



FINANCIAL AUDIT

29 NOVEMBER 2023

# Regional NSW 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 '**Regional NSW 2023**'.

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

**Margaret Crawford PSM**

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**

## **Regional NSW 2023**

This report analyses the results of our audits of the Regional NSW portfolio of agencies for the year ended 30 June 2023.

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# 1. Introduction

This report provides Parliament and other users of the Regional NSW 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

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### Regional NSW

#### Key agencies



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 Regional NSW portfolio:** Build regional economies and communities, grow primary industries, manage the sustainable use of regional land and the state's mineral and mining resources.

State outcomes	Description
<b>Stronger and cohesive regional communities and economies</b>	Focusing on community wellbeing and economic growth in regional New South Wales.
<b>Stronger primary industries</b>	Focusing on primary industries' productivity, growth and ensuring the sector's sustainability for the benefit of all citizens.
<b>Mineral and petroleum industries generating prosperity, safely</b>	Supporting and growing responsible mining and exploration across regional New South Wales.
<b>Productive and sustainable land use</b>	Enhancing the use of the State's public and private lands, by supporting their sustainability, use and productivity.

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 Orders.

On 1 July 2022, the 'Administrative Arrangements (Administrative Changes-Miscellaneous Order) 2022 (NSW) Part 2' transferred the persons employed in the Local Land Services Staff Agency who are principally involved in the administration of the *Soil Conservation Act 1938* to the Department of Regional New South Wales (the Department). This order resulted in a transfer of employee liabilities of \$2.6 million and assets of \$42.2 million from Local Land Services to the Department.

On 5 April 2023, the 'Administrative Arrangements (Minns Ministry - Administration of Acts) Order 2023' transferred the administration of *Border Fence Maintenance Act 1921 No 17* from the Minister for Agriculture to the Minister for Lands and Property. This marked the Border Fence Maintenance Board moving out to the Department of Planning and Environment portfolio.

On 1 July 2023, the 'Administrative Arrangements (Administrative Changes – Miscellaneous) Order (No.4) 2023' transferred staff employed in the Northern Rivers Reconstruction Corporation (NRRC) Division of the Department of Regional NSW to the NSW Reconstruction Authority Staff Agency in the Department of Planning and Environment.

On 31 October 2023, the 'Growth Centres (Development Corporations) Amendment (Dissolution of Northern Rivers Reconstruction Corporation) Order 2023' dissolved the NRRC. On the same day of the dissolution NRRC's assets and liabilities were transferred to the NSW Reconstruction Authority under the Growth Centres (Development Corporations) Savings and Transitional Amendment Regulation 2023.

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## 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 Regional NSW portfolio of agencies (the portfolio) for 2023.

### Section highlights

- Unqualified audit opinions were issued on all completed 30 June 2023 financial statements audits of the portfolio agencies. Two audits are ongoing.
- The total number of errors (including corrected and uncorrected) in the financial statements increased compared to the prior year.
- Portfolio agencies met the statutory deadline for submitting their 2022–23 early close financial statements and other mandatory procedures.
- Portfolio agencies continue to provide financial assistance to communities affected by natural disasters.
- A change to the NSW paid parental leave scheme, effective October 2023, created a new legal obligation that needed to be recognised by impacted government agencies. Impact to the agencies' financial statements were not material.



## 2.1 Portfolio financial information 2023

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
<b>Principal department</b>				
Department of Regional NSW	1,615.1	598.9	3,019.6	2,650.0
<b>Other portfolio agencies listed in Appendix A of Treasurer's Direction TD21-02</b>				
Forestry Corporation of New South Wales	2,233.0	754.4	387.2	387.5
Local Land Services	1,959.9	63.5	251.2	252.8
New South Wales Rural Assistance Authority	882.5	840.6	870.8	844.7
Northern Rivers Reconstruction Corporation	140.3	94.6	170.5	124.8
NSW Food Authority	31.3	5.3	17.3	16.1
Regional Growth NSW Development Corporation	258.5	29.9	139.0	11.4

\* Includes other gains.

\*\* Includes other losses.

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 completed agencies' 30 June 2023 financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

Audits are ongoing for CB Alexander Foundation and the Coal Innovation NSW Fund.

