

# Central Agencies 2017

21 NOVEMBER 2017



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

FINANCIAL AUDIT

# THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency 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 examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.



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In accordance with section 52A of the *Public Finance and Audit Act 1983*, I present a report titled  
**Central Agencies 2017.**

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

**Margaret Crawford**

Auditor-General  
21 November 2017

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# **Section one**

## **Central agencies 2017**

This report analyses the results of the financial statement audits of the Treasury, Premier and Cabinet and Finance, Services and Innovation cluster entities for the year ended 30 June 2017.





# Executive summary



## 1. Financial reporting and controls

### Audit opinions

Unqualified audit opinions were issued for all agencies' 30 June 2017 financial statements.

### Early close

Early close procedures continue to facilitate the timely preparation of financial statements and completion of audits, but agencies can make further improvement.

### Deficient user administration access

User access administration over financial systems remains an area of weakness. Agencies need to strengthen user access administration to critical systems.

### Transitioning to outsourced service providers

Transitioning of services to outsourced service providers can be improved. Outsourcing services can lead to better outcomes, which may include lower transaction costs and improved services, but it also introduces new risks.



## 2. Service delivery

### Premiers and State Priorities

A comprehensive report of performance against the 18 State Priorities is yet to be published. While some measures are publicly reported through agency annual reports or other sources, a comprehensive report of performance against the 18 State Priorities would ensure all State Priorities are publicly reported, provide a single and easily accessible source of reference and improve transparency.

### ICT and digital government

The Digital Government Strategy was released in May 2017. Targets will need to be set to assess and monitor progress against the Strategy.

### Digital information security

Not all agencies are complying with the NSW Government's information security policy. This increases the risk of noncompliance with legislation, information security breaches and difficulty restoring data or maintaining business continuity in the event of a disaster or disruption.

### Property and asset utilisation

Property NSW's performance reporting would be enhanced by developing and reporting on customer satisfaction, reporting against set targets and benchmarking cost of service to the private sector.



## 3. Government financial services

### Prudential oversight of NSW Government superannuation funds

Prudential oversight of SAS Trustee Corporation Pooled Fund and Parliamentary Contributory Superannuation Fund has not been prescribed. Structured and comprehensive prudential oversight of these funds remains important as they operate in a specialised, complex and continuously changing investment market sector, have over 106,000 members and manage investments in excess of \$42.4 billion.

### Green slip scheme affordability

Currently, Green Slips in NSW are the most expensive in Australia. However, CTP reforms are expected to reduce the cost of Green Slips.



## 1. Financial reporting and controls

### Unqualified audit opinions were issued for all agencies' financial statements

Unqualified audit opinions were issued for all agencies' 30 June 2017 financial statements. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

### Agencies completed early close procedures, but opportunities for improvement noted

Early close procedures continue to facilitate the timely preparation of financial statements and completion of audits. Except for the NSW Electoral Commission, all agencies complied with the mandatory early close procedures set by NSW Treasury. However, we noted opportunities to improve other aspects of early close procedures.

### User access administration over financial systems remains an area of weakness

We identified 16 moderate risk and ten low risk issues related to user access administration across eight agencies. These moderate risk weaknesses increase the risk of users having excessive or unauthorised access to critical systems and information.

#### Recommendation:

Agencies should review user access administration to critical systems to ensure:

- policies for user access creation, modification and deactivation are documented
- approval is being obtained to establish, modify or delete user accounts
- regular user access reviews are performed and highly privileged user account activity is logged and monitored
- evidence of review is maintained.

### Transitioning of services to outsourced service providers can be improved

Outsourcing services can lead to better outcomes, which may include lower transaction costs and improved services, but it also introduces new risks. The transition needs to be carefully managed and requires thorough planning and effective project governance. This should be supported by oversight and direction from senior management and independent project assurance.

Our 2016–17 audits identified one high risk issue relating to Property NSW's outsourcing of property and facility management services to the private sector. While a high risk issue was also identified in 2015–16 from the Department of Finance, Services and Innovation's outsourcing of transactional and information technology services to GovConnect, there has been an improvement in GovConnect's internal control environment throughout 2016–17.



## 2. Service delivery

### A comprehensive report of performance against the State Priorities is not published

Progress against the 12 Premier's Priorities is publicly reported, but a comprehensive report of performance against the 18 State Priorities is yet to be published. While some measures are publicly reported through agency annual reports or other sources, a comprehensive report of performance against the 18 State Priorities would ensure all State Priorities are publicly reported, provide a single and easily accessible source of reference and improve transparency.

### Red tape reduction measures were ineffective and are under review

A key aspect of achieving the State Priority to make NSW the easiest state to start a business is making regulatory obligations easier to understand and implement. While initiatives are in place to achieve this priority, an October 2016 performance audit on '[Red tape reduction](#)' found that reported red tape savings were inaccurate and the regulatory burden of legislation had increased.



Following release of the performance audit the NSW Government commissioned a review of regulatory practice, known as the 'Greiner Review', which drew heavily on our report findings. The draft report has made 35 recommendations aimed at improving the regulatory policy framework.

### **Progress to achieve priorities in Digital Strategy will need to be measured and reported**

The Digital Government Strategy was released in May 2017 to build on reforms set out in previous ICT strategies. It sets out a roadmap of key priorities and enablers towards a more digital government. Targets and measures have not yet been set to assess and monitor progress.

### **Not all agencies are complying with the NSW Government's information security policy**

The Digital Information Security Policy (DISP) is a key tool that helps ensure a minimum set of information security controls are implemented across NSW Government agencies. Failure to comply with the DISP increases the risk of noncompliance with legislation, information security breaches and difficulty restoring data or maintaining business continuity in the event of a disaster or disruption.

A review of 2016 annual reports found 15 agencies out of 130 (13 in 2015) did not attest to compliance with the DISP and of the agencies that attested to compliance, 34 reported issues associated with their compliance.

### **Property NSW's performance reporting could be improved**

Property NSW's performance reporting would be enhanced by developing and reporting on customer satisfaction, reporting against set targets and benchmarking its cost of service to the private sector.

Premier's Memorandum M2012-20 'Government Property NSW and Government Property Principles' required Property NSW to set key performance indicators to measure property and asset utilisation performance.



## **3. Government financial services**

### **Prudential oversight of exempt NSW Government superannuation funds not prescribed**

The SAS Trustee Corporation (STC) Pooled Fund and the Parliamentary Contributory Superannuation Fund are exempt public sector funds, meaning they are not required to comply with the prudential and reporting standards issued by the Australian Prudential Regulation Authority (APRA). Structured and comprehensive prudential oversight of these funds remains important as they operate in a specialised, complex and continuously changing investment market sector, have over 106,000 members and manage investments in excess of \$42.4 billion.

Under the principles of the Australian Government's Heads of Government Agreement (HOGA) in 1994, the NSW Government agreed to comply with the principles of the prudential standards for the public sector superannuation funds. However, the HOGA arrangement does not provide a formal regulatory framework for an appropriate level of prudential oversight. Amendments to the *Superannuation Administration Act 1996* in November 2015 allows the Minister for Finance, Services and Property to prescribe applicable prudential standards and audit requirements.

#### **Recommendation:**

The Treasury should liaise with the respective Trustees to implement appropriate prudential standards and oversight arrangements for the exempt public sector superannuation funds.

### **CTP reforms expected to reduce the cost of Green Slips**

Currently, Green Slips in NSW are the most expensive in Australia. Average premiums for Sydney Metropolitan vehicles increased by 10.4 per cent to \$703 between 1 January 2016 and 31 December 2016. CTP reforms are expected to reduce the cost of Green Slips as well as deliver other benefits. The State Insurance Regulatory Authority will need to ensure it has appropriate processes in place to track and report against the expected benefits.

### **Management expense ratio remained stable, however no target was set for the PCS Fund**

The management expense ratio (MER) is an industry recognised ratio to measure the performance of funds and investment managers in the superannuation sector. The NSW Government's main superannuation funds have maintained the MER at consistent levels over the past two years, however the Parliamentary Contributory Superannuation (PCS) Fund does not set an MER target to measure performance.

#### **Recommendation:**

The Fund Secretary for the PCS Fund, in conjunction with the Trustee, should consider establishing an appropriate management expense ratio target to measure performance.



# 1. Introduction

This report sets out the results of the 30 June 2017 financial statement audits of NSW Government's central agencies and their cluster agencies.

Central agencies play a key role in ensuring policy coordination, good administrative and people management practices and prudent fiscal management. The central agencies and their key responsibilities are set out below.

