



FINANCIAL AUDIT

29 NOVEMBER 2023

Premier and Cabinet 2023

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 *Government Sector 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 Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to give reasonable assurance that financial statements are true and fair, 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 internal controls and governance, and 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 assess whether the activities of government entities are being carried out effectively, economically, 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. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.

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In accordance with section 52B of the *Government Sector Audit Act 1983*, I present a report titled '**Premier and Cabinet 2023**'.

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

Margaret Crawford

Auditor-General for New South Wales
29 November 2023



RECONCILIATION COMMITMENT STATEMENT

The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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Section one

Premier and Cabinet 2023

This report analyses the results of our audits of the Premier and Cabinet portfolio of agencies for the year ended 30 June 2023.

1. Introduction

This report provides Parliament and other users of the Premier and Cabinet portfolio of agencies' financial statements with the results of our audits, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations.

1.1 Snapshot of the portfolio of agencies

Premier and Cabinet

Key agencies

Principal Department



Agencies



[#] The Integrity Agencies are the Audit Office of New South Wales*, Independent Commission Against Corruption, Law Enforcement Conduct Commission, New South Wales Electoral Commission and Ombudsman's Office.

^{*} Commentary on the Audit Office of New South Wales is not included in this volume as its audit is conducted by a private firm under the direction of the Public Accounts Committee.

Source: NSW Budget Papers 2023–24.

The NSW Government announced in the 2023–24 budget papers its intention to move away from agency-based outcomes to a broad set of wellbeing and performance measures. The outcomes that were applicable to this portfolio of agencies in 2022–23 are listed below.

Key objectives of the Premier and Cabinet portfolio: Support the Premier and the Cabinet to deliver the government's objectives, providing policy and advisory guidance for government, bringing the voices of First Nations people into policy making and facilitating stewardship of the public service for the people of New South Wales.

State outcomes	Description
Effective and coordinated government	Supporting the portfolio's strategic direction, coordination and delivery role across government for the people of New South Wales.
Empowering Aboriginal communities	Empowering Aboriginal communities leads to a transformed relationship between Aboriginal peoples and government, as well as supporting the delivery of policies and practices that support Aboriginal peoples' right to self-determination.
Accountable and responsible government	Supporting good government decision-making and upholding government integrity.

Source: NSW Budget Papers 2022–23.

1.2 Changes to the portfolio of agencies

Machinery of Government (MoG) refers to how the government organises the structures and functions of the public service. MoG changes are where the government reorganises these structures and functions that are given effect by administrative arrangements orders.

The Administrative Arrangements (Administrative Changes—Miscellaneous) Order (No 10) 2022, effective 16 December 2022, transferred staff employed in the Strategic Emergency Management Policy and Coordination Branch of Resilience NSW to the Department of Premier and Cabinet. This order resulted in a transfer of employee liabilities of \$553,000 from the Strategic Emergency Management Policy and Coordination Branch of Resilience NSW to Department of Premier and Cabinet.

The Administrative Arrangements (Minns Ministry—Administration of Acts) Order 2023, effective 5 April 2023, transferred the administration of the *Natural Resources Commission Act 2003* from the Minister for Planning and Homes to the Premier. The Natural Resources Commission is a statutory body which is responsible to the Premier.

The Administrative Arrangements (Administrative Changes—Miscellaneous) Order (No 3) 2023, effective 3 May 2023, allocated the administration of the *Independent Pricing and Regulatory Tribunal Act 1992* from the Minister for Customer Service and Digital Government to the Premier. The Independent Pricing and Regulatory Tribunal Staff Agency is listed in the Government's Governance Arrangements Chart as a separate agency reporting to the Premier, reflecting the responsibility of Independent Pricing and Regulatory Tribunal to the Premier in accordance with clause 3 of Schedule 1 to the Administrative Arrangements (Public Service agencies and Ministers) Order 2023.

The Administrative Arrangements (Administrative Changes—Miscellaneous) Order (No 4) 2023, effective 1 July 2023, changed the name of the Department of Premier and Cabinet to the Premier's Department and transferred parts of Department of Premier and Cabinet to The Cabinet Office.

