



FINANCIAL AUDIT

10 DECEMBER 2020

Planning, Industry, and Environment 2020

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.



GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 52B of the *Public Finance and Audit Act 1983*, I present a report titled '**Planning, Industry, and Environment 2020**'.

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

Margaret Crawford

Auditor-General
10 December 2020

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Section one

Planning, Industry and Environment 2020

This report analyses the results of our audits of the Planning, Industry and Environment cluster agencies for the year ended 30 June 2020.

Executive summary

This report analyses the results of our audits of financial statements of the Planning, Industry and Environment cluster agencies for the year ended 30 June 2020. The table below summarises our key observations.

1. Financial reporting

Audit opinions

There are 45 separate entities in the cluster. Unqualified audit opinions were issued for 38 cluster agencies' 30 June 2020 financial statements audits. Four financial statements audits are still ongoing, and three agencies were not subject to audit due to NSW Treasury reporting exemptions.

Timeliness of financial reporting

The majority of cluster agencies subject to statutory reporting deadlines met the revised timeline for submitting financial statements. Twenty-four of the 26 cluster agencies required to submit early close financial statements met the revised timeframe.

Due to issues identified during the audit, 13 financial statements audits were not completed and audit opinions not issued by the statutory deadline.

Implementation of AASB 16 'Leases'

Significant deficiencies were identified in Property NSW's lease data maintenance and lease calculations.

Recommendation (partially repeat):

Property NSW should:

- review and document the accounting implications for each lease
- ensure the accuracy and validity of lease data used for the lease calculations
- review user access to the leasing system, including privileged users.

Our audits of the cluster agencies identified there was a lack of thorough quality assurance over the accuracy of lease information provided by Property NSW.

Recommendation:

The Department and cluster agencies should:

- quality assure and validate the information provided by Property NSW
- ensure changes made by Property NSW on lease data are supported and that assumptions and judgements applied are appropriate
- document their review of the data supplied.

Unprocessed Aboriginal land claims continued to increase

In 2019–20, the Department resolved an additional 468 Aboriginal land claims compared to the prior year. However, the total number of unprocessed Aboriginal land claims increased by 914 to 36,769 at 30 June 2020. The number of claims remaining unprocessed for more than ten years after lodgement increased by 10.9 per cent from last year. Until claims are resolved, there is an uncertainty over who is entitled to the land and the uses and activities that can be carried out on the land.

Auditor-General's Reports to Parliament since 2007 have recommended action to address the increasing number of unprocessed claims. To date, the Department has not been able to resolve this issue.

During 2020–21, a performance audit will assess the effectiveness and efficiency of the administration of Aboriginal land claims.

Financial reporting of Crown land managers

The Department will need to provide additional support and guidance to help Crown land managers (CLMs) meet their financial reporting obligations.

Recommendation:

The Department should:

- in consultation with NSW Treasury, develop an appropriate statutory reporting framework for CLMs
- ensure sufficient resources are available to help CLMs meet their reporting obligations.

During 2019–20, NSW Treasury established the reporting exemption criteria for the CLMs. Based on available information, the Department determined 31 CLMs would not meet the exemption criteria and therefore are required to prepare annual financial statements.

2. Audit observations

Internal controls

Six high-risk issues were identified across the cluster in 2019–20:

- 5 of those were related to financial reporting issues identified in Property NSW, Wentworth Park Sporting Complex Land Manager, Lord Howe Island Board, Planning Ministerial Corporation and Hunter and Central Coast Development Corporation
- 1 issue was related to Lord Howe Island Board's outdated business continuity plan.

One in three internal control issues identified and reported to management in 2019–20 were repeat issues.

Recommendation:

Management letter recommendations to address internal control weaknesses should be actioned promptly, with a focus on addressing high-risk and repeat issues.

Agencies response to recent emergencies

The unprecedented bushfires and COVID-19 pandemic presented challenges for the cluster. Agencies established taskforces or response teams to respond to these emergencies.

With more staff working from home, agencies implemented protocols and procedures to manage risks associated with the remote working arrangements, and also needed to address certain technology issues.

The Department is responsible for the new Planning System Acceleration Program, which aims to fast-track planning assessments, boost the State's economy and keep people in jobs during COVID-19 pandemic. Between April and October 2020, the Department announced and determined 101 major projects and planning proposals.

Recognition of Crown land

Crown land is an important asset of the State. Management and recognition of Crown land assets is weakened when there is confusion over who is responsible for a particular Crown land parcel.

Auditor-General's Reports to Parliament since 2017 have recommended that the Department should ensure the database of Crown land is complete and accurate. Whilst the Department has commenced actions to improve the database, this remained an issue in 2019–20.

Recommendation (repeat issue):

The Department should prioritise action to ensure the Crown land database is complete and accurate. This allows state agencies and local councils to be better informed about the Crown land they control.

Implementation of Machinery of Government (MoG) changes

Since its creation on 1 July 2019, the Department has largely established its governance arrangements, including setting up the Audit and Risk Committee and internal audit function for the Department and relevant cluster agencies.

The Department still operated three main financial reporting systems in 2019–20, and has commenced the process to consolidate some of the systems.

The recent Regional NSW MoG change led to the transfer of \$446 million net assets and \$284 million 2019–20 budget from the Department to the newly created Department of Regional NSW on 2 April 2020.

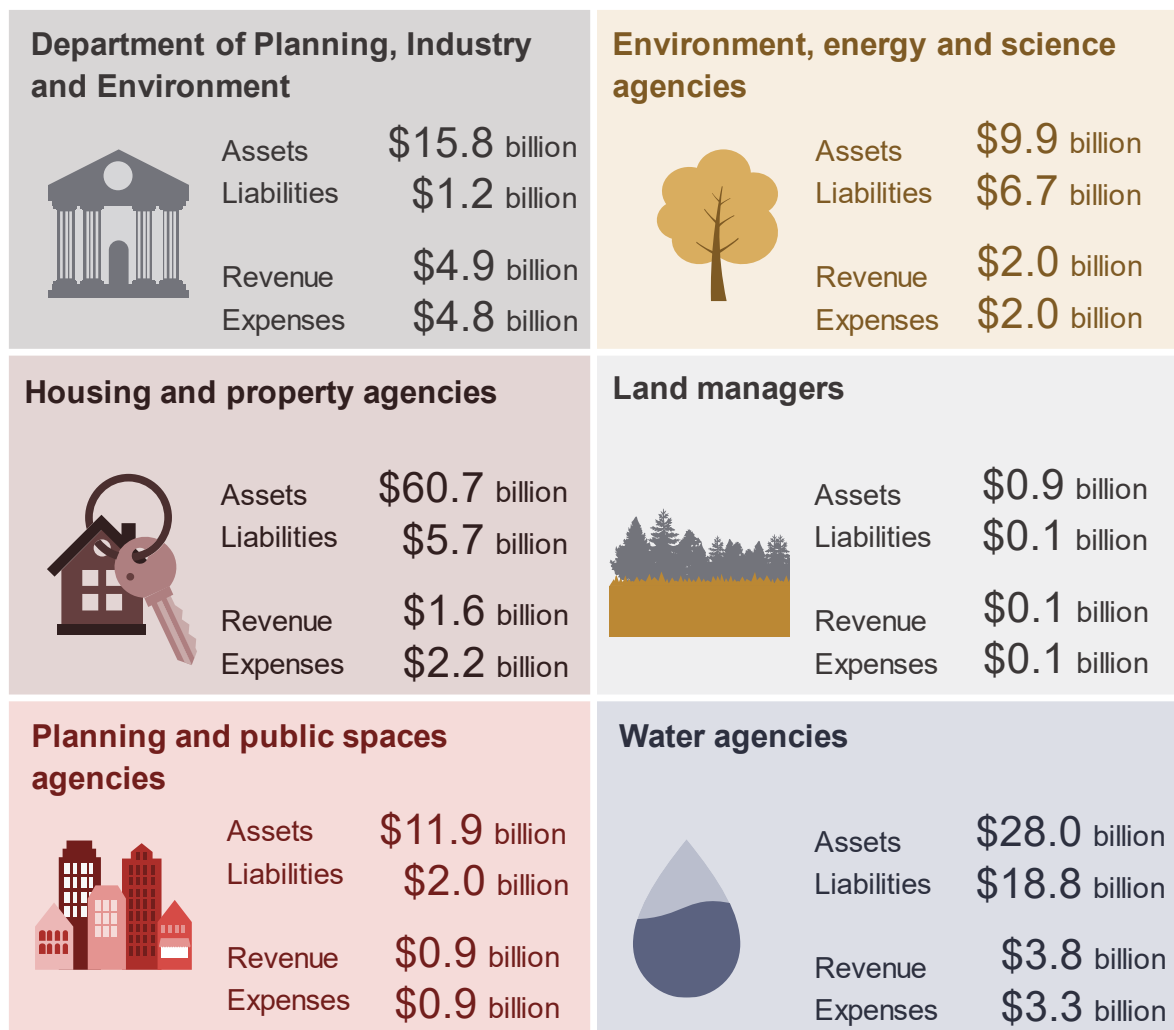
1. Introduction

This report provides parliament and other users of the Planning, Industry and Environment cluster agencies' financial statements with the results of our audits, our observations, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations
- the impact of emergencies and the pandemic.

1.1 Snapshot of the cluster

The snapshot below illustrates the financial position at 30 June 2020 and the financial results for the year then ended for the Department and the key groups within the Planning, Industry and Environment cluster (the cluster).



Source: Agencies' audited 30 June 2020 financial statements.

For full details of the financial information of all agencies in the cluster, please refer to Appendix three.

1.2 Changes to the cluster

Machinery of Government (MoG) refers to how the government organises the structures and functions of the public service. MoG changes occur when the government reorganises these structures and functions and those changes are given effect by Administrative Orders.

Last year's [Auditor-General's Report to Parliament](#) reported significant MoG changes in the cluster. These were implemented through the Administrative Changes Orders issued on 2 April 2019, 1 May 2019 and 28 June 2019. The orders which took effect on 1 July 2019:

- abolished the former Department of Planning and Environment, the former Department of Industry, the former Office of the Environment and Heritage, the former Office of Local Government and the former Planning and Environment and Industry clusters
- created the new Department of Planning, Industry and Environment (the Department), and transferred functions and staff, together with associated assets and liabilities from the former departments and agencies into the new Department
- moved functions and agencies of the former Planning and Environment and Industry clusters and a number of other clusters into the new cluster. Conversely, the MoG changes moved some agencies and functions formerly in the Planning and Environment cluster and Industry cluster elsewhere.

Since 1 July 2019, the Department was impacted by the following MoG changes:

- The Administrative Arrangements (Administrative Changes – Regional NSW and Independent Planning Commission NSW) Order 2020:
 - effective from 2 April 2020, established the Department of Regional NSW (DRNSW) as a Department of the public service. This Order transferred functions and staff, together with associated assets and liabilities of the Regions, Industry, Agriculture and Resources Group from the Department to the newly created DRNSW. As a part of this MoG change, a number of agencies from the cluster were also moved to the new Regional NSW cluster
 - effective from 1 July 2020, established the Office of the Independent Planning Commission as a separate public service agency. The persons employed in the Department who were principally involved in providing support to the Independent Planning Commission were transferred to the Office of the Independent Planning Commission.
- The Administrative Arrangements (Administrative Changes - transfer of EPA Staff) Order 2019 effective from 1 September 2019, transferred the staff of the Container Deposit Scheme branch and the Strategy and Programs branch of the Environment Protection Authority Staff Agency to the Department.