#### The number of identified monetary misstatements increased in 2022–23

The number of monetary misstatements identified during the audits of portfolio agencies' financial statements increased from 28 in 2021–22 to 30 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 increased from 20 in 2021–22 to 26 with a gross value of \$70.7 million in 2022–23.

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	8	--	5	5
\$50,000 to \$249,999	4	--	7	2
\$250,000 to \$999,999	2	3	1	1
\$1 million to \$4,999,999	4	1	4	--
\$5 million and greater	8	--	3	--
<b>Total number of misstatements</b>	<b>26</b>	<b>4</b>	<b>20</b>	<b>8</b>
<b>Key</b>	<b>✓</b>	<b>!</b>		
	<b>Corrected misstatements</b>	<b>Uncorrected misstatements</b>		

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

Refer to [Appendix one](#) for details of corrected and uncorrected monetary misstatements for the past two years by portfolio agency.

Of the 26 corrected monetary misstatements, eight had a gross value of greater than \$5 million and related to the following:

Agency	Description of corrected misstatements > \$5 million
Department of Regional NSW	<ul style="list-style-type: none"> <li>Overstatement of land assets estimated at \$8.3 million arising from comprehensive revaluation exercise.</li> <li>Understatement of accrued grant revenue from Snowy Hydro Legacy Fund: <ul style="list-style-type: none"> <li>\$8.2 million for Farms of the Future grant.</li> </ul> </li> <li>Understatements of accrued grant revenue from NSW Reconstruction Authority: <ul style="list-style-type: none"> <li>\$7.6 million for Bushfire Community Recovery and Resilience Fund</li> <li>\$8.2 million for Supply Chain Support Grants Flood Recovery.</li> </ul> </li> <li>Understatements of accrued grant subsidy expense: <ul style="list-style-type: none"> <li>\$7.5 million of grant expenses for Destination NSW</li> <li>\$5 million for construction of Department of Planning and Environment's Liddell Power Station.</li> </ul> </li> </ul>
New South Wales Rural Assistance Authority	Overstatement of liability and assets by \$8.2 million as it relates to the administered transaction.
Northern Rivers Reconstruction Corporation	Contracts exchanged but not settled for the land assets under the Resilient Homes Buyback Scheme were disclosed as assets under construction. This resulted in reclassification of \$7.8 million from assets under construction to other assets.

Reported uncorrected misstatements decreased from eight in 2021–22 to four with a gross value of \$3 million in 2022–23. Of the four identified uncorrected errors, one totalled \$1 million relating to the Local Land Services. Underpinning this error was a failure by management to adequately follow up reconciling items between the general ledger and an underlying subsidiary system. We extended our audit procedures and concluded the control deficiency did not present a risk of material misstatement to LLS' financial statements and reported the issue to management.

## Fourteen agencies were exempted from financial reporting 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. For 2022–23, the following portfolio agencies have assessed and determined they met the reporting exemption criteria under the GSF Regulation, and therefore were not required to prepare annual financial statements.

Exempted agencies	GSF Regulation reference	Basis for reporting exemption
<b>Small agencies</b>		
Fisheries Administration Ministerial Corporation Local Land Services' Local Boards:	Part 3A, Division 2, Section 9D of the GSF Regulation	GSF Regulation prescribes a GSF agency meeting all the following requirements not to be a reporting GSF agency:
<ul style="list-style-type: none"> <li>• Central Tablelands</li> <li>• Central West</li> <li>• Greater Sydney</li> <li>• Hunter</li> <li>• Murray</li> <li>• North Coast</li> <li>• Northern Tablelands</li> <li>• North West</li> <li>• Riverina</li> <li>• South East</li> <li>• Western</li> </ul>		
Soil Conservation Commission		
		Management has assessed these agencies against the criteria and concluded that they have met all requirements. Therefore they were not required to prepare financial statements in 2022–23
<b>Special purpose staff agency</b>		
Local Land Services 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.  Staff agency satisfies this requirement and therefore is exempted from preparing financial statements in 2022–23. This exemption is standing in nature and continue from the previous year.