The following functions were transferred from the Department of Premier and Cabinet to The Cabinet Office under the Administrative Arrangements (Administrative Changes – Miscellaneous) Order (No 4) 2023, effective 1 July 2023:

- Office of General Counsel
- Policy Group, other than the following parts:
 - WestInvest
 - Emergency Management branch
 - Women NSW
 - Flood Inquiry Project Management Office.
- the Shaping Futures branch of the Community Engagement Group.

The Administrative Arrangements (Administrative Changes—Miscellaneous) Order (No 4) 2023 effective 1 July 2023, made the following changes in relation to Public Service executive agencies related to Departments (agencies listed in Part 2 of Schedule 1 to the GSE Act):

- The Natural Resources Commission Staff Agency became a related agency to the Premier's Department (previously related to Department of Premier and Cabinet)
- The Parliamentary Counsel's Office became a related agency to The Cabinet Office (previously related to Department of Premier and Cabinet).

The order will result in an estimated transfer out of \$123,000 in assets and \$3.6 million out in liabilities to the Cabinet Office.

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.

This chapter outlines our audit observations related to the financial reporting of agencies in the Premier and Cabinet portfolio of agencies (the portfolio) for 2023.

Section highlights

- Unqualified audit opinions were issued on all the portfolio agencies 2022–23 financial statements.
- The total number of errors (including corrected and uncorrected) in the financial statements decreased compared to the prior year.

2.1 Portfolio financial information 2023

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Principal department				
Department of Premier and Cabinet	338	86	430	391
Other portfolio agencies listed in Appendix A of Treasurer's Direction TD21-02				
Parliamentary Counsel's Office	2	2	11	11
Public Service Commission	9	6	41	39
Independent Commission Against Corruption***	12	15	31	32
Law Enforcement Conduct Commission***	7	5	24	24
New South Wales Electoral Commission***	74	44	249	239
Ombudsman's Office***	12	9	40	38
Aboriginal Languages Trust	2	1	8	8
Independent Pricing and Regulatory Tribunal***	8	6	39	38
Natural Resources Commission	2	3	8	8

* Includes other gains.

** Includes other losses.

*** Independent Integrity agencies within the Premier and Cabinet portfolio.

Source: Agencies' audited 2022–23 financial statements.

2.2 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued on agencies' financial statements

Unqualified audit opinions were issued on all portfolio agencies' 30 June 2023 financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

The number of identified monetary misstatements decreased in 2022–23

The number of monetary misstatements identified during the audits of portfolio agencies' financial statements decreased from 15 in 2021–22 to 12 in 2022–23. A monetary misstatement is an error in amount recognised in the financial statements initially submitted for audit. In our view, misstatements should be corrected. They are reported to management for this purpose. Management has determined not to correct some errors because they are not material, either individually or in aggregate. These are reported in this report as 'uncorrected misstatements'.

Reported corrected misstatements decreased from six in 2021–22 to three in 2022–23 with a gross value of \$381,000. Reported uncorrected misstatements remained at nine in 2022–23 with a gross value of \$2.45 million.

The table below shows the number and quantum of monetary misstatements for the past two years.

Year ended 30 June	2023		2022	
	✓	!	✓	!
Less than \$50,000	--	2	1	6
\$50,000 to \$249,999	3	4	0	2
\$250,000 to \$999,999	--	3	2	0
\$1 million to \$4,999,999	--	--	1	1
\$5 million and greater	--	--	2	--
Total number of misstatements	3	9	6	9
Key	✓	!		
	Corrected misstatements	Uncorrected misstatements		

Source: Engagement Closing Reports issued by the Audit Office of New South Wales.

The table below shows the number of corrected and uncorrected monetary misstatements for the past two years by portfolio agency.