On 1 August 2020, under sections 38(4A) and 64 of the *Government Sector Employment Act 2013*, staff of the Container Deposit Scheme branch and the Circular Economy branch (which was a part of the Strategy and Programs branch) were transferred from the Department to the Environment Protection Authority Staff Agency.
- The Administrative Arrangements (Administrative Changes - Miscellaneous) Order 2020 effective from 1 July 2020, transferred the Aboriginal Cultural Heritage Regulation branch from the Department to the Department of Premier and Cabinet (DPC). Staff employed in the Department who were principally involved in the functions of the Aboriginal Cultural Heritage Regulation Branch were transferred to the DPC on the same day.

1.3 Service delivery in the cluster

The cluster aims to improve the liveability, prosperity and sustainability of New South Wales. The cluster's key areas of focus include the security and affordability of water and energy, building sustainable communities with adequate public spaces, job creation and industry development, and environmental conservation.

The cluster contributes to the following Premier's Priorities:

- increasing the tree canopy and green cover across Greater Sydney by planting one million trees by 2022
- increasing the proportion of homes in urban areas within ten minutes' walk of quality green, open and public space by ten per cent by 2023.

The State Outcomes delivered by the cluster in 2019–20 are shown below.

State Outcome	Description	Total budgeted expenditure in 2019–20 (\$ million)
Sustainable and productive regional industries and communities	Supporting regional communities through investment, infrastructure and sustainability. This state outcome was transferred to the newly created Regional NSW cluster on 2 April 2020.	1,624
Resilient and sustainable environment and energy	Protecting the environment to support a healthy NSW while securing a sustainable energy future.	1,913
Create a strong and liveable NSW	Delivering a liveable NSW that supports innovation, infrastructure, housing, environment and public spaces that brings communities together.	892
Maximise community benefit from government land and property	Providing a cross-agency approach to the use of government owned property to benefit the community.	2,149
Sustainable and secure water resources	Managing use of land and access to water to benefit the social, economic and environmental needs of NSW.	450

Source: NSW Budget Papers 2019–20 (unaudited).

The cluster was impacted by natural disaster events and the COVID-19 pandemic

The 2019–20 bushfires in New South Wales have been unprecedented in their extent and intensity. The Department's unaudited data indicated that the fire ground covered 5.4 million hectares (seven per cent of the State), including 2.7 million hectares in national parks, or 37 per cent of the NSW park system. The bushfires had a devastating effect on native animals and threatened species. Certain properties within the national parks were severely damaged by the fires. For communities that were significantly impacted by the bushfires, additional financial support was provided to assist relevant councils with recovery effort.

The COVID-19 pandemic has challenged agencies in the cluster. Social distancing and other infection control measures have changed the way agencies staff work and deliver services. Cluster agencies have adopted flexible working practices which enable staff to work remotely from home since March 2020, while minimising the impacts on key functions and critical activities.

In April 2020, the government announced the planning system acceleration program, which is designed to cut red-tape and fast-track planning processes to keep people in jobs and the construction industry moving throughout the COVID-19 crisis.

For six agencies most impacted by the recent emergency events, as part of the 2019–20 audits, we have considered:

- the financial implications of these emergency events
- the changes to agencies' operating models and control environment
- delivery of new or expanded projects, programs or services at short notice.

Our findings on these agencies' responses to the recent emergencies are included throughout this report. Refer to Appendix six for the names of the selected agencies.

2. Financial reporting

Financial reporting is an important element of good governance. Confidence and transparency in public sector decision making are enhanced when financial reporting is accurate and timely.

The *COVID-19 Legislation Amendment (Emergency Measures–Treasurer) Act 2020* amended legislation administered by the Treasurer to implement further emergency measures as a result of the COVID-19 pandemic. These amendments:

- allowed the Treasurer to authorise payments from the Consolidated fund until the enactment of the 2020–21 budget – impacting the going concern assessments of cluster agencies
- revised budgetary, financial and annual reporting time frames – impacting the timeliness of financial reporting
- exempted certain statutory bodies and departments from preparing financial statements.

This chapter outlines our audit observations related to the financial reporting of agencies in the Planning, Industry and Environment cluster for 2020, including any financial implications from the recent emergency events.

Section highlights

- Unqualified audit opinions were issued for all completed 30 June 2020 financial statements audits. Timeliness of financial reporting remains an issue for 13 agencies.
- Significant deficiencies were identified in Property NSW's lease data maintenance and lease calculations. Cluster agencies can also improve their management of lease information provided by Property NSW.
- The number of unprocessed Aboriginal land claims continued to increase. During 2020–21, a performance audit will assess the effectiveness and efficiency of the administration of Aboriginal land claims.
- The Department has not yet developed a statutory reporting framework for Crown land managers and will need to provide additional resources to help Crown land managers meet their financial reporting obligations.

2.1 Financial implications of recent emergencies

In 2019–20, some cluster agencies incurred additional expenditure as a result of bushfires and drought, and losses of revenue due to the COVID-19 lock down.

The Department and cluster agencies received the following additional funding due to the recent emergencies:

- \$201 million in drought relief
- \$44.5 million in payments to cover the COVID-19 impact
- \$43.5 million in bushfire relief funding to local councils.

As mentioned earlier in this report, we examined six cluster agencies impacted by the recent emergency events to understand the financial impacts.

All six agencies were financially impacted by the emergency events

All six agencies quantified the financial impact of the emergency events in 2019–20, which resulted in them collectively recognising:

- insurance claims of \$97.8 million with the Treasury Managed Fund (TMF) in relation to the cost of fighting bushfires and lost revenues from the natural disasters and COVID-19 pandemic
- an increase in natural disaster related expenses of \$191.4 million
- impairment of \$28.0 million to National Parks properties due to the damages by the bushfires
- impairment losses on right of use assets of \$60.4 million due to changes in rental market conditions caused by COVID-19
- lost income for public facing agencies
- a general increasing trend in annual leave liabilities, possibly due to staff taking less leave during the pandemic.

Insurance claims of \$97.8 million were mainly related to the cost of fighting bushfires

The Department, Sydney Olympic Park Authority (SOPA), Taronga Conservation Society Australia (TCSA) and Water NSW lodged insurance claims of \$70.0 million, \$10.0 million, \$12.4 million and \$5.4 million respectively with the TMF during 2019–20.

The Department's claim was mainly related to \$65.2 million for the Fire Fighting Fund which provided additional funding to cover the cost of fighting bushfires within NSW National Parks. These costs were not covered by the Commonwealth Government's Natural Disaster Relief and Recovery Arrangements. The remaining \$4.8 million of claims were for property damaged as a result of the bushfires.

The impact of COVID-19 caused the NSW Government to impose restrictions on the operations of businesses with gatherings of people. Consequently, the operations of the sporting and recreation entities such as SOPA and TCSA were impacted from mid-March 2020 to 30 June 2020 as limits were placed on events and activities which took place during that period.

The agencies advised restrictions on crowd numbers and events due to COVID-19 are expected to continue into 2020–21. Further insurance claims are expected to be made while these restrictions are still in force.

2.2 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued on the 30 June 2020 financial statements for 38 of the 45 agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatements.

Four audits for 30 June 2020 financial statements are ongoing. Three agencies were not subject to audit due to NSW Treasury reporting exemptions.

The number of misstatements greater than \$5 million decreased from the prior year

A misstatement is an error in amount, classification, presentation or disclosure in the financial statements initially submitted for audit.

In 2019–20, the number of monetary misstatements greater than \$5.0 million that we identified through the audits of cluster agencies' financial statements decreased to seven (13 in 2018–19).

Emergency measures ensured funds continued to flow to cluster agencies

The financial statements of cluster agencies are prepared on a going concern basis. This means that an agency is expected to continue its operations 12 months from when they sign their financial statements.

The *COVID-19 Legislation Amendment (Emergency Measures–Treasurer) Act 2020* allowed the NSW Treasurer to authorise payments from the Consolidated fund until the enactment of the 2020–21 state budget in November 2020. This enabled the financial statements of the Department, and by extension, cluster agencies be prepared on a going concern basis.

2.3 Timeliness of financial reporting

Statutory deadlines were extended as a result of the COVID-19 pandemic

In 2019–20, cluster agencies were expected to prepare their financial statements under the *Government Sector Finance Act 2018* (GSF Act). However, the GSF Act financial reporting provisions were delayed because of the COVID-19 pandemic. As a result, agencies continued to prepare their financial statements for the 2019–20 financial year in accordance with the *Public Finance and Audit Act 1983* (PF&A Act).

The *COVID-19 Legislation Amendment (Emergency Measures–Treasurer) Act 2020* included amendments to the PF&A Act that deferred the statutory deadlines for agencies to submit their financial statements to NSW Treasury and the Auditor-General.

For agencies subject to Treasurer's Directions, NSW Treasury required agencies to submit their 30 June 2020 financial statements to the Audit Office and Treasury by 5 August 2020. For other agencies, the deadline to submit financial statements to the Audit Office and the relevant Minister was extended to 31 October 2020.

Most agencies submitted their financial statements by the revised statutory timelines

Forty of the 41 agencies in this cluster subject to statutory reporting deadlines met the revised timeline for submitting their financial statements. Three cluster agencies met the reporting exemption criteria established by NSW Treasury, and were not required to prepare financial statements for the year ended 30 June 2020. One special deposit account did not have a statutory deadline for submitting its financial statements for audit and for issuing the Independent Auditor's Report.

The time required by cluster agencies to resolve issues and respond to audit queries and information requests meant we were only able to issue an Independent Auditor's Report for 28 entities within the statutory deadline. Ten audit reports were issued after statutory deadlines and a further three cluster agency audits remain ongoing. In 2018–19, 44 out of 57 Independent Auditor's Reports were issued within the deadline.

The table below details these exceptions.

Timeliness of financial reporting			
Cluster agencies	Early close procedures	Financial statements	Audit report
Energy, environment and science			
Mutawintji Board of Management	#	✓	! 1
Worimi Conservation Lands Board of Management	#	✓	! 1
Housing and property			
Cemeteries and Crematoria NSW	#	✓	!
Property NSW	✓	✓	!
Waste Assets Management Corporation	✓	✓	!
Planning and public spaces			
Centennial Park and Moore Park Trust	!	!	!
Luna Park Reserve Trust	✓	✓	!
Parramatta Park Trust	#	✓	!
Place Management NSW	✓	✓	!
Western Sydney Parklands Trust	!	✓	!
Water			
Dams Safety Committee	#	✓	!
Natural Resources Access Regulator	#	✓	!
Water Administration Ministerial Corporation	✓	✓	! 2
Key	✓	Statutory reporting deadline was met	
	!	Statutory reporting deadline was not met	

Agency not required to complete early close procedures.

1 Audit for this agency is still ongoing.

2 Water Administration Ministerial Corporation presented unsigned financial statements. The audits from 2011 to 2020 are outstanding due to insufficient supporting records.

The Department obtained NSW Treasury's approval to delay submission of its 30 June 2020 financial statements from 5 August 2020 to 12 August 2020. The extension was granted due to delays resulting from:

- accounting and administrative complexities created by the 2 April 2020 MoG change that transferred certain functions and staff of the Department to the newly created Department of Regional NSW
- work required to adjust the value of assets due to the 2019–20 summer bushfires.

