



FINANCIAL AUDIT

15 DECEMBER 2023

Transport 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 '**Transport 2023**'.

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

Margaret Crawford PSM

Auditor-General for New South Wales
15 December 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

Transport 2023

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

1. Introduction

This report provides Parliament and other users of the Transport 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

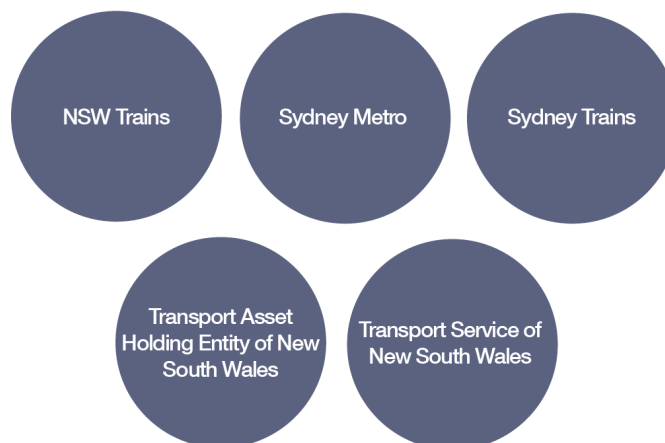
Transport

Key agencies

Principal Departments



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 Transport portfolio: Plan, deliver and operate integrated services and infrastructure across all modes of public, private and active transport.

State outcomes	Description
Connecting our customers' whole lives	Delivering, operating and maintaining services and infrastructure, focusing on reliability, availability and customer experience.
Successful places for communities	Helping create places that integrate the right mix of infrastructure, services, access and experiences for communities, supporting them to achieve their desired social, cultural and economic outcomes.
Transport systems and solutions enabling economic activity	Powering and connecting a globally competitive, inclusive and sustainable New South Wales and driving economic growth, creating a sustainable infrastructure legacy, and improving quality of life for the people of New South Wales.

Source: NSW Budget Papers 2022–23.

1.2 Changes to the portfolio of agencies

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

The 'Administrative Arrangements (Administrative Changes—Miscellaneous) Order (No 2) 2023' (Miscellaneous Order 2) which commenced on 5 April 2023, amended Schedule 1, Part 2 of the *Government Sector Employment Act 2013* to change the related department for the public service agencies listed in the table below.

Public service agency	Previous responsible department	New responsible department
Greater Cities Commission Staff Agency	Department of Transport	Department of Planning and Environment
Infrastructure NSW Staff Agency	Department of Transport	Treasury

Under the 'Administrative Arrangements (Administrative Changes—Miscellaneous) Order (No 5) 2023', effective from 1 July 2023, the parts of the Department of Transport that enable the following agencies to exercise functions were transferred to the Department of Planning and Environment:

- Centennial Park and Moore Park Trust
- Greater Sydney Parklands Trust
- Luna Park Reserve Trust
- Parramatta Park Trust
- Place Management NSW
- Royal Botanic Gardens and Domain Trust
- Western Sydney Parklands Trust.

This report focuses on agencies in the Transport portfolio as at 30 June 2023. The comparative information included in this report has been updated to reflect changes occurred during 2022–23.

1.3 Government commissioned reviews

The NSW Government commissioned several reviews across the Transport portfolio in 2023.

Review area	Description
Sydney Trains' Rail Infrastructure and Systems Review (Rail review)	<p>The initial focus of the review includes governance and accountability, asset management and planning, reliability and resilience.</p> <p>An interim report was received by the government on 12 May 2023. A final report will be tabled for consideration by the Cabinet.</p> <p>The review is conducted by the current National Transport Commission chair, Ms Carolyn Walsh.</p>
Sydney Metro Review	<p>The review examines value for money, delivery models, project governance and passenger impacts. It also evaluates the delivery of Sydney Metro to date, the current state of progress against delivery targets and makes recommendations for getting the maximum value out of the projects.</p> <p>In June 2023, the NSW Government received the interim report, which included 18 recommendations. The interim report focuses largely on the City and Southwest project due to its critical stage of delivery.</p> <p>The second phase of the review assessed the value for money of the existing Sydney Metro West scope and how to maximise positive outcomes for the community in its delivery. Final findings and recommendations are expected to be tabled by the end of 2023 for Cabinet's consideration.</p> <p>The review was conducted by Mr Mike Mrdak, the chair of the New South Wales Regional Growth Corporation and the Airport Development Group and Ms Amanda Yeate, Chief Executive Officer of SunCentral.</p>
Bus Industry Taskforce (the Taskforce)	<p>The focus of the Taskforce is on the quality and reliability of bus services across New South Wales, and the effectiveness and safety of the current bus networks in meeting the community needs. The initial focus includes consideration of operators' performance.</p> <p>In July 2023, the Taskforce released its first report with five recommendations accepted in principle by the government. The final report is due on 1 May 2024.</p> <p>The Taskforce is chaired by Mr John Lee, the former Chief Executive Officer of State Transit Authority and multiple private bus companies.</p>
Tolling Review	<p>This review aims to ensure consistency, fairness and equitability of toll road pricing, whilst ensuring the road network remains efficient and the emission reductions targets can be met.</p> <p>The review is led by Professor Allan Fels AO, former chairman of the Australian Competition and Consumer Commission, and Dr David Cousins AM, former chair of the Prices Surveillance Authority and Director of Consumer Affairs Victoria.</p>

Source: Transport for NSW website.

On 21 August 2023, in line with the Rail review recommendation, the government announced that a process has begun to transition the operation of the Maryung trains and most intercity passenger services, crew and stations from NSW Trains to Sydney Trains.

We will continue to monitor the progress and outcomes of these reviews and assess their impact on the Transport agencies' financial statements and their operations.

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 Transport portfolio of agencies (the portfolio) for 2023.

