



FINANCIAL AUDIT

21 NOVEMBER 2023

Customer Service 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 '**Customer Service 2023**'.

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

Margaret Crawford PSM

Auditor-General for New South Wales
21 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

Customer Service 2023

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

1. Introduction

This report provides Parliament and other users of the Customer Service 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

Customer Service

Key agencies

Principal Department



Agencies



Source: NSW Budget Papers 2023–24.

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 Customer Service portfolio: Plan, prioritise, fund and drive digital transformation and customer service across every portfolio in the NSW Government.

State outcomes	Description
Excellence in customer service	Focusing the portfolio's efforts towards a customer-centred approach across the NSW Government, resulting in better customer experiences and easier transactions.
Digital leadership and innovation in government services	Investing in innovation and technology to increase and improve digital availability, reliability and security of NSW government platforms, information and services.
Fair, secure and efficient markets	Delivering a regulatory framework that promotes safety, efficiency and regulatory requirements that meet the evolving expectations of businesses and customers.

Source: NSW Budget Papers 2022–23.

1.2 Changes to the portfolio

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.

The *Administrative Arrangements (Administrative Changes - Miscellaneous) Order (No.3) 2023*, effective 3 May 2023, transferred the administration of the *Independent Pricing and Regulatory Tribunal Act 1992* from the Minister of Customer Service to the Premier. On 1 July 2023, the Cabinet Office was established under the *Administrative Arrangements (Administrative Changes – Miscellaneous) Order (No 4) 2023*. Independent Pricing and Regulatory Tribunal is shown as an independent agency under the Cabinet Office portfolio in the NSW Government's Governance Arrangements Chart, effective 1 July 2023.

This report is focused on agencies in the Customer Service portfolio as at 30 June 2023.

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 Customer Service portfolio of agencies (the portfolio) for 2023.

Section highlights

- Unqualified audit opinions were issued on all completed 30 June 2023 financial statements audits of the portfolio agencies. Two audits are ongoing.
- The total number of errors (including corrected and uncorrected) in the financial statements decreased compared to the prior year.
- Financial statements were not prepared for Finance Co Trust (Fin Co), a special purpose trust created by the department as part of its project to replace flammable cladding for eligible residential apartment buildings. This is a breach of the *Government Sector Finance Act 2018* (GSF Act).
- The department overstated the value of its land titling database, a service concession asset by \$42.5 million. This was due to errors in the valuation data and calculation errors in the valuation model.
- Service NSW's late resolution of the accounting assessment of grant programs funding resulted in delays to financial reporting and audit.
- The New South Wales Government Telecommunications Authority (the authority) corrected a prior period error retrospectively to write off assets that could not be physically verified.

2.1 Portfolio financial information 2023

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Principal department				
Department of Customer Service	2,109.7	2,802.3	2,706.9	2,465.6
Other portfolio agencies listed in Appendix A of Treasurer's Direction TD21-02				
Long Service Corporation	2,290.2	1,648.2	322.2	187.1
New South Wales Government Telecommunications Authority	1,003.2	298.9	325.3	201.0
State Insurance Regulatory Authority	491.0	266.2	649.2	618.4
Service NSW	230.3	125.9	901.4	855.1
Digital Restart Fund****A	324.4	--	655.0	571.4
Rental Bond Board	183.8	0.1	68.2	78.7

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Office of the Independent Review Officer	8.7	8.7	103.0	103.0
NSW Shared Equity Scheme Fund***^	35.4	--	42.1	35.8
Information and Privacy Commission	2.4	0.8	7.4	7.1
Immaterial agencies	8.7	4.1	3.4	2.8

* Includes other gains.

** Includes other losses.

*** A special deposit account (SDA) that prepares a special purpose financial report on a cash basis.

^ Based on unaudited 2022–23 financial statements which audits are ongoing.

Source: Agencies' audited and unaudited 2022–23 financial statements.

2.2 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued on agencies' financial statements

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

Two audits are ongoing, including:

- Digital Restart Fund
- NSW Shared Equity Scheme Fund.

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 39 in 2021–22 to 15 in 2022–23. A monetary misstatement is an error in amount recognised in the financial statements initially submitted for audit.