Central Agencies	The Treasury	Department of Premier and Cabinet	Department of Finance, Services and Innovation	Public Service Commission
Key central agency responsibilities	<ul style="list-style-type: none"><li>Financial and economic advisor to NSW Government.</li><li>Manages the NSW Government's financial resources.</li></ul>	<ul style="list-style-type: none"><li>Drives NSW Government's objectives and sets targets.</li><li>Works with clusters to coordinate policy and the achievement of NSW Government priorities.</li></ul>	<ul style="list-style-type: none"><li>Supports agency service delivery in relation to the key enabling functions of NSW Government, including procurement, property and asset management, ICT and digital innovation.</li></ul>	<ul style="list-style-type: none"><li>Works to promote and maintain a strong ethical culture across the government sector and improve the capabilities, performance and configuration of the sector's workforce to deliver better services to the public.</li></ul>
Cluster responsibilities	<p>The cluster:</p> <ul style="list-style-type: none"><li>provides investment and debt management services through TCorp</li><li>manages residual business arising from privatisation of government businesses</li><li>provides insurance and compensation cover, including workers compensation insurance</li><li>includes NSW Govt superannuation funds.</li></ul>	<p>The cluster:</p> <ul style="list-style-type: none"><li>includes agencies with independent and regulatory responsibility, such as the Independent Commission Against Corruption, Audit Office of NSW and Ombudsman's Office</li><li>other agencies, such as Barangaroo Delivery Authority and Infrastructure NSW.</li></ul>	<p>The cluster:</p> <ul style="list-style-type: none"><li>is responsible for state revenue and rental bond administration</li><li>regulates statutory insurance schemes, workplace safety and consumer protection</li><li>manages the NSW Government communications network and state archives.</li></ul>	<ul style="list-style-type: none"><li>The Public Service Commission is an independent agency within the Premier and Cabinet cluster.</li></ul>

Note: The Audit Office of NSW is an independent agency aligned with the Premier and Cabinet cluster, but not commented on in this report.

The report has been structured into three chapters focusing on:






- financial reporting and controls
- service delivery
- government financial services.

A full list of agencies that this report encompasses by relevant cluster is included in Appendix three.

## 1.1 Snapshot of the clusters

A snapshot of the financial results of the Treasury, Premier and Cabinet and Finance, Services and Innovation clusters for the year ended 30 June 2017 is shown below. While superannuation and insurance are part of the Treasury cluster the financial results of these sectors have been separately shown below.

Superannuation fund agencies are not controlled by the NSW Government as they manage member funds as fund trustees. The financial results and balances of superannuation funds shown below are not consolidated into the total state sector financial statements.

Cluster snapshot				
The Treasury	Premier and Cabinet	Finance, Services and Innovation	Insurance and compensation	Superannuation
Total revenue \$68.3 billion	Total revenue \$709 million	Total revenue \$4.7 billion	Total revenue \$6.7 billion	Total revenue \$4.8 billion
Total expenditure \$64 billion	Total expenditure \$636 million	Total expenditure \$4.2 billion	Total expenditure \$7.5 billion	Total expenditure \$3.8 billion
Net result \$4.3 billion	Net result \$73 million	Net result \$458 million	Net result \$(809) million	Net result \$950 million
Total assets \$118.1 billion	Total assets \$1.7 billion	Total assets \$8.2 billion	Total assets \$33.5 billion	Total assets \$51.0 billion
Total liabilities \$172.7 billion	Total liabilities \$1 billion	Total liabilities \$6 billion	Total liabilities \$28.6 billion	Total liabilities \$65.4 billion
Net assets \$(54.6) billion	Net assets \$700 million	Net assets \$2.2 billion	Net assets \$4.9 billion	Net assets \$(14.4) billion
				

Notes:

- 1 The financial results of the Public Service Commission are reflected in the Premier and Cabinet cluster financial results.
- 2 Superannuation member benefit payments and employer and member contributions are netted and reflected within the line item 'Net change in defined benefit member benefits' in the Income Statement. This is included within total expenditure above.

## 1.2 Changes to the clusters

The Premier and Cabinet cluster was impacted by the following agency and staff changes effective 1 April 2017 arising from the *Administrative Arrangements (Administrative Changes - Public Service Agencies) Order 2017*:

- Destination NSW, Combat Sports Authority of NSW, New South Wales Institute of Sport, Office of Sport, State Sporting Venues Authority, Sydney Cricket and Sports Ground Trust, Sydney Olympic Park Authority and Venues NSW transferred from the Premier and Cabinet cluster to the Industry cluster
- Trustees of the ANZAC Memorial Building transferred from the Premier and Cabinet cluster to the Justice cluster
- employees principally providing support for the portfolio responsibilities of the Minister for Regional New South Wales transferred from the Department of Industry to the Department of Premier and Cabinet
- employees principally providing support for the portfolio responsibilities of the Minister for Trade and Industry transferred from the Department of Premier and Cabinet to the Department of Industry

- employees principally involved in the administration of legislation allocated to and including support for portfolio responsibilities of the Minister of Veteran Affairs transferred from the Department of Premier and Cabinet to the Department of Justice.

The following independent agencies were transferred from the Finance, Services and Innovation cluster to the Treasury cluster:

- Insurance and Care NSW effective 15 March 2017 under the *Administrative Arrangements (Administration of Acts - Amendment No 1) Order 2017*
- Workers Compensation Nominal Insurer, NSW Self Insurance Corporation, Sporting Injuries Compensation Authority, Workers' Compensation (Dust Diseases) Authority, Lifetime Care and Support Authority of NSW, Building Insurers' Guarantee Corporation effective 13 April 2017 under the *Administrative Arrangements (Administration of Acts - Amendment No 2) Order 2017*.



## 2. Financial reporting and controls

Confidence in public sector decision-making and transparency is enhanced when financial reporting is accurate and timely. Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. This chapter outlines our audit observations, conclusions or recommendations related to financial reporting and controls of agencies for 2016–17.

### Observation

### Conclusion or recommendation

#### 2.1 Quality of financial reporting

**Unqualified audit opinions were issued for all agency financial statements.**

The quality of financial reporting continues to remain strong across the clusters.

#### 2.2 Timeliness of financial reporting

**Most agencies complied with the statutory timeframes for completion of early close procedures and preparation and audit of financial statements.**

Early close procedures continue to facilitate the timely preparation of financial statements and completion of audits, but agencies can make further improvement.

#### 2.3 Financial performance and sustainability

**We assessed the performance of agencies listed in Appendix six against some key financial sustainability indicators. This highlighted two agencies with negative operating margins of more than ten per cent and one agency with a liquidity ratio of less than 0.5.**

These agencies have strategies in place to remain financially sustainability and manage their liquidity. Our analysis found that, overall, the agencies are not at high risk of sustainability concerns.

#### 2.4 Internal controls

**User access administration over financial systems remains an area of weakness. Sixteen moderate risk and ten low risk issues related to user access administration across eight agencies were identified.**

**Recommendation:** Agencies should review user access administration to critical systems to ensure:

- policies for user access creation, modification and deactivation are documented
- approval is being obtained to establish, modify or delete user accounts
- regular user access reviews are performed and highly privileged user account activity is logged and monitored
- evidence of review is maintained.

**Transitioning of services to outsourced service providers can be improved. Our 2016–17 audits identified one high risk issue relating to Property NSW's outsourcing of property and facility management services to the private sector.**

Outsourcing services can lead to better outcomes, which may include lower transaction costs and improved services, but it also introduces new risks. The transition needs to be carefully managed and requires thorough planning and effective project governance. This should be supported by oversight and direction from senior management and independent project assurance.

**While a high risk issue was identified in 2015–16 from the Department of Finance, Services and Innovation's outsourcing of transactional and information technology services to GovConnect there has been an improvement in GovConnect's internal control environment throughout 2016–17.**

Observation	Conclusion or recommendation
<b>2.5 Human resources</b>	
The percentage of full-time equivalent staff with annual leave greater than 30 days in the Finance, Services and Innovation, Premier and Cabinet and the Treasury clusters is 7.9 per cent, 17.1 per cent and 18.4 per cent respectively.	Agencies have strategies in place to reduce annual leave balances that are greater than 30 days. The effectiveness of these strategies will need to be monitored to ensure they are helping to achieve the desired outcome.

## 2.1 Quality of financial reporting

### Audit opinions

#### Unqualified audit opinions were issued for all agencies' financial statements

Unqualified audit opinions were issued for all agencies' 30 June 2017 financial statements. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

### Key audit matters

#### The workers insurance schemes' actuaries identified issues with the quality of data

##### Valuation of insurance scheme liabilities

Last year we recommended that Insurance and Care NSW continue to address the data quality issues identified by the schemes' actuaries.

Whilst action has been taken during the year the actuaries of the Workers Compensation Nominal Insurer and NSW Self Insurance Corporation schemes identified areas where data quality could be further enhanced. Continuing to address these issues will reduce uncertainty in the valuation process and assist with monitoring the schemes' claims liability management. The combined value of outstanding claims liabilities was \$21.7 billion at 30 June 2017.

#### Financial statements impacted by significant transactions and new standards

##### Concession granted on titling and registry services

A 35-year concession was granted to a private sector operator for the provision of titling and registry services effective 30 June 2017. The NSW Government received upfront cash proceeds of \$2.6 billion for granting the concession. The Department of Finance, Services and Innovation recognised a deferred liability of \$2.7 billion for the upfront proceeds and assumption of employee liabilities by the operator. The upfront cash proceeds were transferred to the Crown Entity.

The operator will be entitled to earn revenue from customers for providing the services under the concession arrangement. Up to 30 June 2017, titling and registry services were provided by Land and Property Information, a division of the Department of Finances, Services and Innovation. Revenue recognised from titling and registry services for the year ended 30 June 2017 was \$200 million, with a surplus of \$114 million returned to the Crown Entity.

The Registrar-General has an ongoing role monitoring the performance of the operator.

##### Sydney International Convention Exhibition and Entertainment Precinct

Place Management NSW recognised a finance lease asset and corresponding liability of \$1.3 billion for the International Convention Centre (ICC), which opened in December 2016. This is the first of the buildings under the Sydney International Convention Exhibition and Entertainment Precinct project to be completed.

