



FINANCIAL AUDIT

28 NOVEMBER 2023

# Stronger Communities 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 '**Stronger Communities 2023**'.

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

**Margaret Crawford PSM**

Auditor-General for New South Wales  
28 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**

## **Stronger Communities 2023**

This report analyses the results of our audits of the Stronger Communities 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 Stronger Communities 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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### Stronger Communities

#### Key agencies

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##### Principal Department



##### Agencies



The NSW Government announced in the 2023–24 budget papers its intention to shift 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 Stronger Communities portfolio:** Delivers community services that support a safe, just and brighter future for New South Wales.

State outcomes	Description
<b>Children and families thrive</b>	Ensuring the safety and wellbeing of vulnerable children, young people and families, and protecting them from the risk of harm, abuse and neglect.
<b>Efficient and effective legal system</b>	Resolving matters through legal services, the administration of courts and tribunals, and client-facing justice services to victims and vulnerable people.
<b>Inclusive communities</b>	Delivering programs and support services that aim to promote community harmony and social cohesion, particularly for participants in the National Disability Insurance Scheme (NDIS) and people from culturally and linguistically diverse backgrounds.
<b>People have a safe and affordable place to live</b>	Assisting people who are unable to access or maintain appropriate housing, including homelessness services.
<b>Prepared for disasters and emergencies</b>	Coordinating and delivering emergency management to enhance response and recovery efforts.
<b>Reduce reoffending</b>	Operating the State's corrections system, including support for, and management of, adult and youth offenders in correctional centres and the community.
<b>Safer communities</b>	Preventing, detecting and investigating crime, maintaining social order and community safety, promoting road safety, and supporting emergency management.
<b>Excellence in sport</b>	Leverage our capabilities to position the State as a world-class centre for sport.

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.

This report is focused on agencies in the Stronger Communities portfolio as at 30 June 2023.

### Sports agencies return to the Stronger Communities portfolio

Administrative Change Orders effective on 5 April and 5 May 2023 marked the return of sport-related agencies to the Stronger Communities portfolio, having been previously transferred out in December 2021.

Incoming agency	Previous portfolio
Combat Sports Authority of New South Wales	Enterprise, Investment and Trade
Institute of Sport Staff Agency	Enterprise, Investment and Trade
NSW Institute of Sport	Enterprise, Investment and Trade
Office of Sport	Enterprise, Investment and Trade
State Sporting Venues Authority	Enterprise, Investment and Trade
Venues NSW	Enterprise, Investment and Trade
Venues NSW Staff Agency	Enterprise, Investment and Trade

### Abolition of Resilience NSW and creation of the NSW Reconstruction Authority

Resilience NSW (RNSW) aimed to help communities rebuild and recover after natural disasters like floods, droughts and bushfires. It was established to lead disaster and emergency efforts – from prevention to recovery.

On 16 December 2022, the 'Administrative Arrangements (Administrative Changes - Miscellaneous Order (no 10)) 2022' abolished RNSW. Employees and functions were subsequently transferred to the:

- NSW Police Force
- Department of Premier and Cabinet
- Department of Communities and Justice
- NSW Reconstruction Authority Staff Agency.

The financial statements of the former agency were certified on 27 August 2023 and the independent auditor's report issued 4 September 2023.

### Changes to the *Aboriginal Land Rights Amendment Act 2022*

In November 2022 the *Aboriginal Land Rights Amendment Act 2022* and the Government Sector Finance Regulation 2018 removed the New South Wales Aboriginal Land Council (the council) as a prescribed entity under the *Government Sector Finance Act 2018*.

Whilst no longer a government sector finance entity, the council, under its enabling legislation, is still required to prepare consolidated financial statements annually and be audited by the Auditor-General for NSW. The council's subsidiaries (NSWALC Employment and Training Limited, NSWALC Housing Limited, NSWALC Properties Pty Ltd, NSWALC Resources Pty Ltd and Social Enterprise Finance Australia Limited) are audited as part of the consolidated financial statements of the council. The subsidiaries are not legislatively required to be audited as separate reporting entities by the Auditor-General for NSW.

The consolidated financial statements of the council was certified on 18 October 2023 and the independent auditor's report issued 20 October 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 Stronger Communities portfolio of agencies (the portfolio) for 2023.

### Section highlights

- Unqualified audit opinions were issued on all completed 30 June 2023 financial statements audits of portfolio agencies, including the audit of the Crown Solicitor's Office's Trust Account for compliance with clause 14 of the Legal Profession Uniform Law Application Regulation 2015.
- The financial statement audits of the NSW Trustee and Guardian Common Funds (the common funds) – year ended 30 June 2022 were certified by management on 6 December 2022 and independent auditor's reports issued 21 December 2022. The 30 June 2023 financial statements audits of the common funds are ongoing.
- A variation to an agreement between the Commonwealth Attorney-General and the Legal Aid Commission of New South Wales for legal services to support the Royal Commission into Violence, Neglect and Exploitation of people with disability program extended the reporting period from 30 June 2023 to 29 September 2023 – the conclusion of the Royal Commission. The audit of the financial report acquitting expenditure under the agreement is expected to be completed before 28 February 2024.
- The audit of the Home Purchase Assistance Fund's (the fund) 30 June 2022 financial statements remains incomplete. Those charged with governance of the fund have not provided sufficient and appropriate evidence to support the carrying value of material investments reported in the fund's financial statements. The financial audit of the fund's 2023 financial statements remain incomplete as a result.
- The Trustee for the First Australian Mortgage Acceptance Corporation Master and Pooled Super Trusts had not prepared general purpose financial statements since 30 June 2021 when the financial reporting provisions of the *Government Finance Sector Act 2018* were enacted and the Trustee was prescribed as a GSF agency under the regulations. The audits of these financial statements are ongoing.
- Reported corrected misstatements decreased from 28 in 2021–22 to six with a gross value of \$8.8 million in 2022–23 (\$277 million in 2021–22).
- Portfolio agencies met the statutory deadline for submitting their 2022–23 early close financial statements and other mandatory procedures.
- In 2022–23, portfolio agencies collectively recorded net revaluation uplifts to the carrying values of land and buildings totalling \$643 million (2021–22: \$993 million) initiated through a combination of comprehensive and desktop valuations.
- The Department of Communities and Justice (the department) had previously deferred performing a comprehensive revaluation of its land and building portfolio relating to the Corrective Services and Youth Justice functions. The deferral was due to the challenges in providing valuers sufficient access to the facilities due to the pandemic. The department is scheduled to perform a comprehensive revaluation of its full land and building portfolio in 2023–24.