The Department submitted its financial statements to the Audit Office by the revised deadline on 12 August 2020.

Cluster agencies substantially completed early close procedures, but improvement is required

Twenty-four of the 26 cluster agencies that were required to prepare and submit early close financial statements met the revised timeframe set by NSW Treasury. Five cluster agencies did not complete one or more mandatory early-close requirements, including:

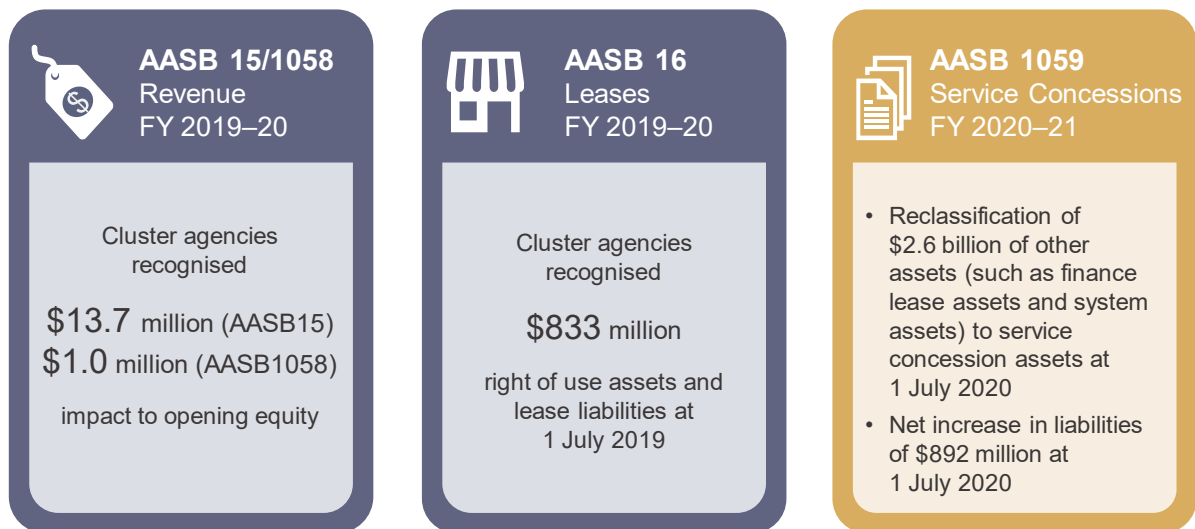
- assessing the impact of new and updated accounting standards
- revaluation of property, plant and equipment
- documenting significant management judgements and estimation uncertainties
- resolving prior year Management Letter and Engagement Closing Report issues.

Early close procedures allow financial reporting issues and risks to be addressed early in the audit process. This helps to improve the quality and timeliness of financial reporting.

The table in Appendix five shows the timeliness of financial reporting for cluster agencies.

2.4 Implementation of new accounting standards

Cluster agencies implemented three new accounting standards for the first time in their 2019–20 financial statements. These impacted the financial position and operating results of agencies across the cluster. Agencies will implement another new accounting standard from 1 July 2020. The impact of implementing these accounting standards on the cluster agencies is summarised as follows:



Source: Agencies audited financial statements.

Implementation of revenue standards

AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' changed how the Department and cluster agencies report income in 2019–20

The implementation of AASB 15 and AASB 1058 did not have a material impact on the Department and the cluster agencies' financial statements. The Department and Aboriginal Housing Office recorded the largest impact from the initial adoption of the new revenue standards, which were \$9.9 million and \$3.2 million adjustments respectively to the opening retained earnings.

AASB 15 and AASB 1058 became effective for all not-for-profit NSW public sector agencies from 1 July 2019. AASB 15 was implemented by the State-Owned Corporations (i.e. Sydney Water, Water NSW, Essential Energy and Landcom) for the first time in their 2018–19 financial statements.

The introduction of AASB 15 and AASB 1058 required the Department and cluster agencies to reassess the way they accounted for revenue, depending on whether it arises from contracts for sales of goods and services, grants and other contributions. Revenue from contracts for services is now recognised only when performance obligations have been satisfied.

The adoption of the new standards meant the Department and cluster agencies reviewed their revenue contracts and adjusted how they had previously been accounted for. The Department and cluster agencies were not required to restate their prior period financial statement figures. The cumulative effect of applying the standards on prior periods is presented as an adjustment to opening retained earnings at 1 July 2019.

Implementation of AASB 16 'Leases'

AASB 16 changed how the Department and cluster agencies treat operating leases in 2019–20

The implementation of AASB 16 had a significant impact on the Department and some cluster agencies' financial statements. Upon initial adoption on 1 July 2019, the Department and cluster agencies collectively recognised right of use (ROU) assets and lease liabilities of \$833 million. The Department, Sydney Water and Property NSW's ROU assets and lease liability totalled \$649 million, accounting for 77.9 per cent of the cluster agencies' initial recognition of ROU assets and lease liabilities.

AASB 16 became effective for all NSW public sector agencies from 1 July 2019. AASB 16 changes how lessees treat operating leases for financial reporting. Previously leased assets and lease liabilities under operating leases were not recognised in the financial statements, even though the entity had control of the asset and was committed to making those future lease payments. Lease obligations were merely recorded as a commitment in the notes to the entity's financial statements.

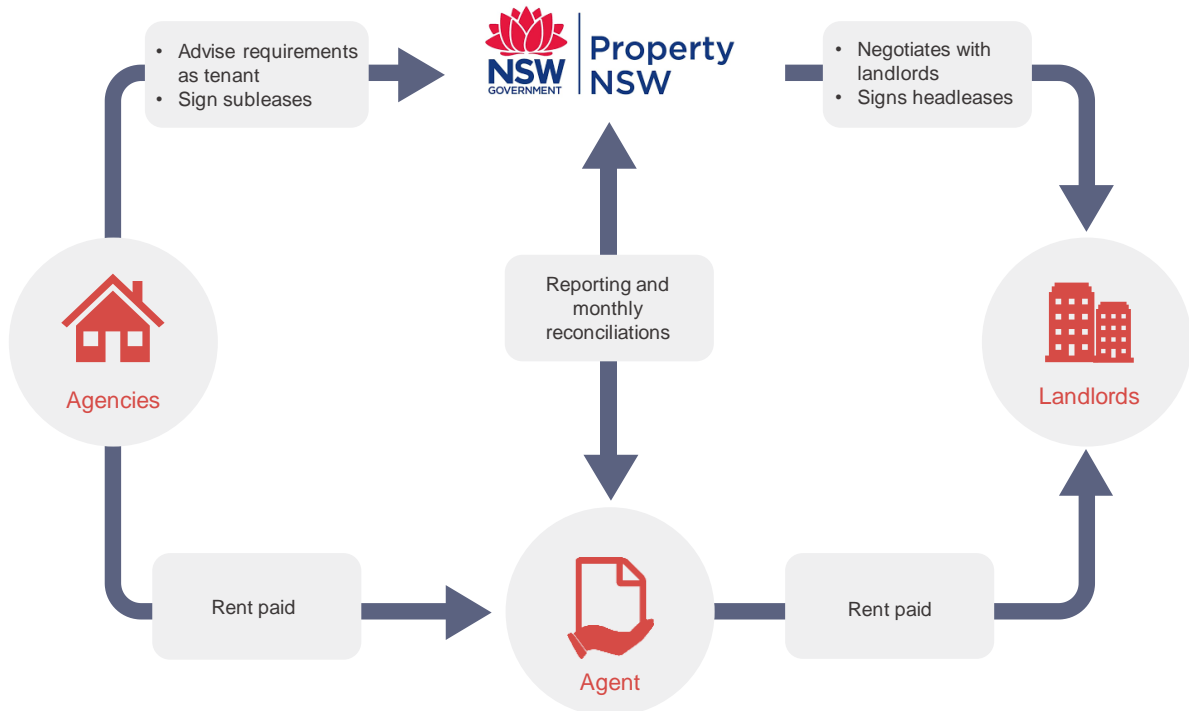
Under AASB 16, operating leases are recorded, with a few exceptions, in an entity's Statement of Financial Position through the recognition of a ROU asset and a corresponding lease liability. It also changes the timing and pattern of expenses recorded in the Statement of Comprehensive Income by recognising the depreciation on the asset and the financing cost of the lease.

AASB 16 requires different and more extensive disclosures about an entity's leasing activities. The objective of the disclosures is to provide users of financial statements with a basis to assess the effect of leasing activities on an entity's financial position, performance and cash flows.

Property NSW plays an important role in the implementation of AASB 16

Property NSW is the lead agency responsible for managing most of the Department and other state government agencies leased real estate property portfolio. Property NSW compiled information for agencies based on its lease database.

Property NSW's relationship with agencies and landlords is illustrated below.



Source: Property NSW (unaudited).

In November 2019, Property NSW implemented a lease accounting system LeaseAccelerator (LA), which is used to calculate and generate lease accounting information for the financial statements of Property NSW, around 60 other NSW agencies and Total State Sector Accounts.

Property NSW manually created a lease payment profile spreadsheet for each lease. These spreadsheets were subject to certain manual adjustments before processing into the LA system, which generated the AASB 16 lease balances and relevant accounting journals.

Significant deficiencies in lease data maintenance continue to be identified

Recommendation (partially repeat)

Property NSW should:

- review and document the accounting implications for each lease
- ensure the accuracy and validity of lease data used for the lease calculations
- review user access to the leasing system, including privileged users.

The following control deficiencies were identified at Property NSW:

- Key lease accounting interpretations and assessments pertaining to individual lease contracts were not formally documented, approved and maintained.
- There was a lack of robust independent review of lease data processed into the LA system.
- There was a lack of review of the LA system user access including privileged users.

Errors were identified in the data used in the lease calculations, which resulted in material adjustments to Property NSW and other government agencies' 30 June 2020 financial statements. Examples include:

- incorrect application of market rent review calculation for leases with collar and cap clauses (i.e. minimum floor or maximum ceiling) as specified in the lease contracts
- step payment structures for market rent review were not consistent with the NSW Treasury Guidance
- omission of fixed rent and/or market rent review increases
- incorrect application of lease incentives
- incorrect application of non-lease component adjustments
- inconsistent treatment of carpark and other shared facilities rent.

Property NSW reassessed the leases they manage to correct the identified errors. The revised lease calculations were reviewed by the relevant agencies and adjusted in their 30 June 2020 financial statements.

Management of information provided by Property NSW to cluster agencies can be improved

Recommendation

The Department and cluster agencies should:

- **quality assure and validate the information provided by Property NSW**
- **ensure changes made by Property NSW on lease data are supported and that assumptions and judgements applied are appropriate**
- **document their review of the data supplied.**

Despite Property NSW's involvement in lease data calculation, agencies needed to validate the completeness and accuracy of Property NSW's lease information before reporting it in their financial statements.

Our financial statements audits found issues with the lease information managed by Property NSW and reported in the financial statements of the Department and some cluster agencies. These agencies would have benefited from a more thorough quality assurance, validation and review process over the information provided by Property NSW before they placed reliance on it.

While agencies rely on the control environment of lease management services and information provided by Property NSW, the ultimate responsibility for the completeness and accuracy of the balances reside with the preparers of the financial statements. Inadequate scrutiny of the accuracy of the underlying data and the resultant balances can elevate the risk of error leading to misstatement or material disclosure omissions in the financial statements.