	2022–23			2021–22		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Department of Premier and Cabinet	3	--	3	1	3	4
Parliamentary Counsel's Office	--	--	--	4	--	4
Public Service Commission	--	1	1	--	--	--
Independent Commission Against Corruption	2	--	2	3	1	4
Law Enforcement Conduct Commission	1	--	1	1	--	1
New South Wales Electoral Commission	--	--	--	--	1	1
Ombudsman's Office	1	--	1	--	1	1
Aboriginal Languages Trust	--	1	1	--	--	--
Independent Pricing and Regulatory Tribunal	2	--	2	--	--	--
Natural Resources Commission	--	1	1	--	--	--

Source: Engagement Closing Reports issued by the Audit Office of New South Wales.

Four agencies self-assessed under the GSF regulation as exempt from reporting obligations in 2022–23

Part 3A, Division 2 of the Government Sector Finance Regulation 2018 (GSF Regulation) prescribes certain kinds of GSF agencies not to be a reporting GSF agency. The GSF Regulation, which is administered by NSW Treasury, sought to exempt certain agencies from the requirement to prepare financial statements under section 7.6 of the *Government Sector Finance Act 2018* (GSF Act).

Small agencies were exempted from financial reporting under clause 9D if they met all of the following requirements:

- the assets, liabilities, income, expenses, commitments and contingent liabilities of the agency are each less than \$5 million
- the total cash or cash equivalents held by the agency is less than \$2.5 million
- at least 95% of the agency's income is derived from money paid out of the Consolidated Fund or money provided by other GSF agencies
- the agency does not administer legislation for a Minister by or under which members of the public are regulated.

Special purpose staff agencies were exempted from financial reporting under clause 9F of the GSF Regulation where the agency was comprised solely of persons who were employed to enable another particular GSF agency to exercise its functions.

Other exemption categories include crown land managers (clause 9E), common trusts (clause 9EA) and retained State interests (clause 9G).

For 2022–23, the following agencies did not prepare annual financial statements.

Agencies	GSF Regulation reference	Basis for reporting exemption
Small agencies		
Office of the Inspector of Law Enforcement Conduct Commission	Part 3A, Division 2, Section 9D of the GSF Regulation	<p>GSF Regulation prescribes a GSF agency meeting all the following requirements not to be a reporting GSF agency:</p> <ul style="list-style-type: none"> the assets, liabilities, income, expenses, commitments and contingent liabilities of the agency are each less than \$5 million the total cash or cash equivalent held by the agency is less than \$2.5 million at least 95% of the agency's income is derived from money paid out of the Consolidated Fund or money provided by other GSF agencies the agency does not administer legislation for a minister by or under which members of the public are regulated.
Special purpose staff agencies		
New South Wales Electoral Commission Staff Agency Office of the Law Enforcement Conduct Commission Staff Agency Natural Resources Commission Staff Agency Independent Pricing and Regulatory Tribunal Staff Agency	Part 3A, Division 2, Section 9F of the GSF Regulation	GSF Regulation prescribes a GSF agency that comprises solely of persons who are employed to enable another particular GSF agency to exercise its function not to be a reporting GSF agency.

Matters around the effectiveness of the exemptions framework will be included in our Report on State Finances.

Paid Parental Leave Entitlements

On 27 September 2022 the former Department of Premier and Cabinet issued a determination that provided for a change to the paid parental leave scheme (the scheme) for all NSW government employees with children born on or after 1 October 2022. This change expanded on previous parental leave entitlements and provided greater access to paid parental leave to eligible public sector employees, regardless of gender. These changes created a new legal obligation for agencies, which needed to be assessed and recorded within their financial statements.

Agencies within the Premier and Cabinet portfolio had not evaluated the change to the paid parental scheme for any financial-statement related impacts prior to financial statements being submitted for audit. Given the accumulating nature of the entitlement, a collective liability of \$1.1 million, of which the department accounted for \$683,000 or 68%, should have been reported in the individual financial statements of agency within the Premier and Cabinet portfolio.

Apart from Public Service Commission, the remaining impacted agencies concluded that the effect of not correcting the misstatements were not material individually, nor in aggregate to their financial statements as a whole.

Recommendation

Portfolio agencies should ensure any changes to employee entitlements are assessed for their potential financial statements impact under the relevant Australian Accounting Standards.