## 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 Communities and Justice	10,227.5	2,137.2	16,770.2	16,551.5
<b>Other portfolio agencies listed in Appendix A of Treasurer's Direction TD21-02</b>				
Crown Solicitor's Office	85.4	30.0	84.5	77.9
Fire and Rescue NSW	1,374.1	419.3	996.5	1,006.4
Judicial Commission of New South Wales	2	1.5	6.6	6.6
Legal Aid Commission of New South Wales	103.6	57.4	492.1	481.2
Multicultural NSW	12.9	10.9	59.1	57.5
New South Wales Crime Commission	5.8	3.9	31.4	31.6
NSW Police Force	3,332.3	2,412.1	5,039.1	5,211.2
NSW Rural Fire Service	606.2	118.0	629.1	663.2
NSW Trustee and Guardian	237.9	37.5	112.6	105.3
Office of Sport	323.1	35.8	560.8	547.4
Office of the Children's Guardian	18.4	9.4	64.2	61.7
Office of the Director of Public Prosecutions	22.9	27.4	197.2	197.9
NSW State Emergency Service	234.4	36.1	235.0	224.7
State Sporting Venues Authority	204.9	0.8	11.7	11.8
Venues NSW	2,679.1	689.8	397.8	404.6

\* 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 completed 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 these financial statements were free of material misstatement.

The financial statements audits of the following entities remain outstanding at the date of this report:

Entity	Year-end	Reason
Home Purchase Assistance Fund	30 June 2023 30 June 2022	Evidence to support the carrying values of material investments held by the fund remain outstanding. The audits of the fund are ongoing.
First Australian Mortgage Acceptance Corporation Master Trust	30 June 2023 30 June 2022 30 June 2021	Had not prepared general purpose financial statements for audit following its prescription as GSF agency under the GSF regulations. The audits of the trust are ongoing.
First Australian Mortgage Acceptance Corporation Pooled Super Trust	30 June 2023 30 June 2022 30 June 2021	Had not prepared general purpose financial statements for audit following its prescription as GSF agency under the GSF regulations. The audits of the trust are ongoing.
NSW Trustee and Guardian Common Fund - Trustee	30 June 2023	The common fund - trustee is not a GSF agency. The audit of the common fund is ongoing.
NSW Trustee and Guardian Common Fund - Financial Management	30 June 2023	The common fund - financial management is not a GSF agency. The audit of the common fund is ongoing.

#### Home Purchase Assistance Fund

The Home Purchase Assistance Fund (the fund) was established by a trust deed in 1989 to support and administer the State's home purchase programmes for low to moderate income earners who may have been unable to access finance from traditional private lending institutions. Prior to the establishment of the fund, NSW Treasury had incurred loan liabilities with the Commonwealth on behalf of the Home Purchase Assistance Scheme, which would later become the NSW HomeFund program (the program). The program, alongside other state home purchase assistance programs, was transferred from the NSW Land and Housing Corporation to the fund. The program was closed in 1993 to new participants and has been in run-off since then.

The fund records an investment in the First Australian Mortgage Acceptance Corporation (FANMAC) Master Trust in its financial statements. The FANMAC Master Trust was established for the specific purpose of providing a consolidated entity to house the fund's holdings of NSW HomeFund mortgages and its future obligations from maturing FANMAC Trusts. At 30 June 2023, the value of this investment reported in the draft financial statements of the fund was \$3.3 million (2021–22: \$4 million).

In December 2019 the fund acquired NSW Rent Buy Pty Limited (Rent Buy) for \$5.9 million. Rent Buy is the financial entity that supported the State's then rent-buy scheme. Rent Buy was previously owned by a private investor, who under a state deed signed in 1991, acquired interests in properties and leased them under an equity purchase agreement. The fund's interest in Rent Buy is reported as an investment in the fund's financial statements.

The financial statement audits of the fund for the year ended 30 June 2022 and 30 June 2023 remain outstanding as sufficient and appropriate evidence is yet to be obtained to support the carrying values of the fund's investment in the FANMAC Master Trust and Rent Buy.

### **The Trustee for FANMAC is a GSF agency required to prepare financial statements**

The Government Sector Finance Regulation 2018 prescribed the Trustee for the FANMAC Master and Pooled Super Trusts (the trusts) as a GSF agency and as a result, it became subject to the financial reporting provisions of the *Government Finance Sector Act 2018*. From 1 July 2020 the Trustee was obliged to prepare general purpose financial statements for the trusts and present them for audit by the Auditor-General. Draft financial statements covering the reporting periods were provided in September 2023. The audits of these financial statements are ongoing.

### **An unqualified audit opinion was issued on the Crown Solicitor's Trust Account**

An unqualified audit opinion was issued on 5 May 2023 over the Crown Solicitor's Office's compliance with clause 14 of the Legal Profession Uniform Law Application Regulation 2015. The opinion confirmed, that in all material respects, the:

- Crown Solicitor's Trust Account (the trust account) was established in an authorised deposit-taking institution in New South Wales
- Crown Solicitor maintained records in relation to the trust account that the Attorney-General had directed
- Crown Solicitor followed procedures in relation to operations of the trust account that the Attorney-General had directed.

### **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 42 in 2021–22 to 29 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 28 in 2021–22 to six with a gross value of \$8.8 million in 2022–23. Reported uncorrected misstatements increased from 14 in 2021–22 to 23 with a gross value of \$66.7 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	1	4	1	2
\$50,000 to \$249,999	1	6	7	1
\$250,000 to \$999,999	2	7	7	2
\$1 million to \$4,999,999	2	2	4	4
\$5 million and greater	--	4	9	5
<b>Total number of misstatements</b>	<b>6</b>	<b>23</b>	<b>28</b>	<b>14</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 by agency.

None of the six corrected monetary misstatements had a gross value of greater than \$5 million.

Of the 23 uncorrected monetary misstatements, four had a gross value of greater than \$5 million, which comprise the following:

Agency	Description of uncorrected misstatements > \$5 million
Department of Communities and Justice	Understatement of employee entitlement provisions estimated at \$22.7 million arising from recent changes to the paid parental leave scheme effective from 1 October 2022.
NSW Police Force	Understatement of employee entitlement provisions estimated at \$21.7 million arising from recent changes to the paid parental leave scheme effective from 1 October 2022.
NSW Police Force	Understatement of employee entitlement provisions totalling \$5.7 million arising from changes in salary growth assumptions used in the present value adjustment for long service leave assumed by the Crown.
NSW Police Force	Classification between non-financial asset classes of \$8 million due to the untimely capitalisation of works-in-progress.

## 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 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 Stronger Communities 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 \$51 million, of which the department and the NSW Police Force accounted for \$44.4 million or 87.1%, should have been reported in the individual financial statements of agencies within the Stronger Communities portfolio.

Apart from the Office of the Director of Public Prosecutions, the remaining impacted agencies concluded that the effects of not correcting the misstatements were not material individually, or 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.**

### Six 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:

Agencies	GSF Regulation reference	Basis for reporting exemption
<b>Special purpose staff agencies</b>		
Institute of Sport (Staff Agency) Legal Aid Commission (Staff Agency) Multicultural New South Wales (Staff Agency) New South Wales Crime Commission (Staff Agency) Venues NSW (Staff Agency)	Part 3A, Division 2, Section 9F of the GSF Regulation	GSF Regulation prescribes that 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 agencies satisfy this requirement and therefore are exempted from preparing financial statements in 2022–23. These exemptions are standing in nature and continue from the previous year.
<b>Small agency</b>		
Bush Fire Coordinating Committee	Part 3A, Division 2, Section 9D of the GSF Regulation	GSF Regulation prescribes that a GSF agency that meets all of the following requirements is not to be a reporting GSF agency: <ul style="list-style-type: none"><li>the assets, liabilities, income, expenses, commitments and contingent liabilities of the agency are each less than \$5 million</li><li>the total cash or cash equivalents held by the agency is less than \$2.5 million</li><li>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</li><li>the agency does not administer legislation for a Minister by or under which members of the public are regulated.</li></ul>

Matters around the effectiveness of the exemptions framework will be reported in the 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](#).