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

## 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 two](#).

The portfolio agencies performed early close procedures as at 28 February 2023 due to Process and Technology Harmonisation (PaTH) program migration. Portfolio agencies met the statutory deadline for submitting their 2022–23 early close financial statements and other mandatory procedures. The Local Land Services delayed their submission of certain early close mandatory procedures.

#### Local Land Services need to improve their completion of early close procedures

The Local Land Services did not complete all mandatory early close procedures:

Portfolio agencies	Not completed	Description of incomplete early close procedures
		
Other agencies listed in Appendix A of TD19-02		
Local Land Services	2	<p><b>Fair value assessment of non-financial assets</b></p> <ul style="list-style-type: none"><li>• fair value assessment of Travelling Stock Route Improvement (TSRI) assets were not completed as the physical verification of the TSRI was ongoing.</li><li>• review of the appropriateness of the underlying assumptions used in the fair value assessment of TSR Land was ongoing.</li></ul> <p><b>Significant management judgements and assumption</b></p> <p>Significant management judgement and assumptions were not completed in time for early close due to incomplete fair value assessment of asset classes.</p>

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

### Recommendation

**Local land services should ensure all applicable mandatory early close procedures are completed to support the financial statements audit in accordance with deadlines set by NSW Treasury.**

## 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.

The following agency obtained NSW Treasury's approval to extend submission of their 30 June 2023 financial statements.

Portfolio agencies	Revised deadline	Reason
Local Land Services	22 August 2023	To complete and incorporate the valuation assessment of TSR Land.

### 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 financial statements audits of CB Alexander Foundation and Coal Innovation NSW Fund remain outstanding.

The table in [Appendix three](#) shows the timeliness of the year-end financial reporting for portfolio agencies.

## 2.4 Key accounting issues

### Process and Technology Harmonisation (PaTH) program

On 1 November 2021, the Department of Communities and Justice assumed responsibility to deliver the PaTH program. The program aims to standardise corporate and shared services functions.

Agencies were onboarded onto the new ERP in two distinct tranches. Wave 1a, comprising 21 agencies from the Regional NSW and Planning and Environment portfolios, were onboarded on 3 April 2023.



## Agencies continue to respond to natural disasters

In 2022–23, the NSW Government continues to assist communities in their recovery from recent weather emergencies including significant flooding in New South Wales. There were significant financial implications in the following agencies:

- The New South Wales Rural Assistance Authority (RAA) provided financial assistance programs to producers, business operators and regional communities to help them recover from natural disaster events and become more resilient, self reliant and sustainable. Flood recovery grants and subsidies paid by RAA increased by \$502.3 million from \$200.5 million in 2021–22 to \$702.8 million in 2022–23.
- The department provided flood clean up services (\$43 million) and assisted the NSW government procure and construct temporary housing villages under the Northern Rivers Flood Recovery Temporary Housing Program.
- As part of the Resilient Homes Program's home buy back stream, the Northern Rivers Reconstruction Corporation (NRRRC) settled fourteen contracts (\$1.3 million), exchanged 61 contracts (\$7.8 million), and has accepted but not yet exchanged 95 offers (\$49.8 million) with homeowners during 2022–23.

The Audit Office's performance audit on '[Flood housing response](#)' will assess how effectively the NSW Government responded to the need for emergency accommodation and temporary housing following the early 2022 Northern Rivers and late 2022 Central West flood events. consider select aspects of the government's response to the recent flooding events in New South Wales.

## 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 Regional NSW portfolio had not evaluated the change to the paid parental scheme for any financial statement related impacted prior to financial statements being submitted for audit. Given the accumulating nature of the entitlement, a collective liability of \$1.9 million of which the Department accounted for \$1.2 million or 63%, should have been reported in the individual financial statements of agency within the Regional NSW portfolio. Impacted agencies elected not to record them in the financial statements. Agencies concluded that the effect of not correcting the misstatements was not material individually, or in aggregate to their financial statements.

### Recommendation

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

## 2.5 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 of agencies.

### Department of Regional NSW

The department of Regional NSW (department) is the central NSW Government agency with responsibility for delivering outcome for regional economies and communities, strengthening primary industries, managing the use of New South Wales regional land, and overseeing the State's mineral and mining resources.