Section highlights

- Unqualified audit opinions were issued on all the portfolio agencies' 30 June 2023 financial statements.
- An 'Emphasis of Matter' paragraph was included in the Transport Asset Holding Entity of New South Wales' (TAHE) Independent Auditor's Report to draw attention to management's disclosure regarding the proposed changes to TAHE's future operating model.
- The total number of errors (including corrected and uncorrected) in the financial statements increased by 59% compared to the prior year.
- The recent government's decision to convert TAHE into a non-commercial Public Non-Financial Corporation may impact the future valuation and the control of TAHE's assets.
- Transport for NSW needs to further improve its quality assurance processes over comprehensive valuations, in particular, ensuring key inputs used in the valuations are properly supported and verified.
- Transport for NSW and Sydney Metro capitalised over \$300 million of bid costs paid to unsuccessful bidders. NSW Treasury's Bid Cost Contributions Policy does not contemplate how these costs should be recognised in agency's financial statements. Transport agencies should work with NSW Treasury to develop an accounting policy for the bid cost contributions to ensure consistent application across the sector.

2.1 Portfolio financial information 2023

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Principal Departments				
Department of Transport (Parent Entity)	18	13	24,196	24,195
Transport for NSW	183,255	24,471	29,815	24,878
Other portfolio agencies listed in Appendix A of Treasurer's Direction TD21-02				
Centennial Park and Moore Park Trust	1,657	15	50	52

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Chief Investigator of the Office of Transport Safety Investigations	3	1	10	8
Luna Park Reserve Trust	50	--	3	3
NSW Trains	1,119	1,244	1,214	1,270
Place Management NSW	3,248	1,820	499	365
Royal Botanic Gardens and Domain Trust	1,106	27	80	72
Sydney Ferries	206	14	19	13
Sydney Metro	36,872	3,514	6,553	1,972
Sydney Trains	5,863	6,080	4,716	4,749
Transport Asset Holding Entity of New South Wales	24,103	4,247	1,290	2,646
Western Sydney Parklands Trust	1,619	38	48	25
Other portfolio agencies				
Parramatta Park Trust	127	4	7	6
Port Authority of New South Wales	747	318	202	179
Transport Service of New South Wales	413	413	2,693	2,693

* Includes other gains.

** Includes other losses and income tax equivalent expense.

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

TAHE's Independent Auditor's Report includes an 'Emphasis of Matter' paragraph to draw attention to the future of TAHE

An 'Emphasis of Matter' paragraph was included in TAHE's Independent Auditor's Report for its 30 June 2023 financial statements, which draws attention to management's disclosure regarding the proposed changes to TAHE's future operating model.

In August 2023, the government made several key decisions regarding the future of TAHE. The decisions have a significant impact on TAHE's financial position and future operating model, including converting TAHE from a for-profit State Owned Corporation (SOC) to a non-commercial Public Non-Financial Corporation (PNFC) by 1 July 2024.

These decisions may impact the future commercial agreements with the public rail operators and the future valuation of TAHE's assets.

'Emphasis of Matter' paragraphs are included in an agency's Independent Auditor's Report for matters that have been presented or disclosed by the agency in its certified financial statements. Whilst they do not constitute an audit qualification, they do highlight matters that are, in our judgment, relevant to the users' understanding of the audit.

Four acquittal audits are in progress

The following 2022–23 acquittal audits remain in progress:

- Transport for NSW – an audit was conducted to determine if the special purpose financial statements prepared for the Local Roads and Community Infrastructure Program (LRCI Program) were prepared in accordance with the requirements of the COVID-19 Local Roads and Community Infrastructure Program guidelines.
- Transport for NSW – an audit was conducted to determine if the special purpose financial statement presented in Part 1 - Chief Executive Officer's Financial Statement for the Roads to Recovery Program (RTR Program), was prepared in accordance with the requirements of Section 90 of the *National Land Transport Act 2014*.
- Transport for NSW – an audit was conducted to determine if the financial statement of Black Spot Projects was prepared in accordance with the requirements of Section 82(a) of the *National Land Transport Act 2014*.
- Transport for NSW – an audit is being conducted to determine if the Investment Projects Annual Financial Statement was prepared in accordance with the requirements of Section 21(b) of the *National Land Transport Act 2014*.

The acquittal audits for LRCI Program, RTR Program and Black Spot Projects are expected to be completed by the end of December 2023. The audit for Investment Projects will be completed in early 2024.

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 17 in 2021–22 to 27 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 13 in 2021–22 to 20 with a gross value of \$354 million in 2022–23. Reported uncorrected misstatements increased from four in 2021–22 to seven with a gross value of \$171 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	--	1	--
\$50,000 to \$249,999	--	--	--	--
\$250,000 to \$999,999	4	--	4	2
\$1 million to \$4,999,999	5	1	1	1
\$5 million and greater	10	6	7	1
Total number of misstatements	20	7	13	4
Key	✓	!	✓	!
	Corrected misstatements	Uncorrected misstatements		

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.

Of the 20 corrected monetary misstatements, ten had a gross value of greater than \$5 million and related to the following:

Agency	Description of corrected misstatements > \$5 million
Transport for NSW	<ul style="list-style-type: none"> Subsequent to the submission of 30 June 2023 financial statements, Transport for NSW revised the estimated value of roads transferred from councils during 2022–23. This resulted in an increase in roads assets value of \$55 million. Transport for NSW identified a potential under-payment of GST to the Australian Tax Office relating to Special Number Plate fees. A provision of \$40.1 million was recognised at 30 June 2023 relating to the prior periods' (2020–2022) GST liability. The corresponding entry was recorded against the net result. This error has been adjusted prospectively in 2022–23 as it was not considered material to Transport for NSW's financial statements. Transport for NSW understated its bridge assets by \$38.6 million due to incorrect bridge lengths being used in the valuation.
Centennial Park and Moore Park Trust	<ul style="list-style-type: none"> Centennial Park and Moore Park Trust increased its property, plant and equipment and revaluation surplus by \$105 million as management and the valuer refined the valuation of trees after submission of the year end financial statements. The refinements were to reflect the updated tree accounting and valuation policy which was introduced in 2023. Centennial Park and Moore Park Trust removed a provision for decommissioning costs, resulting in reductions in assets and liabilities of \$13.3 million.
Place Management NSW	<ul style="list-style-type: none"> Place Management NSW overstated its assets by \$7.2 million, liabilities by \$6.4 million and the net result by \$782,000 as a debtor's balance was double counted in the financial statements.
Royal Botanic Gardens and Domain Trust	<ul style="list-style-type: none"> Royal Botanic Gardens and Domain Trust overstated its receivables and revenue by \$8 million because a capital grant from Property NSW did not meet the revenue recognition requirements of Australian accounting standards.
Sydney Metro	<ul style="list-style-type: none"> Sydney Metro understated its property, plant and equipment and asset revaluation reserves by \$11.1 million due to incorrect fair value adjustment. Sydney Metro identified and recorded two immaterial prior period errors in the current year's net result. These related to: <ul style="list-style-type: none"> third party works for the City Southwest and Western Sydney Airport projects of \$48 million, which were completed by Sydney Metro and accepted by external parties in prior years. The costs were reclassified from property, plant and equipment to non-cash grant expenses in 2022–23 industrial actions costs of \$12 million incurred in 2021–22. These costs were expensed in 2022–23 given they are not capital in nature.

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

Agency	Description of uncorrected misstatements > \$5 million
Transport for NSW	<ul style="list-style-type: none"> Disaster recovery grant funding of \$55.2 million received by Transport for NSW in 2022–23 and related grant payments made to various councils were incorrectly recognised as contract liabilities and prepayments. Transport for NSW should have recognised the grant funding as revenue when received and grant expenses when paid. Transport for NSW understated its roads assets and asset revaluation reserves by \$41.8 million due to formula errors identified in the fair value calculations. Transport for NSW overstated its bridge assets by \$23.2 million as a bridge was double counted. Transport for NSW understated the fair value of its motorways assets by \$33.8 million because the assets were indexed using indices for the 31 March 2023 quarter. A reassessment of the fair value movement was not performed when the 30 June 2023 indices became available. Transport for NSW did not recognise the paid parental leave entitlements of \$5.8 million.
Transport Service of New South Wales	<ul style="list-style-type: none"> Transport Service of New South Wales did not recognise the paid parental leave provision and related personnel services receivable of \$7.1 million.

Three 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
Small agencies		
Greater Sydney Parklands Trust Residual Transport Corporation of New South Wales State Transit Authority of New South Wales	Part 3A, Division 2, Clause 9D of the GSF Regulation	<p>GSF Regulation prescribes a GSF agency meeting all the following requirements not to be a reporting GSF agency:</p> <ul style="list-style-type: none"> the assets, liabilities, income, expense, commitments and contingent liabilities of the agency are each less than \$5 million the total cash or cash equivalent held by the agency is less than \$2.5 million at least 95% of the agency's income is derived from money paid out of the Consolidated Fund or money provided by other GSF agencies the agency does not administer legislation for a minister by or under which members of the public are regulated.

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

Ten Special Deposits Accounts were exempt from financial reporting in 2022–23

The new financial reporting provisions in section 7.8 of the *Government Sector Finance Act 2018* (GSF Act) commenced on 1 July 2023 effective for the 2022–23 financial year. These provisions require responsible managers of Special Deposit Accounts (SDAs) to prepare financial reports for each SDA account in accordance with the Treasurer's Directions and give those reports to the Auditor-General to audit unless they are exempted from reporting under a Treasurer's Direction.

On 29 November 2023, NSW Treasury issued Treasurer's Direction TD 23-24 'SDA Account financial reports' (TD 23-24) which specifies the mandatory requirements for preparation of financial reports for SDAs in accordance with section 7.8(2) of the GSF Act.

Under TD 23-24, SDAs are exempt from the requirement to prepare financial reports if they are:

- consolidated into the financial report of another GSF agency
- disclosed as an administered item by a GSF agency (per AASB 1050 'Administered Items')
- not controlled by the NSW Total State Sector
- within the threshold limits set within TD 23-24, which include assets, liabilities, income, expenses and contingent liabilities of the SDA are each less than \$5 million and total cash or cash equivalents are less than \$2.5 million.

Exempt SDA Accounts are not required to comply with the requirements of TD 23-24, however they must continue to comply with any reporting requirements specified in their establishing legislation.

The following SDAs were exempt from financial reporting under TD 23-24 as they were consolidated into the financial statements of other GSF agencies:

- Transport for NSW Fund
- State Transit Authority Fund
- Sydney Trains Fund
- NSW Trains Fund
- Sydney Ferries Fund
- Sydney Metro Fund
- Residual Transport Corporation Fund
- Community Road Safety Fund
- Waterways Fund
- Public Transport Fund (Parking Space Levy).

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
Agencies listed in Appendix A of TD19-02		
Centennial Park and Moore Park Trust	1	Centennial Park and Moore Park Trust did not complete the valuation of 'Infrastructure Systems - Trees' assets at 31 March 2023. Management advised this was due to the need to complete the tree survey which was a key dependency of the tree valuation process.
Royal Botanic Gardens and Domain Trust	1	Royal Botanic Gardens and Domain Trust did not finalise assessment of all revenue contracts at 31 March 2023. Management advised this was due to resourcing constraints.

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

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 Transport	23 August 2023	The Department of Transport prepares its consolidated financial statements after all its controlled entities have submitted their financial statements. The usual process is three to four weeks after the controlled entities submit their financial statements. The controlled entities submitted their financial statements on 1 August 2023.
Transport Asset Holding Entity of New South Wales	29 September 2023	Uncertainties over TAHE's operating and financial model impacted TAHE's financial statements.

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.