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

#### Agencies need to improve their completion of early close procedures

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

Portfolio agencies	Not completed	Description of incomplete early close procedures
		
<b>Other agencies listed in Appendix A of TD19-02</b>		
Office of Sport	3	<b>Significant management judgments and assumptions</b> Management had not documented its judgements and assumptions applied in assessing the fair value of work-in-progress assets.  <b>Reconciliation of key account balances</b> A balance sheet reconciliation at 31 March 2023 included long outstanding reconciling items dating back to 2018–19.  <b>Prior year Management Letter and Engagement Closing Report issues</b> Two matters flagged in prior year reports for resolution by 31 March 2023 remained outstanding. These related to: <ul style="list-style-type: none"><li>a recommendation and commitment by management to separate the general ledgers for the Office of Sport, the State Sporting Venues Authority and Combat Sports Authority of New South Wales into three distinct company codes</li><li>the resolution of the accounting implications related to the Jindabyne Sport and Recreation Centre.</li></ul>
State Sporting Venues Authority	3	<b>Inter and intra (cluster) agency transactions and balances</b> The State Sporting Venues Authority did not agree and confirm inter and intra (cluster) agency balances and transactions with two counterparty agencies.  <b>Significant management judgments and assumptions</b> Management had not documented its judgements and assumptions applied in assessing the fair value of work-in-progress assets.

Portfolio agencies	Not completed	Description of incomplete early close procedures
		
		<p><b>Prior year Management Letter and Engagement Closing Report issues</b></p> <p>Two matters flagged in prior year reports for resolution by 31 March 2023 remained outstanding. These related to:</p> <ul style="list-style-type: none"> <li>a recommendation and commitment by management to separate the general ledgers for the Office of Sport, the State Sporting Venues Authority and Combat Sports Authority of New South Wales into three distinct company codes</li> <li>the resolution of the accounting implications related to the Jindabyne Sport and Recreation Centre.</li> </ul>
Fire and Rescue NSW	1	<p><b>Finalise assessment of all revenue contracts</b></p> <p>Management had not performed nor documented its assessment of the July 2022 executed funding deed agreement with Resilience NSW.</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:

- finalise revenue contract assessments before the lodgement of early close procedures
- appropriately document and complete a significant judgements and assumptions assessment
- resolve long-standing reconciling items in the balance sheet reconciliations
- address prior year management letter and engagement closing report issues in a timely manner
- confirm all inter/intra portfolio agency transactions and balances.

## Recommendation

**Agencies should ensure all applicable mandatory early close procedures are completed and the outcomes provided to the audit team in accordance with the 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 agencies obtained NSW Treasury's approval to extend submission of their 30 June 2023 financial statements:

Portfolio agencies	Revised deadline	Reason
Department of Communities and Justice	11 August 2023*	To incorporate the impact of the guidance on summary of compliance disclosures provided by NSW Treasury.
Office of Sport	21 August 2023	Due primarily to the impacts of: <ul style="list-style-type: none"> <li>the transition to PaTH / MyWorkZone in the fourth quarter of the 2022–23</li> <li>machinery of government changes</li> <li>state budget deliverables</li> <li>transition of the lease of the Penrith Whitewater operations from Planning Ministerial Corporation to the Office of Sport.</li> </ul>
Combat Sports Authority of New South Wales	21 August 2023	Due primarily to the impacts of: <ul style="list-style-type: none"> <li>the transition to PaTH / MyWorkZone in the fourth quarter of the 2022–23</li> <li>machinery of government changes</li> <li>state budget deliverables.</li> </ul>
State Sporting Venues Authority	21 August 2023	Due primarily to the impacts of: <ul style="list-style-type: none"> <li>the transition to PaTH / MyWorkZone in the fourth quarter of the 2022–23</li> <li>machinery of government changes</li> <li>state budget deliverables.</li> </ul>
Home Purchase Assistance Fund	30 November 2023	The audit of the fund's 2021–2022 financial statements is not complete because the fund requires information to support the carrying values of the its investments.
First Australian Mortgage Acceptance Corporation Pooled Super Trust	30 November 2023	Had not prepared nor submitted for audit its general purpose financial statements as a GSF agency prescribed under the GSF regulations. The previous years' financial statements may be relevant to the opening balances reported in the trust's 2022–23 financial statements.
First Australian Mortgage Acceptance Corporation Master Trust	30 November 2023	Had not prepared, nor submitted for audit its general purpose financial statements as a GSF agency prescribed under the GSF regulations. The previous years' financial statements may be relevant to the opening balances reported in the trust's 2022–23 financial statements.

\* The revised deadline related to the summary of compliance disclosures only. The deadline for the remainder of the department's financial statements remained 25 July 2023.

### Financial statements were submitted on time for all portfolio agencies

Portfolio agencies met the revised or approved 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 the Home Purchase Assistance Fund, the First Australian Mortgage Acceptance Corporation Pooled Super Trust, the First Australian Mortgage Acceptance Corporation Master Trust, the NSW Trustee and Guardian Common Fund - Financial Management, and the NSW Trustee and Guardian Common Fund - Trustee remain outstanding.

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

## 2.4 Key accounting issues

### Land and Buildings Revaluations

In 2022–23, agencies within the Stronger Communities portfolio reported property, plant and equipment of \$15.8 billion (\$15.1 billion in 2021–22). Land and buildings, measured at fair value in accordance with Australian Accounting Standards and NSW Treasury financial reporting requirements, represent 87% of these assets and are controlled predominantly by the department, the NSW Police Force and Venues NSW.

Buildings controlled by the agencies comprising the Stronger Communities portfolio are mostly specialised in nature. They are either purpose-built facilities such as group homes or police stations; significantly modified buildings used in the provision of care to disability clients; large residential centres and institutional style buildings; court houses; correctional and youth justice centres and sporting stadiums. Due to their specialised nature, the fair value of these specialised assets is determined with reference to their current replacement cost.

The value of land, which is not a specialised asset, is determined with reference to market prices considering any restrictions that apply to that land.

In 2022–23, agencies in the portfolio recorded net revaluation uplifts to land and buildings of \$643 million (2021–22: \$993 million) initiated through a combination of comprehensive and desktop valuations.

### The department is scheduled to comprehensively revalue its portfolio of assets next year

The department was due to perform the triennial comprehensive revaluation of its land and buildings in 2020–21. However, due to site access restrictions resulting from the COVID-19 pandemic, NSW Treasury approved the department to perform an indexation of Corrective Services and Youth Justice facilities in 2020–21, with a view to comprehensively revaluing them in 2021–22.

In January 2022, NSW Treasury approved a further deferral of the comprehensive revaluation of its Corrective Services and Youth Justice facilities to 2023–24 to align with the department's comprehensive revaluation of other land and buildings. Similarly, the exemption was provided because of the ongoing limitations on site access for physical inspections due to COVID-19.