Reported corrected misstatements decreased from 30 in 2021–22 to nine with a gross value of \$102.3 million in 2022–23 (\$406 million in 2021–22). Reported uncorrected misstatements decreased from nine in 2021–22 to six with a gross value of \$12.4 million in 2022–23 (\$31.8 million in 2021–22).

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	4	1	3	1
\$50,000 to \$249,999	--	--	3	2
\$250,000 to \$999,999	--	--	5	2
\$1 million to \$4,999,999	2	5	7	2
\$5 million and greater	3	--	12	2
Total number of misstatements	9	6	30	9
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 nine corrected monetary misstatements, three had a gross value of greater than \$5 million and related to the following:

Agency	Description of corrected misstatements > \$5 million
Department of Customer Service	<ul style="list-style-type: none"> The department's valuation of its land titling database, a service concession asset, was overstated by \$42.5 million due to incorrect estimation of valuation data and human errors in inputting data and computation in the valuation model. The department's appropriations revenue and grants and subsidies expenditure were understated by \$37.9 million due to incorrect disclosure of grant administration costs recovery provided to Service NSW as 'administered items'. The right-of-use assets relating to a data centre lease was overstated by \$11.9 million, the lease liability was overstated by \$12.1 million and net result was understated by \$249,000. The department did not account for the reduction of leased assets and associated lease liability in the submitted financial statements.

Of the six uncorrected monetary misstatements, none had a gross value of greater than \$5 million.

2.3 Timeliness of financial reporting

Early close procedures

Some portfolio agencies did not submit certain early close mandatory procedures on time

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](#).


Three portfolio agencies met the statutory deadline for submitting their 2022–23 early close financial statements and other mandatory procedures. The following five agencies did not submit certain early close procedures on time:

- Department of Customer Service
- Service NSW
- New South Wales Government Telecommunications Authority
- State Insurance Regulatory Authority
- Office of Independent Review Officer.

These were due to delays in resolving accounting issues and not performing certain early close procedures. The remaining four portfolio agencies are not required to perform mandatory early close procedures under TD 19-02.

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
		
Other agencies listed in Appendix A of TD19-02		
Service NSW	3	<p>Significant management judgements and assumptions</p> <p>Management did not finalise accounting assessments of new grant programs including:</p> <ul style="list-style-type: none"> • Toll Relief Rebate Scheme • Northern Rivers Commercial Property Return to Business Support Grant • Premier's Back to School NSW Vouchers • Fertility Treatment Rebate. <p>Finalise assessment of revenue contracts</p> <p>Management did not perform and document their review of Service NSW's revenue streams related to new programs.</p> <p>Prior year Management Letter issues</p> <p>Management did not address high risk findings included in the 2022 Management Letter.</p>
State Insurance Regulatory Authority	1	<p>Inter and intra agency transactions and balances</p> <p>Management did not confirm transactions and balances with other government agencies.</p>
Office in Independent Review Officer	1	<p>Inter and intra agency transactions and balances</p> <p>Management did not confirm transactions, balances and disclosures with State Insurance Regulatory Authority.</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 ensure timely completion and submission of early close procedures, particularly relating to the quality and timeliness of accounting papers for key accounting matters to support their recognition, measurement and disclosures in the financial statements.

During the year, there were significant delays in completing the accounting papers to support its accounting treatment of significant transactions and events in the department and Service NSW.

The department did not resolve and finalise the accounting assessment of the following transactions at early close:

- impact of grant administration costs recovery by Service NSW from the appropriations received by the department
- accounting and financial reporting of Service NSW's grants programs funding received by the department
- accounting and financial reporting of transactions related to Project Remediate
- accounting and financial reporting of transactions related to NSW Shared Equity Scheme Fund.

Service NSW did not resolve and finalise the accounting assessment of new grant programs and related funding at early close.

The late resolution of accounting issues could result in material misstatements in the financial statements and significant delays in completing the audit.

The 2022 Auditor-General's Report to Parliament recommended the department and Service NSW:

- implement a process in identifying significant accounting issues, and assign clear responsibilities over assessment and reporting
- improve the timeliness and quality of accounting papers to support accounting treatment by early close
- ensure all analysis is well-supported and audit trail is kept for review purpose.

The Audit Office acknowledges continuous efforts from the department and Service NSW to improve the timeliness and quality of financial reporting. This is evidenced by the reduced volume and size of misstatements reported in 2022–23. Further improvements are recommended to avoid delays in financial reporting and audits.