	Key financial statement risk	Audit response
 <p><b>Property, plant and equipment</b> \$692.4 million</p>	<p>The department's property, plant and equipment consist of agricultural and livestock research, laboratory and general administration land, building and specialised assets such as artificial reefs and agricultural institutes infrastructure assets, which are measured at fair value based on market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially 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.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>
 <p><b>Grants and subsidies</b> \$1,219.4 million</p>	<p>The department's grants and subsidies expenses consist of payments made to portfolio of agencies for their normal business operations, payments made to various state and local government agencies and regional communities under Stronger Country and regional Communities Development Programs and Natural Disaster Recovery Packages.</p> <p>Our audit risk rating for grants and subsidies expenditures is higher because these expenses represent a significant proportion of the department's total expenditure. The grant management office processed a high volume of grant applications and acquittals which incorporate judgements in reviewing and approving the grants and subsidies.</p>	<p>Our audit procedures included evaluating the design and implementation of key controls over grants and subsidies expenditure processes and systems. In addition, our procedures included testing a sample of grants and subsidies expenses to underlying supporting evidence and approval by the appropriate delegated authorities.</p>


## Forestry Corporation of NSW

The Forestry Corporation of New South Wales (Forestry Corporation) is a NSW state-owned corporation responsible for managing native forests and plantations for environmental sustainability and renewable timber production. This involves replanting and regeneration operations, planning and managing harvest operations and marketing and delivering timber products.

	Key financial statement risk	Audit response
 <p><b>Property, plant and equipment</b> \$1,412.5 million</p>	<p>The Forestry Corporation's property, plant and equipment consists of \$1,412.5 million, which are measured at fair value based on market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the Forestry Corporation, 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.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>
 <p><b>Biological assets</b> \$626.3 million</p>	<p>The Forestry Corporation's biological assets primarily consist of plantation timbers, which were measured at fair value less cost to sell as required by AASB 141 Agriculture and AASB 13 Fair Value Measurement.</p> <p>Our audit risk rating for the biological assets is higher because these assets are financially significant to the financial statements of the Forestry Corporation, 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.</p>	<p>Our audit procedures included assessing the competence and objectivity of management's valuation experts; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>
 <p><b>Defined benefits Superannuation liabilities</b> \$21.7 million</p>	<p>The Forestry Corporation's defined benefit net superannuation liability balance was provided to the Corporation by the Administrator of the SAS Trustee (State Super), based on an independent actuarial assessment.</p> <p>Our audit risk rating for the defined benefit superannuation liabilities is higher because these liabilities are financially significant to the financial statements of the Forestry Corporation and the underlying valuation model is complex due to the high degree of judgements and estimates when determining its fair value. The value of these liabilities is also sensitive to minor changes in the valuation inputs.</p>	<p>Our audit procedures included assessing the competence and objectivity of management's actuarial experts; assessing the completeness and accuracy of the membership data used in the model, reviewing the appropriateness of the valuation model, significant inputs and judgements applied in the valuation; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>



# Local Land Services

The Local Land Services (LLS) is a regional-focused NSW Government agency responsible for delivering customer service to farmers, landholders and the wider community.

 <p>Property, plant and equipment \$1,835.3 million</p>	Key financial statement risk	Audit response
	<p>The LLS's property plant and equipment consists of freehold land and buildings, crown land, travelling stock reserve (TSR) land, stock watering place land and improvements on TSR land. These asset classes are measured at fair value based on either mass valuation technique, market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the LLS 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.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>

## New South Wales Rural Assistance Authority


The New South Wales Rural Assistance Authority (RAA) is a statutory body and is responsible to provide financial assistance programs including loans, grants, rebates and subsidies on behalf of both the NSW and Australian Governments.