Implementation of AASB 1059

AASB 1059 'Service Concession Arrangements: Grantors' will be effective from 1 July 2020

Impact assessments performed by cluster agencies show many of them have no arrangements with private sector operators that are likely to fall within the scope of AASB 1059. The Department has assessed and concluded that the Crown land manager arrangements are not within the scope of AASB 1059. Therefore, there will be little or no impact on most cluster agencies 2020–21 financial statements from adopting AASB 1059.

Crown land managers are persons or entities appointed by the Minister to be responsible for the care, control and management of dedicated or reserved crown land. They are governed by the *Crown Land Management Act 2016*. The financial reporting of Crown land managers is discussed later in the chapter.

Place Management NSW (PMNSW) and Sydney Water Corporation (SWC) estimated AASB 1059 would have significant impact on their financial statements. The expected impacts upon initial adoption of AASB 1059 for these agencies are:

- a reclassification of \$2.6 billion of other assets (such as finance lease assets and system assets) to service concession assets at 1 July 2020
- a net increase in liabilities of \$892 million at 1 July 2020.

A service concession arrangement typically involves a private sector operator designing, constructing or upgrading assets used to provide public services, and operating and maintaining those assets for a specified period of time. In return, the private sector operator is compensated by the public-sector entity.

2.5 Key accounting issues

Prior period error adjustments

Sydney Olympic Park Authority restated the value of its assets to correctly reflect the fair value of ANZ stadium

In 2019–20, SOPA re-evaluated the accounting treatment of its interest in ANZ Stadium. Previously, SOPA reported a \$437 million interest in the stadium. This interest represents the right to receive the stadium from the operator Venues NSW, in 13 years.

This year, SOPA determined it controlled the stadium as it can direct the use of the stadium, despite it being operated by Venues NSW. To reflect this position, SOPA recognised the entire fair value of the stadium in its financial statements. This increased the value of its assets by \$421 million to \$858 million. The State's financial statements already recognised the full fair value of the stadium. The restated value reflects arrangements that should have been in place since the State bought back the rights to operate ANZ Stadium from the private sector on 1 July 2016.

Place Management NSW incorrectly recognised the valuation adjustment of IMAX Theatre building

As a part of the 2017–18 comprehensive revaluation, PMNSW recognised a \$15.2 million valuation increment relating to IMAX Theatre building. However, the IMAX Theatre building was subject to a long-term lease arrangement, and PMNSW previously recognised the arrangement as a finance lease receivable in 2016–17. PMNSW has adjusted this error retrospectively in its 2019–20 financial statements.

Prior period land transfer at the Planning Ministerial Corporation

During 2019–20, Planning Ministerial Corporation (PMC) identified several parcels of land that should have been transferred to Sydney Metro in 2018–19. Both PMC and Sydney Metro did not record this equity transfer in their 2018–19 financial statements.

The carrying amount of these land parcels was \$0.7 million in PMC's assets register. They were transferred to Sydney Metro at \$13.6 million, which represented the fair value to Sydney Metro upon transfer. PMC corrected this error by restating the 2018–19 balances in its 2019–20 financial statements.

The Hunter and Central Coast Development Corporation incorrectly expensed public infrastructure and project costs

The Hunter and Central Coast Development Corporation (HCCDC) expensed certain public infrastructure and project costs on the basis that they do not provide any future economic benefits to the Corporation. However, these costs enable the HCCDC to achieve its objectives, which would be considered as future economic benefits for not-for-profit entities like the HCCDC. Therefore, these costs should be capitalised in the relevant financial years.

The HCCDC corrected this prior period error retrospectively, which resulted in an increase in total assets of \$7.8 million at 30 June 2019.

Revaluation of Crown Land

The Department can further improve its Crown land valuation process and methodology

In 2019–20, the Department engaged an independent valuer to perform a comprehensive revaluation of its Crown land assets. This resulted in a \$607 million (or 11.1 per cent) increase to the value of the Crown land. The carrying value of Crown land at 30 June 2020 was \$6.1 billion, representing 46.3 per cent of the Department's total property, plant and equipment.

The comprehensive revaluation of Crown land was predominantly based on mass valuation techniques which required inputs from the valuer and statistician. The Department undertook extensive quality assurance review process for the revaluation to ensure the robustness of the valuation results.

Overall, we were satisfied that the Department's Crown land valuation materially complied with the requirements of relevant accounting standards and Treasury policies, and was correctly reflected in the financial statements at 30 June 2020. However, we identified a number of areas for improvement in relation to the revaluation:

- Some market evidence was missing or old sales evidence was used to value a small number of benchmark properties.
- Some outliers were not initially identified and valued separately in accordance with the outlier selection rules set out by the statistician.
- The carrying amount of some of the Department's controlled entity, Land Administration Ministerial Corporation (LAMC)'s Crown lands were initially misstated during early close. The misstatement was corrected before the Department and LAMC submitted the year-end financial statements.
- The Department did not adopt several 2016–17 recommendations made by the statistician who developed the mass valuation model used in the Crown land valuation. In 2019–20, the Department engaged the same statistician to review the methodology and inputs into the valuation. The statistician provided a number of recommendations for the Department to continue improving the valuation methodology. We suggest the Department consider implementing those recommendations for future Crown land valuations.

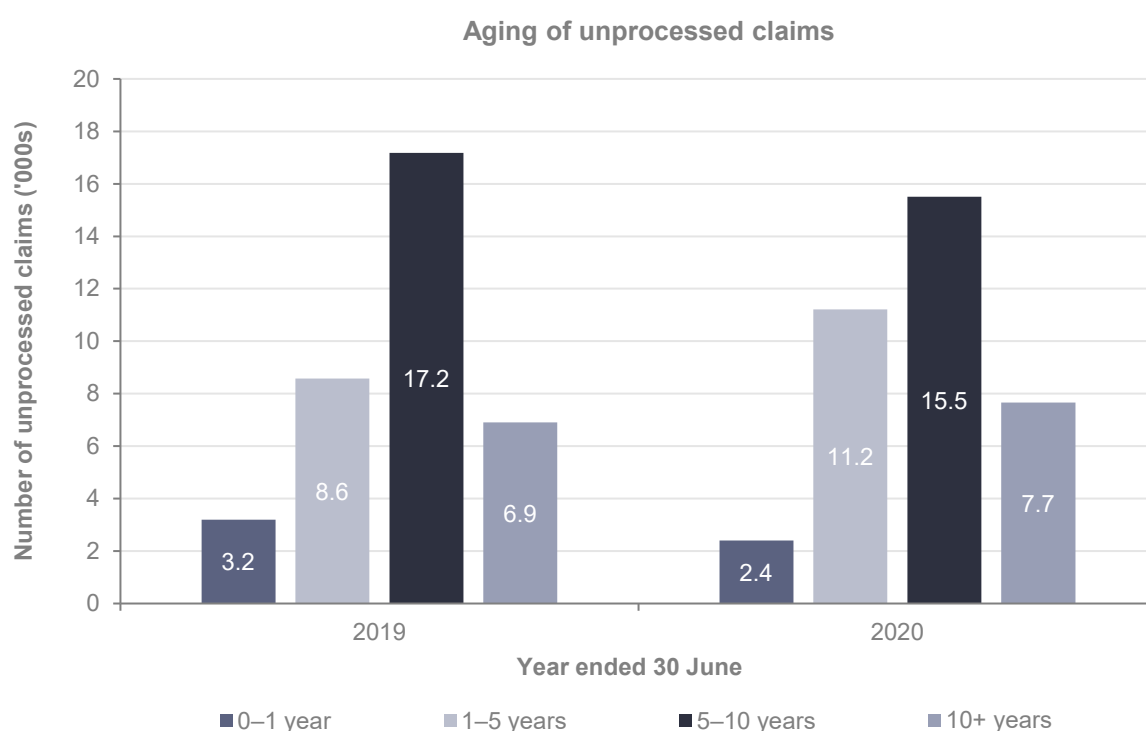
Aboriginal land claims over Crown lands

The number of unprocessed Aboriginal land claims continued to increase

The Department has been unable to reduce the number of unprocessed Aboriginal land claims over crown land, as new claims lodged continue to exceed claims processed. The Department's unaudited data showed it had 36,769 unprocessed Aboriginal land claims to assess and determine as at 30 June 2020, an increase of 914 claims from 30 June 2019. The number of claims remaining unprocessed more than ten years after they were lodged has increased by 10.9 per cent to 7,656, while unprocessed claims less than ten years old remained stable.

Unprocessed claims are contingent liabilities for the Department. Once a land claim is granted, the land transfers to the relevant Aboriginal Land Council.

The ageing of unprocessed claims at both 30 June 2020 and 30 June 2019 is shown in the following table.



Source: Department of Planning, Industry and Environment (unaudited).

In 2019–20, the Department resolved 1,505 claims, compared to 1,037 in 2018–19. Two hundred and eighty of the claims were successful, and 1,225 claims were refused or withdrawn. The Department advised the increase in resolved claims was due to additional resources being allocated to the assessment of the claims.

The Department advised the claims backlog continued to grow due to:

- land claim legislation, which provides limited restrictions on new claims. The lodgement of land claims is a right for Local Aboriginal Land Councils (LALC) which cannot be restricted and often results in multiple claims over the same property
- the complexity of assessment process and the dependencies on information provided by other organisations involved in the land claims
- departmental resourcing to process and manage claims.

A performance audit will be conducted for the Aboriginal land claims

Auditor-General's Reports to Parliament since 2007 have recommended action to address the increasing number of unprocessed claims. At that stage, 8,922 claims were unprocessed.

To date, the Department has not been able to resolve this issue. As set out in our [Annual work plan](#), a performance audit will be conducted to assess the effectiveness and efficiency of the administration of Aboriginal land claims in 2020–21.

The Land Negotiation Program was subject to an independent review

The Land Negotiation Program (LNP), commenced in 2016 and aims to settle multiple unresolved Aboriginal land claims through Aboriginal Land Agreements. The Department advised since the inception of the program, there has been no land transfers in any of the pilot areas that were directly attributable to the LNP.

In November 2019, the Minister for Water, Property and Housing engaged Chris Ronalds AO SC to complete an independent review of the LNP. The review was completed in March 2020, and the Department advised it has accepted all the Cabinet endorsed recommendations.

The Department is working with NSW Aboriginal Land Councils (NSWALC), LALCs and other stakeholders to deliver the review's recommendations. The Department advised it will process and prioritise claims in partnership with the NSWALC, LALCs and communities to support the delivery of locally driven priorities and outcomes.

The Department released the 'Draft State Strategic Plan - A Vision for Crown Land' for consultation in June 2020, with formal public submission closed in August 2020. The draft plan commits to work with Aboriginal communities to realise the potential of their land rights and make Aboriginal land transfers a priority and improve outcomes.

Financial reporting of Crown land managers

Certain Crown land managers were exempted from preparing financial statements

The *Public Finance and Audit Act 1983* requires state-owned Crown land managers (CLMs) to prepare annual financial statements. Currently, 637 state-owned CLMs do not prepare financial statements and submit them for audit.