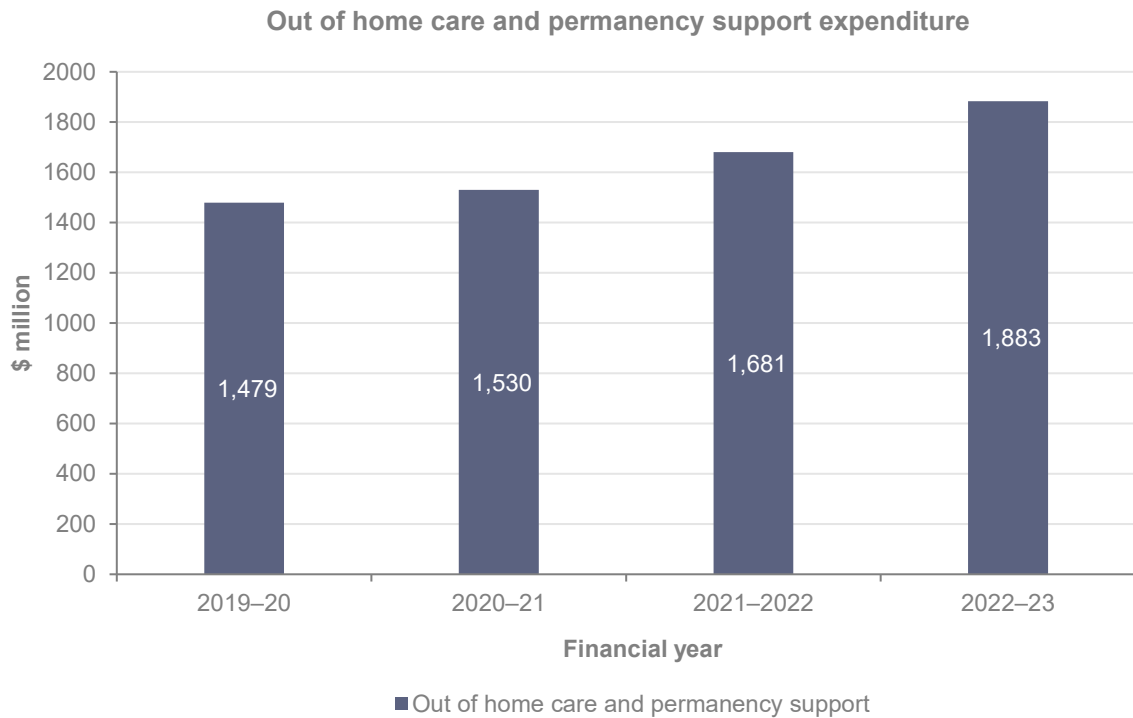
### Out of Home Care and Permanency Support

#### Out of home care and permanency support expenses continue to increase

The department has primary responsibility to provide support and a safe living environment for children and young people who are not able to live safely in the family home. These out-of-home care arrangements can take the form of foster or relative/kinship carers who take on the responsibilities of a parent for a period of time. Around half of children in out-of-home care are supported by non-government agencies, which are funded by the NSW Government to provide services to children and young people who require out-of-home care and support services.



The graph below shows the department's out-of-home care and permanency support expenditure over the last four years.



Source: Department of Communities and Justice (unaudited).

Since 2019–20, the department's out-of-home care and permanency support expenditure has increased by 27% – an average of around eight per cent per annum. In 2022–23 the department spent \$1.9 billion (2021–22: \$1.7 billion) to support the out-of-home care and permanency support program. These costs include grants and subsidies paid by the department as well as other departmental expenditure to support the program.

Our upcoming performance audit report [Oversight of the child protection system](#) will focus on the timeliness and quality of the child protection services and responses provided by the department and the non-government agencies funded to provide child protection services on behalf of the government. The report is expected to be tabled in March 2024.

## 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 agencies.

### Department of Communities and Justice

The department is the lead agency in the Stronger Communities portfolio which aims to achieve a safe, just and brighter future for New South Wales.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment \$9.4 billion</p>	<p>The department's property, plant and equipment consist of land and specialised and unique assets such as court houses, community centres and correctional facilities, which are measured at fair value.</p> <p>Our audit risk rating for property, plant and equipment is <b>higher</b> because the assets are specialised and unique in nature, significant to the department's financial statements and subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• testing the accuracy and completeness of the asset register</li> <li>• reviewing the appropriateness of the valuation methods, assumptions and judgements applied</li> <li>• assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>
 <p>Victims Support Scheme claims liabilities \$406 million</p>	<p>The liability for Victim Support Scheme (VSS) claims relates to lodged but not yet paid claims and Incurred But Not Reported (IBNR) claims. A contingent liability is disclosed in the department's financial statements for child sexual assault IBNR claims because a provision cannot be reliably measured.</p> <p>Our audit risk rating for VSS claims liabilities is <b>higher</b> because of the financial significance to the department's financial statements. Management also uses significant judgements in estimating and reliably measuring the liabilities and a minor change in assumptions can result in a material change in the liability and net result.</p> <p>Management also engaged an independent actuary to determine the department's outstanding claims liability.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• evaluating the design and implementation of relevant controls</li> <li>• assessing the competence, capability and objectivity of management's independent actuary</li> <li>• evaluating the nature and extent of management's oversight and review of the estimates.</li> </ul>
<p>Contingent liability relating to child sexual assault IBNR claims \$610 million to \$1.2 billion</p>	<p>Our audit risk rating for VSS claims liabilities is <b>higher</b> because of the financial significance to the department's financial statements. Management also uses significant judgements in estimating and reliably measuring the liabilities and a minor change in assumptions can result in a material change in the liability and net result.</p> <p>Management also engaged an independent actuary to determine the department's outstanding claims liability.</p>	<p>With the assistance of our own independent expert, we assessed the reasonableness of the valuation methodology and key actuarial assumptions and judgements, including the accuracy and completeness of data and appropriateness of management's conclusions.</p> <p>We assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</p>



# Crown Solicitor's Office

The Crown Solicitor's Office's (CSO) principal objective is to advise and represent agencies so that they deliver the NSW government's policies, programs and projects in a lawful, effective and efficient manner. It is the sole provider of legal services in matters that require a single source of authoritative legal advice and central management, or when it relates to the statutory or common law functions of the Attorney General.