The operation of the ICC is managed by a private service provider. The ICC reported a profit for the period of \$3.43 million, which exceeded the set target by 15.3 per cent.



## **AASB 1056 Superannuation entities**

The new standard superseded the 1993 accounting standard (AAS 25) and became effective for the 30 June 2017 financial statements. It significantly changed the reporting requirements including the format and presentation of financial statements.

The new standard aligns the financial reporting to be consistent with the requirements of other Australian Accounting Standards. Important changes include recognition of member liabilities in the balance sheet and a separate statement of changes in member benefits.

Superannuation agencies materially complied with these new requirements.

## **AASB 124 Related parties**

All not-for-profit agencies in the Treasury, Premier and Cabinet and Finance, Services and Innovation clusters were required to include disclosures about related party relationships and transactions for the first time in their financial statements. AASB 2015-6 extended the scope of AASB 124 'Related party disclosures' to include not-for-profit public sector entities. Agency financial statements disclosed the:

- compensation paid to their key management personnel
- nature of related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

The agencies materially complied with these new disclosure requirements. While there is still room for improvement, no high or moderate risk findings on related party disclosures were reported to management.

## **2.2 Timeliness of financial reporting**

### **Most agencies complied with their statutory financial reporting timeframes**

One agency did not comply with the statutory timeframe for completion of early close procedures, 32 agencies did not comply with the statutory requirement to prepare financial statements and the audit of three agencies was not completed within the statutory timeframe. All financial and non-financial information of the 32 agencies that did not prepare financial statements has been captured in the consolidated financial statements of their parent entity and was subject to audit.

Appendix four of this report provides detailed information on the timeliness of agency financial reporting and audit reporting.

### **Agencies completed early close procedures, but opportunities for improvement noted**

Agencies completed the mandatory early close procedures set by NSW Treasury. However, we noted opportunities to improve other aspects of early close procedures:

- the impact of significant transactions were not always assessed or only partially assessed. Agencies can be more proactive identifying, assessing and documenting the impact of complex transactions
- inter-agency balances and transactions with other government agencies were not always reconciled
- key account balances were not always reconciled or reviewed in a timely manner
- the impact of new and revised accounting standards, including the impact arising from related party disclosures was not fully assessed.



## 2.3 Financial performance and sustainability

As part of our audits we obtain an understanding of the entity and its environment, including an entity's financial performance and sustainability. Strong financial performance underpins an agency's overall performance, providing a platform for achieving its service delivery objectives.

We assessed the performance of agencies listed in Appendix six against some key financial sustainability indicators. Our analysis found that, overall, these agencies are not at high risk of sustainability concerns.

### Two agencies with a negative operating margin of more than ten per cent

A negative operating margin indicates that insufficient revenue is being generated to fund operations and assets renewal. Over the longer term negative operating results may not be sustainable.

An analysis of agencies with a negative operating margin of more than ten per cent is below.

Agency	Operating margin (%)	Analysis
Teacher Housing Authority of NSW (the Authority)	(17)	<p>The Authority also had a negative operating margin of 14 per cent in 2015–16 and 19 per cent in 2014–15. The net losses are mainly due to non-cash depreciation expenses on its teacher housing portfolio of approximately \$5.0 million per year.</p> <p>Over the same time the Authority has generated positive cash flows from its operating activities and developed a Strategic Asset Plan that identifies surplus properties and new supply requirements. Asset sale proceeds are being used for new investment in teacher housing.</p>
Natural Resources Commission (the Commission)	(15)	<p>The net loss of \$662,000 in 2016–17 was due to a reduction in recurrent grants and contributions of \$1.4 million from the previous year and was within the Commission's budgeted net loss of \$924,000.</p> <p>The Commission had a positive operating margin of 16 per cent in 2015–16 and 15 per cent in 2014–15 and aims for a neutral net cost of service over the longer term.</p>

Eight other agencies had a negative operating margin of between nil and ten per cent in 2016–17. Of these, seven agencies had a positive operating margin in at least one of the previous two financial years, except for the Ombudsman's Office. The Ombudsman's Office negative operating margin was 2.8 per cent in 2015–16 and 2.4 per cent in 2014–15.

### One agency with liquidity ratio of less than 0.5

A liquidity ratio below one is an indicator that an agency may not be able to pay their debts as and when they fall due and may need to call on borrowing facilities or funding support to meet their obligations.

An analysis of the agency with a liquidity ratio of less than 0.5 is below.

Agency	Liquidity ratio	Analysis
Barangaroo Delivery Authority (the Authority)	0.24	<p>At 30 June 2017, the Authority had a net current liability of \$268 million. The Authority managed the short-term funding requirement by:</p> <ul style="list-style-type: none"> <li>• arranging month to month rollover of repayment of current borrowing facilities with NSW Treasury Corporation</li> <li>• organising an increase in its total borrowing limit.</li> </ul> <p>The Authority obtained an approval from NSW Treasury to increase debt facilities by \$140 million to \$735 million on 21 September 2017. The Authority advised that NSW Treasury and the Department of Premier and Cabinet have been kept informed of its cashflow forecasts and future funding options.</p>

Eight other agencies have a liquidity ratio of 0.5 to 1. These agencies are mainly funded by parliament or their cluster lead agency and as a result are not at high risk of liquidity problems.

### Seven agencies with expense growth of 50 per cent or more

There has been large fluctuation in agency employee related/personnel services and other expense growth over the last 12 months. Generally, these fluctuations have occurred due to changes in the agencies operations or because of specific projects and programs. The increased expenditure has been met by additional approved funding sources.












An analysis of agencies with expense growth of 50 per cent or more is below.




Agency	Employee/personnel services expenses growth rate	Other expenses growth rate	Analysis
	%	%	
Fair Trading Administration Corporation	--	109	Increase resulting from shared service cost charges of \$79,000. This fee was not charged to the agency in the previous year. The agency was dissolved on 30 June 2017.
Luna Park Reserve Trust	--	161	Increase due to additional expenditure on heritage and infrastructure maintenance. This is funded by income recognised in prior years that is held for a restricted purpose in the 'Luna Park Heritage Infrastructure Fund'.

Agency	Employee/personnel services expenses growth rate	Other expenses growth rate	Analysis
	%	%	
New South Wales Government Telecommunications Authority (the Authority)	32	54	Increase in operating expenses was due to \$11.8 million increase in network costs relating to initial investigation, planning and preparation for the Critical Communications Enhancement Program and other programs. Commensurate increase in revenue.
Place Management NSW	(46)	136	Increase in operating and depreciation expenses resulting from the opening in December 2016 of the \$1.3 billion International Convention Centre. Commensurate increase in revenue.
Infrastructure NSW	56	334	Increases in employee related and project management costs arising from new projects, such as the Western Sydney Stadium and Anzac Memorial Centenary. Commensurate increase in revenue.
New South Wales Electoral Commission	91	10	Increase in employee related expenses due to the 2016–17 Local Government elections. Overall expenses were still less than budget due to deferral of a large number of elections to 2017–18.
UrbanGrowth NSW Development Corporation	65	24	Increase in personnel services expenses due to the Central to Eveleigh project in 2016–17.

## 2.4 Internal controls

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. We report deficiencies in internal controls, matters of governance interest and unresolved issues identified to management and those charged with governance. We do this through our Management Letters, which include our observations, related implications, recommendations and risk ratings. The table below summarises Management Letter issues across all agencies by category and risk rating.

Category	Risk rating	Issue
Information technology	 Moderate: 23 new, 4 repeat  Low: 16 new, 2 repeat	<p>The audits identified opportunities for agencies to improve information technology (IT) processes. We noted issues associated with:</p> <ul style="list-style-type: none"> <li>• user access administration (further details below)</li> <li>• password security policies and parameters</li> <li>• system change management.</li> </ul>
Governance and oversight	 High: 1 new  Moderate: 8 new, 1 repeat  Low: 10 new, 1 repeat	<p>The audits identified opportunities for agencies to improve governance and oversight processes. We noted issues associated with:</p> <ul style="list-style-type: none"> <li>• outdated policies and procedures</li> <li>• project governance</li> <li>• contract registers not being implemented to oversight key contractual arrangements.</li> </ul> <p>The high risk matter reported is in relation to Property NSW's transition to a new property and facility management service provider. Further details regarding this matter are below.</p>
Internal control deficiencies or improvements	 Moderate: 12 new, 6 repeat  Low: 9 new, 4 repeat	<p>The audits identified opportunities for agencies to improve internal controls across key business processes, including accounts payable, payroll and credit card management.</p>
Noncompliance with key legislation or central agency policies	 Moderate: 1 new, 3 repeat  Low: 3 new, 4 repeat	<p>Breaches of the <i>Government Information (Public Access) Act 2009</i>, <i>Public Authorities (Financial Arrangements) Act 1987</i> and Treasury Circular TC16/03 'Managing Accrued Recreation Leave Balances' were identified.</p>
Financial reporting	 Moderate: 8 new, 1 repeat  Low: 21 new, 1 repeat	<p>The audits identified opportunities for agencies to strengthen financial reporting. Areas of improvement include:</p> <ul style="list-style-type: none"> <li>• timely review of reconciliations and more prompt action to clear reconciling items or other unusual items</li> <li>• strengthening the policy and process to identify related party relationships and transactions</li> <li>• implementing additional controls to prevent misstatements.</li> </ul>

Category	Risk rating	Issue
		<p>In section 2.2 of this report we noted that although mandatory early close procedures were performed opportunities for improvement were noted. Agencies can reduce the number of management letter points in this category if they:</p> <ul style="list-style-type: none"> <li>plan early and complete all mandatory and recommended early close procedures by the due date</li> <li>address the actions identified in their early close letters before preparing the year-end financial statements.</li> </ul>
	High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
	Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
	Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	

## Information technology controls

### User access administration over financial systems remains an area of weakness

#### Recommendation

Agencies should review user access administration to critical systems to ensure:

- policies for user access creation, modification and deactivation are documented
- approval is being obtained to establish, modify or delete user accounts
- regular user access reviews are performed and highly privileged user account activity is logged and monitored
- evidence of review is maintained.