Recommendation

The department and Service NSW should continue to improve:

- **their process in identifying significant accounting issues, and assigning clear responsibilities over assessment and reporting**
- **the timeliness and quality of accounting papers to support accounting treatment by early close**
- **the analysis and documentation of assessment to ensure they are well-supported and audit trail is kept for review purpose.**

Year-end financial reporting

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

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

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

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

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

Financial statements were submitted on time with two exceptions

Nine of the eleven agencies met the reporting deadlines for submitting their 2022–23 financial statements. The Board of Surveying and Spatial Information delayed their submission of the financial statements by one business day due to unexpected staff leave.

Financial statements were not prepared for Finance Co Trust (Fin Co), a special purpose trust created by the department as part of its project to replace flammable cladding for eligible residential apartment buildings. This is a breach of the *Government Sector Finance Act 2018* (GSF Act). Further information on this issue is included at section 2.4.

The *Government Sector Audit Act 1983* does not specify the statutory deadline for issuing the audit reports. At the date of this report, the audits of ten portfolio agencies' financial statements have been completed. The audits of two special deposit accounts' special purpose financial reports are ongoing.

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

2.4 Key accounting issues

Valuation of a service concession asset

The service concession asset was overstated by \$42.5 million due to incorrect data

The department's service concession asset (land titling database) is managed by a private service concession operator. The valuation of this asset is complex and involves significant judgements and assumptions. Many of the valuation inputs are provided by the private service concession operator.

As part of early close procedures, management completed an interim valuation of the land titling database at 31 March 2023. The valuation used the data provided by the private operator at 31 December 2022 which was annualised to estimate the value of database at 30 June 2023. Management recognised a valuation increment of \$33.7 million in the financial statements.

The audit review of key assumptions and data at year-end identified an overstatement of \$42.5 million in the valuation. This error is mainly contributed by:

- differences of actual data at 30 June 2023 compared to estimated data at 31 December 2022
- human errors in inputting data and computation in the valuation model.

Management updated the valuation model and financial statements to correct the error.

[The 2022 Auditor-General's Report to Parliament](#) recommended the department:

- continue to enhance the data validating process of the valuation of the service concession asset
- include the valuation of the service concession asset as part of early close procedures to reduce the risk of material misstatement in the financial statements.

While the department improved the timeliness of valuation at early close, the data validation process requires further improvement.

Recommendation

The department should improve the accuracy of assumptions and data in the valuation of its service concession asset.

Financial reporting and compliance requirements of Finance Co Trust

The department controls Finance Co Trust established in Project Remediate

Project Remediate is a voluntary program delivered by the department to replace flammable cladding for eligible class 2 residential apartment buildings. The department provides financial support and quality assurance and program management services to eligible owners corporations (EOCs).

Finance Co Trust (Fin Co) is a special purpose trust created in Project Remediate to facilitate borrowing from a capital provider to fund loans to EOCs. Fin Co is a controlled entity of the department under AASB 10 'Consolidated Financial Statements' because the department has:

- power over Fin Co's relevant activities including managing loans in default via a service provider; procuring and selecting finance providers; and refinancing
- exposure to variable returns and the ability to use power to influence variability in returns from its involvement with Fin Co. This is evidenced by the department's payment of interest subsidies and financial guarantee; and obligations to purchase loans from a capital provider if not refinanced. The department also has exposure to non-financial risks and opportunities given that Project Remediate was specifically set up to meet the government's social policy function to replace flammable cladding for eligible buildings.

The department acknowledge that Fin Co is a controlled entity of the department, but determined it was immaterial to be consolidated into the department's financial statements.

Recommendation

The department should consolidate Fin Co in its financial statements.

Finance Co Trust has not complied with the requirements of GSF Act

Under section 2.4 of *Government Sector Finance Act 2018* (GSF Act), Fin Co becomes a GSF agency as a controlled entity of the department. The relevant provisions of the GSF Act that Fin Co has not complied with include:

- notification of the Treasurer and the Auditor-General of the new GSF agency (section 2.8)
- financial arrangements for GSF agencies (section 6.22)
- borrowings to be obtained from New South Wales Treasury Corporation (section 6.24)
- financial reporting (Part 7, Division 7.2)
- annual reporting information for reporting GSF agencies (Part 7, Division 7.3).