 <p>Sales of goods and services \$83.3 million</p>	Key financial statement risk	Audit response
	<p>Revenue generated by CSO is primarily from the provision of legal services to NSW government agencies and approved bodies.</p> <p>Our audit risk rating is higher because this revenue stream is proportionately significant to the financial statements of CSO.</p> <p>An element of management judgement is applied in recognising its revenue from the provision of legal services as performance obligations are satisfied in accordance with the relevant Australian Accounting Standards.</p>	<p>Our audit procedures involved:</p> <ul style="list-style-type: none"><li>evaluating the design and implementation of controls and processes over this revenue stream</li><li>obtained an understanding and tested a sample of transactions to confirm the recognition, measurement and presentation principles of the Australian Accounting Standards had been correctly applied.</li></ul>


## Fire and Rescue NSW

Fire and Rescue NSW (FRNSW) is one of the world's largest urban fire and rescue services. It aims to enhance community safety, quality of life and confidence by minimising the impact of hazards and emergency incidents on the people, property, environment and economy of New South Wales.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment \$1.2 billion</p>	<p>FRNSW's property, plant and equipment includes land, residential properties and specialised assets such as fire stations, and firefighting equipment which are measured at fair value.</p> <p>Our audit risk rating for property, plant and equipment is <b>higher</b> because the assets are specialised and unique in nature, significant to FRNSW's financial statements and subject to management judgements and estimates when determining their fair values. These judgements and estimates require the assistance of a qualified valuer.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• testing the accuracy and completeness of the asset register</li> <li>• reviewing the appropriateness of the valuation methods, assumptions and judgements applied</li> <li>• assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>
 <p>Death and Disability Scheme provision \$217 million</p>	<p>FRNSW records a death and disability benefits provision under the Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund.</p> <p>Our audit risk rating for the provision is <b>higher</b> because of its financial significance to FRNSW's financial statements. It involves significant management judgements in estimating and reliably measuring the provision. A minor change in assumptions can result in a material change in the provision and net result. Management also engaged an independent actuary to determine FRNSW's provision.</p>	<p>Our audit procedures included assessing the competence, capability and objectivity of management's independent actuary.</p> <p>With the assistance of our own independent expert, we assessed the reasonableness of the methodology and key actuarial assumptions and judgements, and performed testing to ensure the accuracy and completeness of data used by the actuary.</p> <p>We assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</p>

# Legal Aid Commission of New South Wales

Legal Aid Commission of New South Wales (the commission) provides legal services to socially and economically disadvantaged people across New South Wales. It is the largest legal aid commission in Australia and employs over 1,500 staff.

	Key financial statement risk	Audit response
<div>  <p>Sales of good and services receivable \$10.9 million</p> </div> <div> <p>Accrued estimated legal expenses \$18.2 million</p> </div>	<p>The commission accrues the estimated net cost of work in progress by external legal practitioners who have yet to submit claims and the value of secured and unsecured legal debtors.</p> <p>Our audit risk rating for the accrued estimated legal expenses and receivable is <b>higher</b> because of their financial significance to the commission’s financial statements. These balances also involve significant management judgements and assumptions in estimating and reliably measuring the liability and the recoverability of debts. Management also engaged an independent actuary to determine the commission's liability and receivable.</p>	<p>Our audit procedures included assessing the competence, capability and objectivity of management's independent actuary.</p> <p>With the assistance of our own independent expert, we assessed the reasonableness of the valuation methodology and key actuarial assumptions and judgements including compliance with the relevant actuarial and accounting standards.</p> <p>We assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</p>




## NSW Police Force

The NSW Police Force (NSWPF) operates under the *Police Act 1990* and the Police Regulation 2015. It aims to provide a safer New South Wales and work with the community to reduce violence, crime and fear.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment \$2.1 billion</p>	<p>NSWPF has a diverse property portfolio that is measured at fair value, including land, police residences and stations, aircraft and vessels.</p> <p>Our audit risk rating for property, plant and equipment is <b>higher</b> because the assets are specialised and unique in nature, significant to NSWPF's financial statements, and subject to management judgements and estimates when determining their fair values. These judgements and estimates require the assistance of a qualified valuer.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• testing the accuracy and completeness of the asset register</li> <li>• reviewing the appropriateness of the valuation methods, assumptions and judgements applied</li> <li>• assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>
 <p>Death and Disability Scheme provision \$467 million</p>	<p>NSWPF recognises a provision related to benefits provided to injured officers in the case of incapacity or death under the Police Blue Ribbon Insurance Scheme.</p> <p>Our audit risk rating for the provision is <b>higher</b> because it involves significant estimates.</p> <p>Management also engaged an independent actuary to determine the scheme provision.</p>	<p>Our audit procedures included assessing the:</p> <ul style="list-style-type: none"> <li>• competence, capability and objectivity of management's independent actuary</li> <li>• reasonableness of the calculation and assumptions applied by the actuary</li> <li>• adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>


## NSW State Emergency Service

The NSW State Emergency Service (SES) provides emergency and rescue services to the people of NSW. Its responsibilities include flood and storm emergencies, and provides the majority of general rescue effort in the rural parts of the state.

	Key financial statement risk	Audit response
 <p>Grants and contributions \$231 million</p>	<p>SES is predominantly funded by grants from the department to support its activities for flood and storm emergencies and rural general rescue efforts.</p> <p>Our audit risk rating is higher because these grants are proportionately significant to SES' financial statements. There is an element of judgement that is applied in recognising these grants appropriately under the relevant Australian Accounting Standards.</p>	<p>Our audit procedures included understanding and reviewing grant agreements to confirm that the recognition, measurement and presentation principles of the accounting standards have been applied.</p>


## NSW Trustee and Guardian

NSW Trustee and Guardian helps support and protect some of the most vulnerable members of the New South Wales community. It provides independent and impartial financial management, guardianship and trustee services that support customers and help them manage their health, lifestyle and financial affairs.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment \$8.9 million</p>	<p>NSW Trustee and Guardian's property, plant and equipment included land and buildings, which are measured at fair value.</p> <p>Our audit risk rating for property, plant and equipment is <b>higher</b> because the assets are significant to NSW Trustee and Guardian's financial statements and subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• testing the accuracy and completeness of the asset register</li> <li>• reviewing the appropriateness of the valuation methods, assumptions and judgements applied</li> <li>• assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>

## NSW Trustee and Guardian Common Fund - Financial Management and Trustee

The NSW Trustee and Guardian Common Fund - Financial Management and Trustee (the common funds) were established and managed by the NSW Trustee and Guardian under the *NSW Trustee and Guardian Act 2009*. The Common Fund - Financial Management is the investment vehicle for financial management clients under a Direct Management or Private Management Order issued by a Court or Tribunal. The Common Fund - Trustee is the investment vehicle for trustee client funds received by the Trustee in its capacity as executor, trustee or attorney.

	Key financial statement risk	Audit response
 <p>Financial assets at fair value</p> <p>\$798 million Common Fund - Financial Management</p> <p>\$384 million Common Fund - Trustee</p>	<p>The common funds contain significant financial assets which are held in trust with a portion invested in unlisted unit trusts and are measured at fair value through profit and loss. Our audit risk rating for these balances is <b>higher</b> because assessing the fair value of these financial assets requires judgement as the valuation inputs are not based on observable market transactions or other readily available market data.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• evaluating the design of relevant key controls over investments, and assessed on a sample basis whether these controls were implemented effectively</li> <li>• confirmed the existence and completeness of balances at 30 June 2023 with external counterparties</li> <li>• obtained valuation confirmations with external managers and assessing the reliability of the information received</li> <li>• assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>


## Office of Sport

The Office of Sport (the office) is responsible for assisting the people of New South Wales to participate in sport and active recreation in order to improve personal and community well-being. Its functions include delivery of sport and recreation programs, implementing policy and regulatory frameworks, coordinating sport infrastructure and sport development and providing grants to peak sporting bodies.