We identified 26 management letter issues (16 moderate and 10 low risk) related to user access administration at the Department of Finance, Services and Innovation (7 issues), Insurance and Care NSW (6 issues), the Treasury (4 issues), Barangaroo Delivery Authority (2 issues), NSW Treasury Corporation (2 issues), New South Wales Electoral Commission (2 issues), State Insurance Regulatory Authority (2 issues) and State Archives and Records Authority of NSW (1 issue). Moderate risk issues included:

- approval for new users not obtained
- audit logging and review of highly privileged/super user account transactions not performed
- user access reviews not performed
- terminated users not removed from the system in a timely manner.

These weaknesses increase the risk of users having excessive or unauthorised access to critical financial systems and information, which could compromise the integrity and security of financial data residing in these systems.

## Transitioning to outsourced service providers

### Transitioning of services to outsourced service providers can be improved

Our 2016–17 audits identified one high risk issue relating to Property NSW's outsourcing of property and facility management services to the private sector. This follows on from a high risk issue identified in 2015–16 from the Department of Finance, Services and Innovation's outsourcing of transactional and information technology services to GovConnect (further details below).

Outsourcing services can lead to better outcomes, which may include lower transaction costs and improved services, but it also introduces new risks. The transition needs to be carefully managed, requiring:

- thorough planning and implementation of project governance and risk management frameworks. This needs to be supported by oversight and direction from senior management and independent project assurance
- regular reporting to the project steering committee and approval for key decisions
- proactive contract management and enforcement of key contractual commitments
- clearly agreed KPI's and regular performance reporting by the service provider against project milestones and performance indicators
- agreement on the service provider's system of internal control and independent assurance over the design and effectiveness of the controls. Contracts should specify penalties where internal controls are not designed and operating effectively
- post implementation and benefit realisation review to identify improvement opportunities and to share learnings with the NSW public sector.

Key observations from Property NSW's transition to a new property and facility management service provider include:

- project controls and documentation, including the risk register were not up-to-date and high level risks were unresolved
- transition plan was not complete or approved by the Steering Committee before transition
- data verification testing was not undertaken in a coordinated plan and user acceptance testing results were not documented
- data migration results were not documented
- approval from the Project Steering Committee was not obtained for go live
- agreed KPIs were not being achieved after go-live
- controls implemented at the service provider were not fully operational and user-entity controls to monitor the service provider were not designed or implemented after go-live. Property NSW's monitoring of the service provider was also impacted by limitations in reporting from the service provider.

Property NSW continues to work with the service provider to resolve the identified exceptions. We understand Property NSW plans to engage an independent auditor to test the effectiveness of relevant key service provider business processes and information system controls in 2017–18.

### **Improvement in internal control environment at GovConnect**

Last year, GovConnect received qualified audit opinions from its service auditor on the design and operating effectiveness of controls for the period from 14 December 2015 to 30 June 2016 covering payroll services, information technology, general ledger, accounts receivable, fixed assets and accounts payable. This included an adverse opinion on payroll services. An adverse opinion is issued when there are material and pervasive deficiencies related to the design, implementation or operating effectiveness of relevant controls.

The Department of Finance, Services and Innovation (DFSI) has worked during the year with GovConnect to improve its internal control environment. This resulted in the service auditor removing the adverse opinion on the design and effectiveness of controls over payroll and issuing unqualified opinions on several of the business process activities. Qualified opinions were received for the year ended 30 June 2017 on information technology services provided by Infosys and the DFSI SAP system general ledger, payroll and accounts payable business process activities. However, the service auditor noted that the issues subject to qualification were remediated from 30 April 2017 onwards.

DFSI will need to continue to work with GovConnect to strengthen the internal control environment and end to end processes across DFSI, other client agencies and GovConnect. DFSI advises that this is one of the objectives of the GovConnect Restart Programme.

GovConnect provides transactional and information technology services to DFSI, the Department of Premier and Cabinet and the Treasury and several of their cluster agencies. DFSI manages the contractual arrangement with GovConnect.

## 2.5 Human resources

### Annual leave

Treasury Circular TC16/03 'Managing Accrued Recreation Leave Balances' requires agencies to manage accrued employee recreation leave balances to a maximum of 30 days or less on an ongoing basis, within the constraints of relevant industrial instruments and legislation.

The percentage of full time equivalent staff with annual leave balances greater than 30 days in the Finance, Services and Innovation, Premier and Cabinet and the Treasury clusters is 7.9 per cent, 17.1 per cent and 18.4 per cent respectively.

Agencies have strategies in place to reduce annual leave balances that are greater than 30 days. The effectiveness of these strategies will need to be monitored to ensure they are helping to achieve the desired outcome.

The following table highlights the number of staff by cluster with annual leave more than 30 days.

Staff with annual leave > 30 days					
Agency cluster	% of FTE	2017	2016	2015	Trend
Total for the Finance, Services and Innovation cluster	7.9	548	774	597	--
Total for the Premier and Cabinet cluster	17.1	249	254	204	--
Total for the Treasury cluster*	18.4	105	85	105	--

\* Excludes TCorp, superannuation and insurance agencies.

Source: Full-time equivalent staff numbers provided by agencies (unaudited). Number of staff with annual leave greater than 30 days based on Audit Office analysis.

The implications of high leave balances include:

- possible work health and safety issues
- disruptions to service delivery when key employees take lengthy periods of leave
- employee fraud remaining undetected
- an increasing financial liability over time as salaries increase.



## 3. Service delivery

This chapter outlines our audit observations, conclusions and recommendations relating to service delivery for 2016–17.

Observation	Conclusion or recommendation
<b>3.1 Premier's and State Priorities</b>	
<b>The Department of Premier and Cabinet monitors the achievement of targets and the implementation of initiatives to deliver the 12 Premier's Priorities.</b>	While some measures are publicly reported through agency annual reports or other sources, a comprehensive report of performance against the 18 State Priorities would ensure all State Priorities are publicly reported, provide a single and easily accessible source of reference and improve transparency.
<b>Responsible ministers and agencies manage the 18 State Priorities. A comprehensive report of performance against the 18 State Priorities is yet to be published.</b>	Where possible, independent sources are used to measure performance, however without independent assurance there is an increased risk that the target measures are inaccurate, not relevant or do not fairly represent actual performance.
<b>Performance against the State Priority to make NSW the easiest state to start a business is not currently published.</b>	Initiatives, such as easy to do business and red tape reduction are in place to help achieve this priority.
<b>A key aspect of making NSW the easiest state to start a business is making regulatory obligations easier to understand and implement.</b>	The regulatory policy framework is under review following an October 2016 performance audit on 'Red tape reduction' that found the regulatory burden of legislation had increased.
<b>3.2 Financial management</b>	
<b>Revenue NSW earned record crown revenue of \$30.0 billion in 2016–17 to support the state's finances.</b>	Record crown revenue has been driven by the sustained increase in duties revenue, which has increased by 93.7 per cent over the last five years. This is a consequence of the continued strength in the property market over this time and large one off NSW Government business asset sales and leases.
<b>3.3 ICT and digital government</b>	
<b>The Digital Government Strategy (the Strategy) was released in May 2017 to build on reforms set out in previous ICT strategies.</b>	The Strategy's priorities and enablers aim to support digital innovation. Targets and measures will need to be set to assess and monitor progress against the Strategy.
<b>The Digital Information Security Policy (DISP) is a key tool that helps ensure a minimum set of information security controls are implemented across NSW Government agencies.</b>	Failure to comply with the DISP increases the risk of noncompliance with legislation, information security breaches and difficulty restoring data or maintaining business continuity in the event of a disaster or disruption.
<b>A review of 2016 annual reports found 15 agencies (13 in 2015) did not attest to compliance with the DISP and of the agencies that attested to compliance, 34 reported issues associated with their compliance.</b>	



Observation	Conclusion or recommendation
<b>3.4 Property and asset utilisation</b>	
Property NSW's performance reporting could be improved. M2012-20 'Government Property NSW and Government Property Principles' required Property NSW to set key performance indicators to measure property and asset utilisation performance.	Property NSW's performance reporting would be enhanced by developing and reporting on customer satisfaction, reporting against set targets and benchmarking cost of service to the private sector.

## 3.1 Premier's and State Priorities

### Coordination of the Priorities

The Department of Premier and Cabinet is responsible for supporting the implementation of initiatives to deliver the 12 Premier's Priorities.

The Premier's Implementation Unit (PIU) facilitates progress of the 12 Premier's Priorities by coordinating and working jointly with key agencies to monitor the achievement of targets and the implementation of these initiatives. The PIU does this by working with the lead agencies that have accountability for these priorities and targets.

The 18 State Priorities are managed by the responsible ministers and agencies, with the Department of Premier and Cabinet helping to coordinate progress reporting.