	Key financial statement risk	Audit response
 <p><b>Loans to customers</b> \$607.8 million</p>	<p>RAA's loans to customers are largely under the following programs:</p> <ul style="list-style-type: none"> <li>• Farm Innovation Fund \$61.8 million</li> <li>• Drought relief \$4.9 million</li> <li>• Disaster relief \$13.2 million.</li> </ul> <p>Our audit risk rating for the loans to customers is higher because these loan receivables are financially significant to RAA's statement of financial position. Significant key assumptions and judgement is involved in estimating the expected credit loss provision on the loan balances.</p>	<p>Our audit procedures included understanding and reviewing loan agreements to assess the reasonableness of the accounting treatment. In addition, our procedures included testing sample of loans to ensure the approval of the loans were in place and agreed to underlying supporting documents; and reviewing the reasonableness of the significant judgements and estimates applied on the expected credit loss provision calculation.</p>
 <p><b>Grants and subsidies</b> \$810.4 million</p>	<p>RAA's grants and subsidies expenses mainly consisted of payments made in response to natural disasters under the following three significant categories:</p> <ul style="list-style-type: none"> <li>• Natural disaster relief grants-floods \$675 million</li> <li>• Critical producer package \$58 million</li> <li>• Flood industry recovery grant \$27 million.</li> </ul> <p>Our audit risk rating for grants and subsidies expenses is higher because these expenses represent a significant proportion of the RAA's total expenditures. The RAA continued to process a high volume of grant applications which incorporate judgements in reviewing and approving the grants and subsidies payments.</p>	<p>Our audit procedures included evaluating design and implementation of controls over grant and subsidies program process. In addition, we tested a sample of grants and subsidies and agreed to underlying supporting evidence.</p>




## Northern Rivers Reconstruction Corporation

The Northern Rivers Reconstruction Corporation (NRRC) is a statutory body that manages the rebuilding of Northern Rivers communities by coordinating planning, rebuilding and construction work across multiple government agencies.

	Key financial statement risk	Audit response
 <p><b>Grants and subsidies</b> \$65.6 million</p>	<p>NRRC's grants and subsidies expenses consist of payments made under the resilient homes program. Eligible applicants who have accepted the buy back offers are paid grants representing the following:</p> <ul style="list-style-type: none"> <li>the difference in pre and post flood value of the land,</li> <li>building value</li> <li>and other hardship compensation under the <i>Land Acquisition (Just Terms Compensation) Act 1991</i>.</li> </ul> <p>Our audit risk rating for grants and subsidies expenses is higher because these expenses represent significant proportion of the NRRC's total expenditure. Significant portion of grant payments are based on the fair value estimates of flood impacted properties. These judgements and estimates require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included evaluating the design and implementation of key controls over grants and subsidies expenditure processes and systems. In addition, our procedures included reviewing the valuation of the buy back properties to underlying supporting evidence and approval by the appropriate delegated authorities.</p>


## NSW Food Authority

The NSW Food Authority (Food Authority) is a NSW Government entity and is responsible for ensuring that food safety standards are implemented in an integrated and consistent way at all points into the food supply chain.

	Key financial statement risk	Audit response
 <p><b>Property, plant and equipment</b> \$12.2 million</p>	<p>The Food Authority's property plant and equipment consists of land and an office building which are measured at fair value based on market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the Food Authority, 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.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>

# Regional Growth Development Corporation

The Regional Growth NSW Development Corporation (RGDC) is a NSW Government entity and is responsible to drive economic growth in regional NSW through Special Activation Precincts.

	Key financial statement risk	Audit response
<div> Property, plant and equipment \$219.6 million</div>	<p>The RGDC's property plant and equipment consists of land and assets under construction acquired to deliver Special Activation Precinct programs mainly in Parkes and Wagga Wagga precincts. Land assets are measured at fair value based on market evidence. Assets under construction are held at cost.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the RGDC, 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. RGDC continues to significantly expand its operations and large capital works create increased financial reporting risks.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p> <p>We tested a sample of assets capitalised and agreed to underlying supporting evidence.</p>

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## 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 Regional NSW portfolio.

### Section highlights

- The 2022–23 audits identified one high risk and nine moderate risk issues across the portfolio. Of these, one was a moderate risk repeat issue.
- The total number of findings decreased from 36 to 23 which mainly related to deficiencies in internal controls.
- The high risk matter relates to the monitoring and managing of privilege user access at NSW Food Authority.

### 3.1 Findings reported to management

#### **The number of findings reported to management has decreased, and nine per cent 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 23 findings raised across the portfolio (36 in 2021–22). Nine per cent of all issues were repeat issues (22% in 2021–22). The repeat issues related to former staff having online access to bank account and the ongoing transactions with the customers holding long-outstanding balances.