	Key financial statement risk	Audit response
 <p><b>Grants and subsidies</b> \$427 million</p>	<p>In 2022–23 the office's grants and subsidies totalled \$427 million (\$351 million in 2021–22). Our audit risk rating is <b>higher</b> because:</p> <ul style="list-style-type: none"> <li>of the financial significance of these grants and subsidies in the office's financial statements</li> <li>of the diversity in recipients of these grants, including NSW government agencies, NSW local councils, non-government organisation and sporting clubs.</li> </ul>	<p>Our audit procedures tested for accuracy, validity, compliance with conditions and presentation and disclosure to ensure that they are in accordance with the relevant Australian Accounting Standards and applicable NSW Treasury policies and procedures.</p>


## Office of the Director of Public Prosecutions

The Office of the Director of Public Prosecutions (ODPP) is the independent prosecuting authority of New South Wales. ODPP's principal functions are to institute and conduct prosecutions for indictable offences in the Local, District and Supreme Courts; and to conduct appeals arising from those prosecutions.

	Key financial statement risk	Audit response
 <p><b>Employee related expenses</b> \$155 million</p>	<p>ODPP's payroll consists of payments made to solicitors, crown prosecutors and other corporate staff.</p> <p>Our audit risk rating for payroll is <b>higher</b> because these expenses represent a significant proportion of ODPP'S overall expenditure. The payroll system of the department processes a high volume of transactions that incorporate various remuneration structures and awards.</p>	<p>Our audit procedures evaluated the design, and implementation of key controls over payroll processes and systems. In addition, our procedures included testing a sample of employees to ensure that employment details, award types and conditions in calculating payroll have been agreed to underlying supporting evidence.</p>

# Venues NSW

Venues NSW is a statutory authority established under the *Sporting Venues Authorities Amendment (Venues NSW) Act 2020*. It owns, coordinates and promotes a portfolio of publicly owned sports and entertainment venues in NSW. It raises revenue through commercial activities such as hiring venues to sports and entertainment organisations, event ticketing, hospitality and catering sales and through advertising, leasing, membership naming rights and sponsorship arrangements.

	Key financial statement risk	Audit response
 Property, plant and equipment \$2.3 billion	Buildings such as the CommBank Stadium, Allianz Stadium, McDonald Jones Stadium, Newcastle Entertainment Centre and Showground, Win Sports and Entertainment Centre make up most of Venue NSW's property, plant and equipment. They are mostly specialised buildings and are measured at fair value. Our audit risk rating for property, plant and equipment is higher because the assets are specialised and unique in nature, significant to Venue NSW's financial statements and subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer.	Our audit procedures included testing the completeness and accuracy of the asset register, assessing the competence and objectivity of management's valuation experts, reviewing the appropriateness of the valuation methodologies, key assumptions and judgements applied, and reviewing the disclosures on the fair value of the property, plant and equipment assets in the financial statements in accordance with Australian Accounting Standards.

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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 Stronger Communities portfolio.

### Section highlights

- The number of findings reported to management has decreased from 142 in 2021–22, to 71 in 2022–23, and 35% were repeat issues (36% in 2021–22). Repeat issues related to non-compliance with key legislation and/or agency policies, information technology and internal control deficiencies.
- A long-standing issue about segregation of duties over the JusticeLink system managed by the department has been elevated from moderate to high risk.
- Four out of six high-risk issues reported in the prior year have been addressed.
- Of the 15 newly identified moderate risk issues, 11 related to information technology and internal control deficiencies.

### 3.1 Findings reported to management

#### **The number of findings reported to management has decreased, and 35% 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 71 findings raised across the portfolio (142 in 2021–22). 35% of all issues were repeat issues (36% in 2021–22).

The most common repeat issues related to non-compliance with key legislation and/or agency policies, information technology and internal control deficiencies.

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.



## A high risk-rated segregation of duties matter was raised at the department

JusticeLink is an electronic system which links all New South Wales courts onto the one computer system. It is used, among other functions, to track and record court related matters, receipt and disburse court public moneys.




Our previous management letters highlighted system control limitations in JusticeLink that allow users to process payments, change bank accounts and modify disbursement details. Inadequate segregation of duties elevates the risk and likelihood of invalid payments being made and/or public moneys being misappropriated. This risk is further exacerbated if manual detective controls are not effective.













## Four out of 6 high-risk rated issues reported in 2021–22 have been addressed




Four high-risk findings reported in the management letters of five portfolio agencies in 2021–22 have been actioned, with two matters yet to be resolved but with risk ratings reassessed.

Agency	Description
<b>2021–22 high-risk findings</b>	
Department of Communities and Justice	The department has addressed a long-standing issue regarding the comprehensiveness of their review of Justice SAP user access.
NSW Trustee and Guardian	NSW Trustee and Guardian has remediated system control limitations over its Client Information System (CIS) and TEAMS which did not enforce adequate or appropriate segregation of duties. The finding was also relevant for the audits of the common funds.
NSW Rural Fire Service	NSW Rural Fire Service has addressed a long-standing issue regarding SAP user access reviews.
Office of Sport	<p>A high-risk management letter point was raised on the office regarding the quality and timeliness of its financial reporting. The office has made some progress in its financial statement preparation processes and quality assurance regimes this year. The risk rating has been reassessed to <b>moderate</b>.</p> <p>A second high-risk matter point relating to the appropriate approval and authorisation of grant expenditure within delegated limits was addressed.</p>
State Sporting Venues Authority	A high-risk management letter point was raised on the office regarding the quality and timeliness of its financial reporting. The office has made some progress in its financial statement preparation processes and quality assurance regimes this year. The risk rating has been reassessed to <b>moderate</b> .

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

Risk rating	Issue
<b>Information technology</b>	
 High: 0 new, 0 repeat	<p>The financial audits identified deficiencies in 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"> <li>• user access administration, particularly:             <ul style="list-style-type: none"> <li>– monitoring of privileged user activities</li> <li>– the timing and frequency of reviews over the granting and revocation of access to key systems relevant to financial reporting</li> </ul> </li> <li>• cyber security, including identification and management of cyber incidents and patch management improvement</li> <li>• review and update of policies and procedures.</li> </ul>
 Moderate: 7 new, 3 repeat	
 Low: 4 new, 1 repeat	

Risk rating	Issue	
Internal control deficiencies		
	High: 0 new, 1 repeat	The financial audits identified internal control deficiencies across key business processes, including: <ul style="list-style-type: none"><li>• procurement practices, including the timely creation and approval of purchase orders</li><li>• review and maintenance of employee masterfile</li><li>• segregation of duties.</li></ul>
	Moderate: 4 new, 3 repeat	
	Low: 10 new, 5 repeat	
Financial reporting		
	High: 0 new, 0 repeat	The financial audits identified the need for agencies to strengthen financial reporting, including: <ul style="list-style-type: none"><li>• timely recording of completed capital projects</li><li>• review of useful lives of fully depreciated property, plant and equipment</li><li>• estimation of paid parental leave scheme provision including on-costs in accordance with applicable NSW Treasury guidelines and accounting standards.</li></ul>
	Moderate: 0 new, 0 repeat	
	Low: 12 new, 2 repeat	
Governance and oversight		
	High: 0 new, 0 repeat	The financial audits identified control deficiencies in governance and oversight processes, including: <ul style="list-style-type: none"><li>• reviewing and updating policies and procedures</li><li>• formalising existing key business arrangements.</li></ul>
	Moderate: 3 new, 1 repeat	
	Low: 2 new, 1 repeat	
Non-compliance with key legislation and/or central agency policies		
	High: 0 new, 0 repeat	The financial audits identified control deficiencies in compliance with key legislation and central agency policies, including: <ul style="list-style-type: none"><li>• management of excessive annual leave balances</li><li>• compliance with gifts and benefits, and contract and procurement management policies.</li></ul>
	Moderate: 1 new, 1 repeat	
	Low: 3 new, 7 repeat	

-  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 the prior year

Twenty-three moderate risk findings were reported in 2022–23, representing a 67% decrease from 2021–22. Of these, eight were repeat findings, and 15 were new issues.