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

2.4 Key accounting issues

TAHE's valuation of assets

Changes in management assumptions led to a \$2.9 billion decrease in the value of TAHE assets

At 30 June 2023, TAHE reported \$16.5 billion in property, plant and equipment and related intangibles within the cash generating units (CGUs) – a \$2.9 billion or 15% decrease from the prior year. The fair value of these assets at balance date is determined using the income approach – appropriate for TAHE given its current for-profit status. Such an approach is reliant on, and is sensitive to management judgements, estimates and assumptions.

The reduction in the carrying value of reported assets were largely driven by changes in management judgements, estimates and assumptions over:

- the uncertainty of TAHE's future operating model under the new government, including:
 - TAHE's ability and mandate to generate commercial returns in the future
 - future access and licence fees in both contracted and uncontracted periods
 - the need for TAHE to recover holding losses if treatment of contributions changed
 - ability to pass on inflationary increases to operators
- revised expected price increases for access and licence fees and inflation forecasts.

The government's intention to change TAHE's future operating model did not affect the method used to value assets at 30 June 2023

In September 2023, the NSW Government announced its intention to convert TAHE into a non-commercial PNFC.

TAHE's new operating model is expected to be implemented in three phases by June 2024.

- Phase 1: August to December 2023 – The government is expected to commence transitioning TAHE to not-for-profit status by taking administrative actions under the *State Owned Corporations Act 1989*.
- Phase 2: by December 2023 – The government is expected to introduce an initial wave of legislative changes to allow for the introduction of the new operating model.
- Phase 3: by June 2024 – The government is expected to introduce further legislative changes to remove TAHE's status as a SOC. The corporation is expected to be renamed.

The decision did not impact the current for-profit SOC status of TAHE at 30 June 2023 as existing arrangements such as access and licence fee agreements, its operating licence and statement of corporate intent remained in place. Therefore, the approach used by TAHE in valuing its CGU assets at 30 June 2023 remained appropriate.

Given the uncertainty over the future of TAHE, management will need to assess whether the income approach remains an appropriate basis of valuation going forward.

Recommendation

Management should assess whether expected changes to TAHE's operating model will result in a change to the valuation methodology for its assets for future reporting periods. This should be supported by an assessment against the relevant Accounting Standards and Treasury policies.

Control of TAHE assets

Changes to TAHE's operating model may impact control of TAHE's assets

On transition of the former RailCorp to TAHE on 1 July 2020, management determined TAHE maintained accounting control of the assets held by TAHE, as it can direct the use of and obtain substantially all of the remaining benefits from the relevant assets.

For the current year, the legal form of the existing arrangements supports that TAHE has control over the assets. However, the government's decision to change the operating model for TAHE may impact the control TAHE has over its assets in the future.

Under the *Transport Administration Act 1988*, the functions of TAHE may only be exercised under one or more Operating Licences issued by the portfolio minister. The current Operating Licence confers terms and conditions for TAHE to carry out its functions, and imposes certain constraints on TAHE, including (but not limited to):

- railway operations not permitted
- transport services not permitted
- TAHE must not carry out maintenance of its assets.

Such operating licences are short term in nature, and the *Transport Administration Act 1988* allows the portfolio minister to grant one or more operating licences to TAHE and may amend, substitute, or impose or revoke conditions of the Operating Licence. Furthermore, the Statement of Expectations issued by the portfolio minister outlines the minister's expectations of TAHE in ensuring the government's priorities for the Transport portfolio are met.

Given the restrictions that can be placed on TAHE through the Operating Licence, and the ability to make further changes to the Operating Licence and Statement of Expectations set by the portfolio minister, there is a risk there could be limitations placed on the board of directors to operate with sufficient independence in its decision-making with respect to the operations of TAHE. Over time, this may further impact the degree of control required by TAHE to satisfy the recognition criteria over its assets. It may also fundamentally change the presentation of TAHE's financial statements.

We will continue to monitor and assess whether, in substance, relevant assets continue to be controlled by TAHE.

Recommendation

NSW Treasury and TAHE should continue to monitor the risk that control of TAHE assets could change in future reporting periods. TAHE must continue to demonstrate control of its assets, or the current accounting presentation may need to be reconsidered.

Transport for NSW's valuation of roads and bridges

Transport for NSW needs to improve its quality assurance processes over comprehensive valuations

In 2022–23, Transport for NSW engaged an independent valuer to comprehensively revalue its roads, bridges and tunnels assets. The revaluation resulted in a net increase to the value of roads by \$10.7 billion (or 13%) and bridges and tunnels by \$5 billion (or 20%).

Up-to-date and accurate valuations of these assets enable an entity to correctly account for the future economic benefits the assets embody. The valuations also give entities relevant and reliable information when deciding how to allocate resources and accounting for assets.

The audit of the comprehensive valuation highlighted deficiencies in Transport for NSW's processes and quality assurance regime – elevating the risk of incomplete or inaccurate valuations. These include:

- challenges in providing documentary evidence to support the basis of unit rate costs applied – a key input used in valuing roads assets
- inaccurate asset data and dimensions used in valuing bridges – leading to an understatement of this asset class by \$38.6 million which was subsequently corrected by management
- formulaic errors in underlying spreadsheets used in the valuation process.

Recommendation

Management should ensure:

- **key inputs used in future valuations are properly supported**
- **bridge lengths are validated back to original source documents for all bridges**
- **valuation spreadsheets are independently reviewed to verify their accuracy.**

Bid cost contributions

Over \$300 million of unsuccessful bid costs have been capitalised by Transport for NSW and Sydney Metro

At 30 June 2023, Transport for NSW and Sydney Metro have capitalised unsuccessful bid cost contributions totalling \$158 million and \$175 million respectively in their assets under construction. These costs represent payments made to unsuccessful bidders, reimbursing them for expenses incurred during the tender phase of a project – up to the appointment of the preferred bidder. These reimbursed costs include, but are not limited to:

- design
- technical modelling
- legal advice
- specialist reports required to develop a conforming bid.