#### A comprehensive report of performance against the State Priorities not yet published

The 12 Premier's Priorities are published at the website <https://www.nsw.gov.au/premiers-priorities>. However, a comprehensive report of performance against the 18 State Priorities is yet to be published. While some measures are publicly reported through agency annual reports or other sources, a comprehensive report of performance against the 18 State Priorities would ensure all State Priorities are publicly reported, provide a single and easily accessible source of reference and improve transparency.

#### Performance against the Premier's and State Priorities is not audited

The Priorities have not been independently audited. Where possible, the Department of Premier and Cabinet uses independent sources to measure performance, however without independent assurance there is an increased risk that the target measures are inaccurate, not relevant or do not fairly represent actual performance.

We will deliver a performance audit on 'Progress and measurement of the Premier's Priorities' during 2017–18.

### Clusters responsible for delivery of the Priorities

Clusters across the NSW public sector play a key role delivering the Priorities. They deliver projects and initiatives aimed at driving improved performance and achieving set outcomes. The Priorities provide a basis to measure and assess agency performance.

The Finance, Services and Innovation, the Treasury and Public Service Commission have lead roles in delivering priorities.

Reporting on the priorities relating to managing the state's finances and increasing government transactions delivered by digital channels are at section 3.2 and 3.3 respectively.

Performance against some other priorities follows.

## Premier's Priority on improving government services

### Consumer satisfaction target met, while business satisfaction index remains stable

There was a reported 0.6 point increase in the consumer satisfaction index during the year and a 2.6 point increase from the 2015 baseline year, which brings the index to 79.3 in line with the set target.

The business satisfaction index remained stable, decreasing slightly from a reported 78.4 to 78.3, however there has been a 1.7 point increase overall from the 2015 baseline year.

Improve customer satisfaction with government services	Target (2019)	2017	2016	2015
Consumer index	79.0	79.3	78.7	76.7
Business index	81.2	78.3	78.4	76.6

Source: Department of Premier and Cabinet (unaudited).

The Finance, Services and Innovation cluster leads this priority.

### State Priority: Make NSW the easiest state to start a business

Performance against this priority is not currently published. However, initiatives in place to help achieve this target include:

- easy to do business initiative led by Service NSW
- red tape reduction measures, which are now led by the Better Regulation division within the Department of Finance, Services and Innovation.

The Finance, Services and Innovation cluster leads this priority.

### Red tape reduction measures were ineffective and are under review

A key aspect of making NSW the easiest state to start a business is making regulatory obligations easier to understand and implement.

An October 2016 performance audit on '[Red tape reduction](#)' found that reported red tape savings were inaccurate and the regulatory burden of legislation had increased. Following release of the performance audit the NSW Government commissioned a review of regulatory practice, known as the 'Greiner Review', which drew heavily on our report findings. The draft report has made 35 recommendations aimed at improving the regulatory policy framework.

The Department of Premier and Cabinet advise that the NSW Government is currently considering its response to the final report of the review of the NSW regulatory policy framework.

## 3.2 Financial management

The Treasury is responsible for the management of the state's finances and assets. This includes consolidation and management of the state's finances and delivery of the Budget, provision of fiscal, economic, commercial and financial policy advice and management of the state's Balance Sheet.

### Management of the state's finances

The Treasury leads the delivery of the State Priorities to maintain the AAA credit rating and to contain expenditure growth within revenue growth.

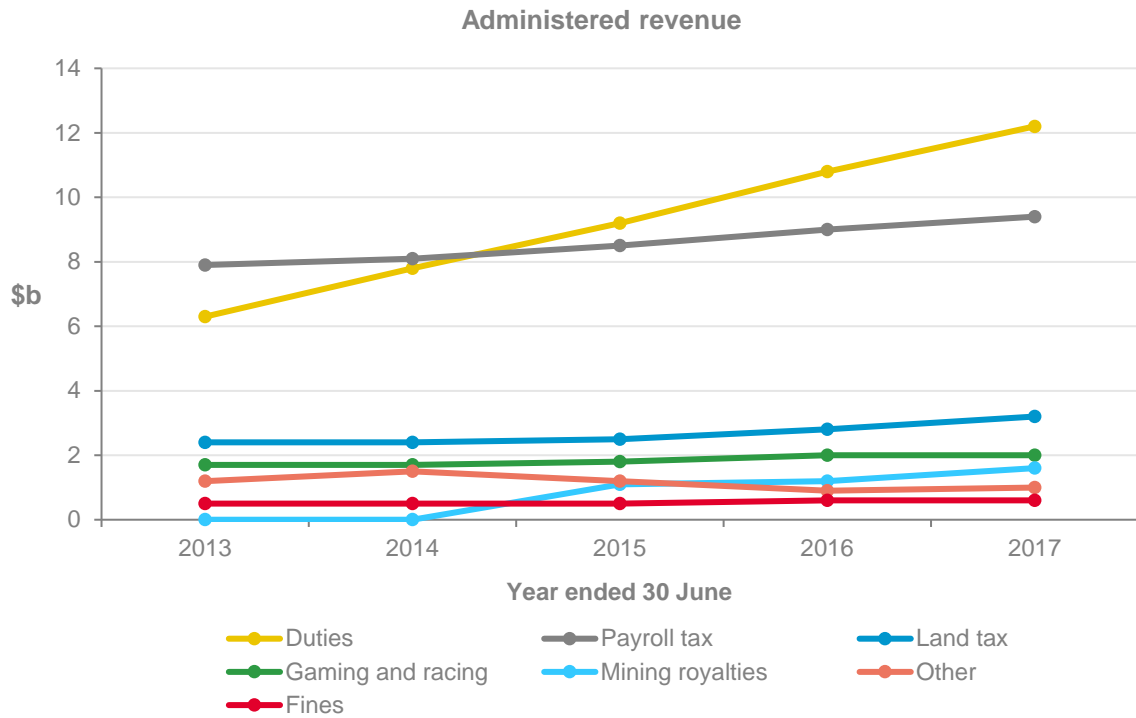
Further analysis and details on the management of the state's finances is included in our Report on State Finances, which can be accessed at this [link](#).

## State revenue and taxation

### Record crown revenue collected in 2016–17

The Office of State Revenue (now Revenue NSW), a division of the Department of Finance, Services and Innovation has a key role in the management of state finances. It administers state taxation, manages fines, recovers state debt and administers grants and subsidies.

Revenue NSW earned \$30.0 billion from taxes, fines and fees in 2016–17 (\$27.3 billion in 2015–16) on behalf of the Crown Entity.



Source: Financial statements (audited).

Record crown revenue is mainly driven by the sustained increase in duties revenue. Duties revenue has increased by 93.7 per cent over the last five years, which has been driven by the continued strength in the property market over this time and one off NSW Government business asset sales and lease transactions. Except for 'Other' administered revenue, all remaining revenue streams have increased gradually over the same period.

### Performance against efficiency and effectiveness targets

Revenue NSW's performance against some unaudited efficiency and effectiveness measures follow:

Performance measures				
Year ended 30 June	Target (2017)	2017	2016	2015
Cost to collect \$100 taxation (\$)	0.49	0.44	0.45	0.47
Cost to administer \$100 fines (\$)	10	7.38	8.62	10.97
Tax revenue collected from compliance activity (\$m)	370	464	516	430

Source: Revenue NSW (unaudited).

Revenue NSW reported a reduction in the cost to collect \$100 of taxation and \$100 of fines over the past three years.

The combined cost to collect \$100 of taxation and fines was \$0.57 in 2016–17. This is lower than the Western Australian Office of State Revenue, which reported a cost to collect \$100 of revenue of \$0.76, but higher than Queensland Treasury Revenue Services, which reported a cost to collect \$100 of revenue of \$0.40.

Revenue collected from compliance activities was \$464 million and continues to exceed the annual target.

Following recommendations from a June 2015 performance audit on '[Efficiency and effectiveness in tax collection](#)' Revenue NSW reports annually on its performance. The report can be found at this [link](#).

#### **Reporting outcomes from customer education initiatives could be enhanced**

A focus of Revenue NSW's 2021 strategic plan is on customer experience and education. Measuring the success of these programs on the effectiveness of tax collection would allow Revenue NSW to better target its customer experience and education programs.

Some programs Revenue NSW have in place to improve customer experience include education roadshows, website upgrades to make access to information and resources easier and the Service NSW mobile app (allows users to pay fines, track payments and review photos of infringements).

## **3.3 ICT and digital government**

The Department of Finance, Services and Innovation leads whole-of-government ICT strategy and reform. According to the ICT Metrics Report 2015–16 the NSW Government spent over \$2.6 billion through its agencies on ICT to facilitate public sector service delivery and service reform.

### **Digital Government Strategy**

#### **Progress to achieve priorities in the Digital Strategy will need to be measured and reported**

The Digital Government Strategy was released in May 2017 to build on reforms set out in previous ICT strategies. It sets out a roadmap of key priorities and enablers that aim to support digital innovation across NSW Government. Currently, targets and measures have not been set to assess and monitor progress.

Some priorities highlighted in the Strategy include:

- continued migration of transactional services to Service NSW
- establishment of a NSW Data Ecosystem to optimise lawful data sharing and use
- development of whole-of-government approach to management of digital identity and personal information in alignment with community expectations and privacy law
- testing the use of artificial intelligence to enhance service accessibility while maintaining algorithmic transparency
- using predictive self-learning tools to measure data quality.