Moderate risk findings mainly related to:

- weaknesses in user access management, including:
  - monitoring of privileged user activities
  - the timing and frequency of reviews over the granting and revocation of access to key systems relevant to financial reporting
- cyber security management, including:
  - identification and management of cyber incidents
  - patch management improvement
- management of excessive annual leave balances and formalising key business arrangements.

## Recommendation

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

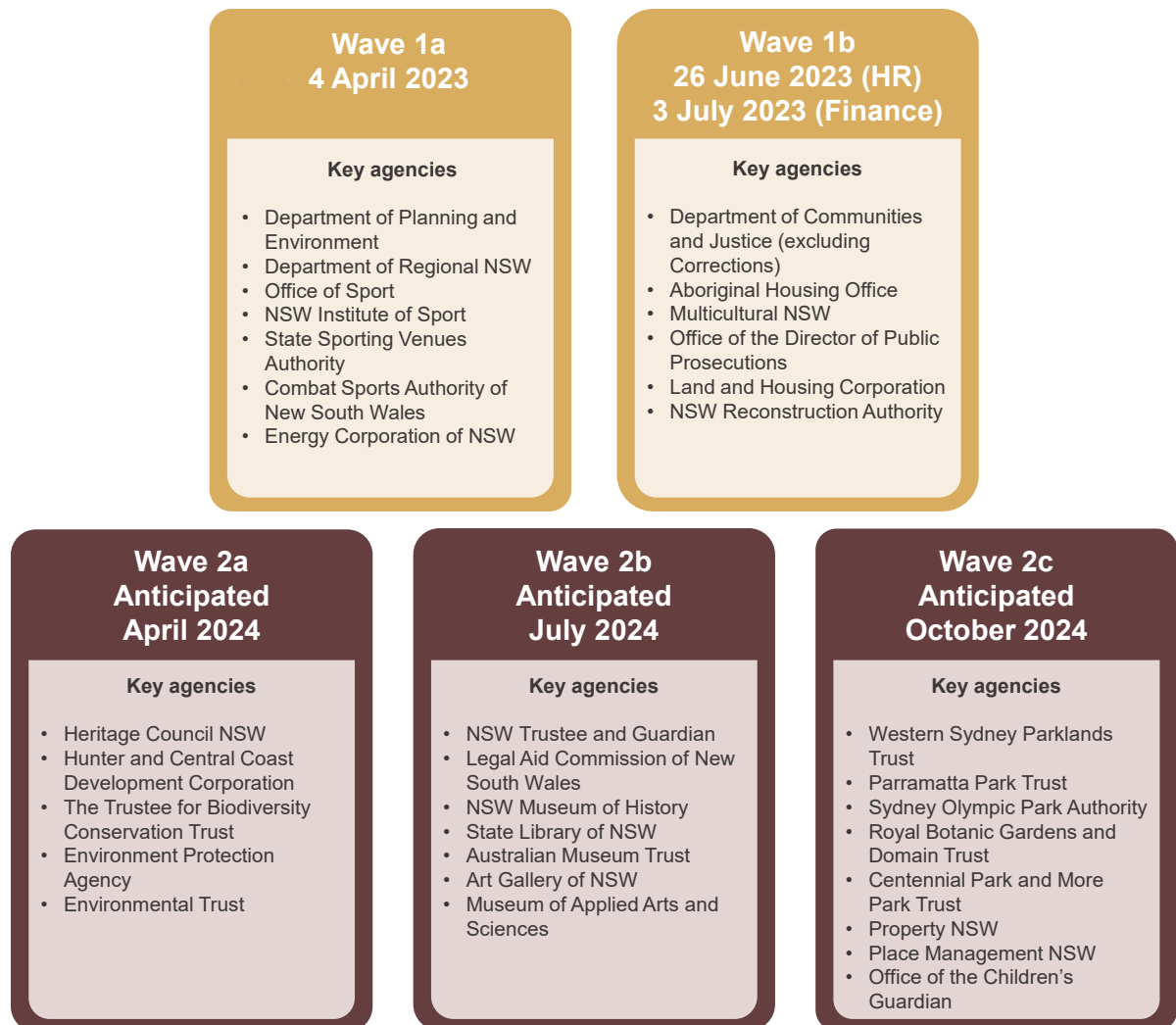
## Process and Technology Harmonisation (PaTH) program

### Staged strategy to consolidate NSW government ERP systems

On 1 November 2021, the department assumed responsibility to deliver the PaTH program. The program aims to optimise, simplify and standardise corporate and shared services functions through common standards for data and process systems.

Agencies were onboarded onto the new ERP in two distinct tranches. Wave 1a, comprising 21 agencies from the Planning and Environment and Regional NSW portfolios, were onboarded on 3 April 2023. A further 12 agencies predominantly from the Stronger Communities portfolio were onboarded on 26 June 2023 and 3 July 2023 as part of Wave 1b.

Agencies comprising Wave 2 will be onboarded in financial years 2023–24 and 2024–25.



Source: Department of Communities and Justice.

## **Lessons that can be learnt from the PaTH implementation**

The Audit Office assessed the implementation of PaTH, including project controls, elements of new controls design, data migration, and how management had adequately resolved project issues and defects.

### **Records management and document retention**

Records management is an important part of effective administration and governance of public sector agencies as it facilitates:

- sound decision making
- efficient and effective delivery of objectives and outputs
- managing business information and resources
- meeting legal, evidential and accountability requirements
- documenting significant events and important records.

Key documents to evidence management activities undertaken such as data migrations plans and tests, data reconciliations, or approvals and sign-offs for key milestones, could not be located and provided within a reasonable timeframe. A number of documents provided for inspection had not been updated to accurately reflect the currency of these documents nor did they record the outcomes of any decision making.

### **Training attendance for key user groups was not effectively monitored**

An extensive and comprehensive curriculum of training modules covering key elements of services and systems was developed to assist staff in their transition to the new product. While attendance was tracked and reported for staff operating in high impact business roles, no benchmarks were set for attendance, nor attendance mandated. Attendance by staff in training courses such as purchasing and project portfolio management was less than 70%.