The partial reimbursement of costs incurred by unsuccessful bidders is consistent with the NSW Treasury's Bid Cost Contributions Policy, which sets out the arrangements for when and how it will make a financial contribution to unsuccessful bidders to partially reduce the cost of bidding for construction and infrastructure projects in New South Wales. While the policy provides clarity on the reimbursement of unsuccessful bidders' costs, it does not contemplate how these costs should be recognised in agency's financial statements.

Recommendation

Transport agencies should work with NSW Treasury to develop an accounting policy for the bid cost contributions, to ensure consistent application across the NSW government agencies.

Contingent liabilities

Estimated possible liabilities relating to compulsory property acquisition matters exceeded \$2.1 billion

Under the *Land Acquisition (Just Terms Compensation) Act 1991* (the Just Terms Act), the NSW Government has the power to compulsorily acquire land that is owned or leased by individuals or businesses, if it is needed for a public purpose. These powers have been used for major transport projects such as Sydney Metro's Western Sydney Airport, Sydney Metro West, and WestConnex projects.

At 30 June 2023, Sydney Metro and Transport for NSW estimated contingent liabilities of \$1.3 billion and \$825 million respectively due to a number of compulsory property acquisition matters currently under litigation where claims differ from the Valuer-General's determined compensation amounts.

The potential liability for the Sydney Light Rail Project class action is unknown

A statement of claim filed on 28 August 2018 in the Supreme Court of NSW had alleged public and private nuisance as a result of the Sydney Light Rail Project. These proceedings were brought as a class action. On 19 July 2023, the Supreme Court found in favour of two of the three representative plaintiffs' claims with the Court yet to award damages for these two claims. The uniqueness of these claims and the challenges estimating any potential financial effect in excess of any available insurance coverage resulted in Transport for NSW reporting an unquantifiable contingent liability in its financial statement at 30 June 2023.

Major capital projects

Several major capital projects have experienced delays and are likely to incur additional costs

Regional Rail Project

The Regional Rail project commenced in 2017 and replaces the NSW regional rail fleet of XPT, XPLOER and Endeavour trains with 29 new trains, including 117 carriages. As part of the Regional Rail project, a purpose-built maintenance facility is being constructed in Dubbo.

The expenditure to 30 June 2023 was \$874 million. The project was originally budgeted at \$1.5 billion but was revised to \$2.3 billion as at 30 June 2023. The original completion date of December 2022 was revised to April 2026.

New Intercity Fleet

The New Intercity Fleet (Mariyung Fleet) project commenced in 2014 and will deliver a fleet of intercity trains for passengers travelling between Sydney and the Central Coast and Newcastle, the Blue Mountains, and the South Coast. The fleet will consist of 610 carriages. A purpose-built train maintenance facility has been built at Kangy Angy on the NSW Central Coast.

The actual expenditure to 30 June 2023 was \$2.2 billion. The project was initially expected to be completed in June 2024. It was originally budgeted at \$2.5 billion but was revised to \$3.2 billion.

Both projects may be considered in the upcoming Rail rollingstock procurement performance audit as part of our Annual Work Program.


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.

Transport for NSW

Transport for NSW is the lead agency of the cluster. Its role is to lead the development of a safe, efficient, integrated transport system that keeps people and goods moving, connects communities and shapes the future of New South Wales' cities, centres and regions.



Transport for NSW is responsible for strategy, planning, policy, regulation, funding allocation and other non-service delivery functions for all modes of transport in New South Wales including road, rail, ferry, light rail, point to point, regional air, cycling and walking.

	Key financial statement risk	Audit response
 Property, plant and equipment \$176 billion	<p>Transport for NSW's property, plant and equipment consists of specialised assets such as roads, bridges and tunnels, rail systems, and specialised land and building assets, which are measured at fair value.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are proportionately significant to the financial statements of Transport for NSW 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.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">• testing the accuracy and completeness of the asset register• reviewing the appropriateness of the valuation approach• assessing the reasonableness of key assumptions and judgments• reviewing the presentation of the financial statements in accordance with the Australian Accounting Standards.

Transport Asset Holding Entity of New South Wales

TAHE is a statutory State Owned Corporation (SOC) and owner of rail property assets including property, rolling stock and rail infrastructure in the Sydney metropolitan area and country locations in New South Wales.

These assets are made available to Sydney Trains and NSW Trains for their operations. TAHE also provides rail infrastructure to third-party operators under the terms of track access agreements.


	Key financial statement risk	Audit response
 <p>Property, plant and equipment and intangibles \$22.5 billion</p>	<p>TAHE's property, plant and equipment consists of specialised assets such as track work and infrastructure, rolling stock, land, buildings, and plant and machinery at fair value based on the income approach.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are proportionately significant to the financial statements of TAHE, 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.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • testing the accuracy and completeness of the asset register • reviewing the appropriateness of the valuation approach • assessing the reasonableness of key assumptions and judgments • reviewing the presentation of the financial statements in accordance with the Australian Accounting Standards. <p>For further details, refer to section 2.4 'Key accounting issues'.</p>
 <p>Control of assets \$22.5 billion</p>	<p>At 30 June 2023, TAHE reported \$22.5 billion of property, plant and equipment and intangibles in the financial statements.</p> <p>To recognise an asset, an entity must demonstrate that it controls the future economic benefits embodied in the asset. Indicators of accounting 'control' include the ability to direct the use of the asset and/or prevent other entities directing its use, and obtain substantially all of the economic benefits from the asset.</p> <p>TAHE has agreements with other parties:</p> <ul style="list-style-type: none"> • that provide exclusive or non-exclusive rights to use assets vested in TAHE • to manage the use of its assets as an agent. <p>TAHE is subject to an Operating Licence issued by the portfolio minister that continues till 30 June 2024, which impose limits on its legislative functions detailed in the <i>Transport Administration Act 1988</i>.</p> <p>In August 2023, the government announced that it will convert TAHE into a non-commercial PNFC. It is anticipated that TAHE will no longer be a SOC and will not have to make a profit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • reviewing management's assessment of control • examining relevant legislation and regulations and contractual agreements, including the Operating Licence to assess indicators of control against relevant Australian Accounting Standards • reviewing the presentation of the financial statements against the requirements of applicable Australian Accounting Standards. <p>For the current year (and as was the case in the prior year), the legal form of the arrangements implies TAHE has control over the assets. However, risks remain as the government's decision to convert TAHE into a non-commercial PNFC may impact the control TAHE has over its assets in the future.</p> <p>Whilst we accepted TAHE's position on control for the current year, we will continue to monitor and assess whether, in substance, these assets continue to be controlled by TAHE.</p>