Recommendation

The Accountable Authority of Fin Co should ensure all legislative obligations are met.

Retrospective correction of prior period errors

Material prior period errors identified in the stocktake of plant and equipment

The New South Wales Government Telecommunications Authority (the authority) corrected a prior period error retrospectively in the financial statements. The authority completed its first comprehensive stocktake of plant and equipment during the year and found some assets in the fixed assets register could not be physically verified. This is due to weak controls in fixed assets management, which was reported in the Audit Office's observations on early close procedures, management letters and Report to Parliament in the prior years.

The authority corrected these misstatements in the financial statements:


- decreased the prior year comparative property, plant and equipment by \$10.2 million
- decreased the prior year comparative accumulated funds by \$8.9 million
- decreased the prior year comparative reserves by \$1.3 million
- decreased the 1 July 2021 equity by \$14.5 million.

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 Customer Service

The Department of Customer Service (the department) delivers value by making or enabling sustained improvements to services in NSW. It aims to deliver excellence in customer service, digital leadership and innovation in government services, and safe and secure markets.

	Key financial statement risk	Audit response
 <p>Service concession asset \$840 million</p>	<p>The department's service concession assets (land titling database) are managed by a private service concession operator. The department conducted an interim valuation of the land title database in 2022–23.</p> <p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> the service concession arrangement is financially significant to the department's financial position valuation of the service concession assets is complex and involves significant judgements and assumptions. Many of the valuation inputs are provided by the private service concession operator. 	<p>The audit procedures included:</p> <ul style="list-style-type: none"> evaluated and tested the design and implementation of relevant controls in the financial reporting of the service concession asset assessed the appropriateness of the methodology, key assumptions and judgements adopted tested the key inputs and mathematical calculation of the valuation model assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.
 <p>Administered duties and taxes revenue \$42.2 billion</p> <p>Administered taxation and fines receivables \$5.7 billion including \$366.4 million allowance for impairment for taxation and fines</p>	<p>The department's administered revenue streams consist of licences, taxes, levies and certain transfer payments for the Crown.</p> <p>Our audit risk rating is higher due to:</p> <ul style="list-style-type: none"> the financial significance of taxation revenue, and related receivable in the disclosure of the department's administered activities significant judgements and assumptions required in the calculation of the allowance related to taxation receivable. 	<p>The audit procedures included:</p> <ul style="list-style-type: none"> evaluating the design and testing operating effectiveness of controls over key administered revenue streams, including land tax, payroll tax, duties, gaming machine taxes and mineral royalties recalculating key administered revenue streams for reasonableness against the requirements of the relevant taxation legislation assessing the methodology and assumptions used to estimate the allowance for impairment related to administered taxation receivable against historical recoverability rates and write-off of debt for reasonableness recalculating the allowance for impairment recognised for mathematical accuracy assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.


Service NSW

Service NSW makes it easier to access government services for people and businesses across NSW. Service NSW administers grants on behalf of other agencies to support individuals and businesses through bushfires, floods and the COVID-19 pandemic. These grants cannot be used for the achievement of SNSW's own objectives therefore transactions related to the fund are not recognised as 'revenue', 'expense', 'assets' and 'liabilities' in the financial statements.

	Key financial statement risk	Audit response
 <p>Administered items</p> <p>Total transfer payments received: \$739.4 million</p> <p>Administered expenses: \$813.9 million</p>	<p>Service NSW disclosed the administered expenses paid for a range of economic stimulus and disaster recovery support measures in administered items in the financial statements.</p> <p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> the note disclosure is financially significant to Service NSW's financial statements the TPP 21-03 'Guidance on Administered Items' required management to assess the control of the underlying transactions depending on the realisation of benefits and discretion criteria by Service NSW for each program. 	<p>The audit reviewed management's assessment of administered programs. The audit tested the design and implementation of key controls, substantive testing of transactions, and assessed the adequacy of financial statement disclosures against applicable Australian Accounting Standards and NSW Treasurer's Directions.</p>


Long Service Corporation

Long Service Corporation (the corporation) administers a long service payments scheme for the building and construction industry in New South Wales.