## **Section two**

### Appendices

# Appendix one – Misstatements in financial statements submitted for audit

	2022–23			2021–22		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Department of Communities and Justice	1	--	1	2	2	4
Combat Sports Authority of New South Wales	--	--	--	--	1	1
Crown Solicitor's Office	2	--	2	--	1	1
Fire and Rescue NSW	1	1	2	1	1	2
Home Purchase Assistance Fund	--	--	--	--	--	--
John Williams Memorial Charitable Trust	--	--	--	--	--	--
Judicial Commission of New South Wales	2	2	4	--	--	--
Legal Aid Commission of New South Wales	1	--	1	1	1	2
Legal Profession Admission Board	--	1	1	1	--	1
Legal Services Council	--	--	--	1	2	3
Multicultural NSW	4	--	4	--	--	--
New South Wales Crime Commission	2	--	2	--	--	--
NSW Institute of Sport	--	1	1	1	--	1
NSW Police Force	4	--	4	1	2	3
NSW Rural Fire Service	2	--	2	2	--	2
NSW State Emergency Service	2	--	2	--	--	--
NSW Trustee and Guardian	1	--	1	--	--	--
NSW Trustee and Guardian Common Fund - Financial Management	--	--	--	--	--	--
NSW Trustee and Guardian Common Fund - Trustee	--	--	--	--	--	--
Office of Sport	--	--	--	3	3	6

	2022-23			2021-22		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Office of the Ageing and Disability Commissioner	--	--	--	--	1	1
Office of the Children's Guardian	1	--	1	--	--	--
Office of the Director of Public Prosecutions	--	1	1	--	--	--
State Sporting Venues Authority	--	--	--	1	3	4
The Trustees of the Anzac Memorial Building	--	--	--	--	--	--
Venues NSW	--	--	--	--	11	11



## 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 Communities and Justice	—	4 October 2023
Combat Sports Authority of New South Wales	—	31 October 2023
Crown Solicitor's Office	✓	6 October 2023
Fire and Rescue NSW	✓	29 September 2023
Home Purchase Assistance Fund 2023	—	Audit in progress
Home Purchase Assistance Fund 2022	N/A	Audit in progress
John Williams Memorial Charitable Trust	✓	4 October 2023
Judicial Commission of New South Wales	✓	3 November 2023
Legal Aid Commission of New South Wales	✓	18 October 2023
Legal Profession Admission Board	✓	22 September 2023
Legal Services Council	✓	28 September 2023
Multicultural NSW	✓	28 September 2023
New South Wales Crime Commission	✓	6 October 2023
NSW Institute of Sport	✓	25 September 2023
NSW Police Force	✓	26 September 2023
NSW Rural Fire Service	✓	22 September 2023
NSW State Emergency Service	✓	28 September 2023
NSW Trustee and Guardian	✓	5 October 2023
NSW Trustee and Guardian Common Fund - Financial Management - 30 June 2022	N/A	21 December 2022
NSW Trustee and Guardian Common Fund - Financial Management - 30 June 2023	✓	Audit in progress
NSW Trustee and Guardian Common Fund - Trustee - 30 June 2022	N/A	21 December 2022
NSW Trustee and Guardian Common Fund - Trustee - 30 June 2023	✓	Audit in progress
Office of Sport	—	31 October 2023
Office of the Ageing and Disability Commissioner	✓	20 September 2023
Office of the Children's Guardian	✓	21 September 2023
Office of the Director of Public Prosecutions	✓	22 September 2023
State Sporting Venues Authority	—	31 October 2023

Portfolio agencies	2022–23 Financial statements submission	Date audit report was issued
The Trustees of the Anzac Memorial Building	✓	21 September 2023
Venues NSW	✓	27 October 2023

- ✓ Treasury's reporting deadline was met.
- Treasury's approved extension timeframe was met.
- ! Treasury's reporting deadline was not met.

## 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>Principal department</b>								
Department of Communities and Justice***	10,227.5	9,940.7	2,137.2	2,520.8	16,770.2	15,210.4	16,551.5	15,238.3
<b>Agencies</b>								
Combat Sports Authority of New South Wales	0.1	0.1	0.1	0.1	1.5	1.4	1.5	1.4
Crown Solicitor's Office	85.4	81.2	30.0	29.6	84.5	76.9	77.9	71.7
Fire and Rescue NSW	1,374.1	1,341.7	419.3	385.7	996.5	847.9	1,006.4	909.7
Home Purchase Assistance Fund^	124.5	141.2	0.2	0.3	4.0	0.4	4.6	7.3
John Williams Memorial Charitable Trust	12.8	12.5	--	--	0.2	0.2	0.4	0.3
Legal Aid Commission of New South Wales****	103.6	87.8	57.4	52.5	492.1	438.9	481.2	425.4
Legal Profession Admission Board	21.5	14.7	2.6	2.8	10.7	3.3	4.1	2.8
Legal Services Council	1.8	1.9	0.6	0.7	1.8	1.8	1.8	1.8
Multicultural NSW****	12.9	8.1	10.9	7.8	59.1	87.0	57.5	86.7
New South Wales Crime Commission****	5.8	6.5	3.9	4.5	31.4	35.1	31.6	33.2
NSW Institute of Sport****	12.7	15.5	9.3	10.9	24.0	21.0	25.2	19.4
NSW Police Force	3,332.3	3,008.7	2,412.1	1,992.9	5,039.1	4,326.1	5,211.2	4,612.5
NSW Rural Fire Service	606.2	662.1	118.0	140.0	629.1	574.7	663.2	502.0
NSW State Emergency Service	234.4	215.8	36.1	27.7	235.0	230.9	224.7	189.7
NSW Trustee and Guardian	237.9	231.8	37.5	38.8	112.6	136.5	105.3	100.1
Office of Sport	323.1	296.6	35.8	31.9	560.8	425.4	547.4	452.7
Office of the Ageing and Disability Commissioner	2.3	2.9	1.4	1.5	6.3	6.7	6.7	6.6
State Sporting Venues Authority	204.9	195.8	0.8	2.4	11.7	10.3	11.8	10.9

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
The Trustees of the Anzac Memorial Building	103.1	96.5	0.8	0.7	4.3	3.7	6.0	5.6
Venues NSW****	2,679.1	2,607.6	689.8	677.9	397.8	250.2	404.6	304.9
<b>Special offices</b>								
Judicial Commission of New South Wales	2.0	1.5	1.5	1.0	6.6	6.4	6.6	6.4
Office of the Children's Guardian	18.4	13.8	9.4	7.4	64.2	55.4	61.7	54.7
Office of the Director of Public Prosecutions	22.9	19.7	27.4	23.5	197.2	177.9	197.9	171.8
<b>Other audits under section 27B(3)(b)-(c) of the Government Sector Audit Act 1983</b>								
NSW Trustee and Guardian Common Fund - Financial Management <>	2,005.7	1,945.5	1,970.4	1,909.8	96.2	89.4	96.5	89.9
NSW Trustee and Guardian Common Fund - Trustee <>	1,627.0	1,533.8	1,617.1	1,523.9	75.9	48.0	75.9	48.0

\* Include other gains.

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

\*\*\* Consolidated financial statements. Includes John Williams Memorial Charitable Trust.

\*\*\*\* Consolidated financial statements. Includes staff agency.

^ Based on draft financial statements for 2021–22 and 2022–23.

<> 2022–23 balances based on draft financial statements.

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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