	Key financial statement risk	Audit response
	<p>Our audit risk rating for control over assets is higher because significant judgements required to determine 'control' over assets, including:</p> <ul style="list-style-type: none"> • how this interacts with TAHE's legislative functions and Operating Licence • the determination of principal and agent under the relevant agreements • the impact of the government's decisions regarding the future of TAHE. 	<p>For further details on this matter, refer to section 2.4 'Key accounting issues' and section 3.1 'Findings reported to management'.</p>

Department of Transport


The Department of Transport is a NSW Government entity controlled by the NSW Total State Sector. The *Transport Administration Act 1988* states that the affairs of Transport for NSW are to be managed and controlled by the Secretary. The Secretary is defined as the Secretary of the Department of Transport.

The Department of Transport consolidates Transport for NSW, NSW Trains, State Transit Authority of New South Wales, Sydney Ferries, Sydney Metro, Sydney Trains, Transport Service of New South Wales and the Residual Transport Corporation which are under its control.

	Key financial statement risk	Audit response
 <p>Accounting for appropriations \$24.1 billion</p>	<p>The <i>Appropriations Act 2022</i> appropriated \$27 billion to the Minister for Infrastructure out of the Consolidated Fund for the services of the Department of Transport for the year 2022–23.</p> <p>In 2021–22, Transport for NSW reported \$22.5 billion in appropriations in accordance with the <i>Appropriations Act 2021</i>.</p> <p>The change in the appropriations arrangements for 2022–23 impacted the recognition of appropriations revenue and corresponding grants to portfolio agencies for both the Department of Transport and Transport for NSW.</p> <p>Our audit risk rating for appropriations is higher because these transactions are financially significant to the financial statements of the Department of Transport and the accounting treatment is subject to the interpretation of the relevant accounting standards.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • reviewing management's assessment of the accounting impacts of the <i>Appropriations Act 2022</i> on Department of Transport and Transport for NSW's financial statements • assessing the reasonableness of the accounting treatment • reviewing the presentation of the financial statements in accordance with the Australian Accounting Standards.


Sydney Metro

Sydney Metro is a NSW Government agency constituted to deliver safe and reliable metro passenger services in an efficient, effective and financially responsible manner, and to facilitate and carry out the orderly and efficient development of land in the locality of metro infrastructure.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment \$34.5 billion</p>	<p>Sydney Metro's property, plant and equipment consists of specialised assets such as infrastructure assets, rolling stock, and land and buildings, which are measured at fair value.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are proportionately significant to the financial statements of Sydney Metro, 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.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • testing the accuracy and completeness of the asset register • reviewing the appropriateness of the valuation approach • assessing the reasonableness of key assumptions and judgments • reviewing the presentation of the financial statements in accordance with the Australian Accounting Standards.


Sydney Trains

Sydney Trains is a statutory authority and operates rail services across the metropolitan Sydney area. Its objective is to deliver safe, customer focused, reliable and clean rail services in an efficient, effective and financially responsible manner.

	Key financial statement risk	Audit response
 <p>Right of use asset and lease liability \$4.6 billion asset and \$4.9 billion liability</p>	<p>On 1 July 2021, Sydney Trains entered into ten-year access and licence agreements with TAHE. These agreements provided Sydney Trains access to:</p> <ul style="list-style-type: none"> • the Metropolitan Rail Network • TAHE's rolling stock and station assets. <p>Sydney Trains was required to assess the financial reporting implications of these agreements under AASB 16 'Leases'. The licence agreement for TAHE's rolling stock and station assets was deemed as a lease under the accounting standards.</p> <p>These agreements were revised on 23 June 2022 to incorporate updated fees for the ten-year contract period.</p> <p>Our audit risk rating for the right of use asset and lease liability was higher because these balances are proportionately significant to the financial statements of Sydney Trains and are subject to assumptions and judgements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • reviewing the appropriateness of the calculations of the right of use asset and lease liability • assessing the reasonableness of key assumptions and judgments • reviewing the presentation of the financial statements in accordance with the Australian Accounting Standards.


NSW Trains

NSW Trains is a statutory authority and manages the operation of NSW TrainLink, providing services between Sydney and the Hunter, Central Coast, Blue Mountains, Southern Highlands and Illawarra and South Coast regions. Its principal objective is to deliver safe and reliable railway and coach passenger services in New South Wales in an efficient, effective and financially responsible manner.

	Key financial statement risk	Audit response
 <p>Right of use asset and lease liability \$924 million asset and \$968 million liability</p>	<p>On 1 July 2021, NSW Trains entered into new ten-year access and licence agreements with TAHE. These agreements provided NSW Trains access to:</p> <ul style="list-style-type: none"> the Metropolitan Rail Network TAHE's rolling stock and station assets. <p>NSW Trains was required to assess the financial reporting implications of these agreements under AASB 16 'Leases'. The licence agreement for TAHE's rolling stock and station assets was deemed as a lease under the accounting standards.</p> <p>These agreements were revised on 23 June 2022 to incorporate updated fees for the ten-year contract period.</p> <p>Our audit risk rating for the right of use asset and lease liability was higher because these balances are proportionately significant to the financial statements of NSW Trains and are subject to assumptions and judgements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> reviewing the appropriateness of the calculations of the right of use asset and lease liability assessing the reasonableness of key assumptions and judgments reviewing the presentation of the financial statements in accordance with the Australian Accounting Standards.