	Key financial statement risk	Audit response
 <p>The valuation of scheme liabilities of \$1.6 billion</p>	<p>The corporation's provisions include the expected benefit payments from the Building and Construction Industry Long Service Payments Scheme and the Contract Cleaning Industry Long Service Payments Scheme payable over the future working lifetime of current workers.</p> <p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> of the financial significance of the scheme liabilities to the corporation of the amount of judgement needed to develop assumptions and the complexity of valuation models used to value the scheme liabilities the scheme liabilities may change significantly and unexpectedly with changes in assumptions. 	<p>With the assistance of an actuarial specialist, the audit evaluated the competence, capabilities and objectivity of the corporation's actuary, and performed an overall assessment of the valuation methodology, key assumptions and models used to value the corporation's scheme liabilities.</p>

New South Wales Government Telecommunications Authority

The New South Wales Government Telecommunications Authority (the authority) delivers critical radio communications to first responders and essential services to keep people and places in NSW safe.

	Key financial statement risk	Audit response
 <p>Property, plant, and equipment \$663.2 million</p>	<p>The authority's property, plant and equipment consist of specialised plant and equipment, land and leasehold improvements.</p> <p>Our audit risk rating is higher due to the:</p> <ul style="list-style-type: none"> financial significance of property, plant and equipment in the Statement of Financial Position specialised nature of the telecommunication assets extent of significant management judgements underpinning key assumptions used in the valuation process. 	<p>The audit procedures included:</p> <ul style="list-style-type: none"> evaluating and testing the design and implementation of relevant controls in the financial reporting of property, plant and equipment assessing the appropriateness of the methodology, key assumptions and judgements adopted in the valuation and impairment of property, plant and equipment testing the key inputs and mathematical calculation of the fair value and impairment assessment of property, plant and equipment testing the movements in property, plant and equipment on sample basis reviewing the results of comprehensive stocktake on property, plant and equipment and management's action to address the results of stocktake assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.

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 Customer Service portfolio.

Section highlights

- The 2022–23 audits identified one high risk and 26 moderate risk issues across the portfolio.
- The high-risk matter was related to Service NSW's revenue assessment of its grant programs.
- The total number of findings decreased from 64 to 41, which mainly related to deficiencies in financial reporting, information technology, payroll and purchasing controls.
- Fifty-one per cent of the issues were repeat issues. Many repeat issues related to weakness in information technology (IT) controls around access to systems and data and disaster recovery testing.
- For the first time since its establishment in 2015, GovConnect NSW received unqualified audit opinions for business processes internal controls and information technology general controls managed by service providers.

3.1 Findings reported to management

The number of findings reported to management has decreased, and 51% 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 41 findings raised across the portfolio (64 in 2021–22). Fifty-one per cent of all issues were repeat issues (53% in 2021–22). The most common repeat issues related to weaknesses in controls over information technology user access to systems and data.

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 a high-risk finding that has been raised previously and still needs to be resolved as a matter of urgency

A repeat high-risk finding was reported in Service NSW in relation to its grant administration and financial reporting.

In response to emergency events and natural disasters, Service NSW administered a range of economic stimulus and disaster recovery support programs. It paid \$814 million (2022: \$11.6 billion) across 22 different programs in 2022–23 (2022: 17) to support the people of NSW through these difficult times. While the size of Service NSW's administered grant programs has decreased the number of programs this year was higher.

The table below summarises our observations in the gaps in Service NSW's policies, systems, and processes in administering and financial reporting of grant programs.