We understand targets and measures are under development. The Digital Government Strategy can be accessed at [www.digital.nsw.gov.au](http://www.digital.nsw.gov.au).

### **Increasing government transactions conducted via digital channels**

#### **Transactions delivered by digital channels increased 19.7 percentage points**

The Department of Finance, Services and Innovation reported that the percentage of government transactions conducted via digital channels has increased 19.7 percentage points over the last two years. This represents a reported increase of 31 per cent in digital transactions between June 2016 and August 2017 and a 16 per cent increase in digital transactions between June 2015 and June 2016. The target for government transactions conducted via digital channels is 70 per cent by 2019.

	Target (2019)	August 2017	June 2016	June 2015
	%	%	%	%
Government transactions conducted via digital channels	70	57.1	43.5	37.4

Source: Department of Finance, Services and Innovation (unaudited).

Service NSW is the key contributor to this priority, delivering a single point of contact for government customer services.

To achieve the target Service NSW is increasing its partnerships with government agencies, expanding its offering of digital transactions and aiming to improve the online user experience to encourage greater digital take up.

## Data centre reform

The Department of Finance, Services and Innovation advised that 95 per cent of data centre space in GovDC was being taken up by NSW Government agencies and marketplace providers at 30 June 2017 (81 per cent at 30 June 2016).

GovDC are expanding their facilities to meet future demand with additional data halls at the two sites scheduled to be completed in November and December 2017.

The NSW Data Centre reform strategy required all agencies (except State Owned Corporations) to relocate their data rooms and infrastructure from current facilities into GovDC or other suitable cloud services by 30 August 2017.

## Digital Information Security

### Not all agencies are complying with the NSW Government's information security policy

Agencies listed in Schedule 2 and 3 of the *Public Finance and Audit Act 1983* (except State Owned Corporations and universities) are required to attest to compliance with the core requirements of the Digital Information Security Policy (DISP) in their annual reports. Compliance with the core requirements the agency is attesting to is not subject to independent certification.

A review of 2016 annual reports found 15 agencies out of 130 (13 in 2015) did not attest to compliance with the DISP. Of the agencies that attested to compliance, 34 reported issues associated with their compliance. The agencies reported that this was due to ongoing programs to meet the certification requirements (22 agencies), development of the Information Security Management System (five agencies) and transitioning of IT services (seven agencies).

The DISP is a key tool that helps ensure a minimum set of information security controls are implemented across NSW Government agencies. Failure to comply with the DISP increases the risk of noncompliance with legislation, information security breaches and difficulty restoring data or maintaining business continuity in the event of a disaster or disruption.

Previous performance audits have raised concerns over compliance with the NSW Government's information security policies. A 2010 performance audit on '[Electronic Information Security](#)' found that progress towards compliance and certification had not been effectively monitored and a 2015 performance audit on '[Security of Critical IT Infrastructure](#)' found that three key agencies in the NSW Public Sector partially scoped and excluded key business processes and technology from their risk assessment and Information Security Management System.

The DISP requires the Information Security Management System to be based on a comprehensive risk assessment to identify any business area or function to which risks apply. However, effective monitoring of compliance is required by the Department of Finance, Services and Innovation to ensure that agencies are scoping in their key business processes and completing comprehensive risk and control assessments to comply with the DISP's objectives.

The Department of Finance, Services and Innovation advised that:

- a summary report on attestation in agencies' annual reports is prepared for the ICT and Digital Leadership group, which is comprised of members from all clusters
- the Digital Information Security of Practice acts as a forum to share information and help with the implementation of the policy.

It also advised that the DISP is currently under review. We will deliver a performance audit on 'Cyber security' during 2017–18.

## 3.4 Property and asset utilisation

Property NSW plays a key role in whole-of-government real property and asset utilisation. Its services include leading property reform, property portfolio and asset management, delivering transactions and major projects, heritage conservation and valuation services. It held property plant and equipment assets of \$959 million at 30 June 2017 and recognised property rental income from owned and leased properties of \$512 million during 2016–17.

Property NSW is supported in this role by Premiers Memorandum 'M2012-20 Government Property NSW and Government Property Principles' (the Premiers Memorandum), which sets out 16 government property operating principles and six guiding principles. PM2012-20 was established following recommendations made in the Property Asset Utilisation Taskforce Report published in September 2012.

### Performance against property principles

#### Property NSW's performance reporting could be improved

Property NSW reports performance against several key performance measures in its annual report, including utilisation, vacancy rates, commercial property portfolio returns and average capital and operating expenditure per square metre of space.

Property NSW's performance reporting would be enhanced by:

- developing and reporting on customer satisfaction measures
- reporting against set targets
- where possible, benchmarking to the private sector on cost of service.

The Premiers Memorandum stated that Property NSW would be accountable for and set appropriate key performance indicators to achieve:

- strong customer satisfaction
- benchmarked financial returns on its property portfolio and investments
- effective real property asset utilisation and service quality
- competitive cost of service
- added value in client real property asset repositioning developments.

#### Property NSW requires relevant and reliable information to deliver its mandate

The Premiers Memorandum requires agencies to provide information to Property NSW on property ownership, property acquisition and disposal plans and total asset management planning.

Failure of agencies to provide this information could limit or reduce Property NSW's effectiveness improving the management of the NSW Government's real property portfolio.

We will deliver a performance audit on 'Property asset utilisation' during 2017–18.



## 4. Government financial services

This chapter outlines our audit observations, conclusions and recommendations specific to NSW Government agencies providing financial services.

Observation	Conclusion or recommendation
<b>4.1 Key issues</b>	
<b>The SAS Trustee Corporation (STC) Pooled Fund and the Parliamentary Contributory Superannuation (PCS) Fund are not required to comply with the prudential and reporting standards issued by the Australian Prudential Regulation Authority (APRA). Amendments to relevant legislation allows the Minister for Finance, Services and Property to prescribe applicable prudential standards and audit requirements.</b>	Structured and comprehensive prudential oversight of these funds remains important as they operate in a specialised, complex and continuously changing investment market sector, have over 106,000 members and manage investments of more than \$42.4 billion.  <b>Recommendation:</b> The Treasury should liaise with the respective Trustees to implement appropriate prudential standards and oversight arrangements for the exempt public sector superannuation funds.
<b>Currently, Green Slips in NSW are the most expensive in Australia. Average premiums for Sydney Metropolitan vehicles increased by 10.4 per cent between 1 January 2016 and 31 December 2016.</b>	CTP reforms are expected to reduce the cost of Green Slips. The State Insurance Regulatory Authority will need to ensure it has appropriate processes in place to track and report against the expected benefits.
<b>4.2 Financial performance and sustainability</b>	
<b>Net unfunded superannuation liabilities were \$15.0 billion at 30 June 2017.</b>	The superannuation funds' strategic asset allocation and investment strategies are monitored and adjusted to help achieve a fully funded position by 2030.
<b>Under the <i>Fiscal Responsibility Act 2012</i>, the NSW Government's target is to eliminate unfunded superannuation liabilities by 2030.</b>	
<b>The Home Warranty Scheme commenced in 2011. Over this time total premiums collected have not been sufficient to cover expected claim costs.</b>	Funding arrangements introduced during 2016–17 allow the Home Building Compensation Fund to apply to the Crown for reimbursement of unfunded realised losses from under-pricing of premiums.  Other reforms are planned to address the long-term sustainability of the home building compensation scheme.
<b>4.3 Investment performance</b>	
<b>The NSW Government's main superannuation funds have maintained the management expense ratio (MER) at consistent levels over the past two years. The Parliamentary Contributory Superannuation (PCS) Fund does not set an MER target.</b>	MER is an industry recognised ratio to measure the performance of funds and investment managers.  <b>Recommendation:</b> The Fund Secretary for the PCS Fund, in conjunction with the Trustee, should consider establishing an appropriate management expense ratio target to measure performance.



## 4.1 Key issues

### Prudential oversight by NSW Government

#### Prudential oversight of exempt NSW Government superannuation funds not prescribed

##### Recommendation

**The Treasury should liaise with the respective Trustees to implement appropriate prudential standards and oversight arrangements for the exempt public sector superannuation funds.**

STC Pooled Fund and the PCS Fund are exempt public sector funds under the *Superannuation Industry (Supervision) Act 1993*. The funds are not required to comply with the prudential and reporting standards issued by the Australian Prudential Regulation Authority (APRA).

Structured and comprehensive prudential oversight of these funds remains important as they operate in a specialised, complex and continuously changing investment market sector, have over 106,000 members and manage investments in excess of \$42.4 billion. Structured and comprehensive prudential oversight would help to:

- enhance risk management practices
- strengthen governance frameworks
- increase the efficiency of operational and financial processes.

Under the principles of the Australian Government's Heads of Government Agreement (HOGA) in 1994, the NSW Government agreed to comply with the principles of the prudential standards for the public sector superannuation funds. However, the HOGA arrangement does not provide a formal regulatory framework for an appropriate level of prudential oversight.

Amendments to the *Superannuation Administration Act 1996* in November 2015 allows the Minister for Finance, Services and Property to prescribe applicable prudential standards and audit requirements, but no standards have been prescribed to 30 June 2017.

While the Trustee of the STC Pooled Fund advised that there is no legal requirement for the fund to comply with APRA standards, the Trustee is committed to continue complying with the better practice guidelines appropriate for large superannuation funds. As part of its ongoing assessment of prudential compliance, the Trustee of STC Pooled Fund commenced a formal gap analysis against APRA prudential standards in early 2017.