2.3 Timeliness of financial reporting




Early close procedures

Early close mandatory procedures were submitted on time for all portfolio agencies

NSW Treasury introduced early close procedures to improve the quality and timeliness of year-end financial statements. In February 2023, NSW Treasury reissued Treasurer's Direction TD19-02 'Mandatory Early Close as at 31 March each year' (TD19-02) and reissued Treasury Policy and Guidelines TPG22-11 'Agency Direction for the 2022–23 Mandatory Early Close'. These pronouncements require the GSF agencies listed in Appendix A of TD19-02 to perform the mandatory early close procedures and provide the outcomes to the audit team by 27 April 2023. The 17 mandatory procedures are listed in [Appendix one](#).

Portfolio agencies met the statutory deadline for submitting their 2022–23 early close financial statements and other mandatory procedures.


The table below summarises the agencies' completion of the 17 mandatory early close procedures noting that some procedures are not relevant to all agencies.

Agency	Completed 	Not completed 	Not applicable 
Principal department			
Department of Premier and Cabinet	11	2	4
Other portfolio agencies			
Parliamentary Counsel's Office	7	--	10
Public Service Commission	9	--	8
Independent Commission Against Corruption	12	--	5
Law Enforcement Conduct Commission	9	--	8
New South Wales Electoral Commission	9	--	8
Ombudsman's Office	9	--	8
Aboriginal Languages Trust	--	--	17
Independent Pricing and Regulatory Tribunal	9	--	8
Natural Resources Commission	9	--	8

Source: Reports on early close procedures 2023 issued by the Audit Office of New South Wales.

Agencies need to improve their completion of early close procedures

The following portfolio agency did not complete all mandatory early close procedures:

Portfolio agencies	Not completed 	Description of incomplete early close procedures
Principal department		
Department of Premier and Cabinet	2	<p>Revaluation of non-financial assets</p> <p>The department did not finalise asset revaluation for its Heritage and cultural assets of \$8.5 million which were due for a comprehensive revaluation in 2022–23.</p> <p>Finalise assessment of all revenue contracts</p> <p>The department did not perform and document the review of revenue contracts.</p>

Source: Reports on early close procedures 2023 issued by the Audit Office of New South Wales.

The review of agencies' early close procedures found more work needs to be done to:

- complete all revaluation of property, plant and equipment in a timely manner
- close off matters raised in prior year management letter and engagement closing reports.

Year-end financial reporting

NSW Treasury required all agencies to submit their financial statements by 1 August 2023

In June 2023, NSW Treasury issued a suite of Treasurer's Directions and Treasury Policy and Guidelines for 2022–23 financial reporting requirements and timetables:

- Treasurer's Direction TD21-02 'Mandatory Annual Returns to Treasury' (TD21-02) and Treasury Policy and Guidelines TPG23-13 'Agency Direction for the 2022–23 Mandatory Annual Returns to Treasury' require agencies listed in the Appendix A of TD21-02 to submit their 2022–23 financial statements to both NSW Treasury and the Audit Office by 1 August 2023.
- Treasury Policy and Guidelines TPG23-14 'Agency guidelines for the 2022–23 Mandatory Annual Returns to Treasury for New South Wales public sector agencies that are not included in TD21-02' requires New South Wales public sector agencies not listed in Appendix A of TD21-02 to submit their draft 2022–23 financial statements to NSW Treasury by 1 August 2023.

NSW Treasury extended the year-end submission deadline for agencies to provide the note to the financial statements that provides disclosures on appropriations to 11 August 2023. The submission date for the rest of the financial statements (that is, excluding the appropriations disclosures) remained as 1 August 2023. The extension was granted under clause 7A of TD21-02.

Treasurer's Direction TD21-03 'Submission of Annual GSF Financial Statements to the Auditor-General' requires reporting GSF agencies that are not listed in Appendix A of TD21-02 to submit their annual financial statements for audit within six weeks after the year end.

Financial statements were submitted on time for all portfolio agencies

Portfolio agencies met the reporting deadlines for submitting their 2022–23 year-end financial statements.