During 2019–20, NSW Treasury established the reporting exemption criteria for the CLMs as outlined in Schedule 2 to the Public Finance and Audit Regulation 2015. Of the 637 CLMs:

- 347 have not submitted an annual report for the 2018–19 financial year. Therefore, the Department could not complete the reporting exemption assessment for these CLMs
- 290 have submitted an annual report for 2018–19. The Department advised it has completed a desktop review of the submitted information and determined that 31 did not meet the exemption requirements and will be required to submit annual financial statements.

The Department has not yet developed a statutory reporting framework for Crown land managers

Recommendation

The Department should:

- **in consultation with NSW Treasury, develop an appropriate statutory reporting framework for CLMs**
- **ensure sufficient resources are available to help CLMs meet their reporting obligations.**

The Department advised that majority of the CLMs are administered by volunteers and will require significant support from the Department to enable compliant financial reporting.

The Department has set up a compliance reporting project which aims to:

- help all identified non-exempt CLMs meet their statutory reporting obligations
- develop a standard statutory reporting framework and a supporting cloud-based accounting solution for use in reporting by CLMs
- improve the understanding and capability to ensure CLMs meet their annual reporting obligations
- support non-exempt CLMs to maintain appropriate accounting records to meet their compliance requirements.

However, the Department has not yet developed a suitable statutory reporting framework for the CLMs. The Department advised additional resources will be required to provide the necessary support and guidance to the CLMs in order to meet the annual financial reporting requirements.

In September 2020, NSW Treasury extended the deadline to 28 February 2021 for:

- the 31 CLMs that did not meet the reporting exemption criteria to submit their 2019–20 financial statements. These financial statements will be subject to audit
- the Department to complete the reporting exemption assessment of the remaining 347 CLMs that did not submit the 2018–19 annual report.

3. Audit observations

Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. They are essential for quality and timely decision making.

This chapter outlines our:

- observations and insights from our financial statements audits of agencies in the Planning, Industry and Environment cluster
- assessment of how well cluster agencies adapted their systems, policies and procedures, and governance arrangements in response to recent emergencies
- review of how the cluster agencies managed the increased risks associated with new programs aimed at stemming the spread of COVID-19 and stimulating the economy.

Cluster agencies experienced a range of control and governance related issues in recent years. An increased number of high-risk issues and greater proportion of repeat issues were identified as part of our audits. It is important for cluster agencies to promptly address these issues.

Section highlights

- Six high-risk issues were identified during 2019–20 audits. One in three issues identified and reported to management in 2019–20 were repeat issues.
- The Department has fast-tracked the assessment and determination of 101 projects as a part of the Planning System Acceleration Program.
- There continues to be significant deficiencies in Crown land records. The Department should ensure the Crown land database is complete and accurate.

3.1 Internal control deficiencies

Management letter findings

Effective internal controls reduce the risk of fraud and error and help agencies operate efficiently and effectively and to comply with relevant laws, standards and policies. Our audits do not review every control every year. We select a range of measures, and report on those that present the most significant risks that agencies should mitigate. We report on deficiencies in internal controls, matters of governance interest and unresolved issues identified to management and those charged with governance. We do this through our management letters, which include our observations, related implications, recommendations and risk ratings.

Six high-risk issues were identified in 2019–20

Recommendation

Management letter recommendations to address internal control weaknesses should be actioned promptly, with a focus on addressing high-risk and repeat issues.

We have identified six high-risk issues across the cluster in 2019–20. The following three high-risk issues raised in prior year have not yet been resolved:

- Significant deficiencies were identified in Property NSW's lease administration process, which resulted in material adjustments to the financial statements of both Property NSW and other government agencies. Refer to the 'Financial Reporting' chapter for details.
- The Wentworth Park Sporting Complex Land Manager (Land Manager) has a \$6.5 million loan with Greyhound Racing NSW (GRNSW). GRNSW requested the Land Manager to repay the loan. However, the Land Manager requested GRNSW to convert the status of the loan to a grant. Should the loan become payable, the Land Manager would not be able to continue as a going concern without financial support. This matter has been raised as a repeat issue for many years and remains unresolved.
- The Lord Howe Island Board's (LHIB) business continuity plan has not been reviewed since its introduction in 1998. Whilst LHIB advised the COVID-19 pandemic and recent weather emergency did not require activation of its business continuity plan, these events have highlighted the need to have up-to-date business continuity arrangements in place to minimise interruption.

As part of the 2019–20 audits, we have identified three additional high-risk issues:

- A number of key financial transactions of the Planning Ministerial Corporation were not communicated effectively to enable the timely recording of these transactions in the financial statements, leading to a prior period error adjustment.
- The Hunter and Central Coast Development Corporation expensed certain public infrastructure and project costs which should be capitalised. This has resulted in a prior period adjustment.
- Limited resources and COVID-19 pandemic significantly impacted LHIB's ability to produce quality financial statements and its preparedness for the audit process, particularly around the implementation of new accounting standards and quality review of the revaluation of property, plant and equipment. Management needs to develop strategies and consider if additional resources are required, to ensure an efficient and effective financial reporting process going forward.

One in three internal control deficiencies identified were repeat issues

The 2019–20 financial audits of cluster agencies identified 135 internal control weaknesses, which represents a decrease of 30.0 per cent from issues reported in 2018–19.

More than one in three issues identified in 2019–20 were repeat findings from previous financial audits. Management of the relevant agencies responded to these findings and have agreed to implement additional controls and processes to address the deficiencies identified.

A delay in implementing audit recommendations can prolong the risk of fraud and error. It also impacts the quality of financial information and the effectiveness of decision making and exposes an agency to the risk of financial loss.

The table below describes the common issues identified across the cluster by category and risk rating.

Category	Risk rating		Issue
Information technology		High: 1 repeat	<p>The financial audits identified the need for agencies to improve information technology (IT) processes and controls that support the integrity of financial data used to prepare agencies' financial statements. Of particular concern are issues associated with:</p> <ul style="list-style-type: none"> • user access reviews • disaster recovery and business continuity • security of EFT payment file • segregation of duties. <p>The high-risk issue identified was discussed earlier in the chapter.</p>
		Moderate: 13 new, 21 repeat	
		Low: 6 new, 4 repeat	
Internal control deficiencies or improvements		Moderate: 17 new, 4 repeat	<p>The financial audits identified internal control weaknesses across key business processes, including:</p> <ul style="list-style-type: none"> • contract management • review of masterfile changes • review of reconciliations.
		Low: 6 new	
Financial reporting		High: 3 new, 2 repeat	<p>The financial audits identified the need for agencies to strengthen financial reporting, including:</p> <ul style="list-style-type: none"> • quality review of and improvements to the property, plant and equipment revaluation and fair value assessment • accounting for project costs and work in progress • valuation of Crown Land. <p>High-risk issues identified were discussed earlier in the chapter.</p>
		Moderate: 19 new, 10 repeat	
		Low: 10 new, 2 repeat	
Governance and oversight		Moderate: 4 new, 2 repeat	<p>The financial audits identified weakness in agencies' governance and oversight processes, including:</p> <ul style="list-style-type: none"> • lack of service partnership agreements • outdated risk register • management of gifts and benefits.
		Low: 2 new	
Non compliance with key legislation and/or central agency policies		Moderate: 6 new, 1 repeat	<p>The financial audits identified the need for agencies to improve its compliance with key legislation and central agency policies, including:</p> <ul style="list-style-type: none"> • outdated policies and procedures • financial delegations • monitoring of legislative compliance.
		Low: 2 new	



High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.



Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.



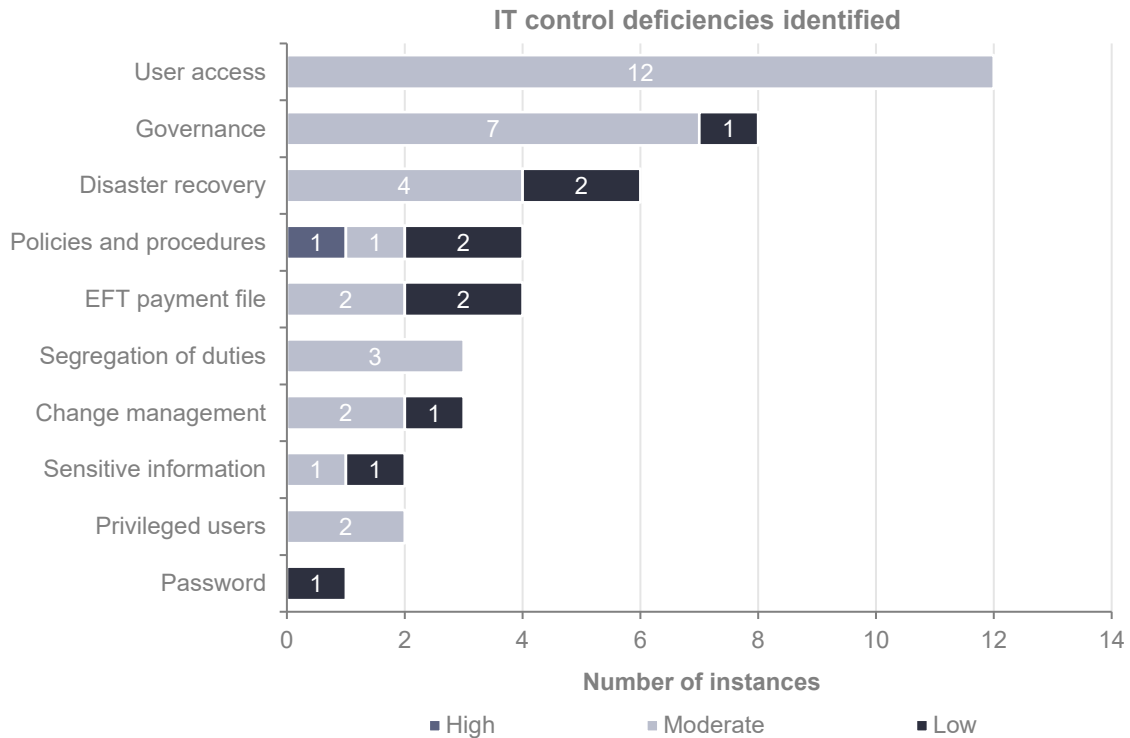
Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

Note: Management letter findings are based either on final management letters issued to agencies, or draft letters where findings have been agreed with management.

Information technology control deficiencies

User access continues to be a common issue among cluster agencies

We identified one high risk, 34 moderate risk and ten low risk issues, 26 of which are repeat issues from prior year. The high-risk issue is related to LHIB's outdated business continuity plan, which was discussed earlier in the chapter.



Source: Audit Office management letters.

The main category of IT issue identified in 2019–20 relates to user access. These were mainly due to a lack of management of user access review for various systems or transactions. The next most common findings were in relation to IT governance and disaster recovery and business continuity management.

Monitoring of user access is an important function because it ensures key transactions and systems can only be accessed by the personnel responsible for those processes. This is a way to minimise the risk of inappropriate manipulation of financial data.

3.2 Agency response to recent emergencies

As detailed earlier in the report, we examined six cluster agencies impacted by the recent emergency events and reviewed how they had responded to them. Refer to Appendix six for the agencies selected.