### Changes to the Parliamentary Contributory Superannuation Fund

#### Three former members' pensions suspended following conviction of a serious offence

As recommended in a 2014 Auditor-General's Report to Parliament, the NSW Government amended Section 19AA of the *Parliamentary Contributory Superannuation Act 1971* (PCS Act) on 1 June 2017. The amendment affects former members who are convicted of a serious offence, after ceasing to be a member for conduct that occurred while the person was a member.

Following the amendment, affected members will no longer be entitled to receive a pension and must repay any pension or lump-sum benefit received to the PCS Fund.

The Fund Secretary advised there are three affected members whose pensions have been suspended at 1 July 2017. The Fund plans to initiate recovery action after the appeal period.



## Green slip scheme affordability

### CTP reforms expected to reduce the cost of Green Slips

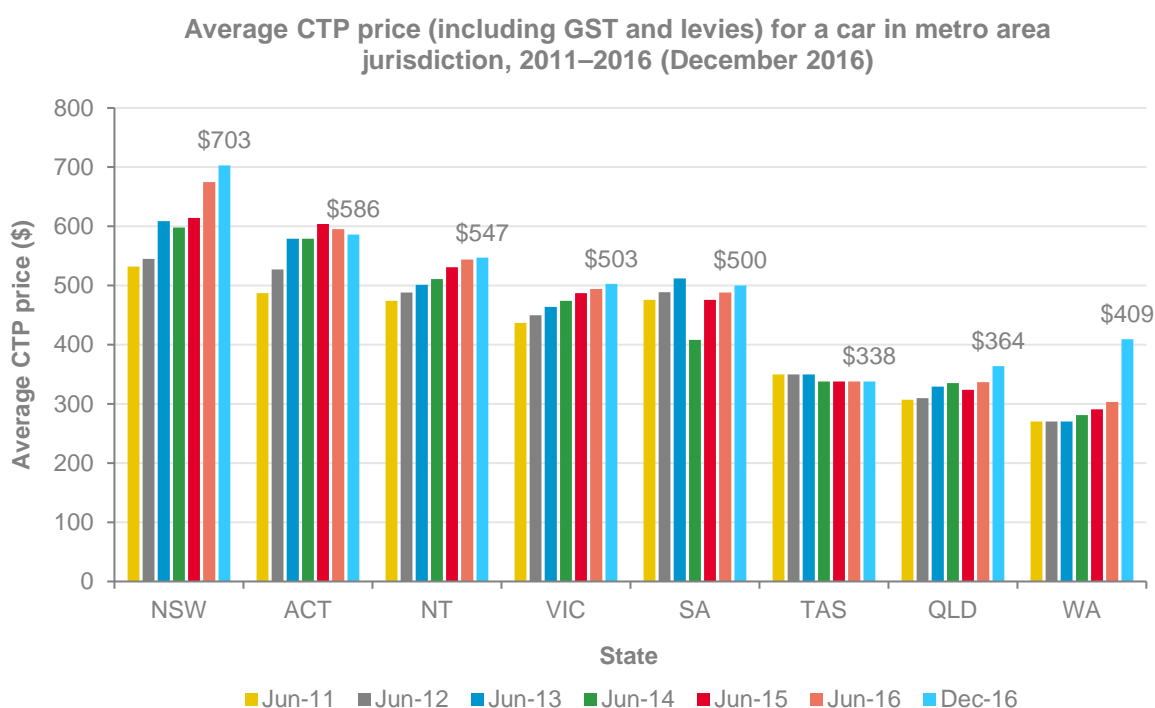
Under the reformed CTP scheme to commence from 1 December 2017 the State Insurance Regulatory Authority expects the average price of a Green Slip to be reduced by more than \$100.

The *Motor Accident Injuries Bill 2017* was passed by the NSW Parliament on 30 March 2017. The Bill will replace the current CTP scheme under the *Motor Accidents Compensation Act 1999* from 1 December 2017.

### Green Slips in NSW are currently the most expensive in Australia

Average premium prices in NSW continue to be the most expensive in Australia with the Australian Capital Territory the next most expensive at \$586 at 31 December 2016.

Average premiums for Sydney Metropolitan vehicles were \$703 at 31 December 2016 (\$637 at 31 December 2017). The increase in average premium prices over the 12-month period was 10.4 per cent. Premium price increases have been impacted by increasing claims frequency and low bond yields, resulting in low investment returns for insurers.



Note: NT, VIC and TAS are no-fault; statutory benefit based schemes. All other states are fault-based; common law based schemes.

Source: State Insurance Regulatory Authority (unaudited).

Key objectives and expected benefits of the CTP reforms are to:

- reduce the cost of Green Slip premiums
- reduce the time it takes to resolve a claim
- increase the proportion of benefits provided to the most seriously injured road users
- reduce the opportunities for claims fraud and exaggeration.

The State Insurance Regulatory Authority will need to ensure it has appropriate processes in place to track and report against the expected benefits.

## 4.2 Financial performance and sustainability

### Superannuation funds

NSW Government superannuation agencies manage, administer and invest approximately \$51 billion of assets for some 128,000 public sector employees. The table below summarises the financial performance and position of the NSW Government's main superannuation funds (the Funds):

- SAS Trustee Corporation Pooled Fund (STC Pooled Fund)
- Energy Industries Superannuation Scheme (EISS Fund)
- Parliamentary Contributory Superannuation Fund (PCS Fund).

	Net result after income tax		Net assets available for members		Member liabilities		Net unfunded liability	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
STC Pooled Fund	887	(3,441)	44,885	43,967	59,153	59,122	14,268	15,155
EISS Fund	28	32	5,352	5,054	5,274	5,004	--	--
PCS Fund	(23)	(15)	294	269	433	385	139	116

Source: Financial statements (audited).

#### Net unfunded superannuation liabilities were \$15.0 billion

This includes \$14.4 billion in unfunded liabilities related to the STC Pooled Fund and PCS Fund and a further \$630 million related to the Judges Pension Scheme. The Judges Pension Scheme is established and governed by the *Judges Pension Act 1953* and is a pay-as-you-go pension scheme included in the Crown Entity's financial statements. The unfunded liability has been measured under the new Australian Accounting Standard, AASB 1056 'Superannuation entities'.

Under the *Fiscal Responsibility Act 2012*, the government's target is to eliminate unfunded superannuation liabilities by 2030. Our [Report on State Finances](#) contains more detail on the states superannuation funding position.

#### Member benefit payments continue to increase

Benefits paid to members during the year by the Funds totalled \$5.1 billion (\$5.1 billion in 2015–16). In 2016–17, total annual benefits have increased by \$0.9 billion or 19.8 per cent in comparison to 2013.

The increasing member benefit payments are attributable to:

- the ageing profile of members
- the increasing life expectancy of members, which has risen from 76 years in 1987 to 82 years in 2017.

A breakdown of benefit payments is below:

**Benefits payments between Pension and Lump sum amounts at 30 June 2017**

	Pensions		Lump sum amounts		Total
	\$'000	%	\$'000	%	\$'000
STC Pooled Fund	2,973,899	62	1,844,179	38	4,818,078
EISS Fund (Defined Benefit Plan)	35,246	14	211,009	86	246,255
PCS Fund	26,631	100	--	--	26,631

Except for the EISS Fund (Pool A), other public sector funds are closed to new members.

## Insurance and compensation schemes

The table below summarises the financial performance and position of insurance and compensation agencies.

	Net result		Net assets		Net cash flows from operating activities	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Insurance and Care NSW	--	--	13.1	13.1	23.7	16.2
Workers Compensation Nominal Insurer	(988)	(638)	2,365	3,353	(351)	(52.1)
NSW Self Insurance Corporation	(149)	(512)	656	805	(6.4)	(7.4)
Lifetime Care and Support Authority of NSW	317	220	1,812	1,496	27.2	(165)
Workers' Compensation (Dust Diseases) Authority	8.3	0.1	20.3	11.9	(15.6)	(32.0)
Building Insurers' Guarantee Corporation	2.5	7.9	28.7	26.3	(5.3)	3.9
Sporting Injuries Compensation Authority	0.1	0.1	1.9	1.9	0.2	0.6

Source: Financial statements (audited).

The Workers Compensation Nominal Insurer (Nominal insurer) and the New South Wales Self Insurance Corporation reported net losses of \$988 million and \$149 million respectively for the year ended 30 June 2017. However, these agencies continue to maintain positive net assets.

The Nominal Insurer's net loss was primarily caused by decreasing investment returns and increases in the outstanding claims provision following the 2012 Workers Compensation reforms. All other insurance and compensation agencies reported a positive net result and net assets.

Prolonged losses or an excess of liabilities over assets could indicate an insurance or compensation scheme is unsustainable over the longer term. Further analysis on key sustainability indicators for the Nominal Insurer and NSW Self Insurance Corporation is below.

### Nominal Insurers funding ratio slightly below target

The Nominal Insurer's funding ratio was 119 per cent in 2016–17, which is slightly below its target range of 120 per cent to 140 per cent. The funding ratio compares total assets to total liabilities. It measures the extent to which an insurer's assets can cover its liabilities, even in adverse conditions. Given the long tail nature and inherent risk of Workers Compensation schemes, a buffer is held (assets in excess of liabilities) to protect against volatilities in claims and investment performance.