The *Government Sector Audit Act 1983* does not specify the statutory deadline for issuing the audit reports. At the date of this report, the audits of all portfolio agencies financial statements have been completed.

The table below shows the timeliness of the year-end financial reporting for portfolio agencies.

Timeliness of financial reporting

Portfolio agencies	2022–23 Financial statements submission	Date audit report was issued
Department of Premier and Cabinet - Principal department	✓	24 October 2023
Parliamentary Counsel's Office	✓	22 September 2023
Public Service Commission	✓	3 October 2023
Independent Commission Against Corruption	✓	18 September 2023
Law Enforcement Conduct Commission	✓	26 September 2023
New South Wales Electoral Commission	✓	18 October 2023
Ombudsman's Office	✓	21 September 2023
Aboriginal Languages Trust	✓	30 October 2023
Independent Pricing and Regulatory Tribunal	✓	18 October 2023
Natural Resources Commission	✓	22 September 2023



Treasury's reporting deadline was met.



Treasury's approved extension timeframe was met.




Treasury's reporting deadline was not met.

2.4 Key financial statement risks

The table below details our specific audit coverage and response over key areas of financial statements risks that had the potential to impact the financial statements of significant portfolio agencies.


Department of Premier and Cabinet

Department of Premier and Cabinet supports the portfolio's strategic direction, coordination and delivery role across government for the people of NSW.

	Key financial statement risk	Audit response
 Fair value assessment \$176.7 million	Fair value assessment of property, plant and equipment The department revalued its Heritage and Cultural assets collection of \$8.5 million and land and buildings of \$168.2 million in 2022–23. This included an assessment of whether there are indicators that the carrying amount of other assets differs materially from its fair value at reporting date. Our audit risk is higher for this balance, because these assets are proportionately significant to the financial statements of the department, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.	 Our audit procedures included review of the experts report and management's fair valuation documentation and disclosure to ensure that they are in accordance with the relevant Australian Accounting Standards and applicable Treasury policies and procedures. Our review of the valuation for Heritage and Cultural assets collection identified improvements in the comprehensive revaluation undertaken.


Independent Commission Against Corruption

The Independent Commission Against Corruption (ICAC) was established by the NSW Government in 1988 in response to growing community concern about the integrity of public administration in NSW. ICAC's principal functions are to investigate and expose corrupt conduct in the NSW public sector, actively prevent corruption through advice and assistance and to educate the NSW community and public sector about corruption and its effects.

	Key financial statement risk	Audit response
 Capital projects	Capital projects ICAC undertook capital projects of \$1.9 million during 2022–23, including the upgrade of the CCTV system for physical security and hardware replacement. Our audit risk rating is higher because the accounting treatment of capital project costs could be inconsistent with relevant Australian Accounting Standards and applicable Treasury policies and procedures.	 Our audit procedures included assessing whether the capital expenditure was valid, how costs were classified between expenses and assets, recording of costs into separate identifiable assets in the asset register, timeliness of asset additions to the asset register, ensuring replaced assets were removed from the asset register, the process for capitalising work in progress and ensuring financial statements included all relevant disclosures in accordance with the Australian Accounting Standards.


New South Wales Electoral Commission

The New South Wales Electoral Commission (Electoral Commission) is legislated to conduct, regulate, and report on general elections and by-elections for the Parliament of New South Wales. They also provide electoral services to local governments.

	Key financial statement risk	Audit response
 <p>Capital projects \$6.6 million</p>	<p>Capital projects</p> <p>The Electoral Commission spent \$6.6 million from its capital expenditure budget to enhance and secure its online management systems.</p> <p>Our audit risk rating is higher because the accounting treatment of capital project costs could be inconsistent with requirements of the relevant Australian Accounting Standards and applicable Treasury policies and procedures.</p>	<p>Our audit procedures included assessing whether the capital expenditure was valid, how costs were classified between expenses and assets, recording of costs into separate identifiable assets in the asset register, timeliness of asset additions to the asset register, ensuring replaced assets were removed from the asset register, the process for capitalising work in progress and ensuring financial statements included all relevant disclosures in accordance with the Australian Accounting Standards.</p>


Ombudsman's Office

Ombudsman's Office, led by the NSW Ombudsman, is an independent and impartial integrity agency which watches over most NSW public sector agencies and some community service providers. They help to ensure these organisations and their staff do their jobs properly and meet their responsibilities to the community.