Internal controls and governance

All selected agencies responded to the challenges presented by COVID-19

All six cluster agencies have established committees or assigned members of the leadership team to oversee and address all aspects of the impact of COVID-19. Key actions taken by the Department and cluster agencies in response to the outbreak of COVID-19 include:

- adopting flexible working practices and having a flexible IT platform, which enabled the agencies' staff to work remotely from home (WFH) since March 2020, while minimising impacts on key functions and critical activities
- updating leave policies to be in line with DPC Circular C2020-1 which outlines the employment arrangements during COVID-19
- providing more support to staff on their health and wellbeing, including mental health
- performing reviews and approvals electronically
- establishing information channels for guidance and direction to internal and external audiences
- surveying staff to capture their views which help inform the development of a 'road to recovery' plan and workforce strategies going forward
- putting in place infection control procedures and cleaning and hygiene measures
- implementing procedures for identifying and responding to suspected and actual COVID-19 cases.

The Department established a taskforce to plan and manage bushfire recovery

The Department's Environment, Energy and Science (EES) Group established a bushfire recovery taskforce in January 2020 to coordinate the planning of the bushfire recovery and help manage the significant recovery work across the EES.

The Department advised the key achievements of the taskforce include:

- providing timely responses to Royal Commission, NSW Independent Bushfire Inquiry, and NSW Parliamentary Inquiry into Health Impacts of Bushfires
- developing bushfire recovery budget bids and economic stimulus proposals within eight weeks, for consideration by Minister, Treasury and the State Government
- registering more than 1,000 additional Expression of Interests on the Volunteering Portal to assist with bushfire recovery
- helping secure funding to boost firefighting capacity to recruit more than 120 extra firefighters ahead of the next bushfire season.

In late March 2020, the Department's EES group expanded the taskforce to include planning and coordination of COVID-19 work.

The Department activated its crisis management response arrangements in response to COVID-19

In early March 2020, the Department established a pandemic planning group in preparation for the emergence of COVID-19. This led to the activation of a Crisis Management Team (CMT) and the development of a Crisis Management Response Plan (CMRP). The CMT is jointly led by the Deputy Secretary Corporate Services and the Deputy Secretary People, Performance and Culture, and has representation from various business units of the Department. The CMT directly reports to the Secretary and the Minister.

The CMT is responsible for leading and directing the Department's response to crisis events and ensures business continuity during and after a crisis event. Their role has been defined to:

- assess the situation
- decide on a course of action
- activate an appropriate business continuity response.

The CMT met daily for the first four weeks following its activation, before reducing its meeting frequency to twice weekly and then weekly to reflect the prevailing circumstances. The CMT kept the Department's Executive Leadership Team and staff apprised of developments in relation to the response to COVID-19.

The CMRP covers impacts to people, stakeholders, buildings, IT, legal/compliance and identifies critical activities.

Given the prolonged duration of the response to COVID-19, processes have been established for the CMT to capture lessons learned on an ongoing basis. The Department advised this will be used to enhance its Business Continuity Management (BCM) Framework and crisis response arrangements as part of a process of continuous improvement.

The Department is also working with councils to support communities across NSW in response to COVID-19. The Department advised the planning system will play a role in keeping the economy moving, support communities and keep people in jobs in the months ahead. The Department advised it is adapting the planning system to ensure continued productivity and investment. Refer to Section 3.3 for more details regarding the Planning System Acceleration Program.

Taronga Conservation Society Australia created taskforces to respond to emergency events

TCSA established a Wildlife Crisis Response Taskforce in January 2020 to address the impact of the recent natural disasters, and a COVID-19 Response Taskforce in February 2020. Both were led by the Chief Executive Officer and included representation from various business units.

The Wildlife Crisis Response Taskforce met regularly from twice a day initially, to once a month as the event moved out of the peak season. The COVID-19 Response Taskforce initially met daily, with regular meetings reduced to twice weekly.




The roles of the taskforces are to:

- determine and respond to impact on operations and care for wildlife
- provide communications and support to staff
- provide communications to external stakeholders and visitors
- assess government directives for impact to operations.

In October 2020, TCSA held a debrief with key management personnel to discuss lessons learnt from the natural disasters and closing actions to improve its response in similar future scenarios.

Agencies identified risks with staff working from home

With all selected cluster agencies requiring some level of staff working from home, there were risks identified as a result of the workforce now working from different locations. Agencies have also implemented protocols and procedures to manage these risks.

Risks identified		
Workspace Maintaining a safe and ergonomic workplace 	Technology Ensuring sufficient capacity, security and availability 	Wellbeing Mental health and psychological support 
Protocols to manage risk		
<ul style="list-style-type: none">• Checklist to ensure WFH environment is safe• WFH procedures and guidelines developed	<ul style="list-style-type: none">• Improved the security capability• Multi-factor authentication for remote access	<ul style="list-style-type: none">• Regular communication via email and intranet• Regular meetings and check-ins to ensure stress and anxiety is being managed

Source: Selected cluster agencies data returns.

Agencies experienced some technology issues with their workforce working remotely

The technology response has been focussed primarily on capacity, communications and availability. There has been a significant increase in the number of users working remotely which led to a need to increase the number of remote licences and capacity of servers.

Some other issues identified with remote working include:

- delays in procurement
- inappropriate office equipment at home
- increase in remote support issues reported to IT helpdesk
- Internet availability issues.

None of the impacted agencies modified their procurement procedures

In relation to emergency procurement, none of the agencies examined modified existing processes and controls in order to obtain goods and services. Existing delegations and availability of purchasing cards for low value purchases assisted with the daily requirements of these agencies.

3.3 Stimulus funding and new programs

Stimulus funding measures

The cluster agencies received stimulus funding to address additional cleaning requirements for property assets they manage as a result of COVID-19 pandemic. Also, additional funding was received for the purposes of rebuilding local showgrounds, assisting with energy accounts payment, and supporting Local Government.

The table below summarises the total stimulus funding spent by the Department and cluster agencies during 2019–20 in response to COVID-19 pandemic.

Measures	Total spent to 30 June 2020 (\$'000)
Additional cleaners	13,097
Showgrounds	12,500
Showgrounds – additional	15,370
Energy Accounts Payment Assistance (EAPA)	2,967
Local Government - ePlanning	2,500
International Convention Centre Support (W4NSW)	13,000
Local Government (W4NSW contribution)	114

Source: Department of Planning, Industry and Environment (unaudited).

Planning System Acceleration Program

The program aims to fast-track planning assessments and boost the State's economy

In April 2020, the Minister for Planning and Public Spaces announced the Planning System Acceleration Program (the Program). The Program aims to redirect resources within the Department to accelerate the assessment and determination of projects that inject investment into the NSW economy to keep people in jobs during COVID-19 pandemic.

The Department advised the Program is expected to:

- create opportunities for more than 30,000 construction jobs within six months
- fast-track assessments of State Significant Developments, rezonings and development applications (DAs)
- support councils and planning panels to fast-track local and regionally significant DAs
- introduce a 'one stop shop' for industry to progress projects that may be 'stuck in the system'
- clear the current backlog of cases in the Land and Environment Court
- invest \$70 million to co-fund new community infrastructure in North West Sydney including roads, drainage and public parks to unlock plans for the construction of thousands of new houses.

The Department used three essential criteria to identify priority projects:

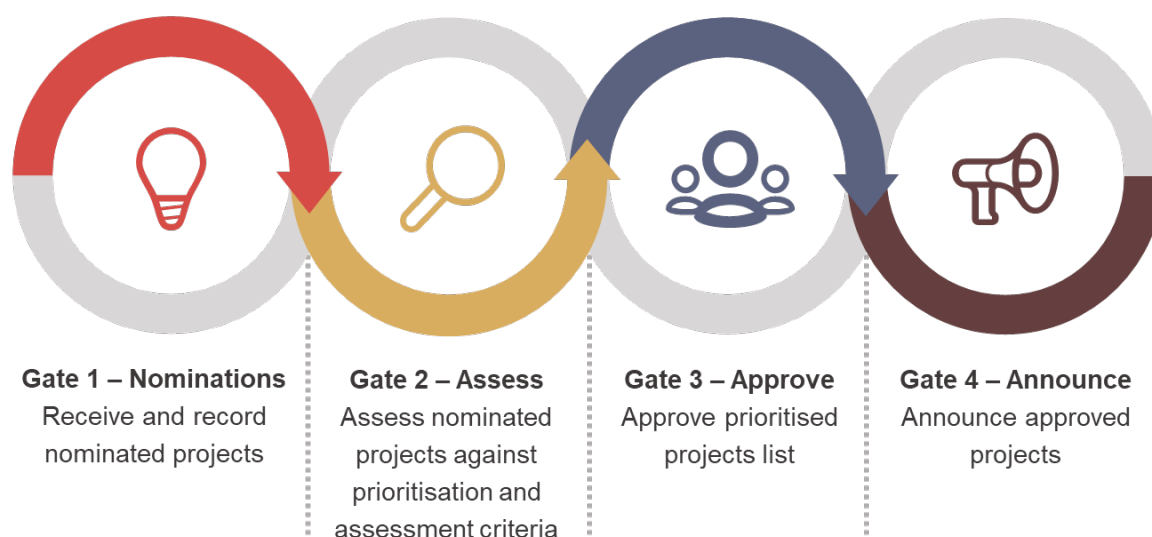
- number of jobs created
- timeframe for delivery - able to commence construction within six months for DAs, or proceed to the DA phase within six months if it is a rezoning
- public benefits delivered or supported.

The Department has fast-tracked 101 projects and planning proposals

Between April and October 2020, the Department has announced and determined 101 major projects and planning proposals in six tranches.

The process to select and approve projects for fast-tracked assessment is outlined below:

Selection and approval process for fast-tracked projects



Source: Department of Planning, Industry and Environment (unaudited).

The Department aimed to determine the prioritised projects within four weeks of announcement for each tranche. The following table shows the Department was successful in determining the projects within four weeks after the announcements for all six tranches.

Tranches	Announced on	Determined by	Number of projects determined
Tranche 1	28 April 2020	21 May 2020	24
Tranche 2	22 May 2020	18 June 2020	24
Tranche 3	21 June 2020	17 July 2020	19
Tranche 4	18 July 2020	14 August 2020	13
Tranche 5	15 August 2020	11 September 2020	10
Tranche 6	15 September 2020	9 October 2020	11

Source: Department of Planning, Industry and Environment (unaudited).

We selected three projects from tranches one and two to confirm whether the Department followed the established process. We found the Department has followed the proper nomination, assessment and approval processes before the projects were determined and announced.