Key issues	Audit observations	Impact
Accounting assessment of administered grant programs not performed promptly and with sufficient quality (repeat issue)	The financial reporting implications associated with new grant programs were not finalised as part of the early close procedures. Accounting assessment on the treatment of grant programs funding was not finalised until late October 2023, four months after the financial year end date.	<ul style="list-style-type: none"> Mandated early close procedure was not completed. Significant delays in finalising financial reporting and audit.
Approval to recover administration costs received post 30 June 2023 (repeat issue)	<p>Service NSW did not receive approval from the Secretary of NSW Treasury before the financial reporting date at 30 June 2023. Approval was requested on 30 May 2023 (2022: late September 2022). NSW Treasury approved administration costs incurred on 14 July 2023 (2022: 21 November 2022). There were administration costs which exceeded the agreed administered costs in the administered program agreements.</p> <p>Management continues to refine existing systems and process to:</p> <ul style="list-style-type: none"> better allocate administration costs to each administered program monitor and manage the administration costs within the agreed amounts that can be recovered in the administered program agreement. 	<ul style="list-style-type: none"> Significant adjusting events may occur that require changes to the financial statements. Delays to finalise financial reporting and audit.
Weakness in controls to ensure administered funds are used for designated purposes (new issue)	<p>Service NSW disclosed assets and expenses related to grant programs administered on behalf of the Crown as 'administered items' in the notes of Service NSW's financial statements as Service NSW could not use the cash for the achievement of its own objectives without further authorisation.</p> <p>There was limited evidence to support the protected nature of the funds that had been drawn down. Further, appropriate controls had not been established to restrict the use of the funds for the designated purpose, allowing Service NSW to re-designate \$191.2 million to its operational needs.</p> <p>Management should liaise with NSW Treasury to properly protect the funding and ensure appropriate controls are in place to limit use of administered funds for its intended purpose.</p>	<ul style="list-style-type: none"> Increased risk that administered funds will not be used for their intended purpose.








Recommendation

Service NSW should remediate the gaps in the current policies, systems and processes in administering and financial reporting of grant programs.

The number of moderate risk findings decreased from the prior year

Twenty-six moderate risk findings were reported in 2022–23, representing a 28% decrease from 2021–22. Of these, 15 were repeat findings, and 11 were new issues.

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

Risk rating	Issue
Information technology	
 Moderate: 1 new, 7 repeat	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: <ul style="list-style-type: none">no monitoring of privileged user activities and appropriateness of users with privileged accesspassword settings that are weaker than the required minimum standards per the department's policies.
 Low: 1 new, 2 repeat	
Internal control deficiencies or improvements	
 High: 1 repeat	The financial audits identified internal control deficiencies across key business processes, including: <ul style="list-style-type: none">significant deficiencies in the grant administration revenue assessment and accounting of administered programs funding received and controls over grant administration costs recoveryno centralised quality assurance (QA) over manually issued land tax assessments and lack of reporting to senior management over QA resultsno compliance activities over non-coal mineral royalties.
 Moderate: 3 new	
 Low: 4 new	
Financial reporting	
 Moderate: 3 new, 4 repeat	The financial audits identified the need for agencies to strengthen financial reporting, including: <ul style="list-style-type: none">quality and timeliness of accounting papers for key accounting matters to support their recognition, measurement and disclosures in the financial statementscompletion of required early close procedures to enhance the quality and timeliness of financial reportingcontrols to improve the accuracy of assumptions and data used in service concession asset valuation model.
 Low: 2 new, 2 repeat	

Risk rating	Issue
Governance and oversight	
<div> <div>—</div> <div>Moderate: 4 new</div> </div> <div> <div>✓</div> <div>Low: 1 new, 1 repeat</div> </div>	<p>The financial audits identified the need for agencies to improve governance and oversight processes, including:</p> <ul style="list-style-type: none"> periodically assessing contractor engagements that have been renewed over multiple years against the market as recommended in the 2022 Internal Controls & Governance Auditor-General's Report to Parliament updating conflict of interest policies and procedures to clearly define roles and responsibilities and monitoring and reporting compliance with the policy.
Non-compliance with key legislation and/or central agency policies	
<div> <div>—</div> <div>Moderate: 4 repeat</div> </div> <div> <div>✓</div> <div>Low: 1 new</div> </div>	<p>The financial audits identified the need for agencies to improve its compliance with key legislation and central agency policies, including:</p> <ul style="list-style-type: none"> non-compliance with contract and procurement management policy non-compliance with Treasury Circular 22-01 Statutory Act of Grace Payments.

- !

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 management letters issued to agencies.

Unqualified audit opinions issued for internal controls in GovConnect service providers

In 2022–23, Infosys and the department were co-providers of business processes and information technology services that constitute the GovConnect environment (GovConnect NSW).

The controls assurance service auditor, a private sector accounting firm appointed by the department, issued seven reports under the ASAE 3402 'Assurance reports on controls at the service organisation' covering business process controls and information technology general controls provided by Infosys and the department. For the first time since its establishment in 2015, GovConnect NSW received unqualified audit opinions for business processes internal controls and information technology general controls managed by service providers. There were no control deviations reported in the control assurance reports.