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.





## 2022–23 audits identified one high-risk finding

A high risk finding was reported at the NSW Food Authority.

Agency	Description	Assessment of action taken
<b>2022–23 new findings</b>		
NSW Food Authority	Control deficiencies were identified in information technology environment at NSW Food Authority. These included: <ul style="list-style-type: none"> <li>no audit logs of privileged users activities</li> <li>user access review is not done on an annual basis</li> <li>inadequate controls over terminated users.</li> </ul>	The authority has agreed to action the recommendations to assist in improving processes for the 2023–24 audit.

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

Risk rating	Issue	
Information technology		
 High: 1 new	<p>The financial audits identified internal control deficiencies in information technology processes 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"><li>• privileged user access restriction and monitoring</li><li>• lack of formal policies and procedures for key IT activities</li><li>• user access management.</li></ul>	
 Moderate: 2 new		
 Low: 1 new, 1 repeat		
Internal control deficiencies or improvements		
 Moderate: 1 new, 1 repeat	<p>The financial audits identified internal control deficiencies across key business processes, including:</p> <ul style="list-style-type: none"><li>• control of land assets</li><li>• preparation and review of key reconciliations, and the timely resolution of differences</li><li>• absence of purchase orders in procurement process</li><li>• debtors with credit balances</li><li>• deficiencies in identifying related party transactions</li><li>• outdated memorandum of understanding for the natural disaster funding</li><li>• fixed asset management.</li></ul>	
 Low: 8 new		
Financial reporting		
 Moderate: 4 new	<p>The financial audits identified internal control deficiencies in financial reporting processes, including:</p> <ul style="list-style-type: none"><li>• assessing the financial reporting impact of parental leave provisions</li><li>• accuracy of leave liability reports</li><li>• revenue recognition assessment and cut off</li><li>• inconsistent use of general ledger account codes</li></ul>	
 Low: 3 new		

Risk rating	Issue
<b>Governance and oversight</b>	
 Moderate: 1 new	The financial audits identified internal control deficiencies in agencies' governance and oversight processes, including: <ul style="list-style-type: none"> <li>• updating outdated board charter.</li> </ul>
	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 decreased from prior year

Nine moderate risk findings were reported in 2022–23, representing a 40% decrease from 2021–22. Of these one was a repeat issue.

Moderate risk findings mainly related to:

- lack of formal policies and procedures for key IT activities
- weakness in user access management
- use of purchase orders
- assessment and timing of revenue recognition
- assessment of parental leave provision
- general Ledger coding
- lack of updated board charter.

### Recommendation

**Portfolio agencies should prioritise and action recommendations to address internal control deficiencies. Focus should be given to addressing high risk and repeat issues.**



## **Section two**

### Appendices

# Appendix one – Misstatements in financial statements submitted for audit

	2022–23			2021–22		
	Uncorrected#	Corrected	Total	Uncorrected#	Corrected	Total
Agricultural Scientific Collections Trust	1	--	1	--	2	2
Belgenny Farm Agricultural Heritage Centre Trust	--	3	3	1	--	1
CB Alexander Foundation	*	*	*	1	2	3
Coal Innovation NSW Fund	--	1	1	--	3	3
Department of Regional NSW	--	12	12	1	3	4
Fisheries Trust Funds	--	4	4	1	--	1
Forestry Corporation of NSW	--	--	--	--	1	1
Game and Pest Management Trust Fund	--	2	2	--	2	2
Local Land Services	3	--	3	1	--	1
New South Wales Rural Assistance Authority	--	1	1	--	--	--
Northern Rivers Reconstruction Corporation	--	1	1	**	**	**
NSW Food Authority	--	--	--	--	--	--
Regional growth NSW Development Corporation	--	--	--	--	1	1
Rice Marketing Board for the State of New South Wales	--	--	--	--	1	1
Veterinary Practitioners Board	--	2	2	--	1	1
Border Fence Maintenance Board	N/A	N/A	N/A	3	--	3

	2022–23			2021–22		
	Uncorrected#	Corrected	Total	Uncorrected#	Corrected	Total
Wine Grapes Marketing Board	v	v	v	--	1	1
The Trustee for Farrer Memorial Research Scholarship Fund	v	v	v	--	3	3

\* Audits for these agencies are ongoing.