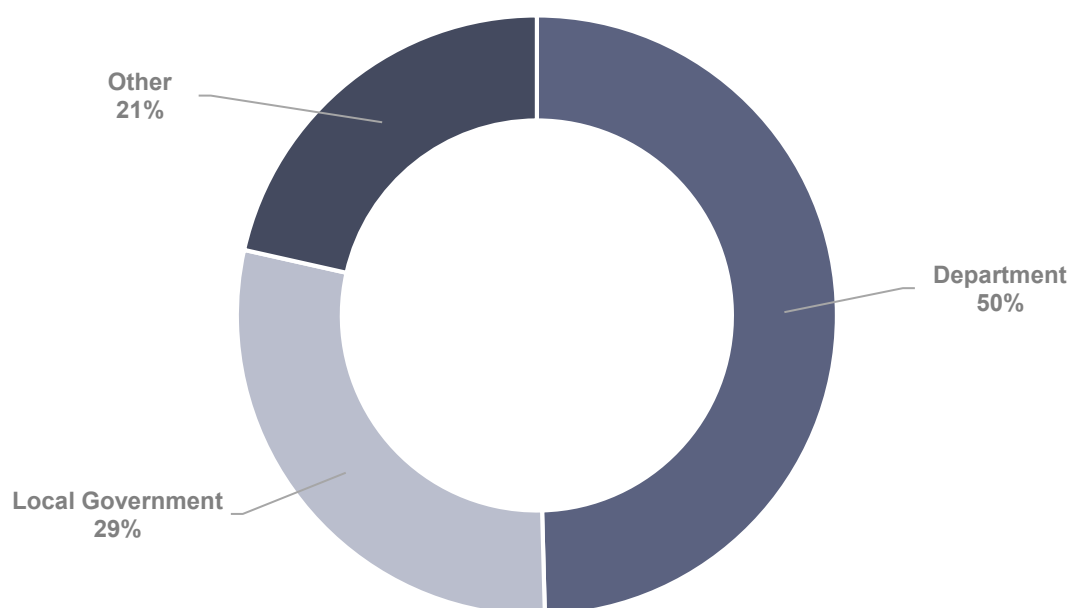
As set out in our [Annual work plan](#), we intend to conduct a performance audit on 'Governance of a reform area – Planning system acceleration program'. The audit will investigate how program goals are identified and monitored, the continuity of adequate controls with the acceleration of the standard planning process and the integrity of the selection process for applications to be fast-tracked.

3.4 Key issues

Recognition of Crown land

The Department is responsible for oversight of the management of NSW Crown land, which it estimates to cover approximately 34 million hectares or 42 per cent of the State. Crown land includes parks, reserves, roads and cemeteries. Parcels of Crown land are managed and controlled by numerous public and private sector organisations, including corporations, statutory bodies and local governments. The Department maintains the Crown Land Information Database (CLID), which records various details about the State's Crown land.

Control of Crown land (by \$ value) at 30 June 2020



Source: Crown Land Information Database (unaudited).

There continues to be significant deficiencies in Crown land records

Recommendation (repeat issue)

The Department should prioritise action to ensure the Crown land database is complete and accurate. This allows state agencies and local councils to be better informed about the Crown land they control.

The Department uses CLID to record Crown land in New South Wales managed and controlled by the Department and Land Managers. For several years, we have reported deficiencies in the recording of Crown land assets in CLID. Examples include:

- incorrect entity identified as the manager of some Crown lands
- incorrect status of Crown land
- incorrect records relating to Crown land, such as land size and use
- delays in updating changes to CLID.

Auditor-General's Reports to Parliament since 2017 have recommended that the Department should ensure the Crown land database is complete and accurate. This would enable the Department and other managers to confirm all Crown land that should be recognised, and that different organisations are not recognising the same parcel of Crown land.

The Department advised there are several initiatives in progress, including:

- ongoing process reviews, program evaluations and internal business re-engineering
- ongoing conduct of data integrity reviews and data cleansing for the management of Crown reserves to ensure the completeness and accuracy of information
- improved financial integration between CLID and the general ledger
- maintaining an online portal to enable councils to query Crown land data
- replacement of CLID with CrownTracker.

The Department advised the CLID replacement project is expected to be completed by 30 June 2021

In November 2018, the Department commenced the implementation of CrownTracker as a replacement system for CLID. CrownTracker is a case management system. The Department advised the end-to-end business processes in CrownTracker will be mapped and configured to remove current deficiencies in workflow management within CLID that can lead to reconciling items.

The first release of CrownTracker went live in April 2020, which included functionality for reserves, Aboriginal land claims, compliance, land status searches, spatial, request management and a reserve manager portal. Work is now progressing on Release 2 and Release 3 scopes. The Department advised that the project is on track for completion by 30 June 2021.

The Department advised it completed an independent ICT assurance health check of the program in September 2020, which placed the program at a 'Medium' delivery confidence level. The health check highlighted two critical issues requiring immediate action, which related to resourcing approvals and the scope of the program. Both issues have been escalated for management action.

The Department advised the key differences between CrownTracker and CLID include:

- spatial information will be captured in CrownTracker, which was previously imported and reconciled with CLID
- a modern case management module which aims to improve delays in updating changes
- integration with SAP and reporting tools to assist with financial reporting
- an external portal for non-council Crown Land Managers to lodge financial reports.

The Department has spent \$5.7 million to 30 June 2020 on the CrownTracker. The Department advised the total project cost is now expected to be \$9.7 million due to the expansion of the scope to fully replace CLID with CrownTracker. This was \$2.7 million higher than the original projection.

An online portal is available to councils to resolve issues relating to Crown land

On 1 July 2018, the former Department of Industry launched an online portal to enable councils to query Crown land data. The portal provides councils with information on Crown land where they are identified as the land manager in CLID.

The Department advised most council queries were resolved by:

- confirming the status of the reserve, including if council is the manager of the reserve
- updating information in CLID to reflect the correct information on the status of the land
- clarifying titling information
- confirming the lots and deposited plans (DP) for particular reserves or the reserve details for particular lots and DPs.

The Department advised since 1 July 2018, 159 enquiries were raised by councils. Fifty-three of those were raised since 1 July 2019. The Department advised that all queries were addressed within 28 days.

ePlanning program

The use of NSW planning portal is mandatory from 1 July 2020

The ePlanning program is currently in Stage 3. The anticipated completion date for Stage 3 of the program is December 2020. In April 2020, the program received \$9.8 million funding to support NSW Government's stimulus measures and implement the initiative to make ePlanning (also known as the NSW planning portal) mandatory for councils and certifiers in NSW from 1 July 2020. The mandatory use of the NSW planning portal is effected by a number of sections of the Environmental Planning and Assessment Regulation 2000.

The number of councils using the NSW planning portal to lodge development applications has increased from 20 in 2018–19 to 44 in 2019–20. The Department advised 36 more councils since 30 June 2020 have started to use the ePlanning service.

3.5 Agency implementation of MoG changes

The 'Introduction' chapter highlighted that the Department was impacted by a number of Machinery of Government changes (MoG changes) during 2019–20. The former Department of Planning and Environment and the former Department of Industry commenced preparations for the MoG changes to transition into the newly formed Department in the last quarter of 2018–19, in readiness for the 1 July 2019 effective date.

The Department has largely established its governance arrangements

During 2019–20, the Department set up a governance division, which oversees a number of areas. These are outlined in the following chart.

Governance division responsibilities



Source: Department of Planning, Industry and Environment (unaudited).

The Audit and Risk Committees (ARCs) for the Department and the cluster agencies were established in March 2020. As a transitional arrangement, the ARCs of the former Departments and agencies were in place until the finalisation of the 2018–19 financial reporting process.

The Department has set up an internal audit function, which provides internal audit services to both the Department and the relevant cluster agencies. The Department adopted a co-sourced internal audit model, whereby the internal audit services are provided by both in-house staff and external service providers. In consultation with various stakeholders, the Department's 2020–21 internal audit plan was endorsed by the ARC in August 2020 and approved in September 2020.

The instrument of delegation was approved by the Minister for Planning and Public Spaces and the Secretary of the Department in June 2019, before the Department was established on 1 July 2019. Subsequently, all the responsible Ministers of the Department signed the delegation instrument under the *Government Sector Finance Act 2018* in June and July 2020.

The Department continues to integrate its systems and processes

During 2019–20, the Department still operated three main financial reporting systems. Having disaggregated systems may create inefficiencies and increase the risk of material misstatements in the financial statements if the consolidation processes are not sufficiently robust. The Department advised it has commenced the process to consolidate some of the systems.

Some cost centres relating to the former Department of Planning and Environment financial reporting systems are transitioning into the former Department of Industry financial reporting system. The project began in September 2020 and is due for completion in December 2020.

Throughout 2019–20, the processing of transactions continued to be managed by the former Departments' corporate services teams. One key change made upon creation of the new Department was to consolidate the middle and upper management to centralise management of different teams and processes.

The Regional NSW MoG change had significant impact on the Department

The 'Introduction' chapter noted the Regional NSW MoG change transferred functions and staff, together with associated assets and liabilities from the Department to the newly established Department of Regional NSW (DRNSW). As a result of this MoG change, \$446 million of net assets and \$284 million of 2019–20 budget were transferred from the Department to DRNSW on 2 April 2020.

Due to the lateness of the MoG change, DRNSW had to share the same general ledger company codes and bank accounts with the Department for the period 2 April 2020 to 30 June 2020. It required significant manual workarounds to reconstruct the DRNSW financial statements, which also had a flow-on impact on the Department's 2019–20 financial statements.

As a result of the complexities with the split of transactions and balances between the Department and DRNSW, the Chief Financial Officers of both Departments signed off the equity transfer balances at 2 April 2020 in early September 2020.

As a transitional measure, the Department continues to provide corporate services to DRNSW, including a shared ARC arrangement to deal with the 2019–20 financial reporting requirements.

During 2020–21, the Audit Office plans to conduct a performance audit on whether the MoG changes achieved their goals effectively and efficiently, and improved public sector administration. Refer to our [Annual work plan](#) for details.

Section two

Appendices

Appendix one – List of 2020 recommendations

The table below lists the recommendations made in this report.

1. Financial reporting

1.1 Property NSW's implementation of AASB 16 'Leases' (Partial repeat issue)

Property NSW should:

- review and document the accounting implications for each lease
- ensure the accuracy and validity of lease data used for the lease calculations
- review user access to the leasing system, including privileged users.



1.2 Cluster agencies' implementation of AASB 16

The Department and cluster agencies should:

- quality assure and validate the information provided by Property NSW
- ensure changes made by Property NSW on lease data are supported and that assumptions and judgements applied are appropriate
- document their review of the data supplied.



1.3 Financial reporting of Crown land managers (CLMs)

The Department should:

- in consultation with NSW Treasury, develop an appropriate statutory reporting framework for CLMs
- ensure sufficient resources are available to help CLMs meet their reporting obligations.



2. Audit observations

2.1 Internal control deficiencies

Management letter recommendations to address internal control weaknesses should be actioned promptly, with a focus on addressing high-risk and repeat issues.



2.2 Recognition of Crown land (Repeat issue)

The Department should prioritise action to ensure the Crown land database is complete and accurate. This allows state agencies and local councils to be better informed about the Crown land they control.