	Key financial statement risk	Audit response
 <p>Changes in the organisation, increase in size and operations</p>	<p>Changes in the organisation, increase in size and operations</p> <p>Ombudsman's Office received appropriations from NSW Treasury of \$38.8 million, an increase of \$13.4 million compared to 2021–22 and incurred employee related costs of \$23.4 million, an increase of \$6.2 million compared to 2021–22 to implement new and enhanced functions, effect changes in the organisational structure and commence a range of strategic projects.</p> <p>Our audit risk rating is higher because during expansion and growth in operations there is an increased risk of breakdown in controls, for example, reviews and reconciliations not occurring in a timely manner or staff approving transactions outside of their delegations.</p>	<p>Our audit procedures included reviewing the updated delegations manual, understanding of changes to the control environment and performing sample testing of expenses.</p>

Independent Pricing and Regulatory Tribunal

The Independent Pricing and Regulatory Tribunal (IPART) strives to make the people of NSW better off through decisions and advice independently of government. The Tribunal is the independent pricing regulator for water, public transport, local government, as well as the licence administrator of water, electricity and gas and the scheme administrator and regulator for the Energy Savings Scheme.

	Key financial statement risk	Audit response
 Energy Security Safeguard legislation implementation System Upgrade Project	Energy Security Safeguard legislation implementation System Upgrade Project IPART is the administrator and regulator for the Energy Security Safeguard. It launched a new IT system in September 2022 to support the Safeguard. IPART has assessed and determined that the IT system is a 'software as a service', which is not deemed to be capital in nature. Our audit risk rating is higher because during a period of change there is an increased risk of breakdown in controls, for example, reviews and reconciliations not occurring in a timely manner or staff approving transactions outside of their delegations.	 Our audit procedures included the assessment and testing of the impact of the project on IPART. IPART incurred \$3.2 million (\$3.8 million in 2022) in operating expenditure during the year and invoiced Department of Planning and Environment \$800,000 (\$1.4 million in 2022) for reimbursement of costs incurred.

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 statement audits of agencies in the Premier and Cabinet portfolio.

Section highlights

- The 2022–23 audits identified eight moderate risk issues across the portfolio of agencies. Of these, two were repeat issues, and related to password and security configuration and management of excessive annual leave.
- The total number of findings increased from ten to 20, which mainly related to deficiencies in controls over financial reporting and governance and oversight.
- The most common repeat issues related to weaknesses in controls over financial reporting.

3.1 Findings reported to management












The number of findings reported to management has increased, and 30% were repeat issues

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. Deficiencies in internal controls, matters of governance interest and unresolved issues were reported to management and those charged with governance of agencies. The Audit Office does this through management letters, which include observations, related implications, recommendations and risk ratings.

In 2022–23, there were 20 findings raised across the portfolio (ten in 2021–22). Thirty per cent were repeat issues (40% in 2021–22). The most common repeat issues related to weaknesses in controls over financial reporting.

A delay in implementing audit recommendations increases the risk of intentional and accidental errors in processing information, producing management reports and generating financial statements. This can impair decision-making, affect service delivery and expose agencies to fraud, financial loss and reputational damage. Poor controls may also mean agency staff are less likely to follow internal policies, inadvertently causing the agency not to comply with legislation, regulation and central agency policies.