Section two

Appendices

Appendix one – Misstatements in financial statements submitted for audit

	2022–23			2021–22		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Department of Customer Service	3	4	7	2	11	13
Long Service Corporation	--	--	--	1	1	2
New South Wales Government Telecommunications Authority	--	--	--	2	3	5
State Insurance Regulatory Authority	--	--	--	1	2	3
Service NSW	2	1	3	1	2	3
Digital Restart Fund	--	--	--	--	1	1
Rental Bond Board	--	--	--	--	1	1
Office of the Independent Review Officer	--	--	--	1	1	2
NSW Shared Equity Scheme Fund	--	--	--	--	--	--
Information and Privacy Commission	1	1	2	1	3	4
Board of Surveying and Spatial Information	--	--	--	--	1	1
NSW Architects Registration Board	--	3	3	--	4	4

Source: Engagement Closing Reports issued to portfolio agencies.

Appendix two – Early close procedures

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

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

Appendix three – Timeliness of financial reporting

Portfolio agencies	2022–23 Financial statements submission	Date audit report was issued
Department of Customer Service	✓	13 November 2023
Long Service Corporation	✓	29 September 2023
New South Wales Government Telecommunications Authority	✓	3 October 2023
State Insurance Regulatory Authority	✓	5 October 2023
Service NSW	✓	14 November 2023
Digital Restart Fund	N/A	^
Rental Bond Board	✓	12 October 2023
Office of the Independent Review Officer	✓	26 October 2023
NSW Shared Equity Scheme Fund	N/A	^
Information and Privacy Commission	✓	26 September 2023
Board of Surveying and Spatial Information	!	25 October 2023
NSW Architects Registration Board	✓	25 October 2023
Finance Co Trust	!	#

✓ Treasury's reporting deadline was met.

! Treasury's reporting deadline was not met.

N/A Treasury's reporting deadline does not apply as it is a special deposit account that prepares a special purpose financial report.

^ Audit of the portfolio agency is ongoing.

No audit report issued as the financial statements of Finance Co Trust were not prepared and submitted.

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2023 \$m	2022 \$m	2023 \$m	2022 \$m	2023 \$m	2022 \$m	2023 \$m	2022 \$m
Portfolio lead entity								
Department of Customer Service	2,109.7	1,998.1	2,802.3	2,923.2	2,706.9	2,227.1	2,465.6	2,018.1
Other portfolio agencies listed in Appendix A of Treasurer's Direction TD21-02								
Long Service Corporation	2,290.2	2,122.6	1,648.2	1,605.9	322.2	78.5	187.1	97.7
New South Wales Government Telecommunications Authority	1,003.2	794.5#	298.9	234.7	325.3	293.7#	201.0	176.5#
State Insurance Regulatory Authority	491.0	486.6	266.2	292.6	649.2	624.7	618.4	551.7
Service NSW	230.3	215.2	125.9	157.1	901.4	887.7	855.1	913.6
Digital Restart Fund***^	324.4	240.7	--	--	655.0	655.5	571.4	624.3
Rental Bond Board	183.8	194.9	0.1	0.6	68.2	65.1	78.7	77.1
Office of the Independent Review Officer	8.7	8.6	8.7	8.6	103.0	90.1	103.0	90.1
NSW Shared Equity Scheme Fund***^	35.4	N/A	--	N/A	42.1	N/A	35.8	N/A
Information and Privacy Commission	2.4	2.1	0.8	0.9	7.4	8.2	7.1	7.2
Immaterial agencies								
Board of Surveying and Spatial Information	0.8	0.8	0.1	--	0.7	0.6	0.8	0.6
NSW Architects Registration Board	7.9	7.5	4.0	4.2	2.7	2.4	2.1	1.5

* Includes other gains.

** Includes other losses and taxes, if applicable.

*** A special deposit account that prepares a special purpose financial report.

^ Audit of portfolio agency is ongoing.

Restated 2022 financial data following correction of a prior period error in the financial statements.

N/A The NSW Shared Equity Scheme Fund prepared its first special purpose financial report for the period from 14 December 2022 to 30 June 2023.

Source: Agencies' audited and unaudited 2022–23 financial statements.

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