Key



Low risks









Medium risks



High risks

Appendix two – Status of 2019 recommendations

Recommendation	Current status
The Department should:	
Prioritise action to reduce unprocessed Aboriginal land claims.	<p>The Department advised additional resources have been allocated to the assessment of claims, resulting in an increased number of land claims resolved in 2019–20. However, the Department has been unable to reduce the number of unprocessed Aboriginal land claims over crown land, as new claims lodged continue to exceed claims processed. The Department advised it will now process and prioritise claims in partnership with the NSWALC, LALCs and communities to support the delivery of locally driven priorities and outcomes.</p> <p>A performance audit will be conducted to assess the effectiveness and efficiency of the administration of Aboriginal land claims in 2020–21.</p> 
Ensure the Crown land database is complete and accurate so state agencies and local government councils are better informed about the Crown land they control.	<p>Several initiatives are in progress which aim to resolve the on-going issues surrounding Crown land. This is further reported in Chapter three.</p> 
Property NSW should:	
Urgently address the deficiencies in the lease data used to calculate the impact of the new leasing standard effective from 1 July 2019.	<p>Further issues were identified in the current year. Audit work performed identified significant deficiencies in Property NSW's lease data maintenance and AASB 16 lease calculation. This has been re-raised as a high-risk issue in the current year. Refer to Chapter two.</p> 
Key	 Fully addressed  Partially addressed  Not addressed

Appendix three – Financial data

	Total assets		Total liabilities		Total revenue		Total expense	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cluster lead entity								
Department of Planning, Industry and Environment **	15,766	NA	1,249	NA	4,878	NA	4,775	NA
Energy, environment and science								
Biamanga Board of Management	2	2	--	--	--	--	--	--
Environment Protection Authority	58	51	24	19	183	202	181	195
Environmental Trust	7	6	3	3	56	78	56	77
Essential Energy	8,887	8,669	6,575	6,300	1,496	1,579	1,550	1,576
Gaagal Wanggaan (South Beach) Board of Management *	NA	NA	NA	NA	NA	NA	NA	NA
Gulaga Board of Management	1	1	--	--	--	--	--	--
Jenolan Caves Reserve Trust	33	37	3	3	8	11	11	12
Lord Howe Island Board	93	69	6	3	14	13	16	17
Mt Grenfell Historic Site Board of Management *	NA	NA	NA	NA	NA	NA	NA	NA
Mutawintji Board of Management	2	2	--	--	1	1	--	--
NSW Biodiversity Conservation Trust	150	102	31	12	74	75	46	30
Taronga Conservation Society Australia	701	696	92	98	125	130	123	123
Worimi Conservation Lands Board of Management	9	8	--	--	2	2	1	1
Housing and property								
Aboriginal Housing Office	2,179	2,188	30	26	158	150	120	121
Cemeteries and Crematoria NSW	2	2	--	--	2	2	2	2
NSW Land and Housing Corporation	52,372	54,591	924	910	971	983	1,439	1,491

	Total assets		Total liabilities		Total revenue		Total expense	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Property NSW	5,886	1,683	4,731	383	407	710	573	705
Teacher Housing Authority of NSW	182	176	5	5	19	17	25	23
Waste Assets Management Corporation	81	83	54	56	5	7	5	12
Land manager								
Lands Administration Ministerial Corporation	241	213	1	7	42	7	4	21
NSW Crown Holiday Parks Land Manager	345	324	37	25	51	51	50	52
Rookwood General Cemeteries Reserve Land Manager	205	202	4	4	20	37	18	19
Rookwood Necropolis Land Manager	24	17	1	2	3	3	1	1
Wentworth Park Sporting Complex Land Manager	57	59	7	7	1	1	3	3
Planning and public spaces								
Centennial Park and Moore Park Trust	1,225	1,213	9	7	40	46	37	35
Hunter and Central Coast Development Corporation	177	161	19	16	43	62	61	46
Landcom	828	1,075	194	452	180	291	154	257
Luna Park Reserve Trust	44	44	--	1	3	2	3	2
Ministerial Development Corporation *	NA	NA	NA	NA	NA	NA	NA	NA
Natural Resources Commission	7	2	7	1	8	6	10	7
Parramatta Park Trust	80	67	4	1	5	5	5	5
Place Management NSW	2,751	2,840	1,444	1,488	295	310	321	367
Planning Ministerial Corporation	1,864	1,997	208	304	84	90	36	27
Royal Botanic Gardens and Domain Trust	940	886	35	10	81	58	58	56
Sydney Olympic Park Authority	2,949	2,994	24	26	114	185	199	185

	Total assets		Total liabilities		Total revenue		Total expense	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Western Sydney Parklands Trust	1,071	950	22	21	69	20	13	12
Special deposit account								
Crown Reserves Improvements Trust	46	51	1	3	15	65	18	17
Water								
Cobar Water Board	80	80	1	1	4	5	5	6
Dams Safety Committee	1	1	--	--	3	2	3	2
Hunter Water Corporation	2,942	2,794	1,800	1,653	368	376	317	303
Natural Resources Access Regulator	5	4	5	3	25	24	25	23
Sydney Water	21,703	20,342	14,598	12,818	2,967	2,928	2,540	2,449
Water NSW	3,235	3,107	2,426	2,262	422	455	452	387
Water Administration Ministerial Corporation ***	NA	NA	NA	NA	NA	NA	NA	NA

* Received reporting exemptions in 2019–20.

** Department of Planning, Industry and Environment was created on 1 July 2019, hence there is no comparative financial information.

*** Water Administration Ministerial Corporation presented unsigned financial statements. The audits from 2011 to 2020 are outstanding due to insufficient supporting records.

Source: Audited financial statements.

Appendix four – Management letter findings

Management letter findings					
	Extreme	High	Moderate	Low	Repeat
Principal department					
Department of Planning, Industry and Environment	--	--	19	6	14
Energy, environment and science					
Biamanga Board of Management	--	--	--	--	--
Environment Protection Authority	--	--	1	--	--
Environmental Trust	--	--	--	--	--
Essential Energy	--	--	5	5	5
Gaagal Wanggaan (South Beach) Board of Management *	NA	NA	NA	NA	NA
Gulaga Board of Management	--	--	--	--	--
Jenolan Caves Reserve Trust	--	--	3	--	1
Lord Howe Island Board	--	2	18	2	14
Mt Grenfell Historic Site Board of Management *	NA	NA	NA	NA	NA
Mutawintji Board of Management	--	--	1	--	--
NSW Biodiversity Conservation Trust	--	--	--	1	--
Taronga Conservation Society Australia	--	--	4	--	1
Worimi Conservation Lands Board of Management	--	--	1	--	1
Housing and property					
Aboriginal Housing Office	--	--	--	--	--
Cemeteries and Crematoria NSW	--	--	--	--	--
NSW Land and Housing Corporation	--	--	--	--	--
Property NSW	--	1	1	--	1
Teacher Housing Authority of NSW	--	--	--	1	--
Waste Assets Management Corporation	--	--	2	1	--
Land manager					
Lands Administration Ministerial Corporation	--	--	1	--	--
NSW Crown Holiday Parks Land Manager	--	--	2	2	1
Rookwood General Cemeteries Reserve Land Manager	--	--	7	2	--

Management letter findings					
	Extreme	High	Moderate	Low	Repeat
Rookwood Necropolis Land Manager	--	--	3	1	--
Wentworth Park Sporting Complex Land Manager	--	1	4	--	1
Planning and public spaces					
Centennial Park and Moore Park Trust	--	--	2	1	2
Hunter and Central Coast Development Corporation	--	1	--	--	--
Landcom	--	--	1	2	--
Luna Park Reserve Trust	--	--	--	--	--
Ministerial Development Corporation *	NA	NA	NA	NA	NA
Natural Resources Commission	--	--	--	--	--
Parramatta Park Trust	--	--	1	--	1
Place Management NSW	--	--	1	--	1
Planning Ministerial Corporation	--	1	--	--	--
Royal Botanic Gardens and Domain Trust	--	--	3	1	3
Sydney Olympic Park Authority	--	--	2	2	--
Western Sydney Parklands Trust	--	--	--	--	--
Special deposit account					
Crown Reserves Improvement Trust	--	--	--	--	--
Water					
Cobar Water Board	--	--	4	--	--
Dams Safety Committee	--	--	--	--	--
Hunter Water Corporation	--	--	--	1	--
Natural Resources Access Regulator	--	--	--	--	--
Sydney Water	--	--	6	2	1
Water NSW	--	--	5	2	--
Water Administration Ministerial Corporation **	NA	NA	NA	NA	NA

* Received reporting exemptions in 2019–20.

** Water Administration Ministerial Corporation presented unsigned financial statements. The audits from 2011 to 2020 are outstanding due to insufficient supporting records.

Source: Audit Office management letters.

Appendix five – Timeliness of financial reporting

Timeliness of financial reporting			
Cluster agencies	Early close procedures	Financial statements	Audit report
Principal department			
Department of Planning, Industry and Environment	✓	✓	✓
Energy, environment and science			
Biamanga Board of Management	^	✓	✓
Environment Protection Authority	✓	✓	✓
Environmental Trust	✓	✓	✓
Essential Energy	✓	✓	✓
Gaagal Wanggaan (South Beach) Board of Management*	N/A	N/A	N/A
Gulaga Board of Management	^	✓	✓
Jenolan Caves Reserve Trust	^	✓	✓
Lord Howe Island Board	^	✓	✓
Mt Grenfell Historic Site Board of Management*	N/A	N/A	N/A
Mutawintji Board of Management	^	✓	! 1
NSW Biodiversity Conservation Trust	✓	✓	✓
Taronga Conservation Society Australia	✓	✓	✓
Worimi Conservation Lands Board of Management	^	✓	! 1
Housing and property			
Aboriginal Housing Office	✓	✓	✓
Cemeteries and Crematoria NSW	^	✓	!
NSW Land and Housing Corporation	✓	✓	✓
Property NSW	✓	✓	!
Teacher Housing Authority of NSW	✓	✓	✓
Waste Assets Management Corporation	✓	✓	!
Land manager			
Lands Administration Ministerial Corporation	✓	✓	✓
NSW Crown Holiday Parks Land Manager	^	✓	✓
Rookwood General Cemeteries Reserve Land Manager	^	✓	✓
Rookwood Necropolis Land Manager	^	✓	✓

Timeliness of financial reporting			
Wentworth Park Sporting Complex Land Manager	^	✓	✓
Planning and public spaces			
Centennial Park and Moore Park Trust	!	!	!
Hunter and Central Coast Development Corporation	✓	✓	✓
Landcom	✓	✓	✓
Luna Park Reserve Trust	✓	✓	!
Ministerial Development Corporation *	N/A	N/A	N/A
Natural Resources Commission	✓	✓	✓
Parramatta Park Trust	^	✓	!
Place Management NSW	✓	✓	!
Planning Ministerial Corporation	✓	✓	✓
Royal Botanic Gardens and Domain Trust	✓	✓	✓
Sydney Olympic Park Authority	✓	✓	✓
Western Sydney Parklands Trust	!	✓	!
Special deposit account			
Crown Reserves Improvement Trust	#	#	#1
Water			
Cobar Water Board	^	✓	✓
Dams Safety Committee	^	✓	!
Hunter Water Corporation	✓	✓	✓
Natural Resources Access Regulator	^	✓	!
Sydney Water	✓	✓	✓
Water NSW	✓	✓	✓
Water Administration Ministerial Corporation	✓	✓	! 2
Key	✓	!	Statutory reporting deadline was not met

Agency is a prescribed or request audit and is not subject to statutory financial reporting deadlines.

* Received reporting exemptions in 2019–20.

^ Agency not required to complete early close procedures.

1 Audit for this agency is still ongoing.

2 Water Administration Ministerial Corporation presented unsigned financial statements. The audits from 2011 to 2020 are outstanding due to insufficient supporting records.

Source: Audited financial statements and reports.

Appendix six – Selected agencies for review of response to emergency events

Agency
Department of Planning, Industry and Environment
Essential Energy
Land and Housing Corporation
Sydney Olympic Park Authority
Taronga Conservation Society Australia
Water NSW

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

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

OUR VALUES

Pride in purpose
Curious and open-minded
Valuing people
Contagious integrity
Courage (even when it's uncomfortable)

Level 19, Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000 Australia

PHONE +61 2 9275 7100

mail@audit.nsw.gov.au

Office hours: 8.30am-5.00pm
Monday to Friday.