number of PIDs made directly to your investigating authority	-	-	-	-	-	-	1	-	5	-	-	-	-	-	-	1	-	5
Number of PIDs received by your investigating authority under section 25 of the PID Act	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	1	-
Number of PIDs received by your investigating authority under section 26 of the PID Act	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of PIDs</b>	-	-	-	-	-	-	1	1	5	-	-	-	-	-	-	-	-	7

	Corrupt conduct			Mal-administration			Serious and substantial waste			Government information contravention			Local government pecuniary interest contravention			TOTAL		
Number of PIDs referred to a public authority under section 25 of the PID Act	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Number of PIDs referred to another investigating authority under section 25 of the PID Act	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Number of PIDs handled solely by your investigating authority	-	-	-	-	-	-	7	-	-	-	-	-	-	-	-	7	-	-
Number of PIDs handled with a public authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Number of PIDs handled with another investigating authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of PIDs</b>	-	-	-	-	-	-	7	-	-	-	-	-	-	-	-	7	-	-

Number of PIDs handled by commencing a formal investigation	-	-	-	-	-	-	0	-	-	-	-	-	-	-	-	0	-	-
Number of PIDs finalised in 2015-16	-	-	-	-	-	-	7	-	-	-	-	-	-	-	-	7	-	-



# Glossary

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## **Audit evidence**

Audit evidence supports the completeness and accuracy of the financial statements.

Main sources of audit evidence are:

observation, re-performance, and examination of documents (including confirmation with third parties) in combination with enquiry and analytical procedures.

## **Audit methodology**

A set of documented processes and procedures that provide evidence the audit team has appropriately addressed the risk of material misstatement in financial statements and comply with Australian Auditing Standards.

## **Audit and Risk Committee**

Provides the Auditor-General with reasonable assurance that the Audit Office has appropriate risk management, organisational processes and controls and reliable financial reporting processes.

## **Australasian Council of Auditors-General**

Association established by Auditors-General for their mutual support and the sharing of information.

## **Controlled entity**

A controlled entity exists when another entity (the investor) is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

## **CPA**

The accounting body CPA Australia. Members are Certified Practising Accountants.

## **CA ANZ**

The accounting body Chartered Accountants Australia and New Zealand. Members are Chartered Accountants.

## **Gateway review**

A series of structured reviews that are held at key decision points (gates) in the procurement process.

## **Internal control framework**

An integrated set of policies and procedures designed to help management achieve its goals and objectives.

## **Management letter**

Letter sent to clients outlining observations from the audit, their possible implications, audit recommendations to address the finding and management responses.

## **Material misstatements**

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

## **Modified auditor's opinion**

Modifications of an audit opinion can be adverse, qualified or disclaimed. Adverse opinions are issued when misstatements in the financial statements are material and pervasive. Qualified opinions are issued when there are material misstatements in the financial statements, or we cannot get all the evidence we require. An opinion is disclaimed only where auditors cannot get the evidence they need and the effects could be material and pervasive.

## **Risk Management Policy**

A policy setting out how risks identified by a risk assessment process will be managed and controlled.



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