\*\* Agency exempted from financial reporting in FY2021–22.

N/A This agency was transferred out of the Regional NSW portfolio on 5 April 2023.

v These agencies prepare financial statements as at December, 2021–22 comparative information is relating to financial year ended at 31 December 2022.

# Agencies concluded the effect of not correcting the misstatements was immaterial, individually and in aggregate to their financial statements as a whole.

Source: Engagement Closing Reports issued to portfolio agencies.

## Appendix two – 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.

# Appendix three – Timeliness of financial reporting

Portfolio agencies	2022–23 Financial statements submission	Date audit report was issued
Department of Regional NSW	✓	27 September 2023
Agricultural Scientific Collections Trust	✓	17 November 2023
Belgenny Farm Agricultural Heritage Centre Trust	✓	18 October 2023
CB Alexander Foundation	✓	*
Coal Innovation NSW Fund	✓	*
Fisheries Trust Funds	✓	23 October 2023
Forestry Corporation of NSW	✓	4 October 2023
Game and Pest Management Trust Fund	✓	6 October 2023
Local Land Services	—	16 October 2023
New South Wales Rural Assistance Authority	✓	29 September 2023
Northern Rivers Reconstruction Corporation	✓	20 October 2023
NSW Food Authority	✓	28 September 2023
Regional Growth NSW Development Corporation	✓	29 September 2023
Rice Marketing Board for the State of New South Wales	✓	18 September 2023
The Trustee for Farrer Memorial Research Scholarship Fund	**	**
Veterinary Practitioners Board	✓	20 October 2023
Wine Grapes Marketing Board	**	**

- ✓ Treasury's reporting deadline was met.
- Treasury's approved extension timeframe was met.
- ! Treasury's reporting deadline was not met.
- \* Audits for these agencies are ongoing
- \*\* Agency prepare financial statements as at 31 December

## Appendix four – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Portfolio Principal Department</b>								
Department of Regional NSW	1,615	1,144	599	559	3,020	1,637	2,650	1,617
<b>Other portfolio agencies listed in Appendix A of Treasury Direction TD21-02</b>								
Forestry Corporation of NSW	2,233	2,147	754	713	387	403	387	476
Local Land Services	1,960	1,164	64	71	251	294	253	281
NSW Rural Assistance Authority	883	690	841	674	871	280	845	265
Northern River Reconstruction Corporation	140	--	95	--	170	--	125	--
NSW Food Authority	31	26	5	4	17	19	16	18
Regional Growth NSW Development Corporation	258	121	30	27	139	74	11	11
<b>Other portfolio agencies</b>								
Agricultural Scientific Collection Trust	69	67	--	--	--	--	--	--
Belgenny Farm Agricultural Heritage Centre Trust	1	1	1	1	1	--	1	1
Border Fence Maintenance Board	N/A	14	N/A	--	N/A	2	N/A	2
CB Alexander Foundation	***	39	***	2	***	2	***	3
Coal Innovation NSW Fund	***	65	***	3	***	1	***	6
Fisheries Trust Funds	43	43	3	3	23	22	23	21
Game and Pest Management Trust Fund	2	1	--	--	2	2	2	2
Rice Marketing Board	2	2	--	--	1	1	1	1
The Trustee for Farrer Memorial Research Scholarship Fund	****	1	****	--	****	--	****	--
Veterinary Practitioners Board	6	6	1	2	2	1	2	1



	Total assets		Total liabilities		Total revenue*		Total expense**	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Wine Grape Marketing Board	****	3	****	--	****	1	****	1

\* Includes other gains.

\*\* Includes other losses and taxes, if applicable.

\*\*\* Audits of these agencies are ongoing.

\*\*\*\* These agencies prepare financial statements as at December, 2021–22 comparative information is shown.

N/A This agency was transferred out of the Regional NSW portfolio on 5 April 2023.

Source: Agencies' audited 2022–23 financial statements.

## 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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