Sydney Ferries

Sydney Ferries is a statutory corporation initially established to deliver public ferry services in Sydney. Since July 2012, an external operator was awarded a contract to operate ferry services on Port Jackson and the Parramatta River. The external operator leases the vessels, land and buildings from Sydney Ferries.

 Property, plant and equipment \$115 million	Key financial statement risk	Audit response
	<p>Sydney Ferries' property, plant and equipment consists of specialised assets, including ferries, land and buildings, which are measured at fair value.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are proportionately significant to the financial statements of Sydney Ferries, 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.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">• testing the accuracy and completeness of the asset register• reviewing the appropriateness of the valuation approach• assessing the reasonableness of key assumptions and judgments• reviewing the presentation of the financial statements in accordance with the Australian Accounting Standards.

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 Transport portfolio.

Section highlights

- The 2022–23 audits identified four high risks and 28 moderate risk issues across the portfolio. Thirty-nine per cent of issues were repeat findings.
- Four high risk findings include:
 - TAHE’s asset valuations (new)
 - TAHE’s control of assets and operations (new)
 - Sydney Metro’s management of contractors and conflicts of interest (new)
 - Parramatta Park Trust’s valuation of trees (repeat).
- The total number of findings decreased from 53 in 2021–22 to 49 in 2022–23. Many repeat findings related to control weaknesses over the asset valuation, payroll processes, conflicts of interest and information technology user access administration.

3.1 Findings reported to management

The number of findings reported to management has decreased, but 39% 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 49 findings raised across the portfolio (53 in 2021–22). Thirty-nine per cent of all issues were repeat findings (55% in 2021–22).

The most common repeat issues related to weaknesses in controls over the valuation of assets, payroll, management of conflicts of interests and weaknesses in controls over information technology user access administration.

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 four high risk findings











High risk findings, including repeat findings, were reported at the following portfolio agencies.







Agency	Description	Assessment of action taken
Repeat finding from prior years		
Parramatta Park Trust	<p>Accounting and valuation of tree assets (repeat)</p> <p>The Parramatta Park Trust (the Trust) records tree assets in its financial statements, which are subject to fair value measurement.</p> <p>In the prior year, issues were identified in relation to the tree assets' valuation methodology, which increases the risk of material misstatements in the Trust's financial statements.</p>	<p>The tree assets will be subject to comprehensive revaluation in 2023–24. Management engaged an external expert to develop an updated accounting policy for trees which will become effective from 2023–24.</p>
2022–23 new findings		
Sydney Metro	<p>Management of contractors and conflicts of interest</p> <p>Our review of Sydney Metro's management of contractors identified deficiencies in the oversight of its conflict of interest declarations process. We identified inadequate processes which resulted in conflicts of interest declaration not being provided, and inaccurate declarations being made whereby contractors failed to declare their interests in entities that transact with Sydney Metro. These processes need to be improved.</p> <p>Sydney Metro needs to improve how they manage contractors and how conflicts of interest are recorded and managed. Insufficient controls to identify and manage conflicts of interest could cause serious financial and reputational damage to Sydney Metro. Contractors and staff may not be fully aware of their obligations, and this may undermine integrity and negatively impact the public perception of Sydney Metro.</p> <p>Refer to section 3.2 'Sydney Metro's management of contractors and conflicts of interest' for details.</p>	
Transport Asset Holding Entity of New South Wales (TAHE)	<p>Asset valuations</p> <p>The government has announced that it will convert TAHE into a non-commercial PNFC. It is anticipated that TAHE will no longer be a State Owned Corporation.</p> <p>Given the uncertainty over the future of TAHE, management will need to assess whether the income approach remains an appropriate basis of valuation going forward.</p> <p>Refer to section 2.4 'Key accounting issues' for details.</p>	

Agency	Description
2022–23 new findings	
TAHE	<p>Control of assets and operations</p> <p>The government's recent decision to convert TAHE into a non-commercial PNFC may change the assessment of control over TAHE's assets and operations.</p> <p>Refer to section 2.4 'Key accounting issues' for details.</p>

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

Risk rating	Issue
Information technology	
 Moderate: 4 new, 1 repeat  Low: 2 new	<p>The financial audits identified the need for agencies to improve information technology processes and controls that support the integrity of financial data used to prepare agencies' financial statements. Of particular concern are issues associated with:</p> <ul style="list-style-type: none"> • monitoring of privileged user or user access • inappropriate access to modify employee records • reports on service organisation controls not obtained and reviewed.
Internal control deficiencies or improvements	
 Moderate: 4 new, 1 repeat  Low: 3 new, 4 repeat	<p>The financial audits identified internal control deficiencies across key business processes, including:</p> <ul style="list-style-type: none"> • missing information in contract registers • incorrect data recorded in the system • no review over controls performed by service providers • processing of timesheets • lack of independent reviews over key general ledger account reconciliations.
Financial reporting	
 High: 1 new, 1 repeat  Moderate: 4 new, 7 repeat  Low: 3 new	<p>The financial audits identified the need for agencies to strengthen financial reporting, including:</p> <ul style="list-style-type: none"> • valuation of assets • capitalisation of bid cost contributions • recognition of paid parental leave • deemed appropriations.
Governance and oversight	
 High: 2 new  Moderate: 2 new, 1 repeat  Low: 1 new, 1 repeat	<p>The financial audits identified the need for agencies to improve governance and oversight processes, including:</p> <ul style="list-style-type: none"> • management of contractors and conflicts of interest • outdated policies and procedures • lack of revenue registers • completeness of key management personnel declarations • control over assets and operations.