The table below describes the common issues identified across the portfolio by category and risk rating:

Risk rating	Issue
Information technology	
 Moderate: 2 new, 1 repeat  Low: 1 repeat	<p>The financial audits identified the need for agencies to improve information technology 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"> password and security configuration insufficient testing of IT disaster recovery plans system issues resulting in incorrect posting of transactions.
Internal control deficiencies or improvements	
 Moderate: 2 new  Low: 2 new	<p>The financial audits identified internal control deficiencies across key business processes, including:</p> <ul style="list-style-type: none"> lack of review of payroll exception reports no movement in long outstanding debtors key management personnel declarations.
Financial reporting	
 Moderate: 2 new, 1 repeat  Low: 4 new, 1 repeat	<p>The financial audits identified the need for agencies to strengthen financial reporting, including:</p> <ul style="list-style-type: none"> Management of excess annual leave valuation of assets to include all assets and ensuring all assets are sighted by the expert management's fair valuation assessment to include a review the condition of the assets and consider any impairment indicators assessing financial reporting impact of parental leave provision.
Governance and oversight	
 Low: 2 new, 2 repeat	<p>The financial audits identified the need for agencies to improve governance and oversight processes, including:</p> <ul style="list-style-type: none"> updating outdated policies and procedures in relation to the application and use of purchasing cards, backups, cost recovery, legislative compliance and code of ethics and conduct better monitoring and review of purchasing card transactions.
 Extreme risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.  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.

The number of moderate risk findings increased from prior year

Eight moderate risk findings were reported in 2022–23, up from four in 2021–22. Of these, two were repeat findings, and six were new issues.

Moderate risk findings mainly related to:

- password and security configuration
- deficiencies in processes for valuation of assets
- lack of conflict of interest declaration
- management of excessive annual leave.

Recommendation

We recommend portfolio agencies prioritise and action recommendations to address the internal control deficiencies outlined above.

Section two

Appendices

Appendix one – Early close procedures

No.	Procedure	Description
1	Revaluation of material non-financial assets	Complete (as required) the comprehensive revaluation of property, plant and equipment and other non-financial asset valuations by early close.
2	Fair value assessment of non-financial assets	Document the annual assessment of the fair value of non-financial assets, including property, plant and equipment. This should consider their useful lives and residual values, and the reasons why the carrying value was not materially different to the fair value. This assessment is performed between comprehensive revaluations.
3	Update employee annual leave provisions	Reconcile and calculate annual leave provisions. The balances calculated for the early close 31 March financial statements must be rolled forward with adjustments for monthly accruals and actual payments as part of the 30 June financial statements.
4	Inter and intra (cluster/portfolio) agency transactions and balances	Agree and confirm all inter and intra (cluster/portfolio) agency balances and transactions with the counterparty agency.
5	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.
6	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.
7	Reconcile March 2023 month-end Prime submission to the proforma financial statements	Reconcile the March 2023 month-end Prime submission to the proforma financial statements and provide explanations for variances above \$5 million.
8	Changes in accounting policy	Review and agree changes in accounting policy with the principal cluster/portfolio agency.
9	Proforma financial statements and supporting information	Complete proforma financial statements and provide supporting information in relation to the notes to the financial statements.
10	Finalise right-of-use assets and lease liability balances	Ensure that all lease arrangements are accurate and complete.
11	Finalise assessment of all revenue contracts	Ensure revenue is accurate and complete and has been correctly accounted for under AASB 15 'Revenue from Contracts with Customers' or AASB 1058 'Income of Not-for-Profit Entities'.
12	Correction of material prior period errors	Confirm there are no changes to the 2021–22 closing balances. Proposed changes are accompanied by journals, explanations and proposed disclosures.
13	Monthly management reports	Perform variance analysis with meaningful explanations for actuals versus budget, and year-to-date actuals for the previous year.
14	Accounting treatment for restructures and discontinued/abolished agencies	Identify and document the accounting treatment for changes to agency structures resulting from legislative or other changes.

No.	Procedure	Description
15	Delegations	Ensure all material transactions are supported by appropriate delegations.
16	Prior year Management Letter and Engagement Closing Report issues	Agreed action plans are in place to address prior year Management Letter and Engagement Closing Report issues. Explanations are provided for any unresolved issues(s).
17	Complete Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements	Complete and return the 'Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements' for all new and amended Commonwealth Funding Agreements entered or amended during the 2022–23 financial year.

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)

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