Risk rating	Issue
Non-compliance with key legislation and/or central agency policies	
 Moderate: 3 new, 1 repeat	The financial audits identified the need for agencies to improve its compliance with key legislation and central agency policies, including: <ul style="list-style-type: none"> management of annual leave delegation for approval of payroll.
 Low: 1 new, 2 repeat	
 Extreme risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
 High-risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
 Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
 Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	

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

The number of moderate risk findings decreased from prior year

Twenty-eight moderate risk findings were reported in 2022–23, representing a 15% decrease from 2021–22. Of these, eleven were repeat findings, and 17 were new issues.

Moderate risk findings mainly related to:

- valuation of assets
- monitoring of privileged user or user access
- capitalisation of bid cost contributions
- recognition of paid parental leave
- missing information in contract registers.

Recommendation

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

3.2 Sydney Metro's management of contractors and conflicts of interest

Deficiencies in Sydney Metro's conflict of interest controls and oversight were identified

Sydney Metro's workforce comprises a combination of government employees, labour hire and professional services contractors. These costs are included in employee expenditure (\$46.7 million in 2022–23), contractors and consultants expense (\$98.3 million in 2022–23), or capitalised into assets. The use of contractors and consultants to deliver a significant proportion of an agency's core activities can expose agencies to greater risk of financial loss and reputational damage if controls to manage these risks are not effective.

Our review of Sydney Metro's controls and safeguards found deficiencies in the oversight of the conflicts of interest declarations process. With the use of data-matching techniques, we identified inadequate processes which resulted in conflicts of interest declaration not being provided, and inaccurate declarations being made whereby contractors failed to declare their interests in entities that transact with Sydney Metro. These processes need to be improved.

Recommendation

Sydney Metro needs to enhance its policies, guidance and controls over the management of contractors and conflicts of interest, to ensure any actual or perceived conflicts of interest are effectively managed.

Section two

Appendices

Appendix one – Misstatements in financial statements submitted for audit

	2022–23			2021–22		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Principal Departments						
Department of Transport (parent entity)	--	--	--	--	--	--
Transport for NSW	5	3	8	1	3	4
Other portfolio agencies listed in Appendix A of Treasurer's Direction TD21-02						
Centennial Park and Moore Park Trust	--	3	3	--	--	--
Chief Investigator of the Office of Transport Safety Investigations	--	--	--	--	--	--
Luna Park Reserve Trust	--	1	1	--	1	1
NSW Trains	--	--	--	--	--	--
Place Management NSW	--	3	3	--	1	1
Royal Botanic Gardens and Domain Trust	--	6	6	--	--	--
State Transit Authority of New South Wales*	--	--	--	1	--	1
Sydney Ferries	--	--	--	--	1	1
Sydney Metro	--	3	3	2	1	3
Sydney Trains	1	--	1	--	--	--
Transport Asset Holding Entity of New South Wales	--	--	--	--	--	--
Western Sydney Parklands Trust	--	--	--	--	3	3
Other portfolio agencies						
Parramatta Park Trust	--	1	1	--	1	1
Port Authority of New South Wales	--	--	--	--	1	1
Transport Service of New South Wales	1	--	1	--	1	1

* There were no transactions in the State Transit Authority of New South Wales (STA) for the year ended 30 June 2023. STA's principal activities ceased on 30 April 2022. STA continues to exist as a legal entity until dissolved by Parliament.

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
Principal Departments		
Department of Transport	—	13 November 2023
Transport for NSW	✓	27 October 2023
Other portfolio agencies listed in Appendix A of Treasury Direction TD 21-02		
Centennial Park and Moore Park Trust	✓	27 November 2023
Chief Investigator of the Office of Transport Safety Investigations	✓	25 October 2023
Luna Park Reserve Trust	✓	13 October 2023
NSW Trains	✓	9 October 2023
Place Management NSW	✓	13 October 2023
Royal Botanic Gardens and Domain Trust	✓	31 October 2023
Sydney Ferries	✓	12 October 2023
Sydney Metro	✓	3 November 2023
Sydney Trains	✓	9 October 2023
Transport Asset Holding Entity of New South Wales	—	29 November 2023
Western Sydney Parklands Trust	✓	27 November 2023
Other portfolio agencies		
Parramatta Park Trust	✓	27 November 2023
Port Authority of New South Wales	✓	6 September 2023
Transport Service of New South Wales	✓	16 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
Principal Departments								
Department of Transport	18	14	13	10	24,196	91	24,195	86
Transport for NSW	183,255	157,814	24,471	24,144	29,815	29,424	24,878	23,985
Other portfolio agencies listed in Appendix A of Treasury Direction TD 21-02								
Centennial Park and Moore Park Trust	1,657	1,505	15	14	50	62	52	43
Chief Investigator of the Office of Transport Safety Investigations	3	--	1	1	10	5	8	5
Luna Park Reserve Trust	50	49	--	1	3	2	3	3
NSW Trains	1,119	942	1,244	1,025	1,214	1,148	1,270	1,145
Place Management NSW	3,248	2,990	1,820	1,846	499	317	365	331
Royal Botanic Gardens and Domain Trust	1,106	1,038	27	19	80	72	72	60
Sydney Ferries	206	190	14	10	19	44	13	12
Sydney Metro	36,872	29,622	3,514	3,173	6,553	8,116	1,972	2,011
Sydney Trains	5,863	5,620	6,080	5,853	4,716	4,061	4,749	4,053
State Transit Authority of New South Wales	--	--	--	--	--	222	--	267
Transport Asset Holding Entity of New South Wales	24,103	24,842	4,247	3,890	1,290	968	2,646	1,381
Western Sydney Parklands Trust	1,619	1,511	38	43	48	112	25	19
Other portfolio agencies								
Parramatta Park Trust	127	113	4	5	7	6	6	6
Port Authority of New South Wales	747	704	318	290	202	191	179	160
Transport Service of New South Wales	413	396	413	396	2,693	2,509	2,693	2,511

* Includes other gains.

** Includes other losses and taxes, if applicable.

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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