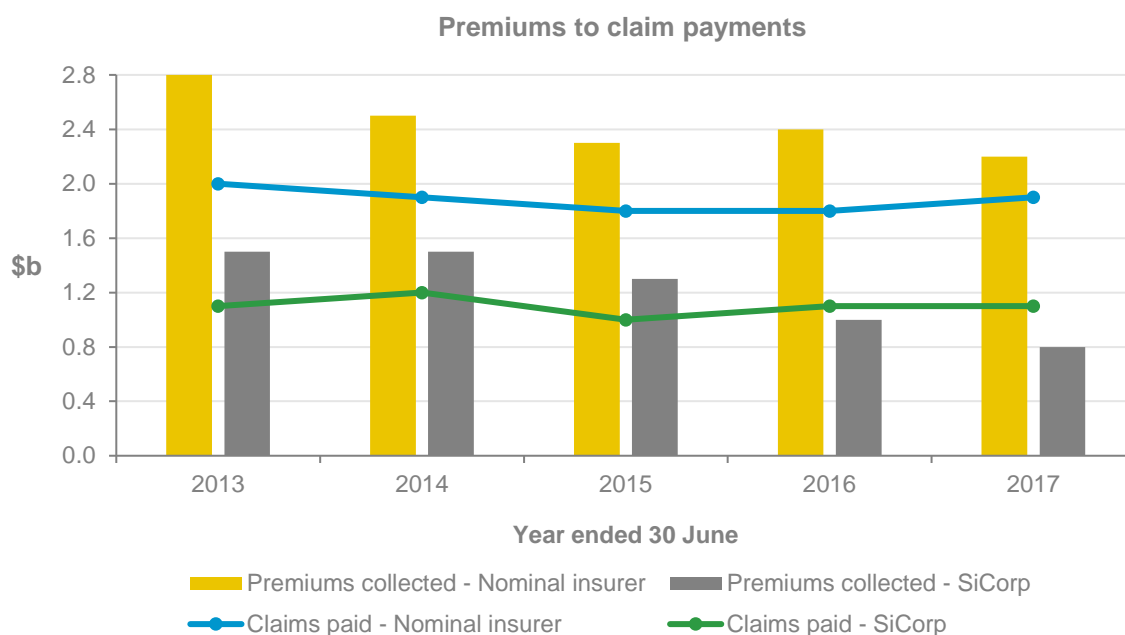
The Nominal Insurer's funding ratio result for 2016–17 was calculated using a 75 per cent probability of adequacy (PoA). The PoA is the level of confidence that the estimated claims liability will be sufficient to cover the future claims cost.

### Nominal Insurers premiums collected have decreased over five years

The Nominal Insurers premiums have decreased over the last five years, while claim payments have remained relatively stable. Premiums collected were \$2.8 billion in 2012–13, reducing by 21.4 per cent to \$2.2 billion in 2016–17.

Premium rates and investment returns will need to be closely monitored to ensure the scheme collects sufficient premiums to cover costs and maintain its funding ratio.

NSW Self Insurance Corporation's premiums exceeded claims paid between 2012–13 to 2014–15. Hindsight refunds have increased over the last two financial years, which has reduced net premiums paid by agencies. Hindsight adjustments are an incentive for agencies to improve their claims performance. It provides an adjustment to premiums paid by an agency and is designed to reflect the actual claims costs to the fund.



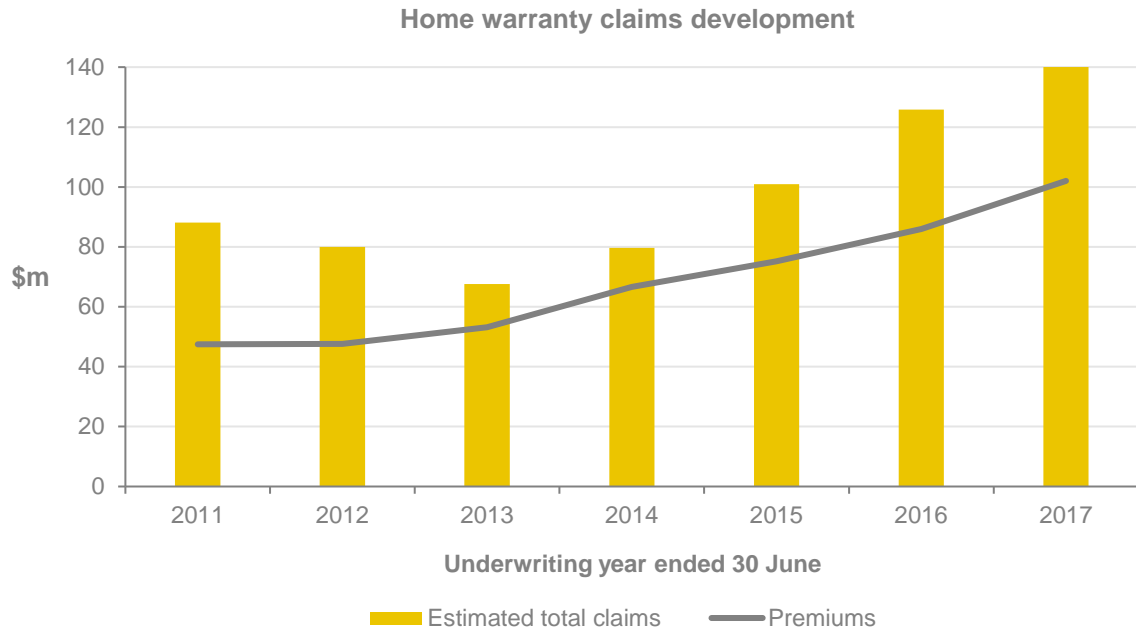
Source: Financial statements (audited).

### Funding arrangements to support the Home Building Compensation Fund

Last year, we recommended a review of the home building compensation scheme (the scheme) to address the sustainability gap between premiums and expected claims.

Funding arrangements introduced during 2016–17 allowed the Home Building Compensation Fund to apply for reimbursement of losses from the under-pricing of premiums. In August 2017, the Home Building Compensation Fund was reimbursed \$138 million from the Crown Entity.

The graph below compares the total premiums collected to the expected claim costs since the scheme commenced in 2011.



Source: Financial statements (audited).

Other reforms are planned to address the long-term sustainability of the home building compensation scheme. This includes:

- giving the State Insurance Regulatory Authority more power to assess, approve or reject premiums and establishing an operational fund for administrative costs
- allowing private sector providers to enter the market and premiums to be calculated based on a builder's individual risk
- establishing the Home Building Insurers Guarantee Fund as a safety net.

The scheme in its current form provides a safety net for contracted residential building work for homeowners. Insurance under the scheme is required for projects over \$20,000.

## NSW Treasury Corporation

The table below summarises the financial performance and position of NSW Treasury Corporation (TCorp):

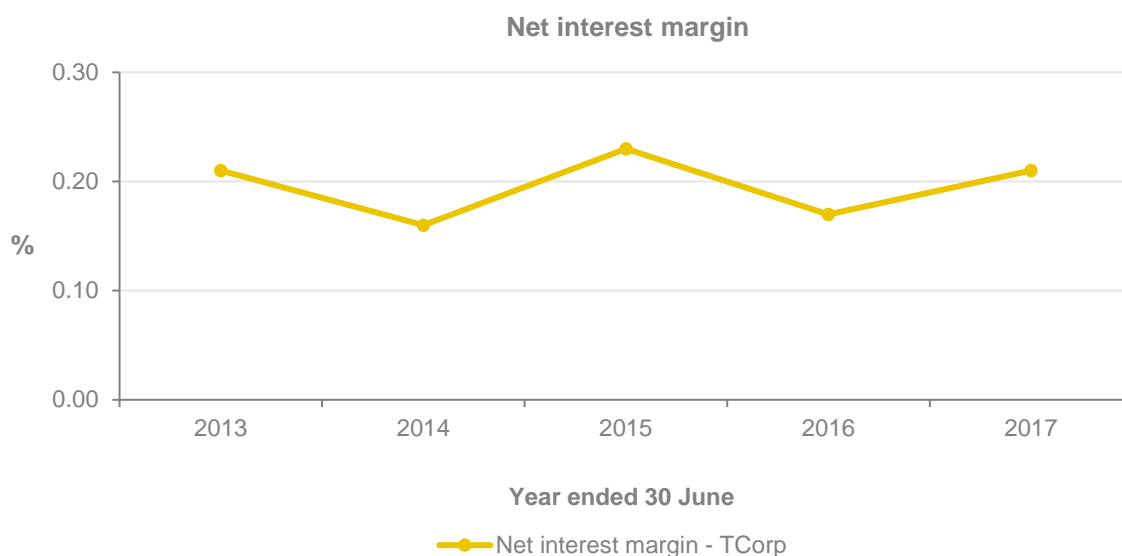
	Net result		Net assets		Net cash flows from operating activities	
	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m
New South Wales Treasury Corporation	92.7	72.7	231	219	13,159	1,508

Source: Financial statements (audited).

TCorp achieved a positive net result over the last two years, enabling it to declare dividends to the NSW Government of \$80.0 million in 2016–17 and \$21.0 million in 2015–16. An analysis of its performance against some key ratios follows.

## Net interest margin

The graph below shows TCorp's net interest margin over the last five years. TCorp's net interest margins has remained stable over the five years at about 0.2 per cent.

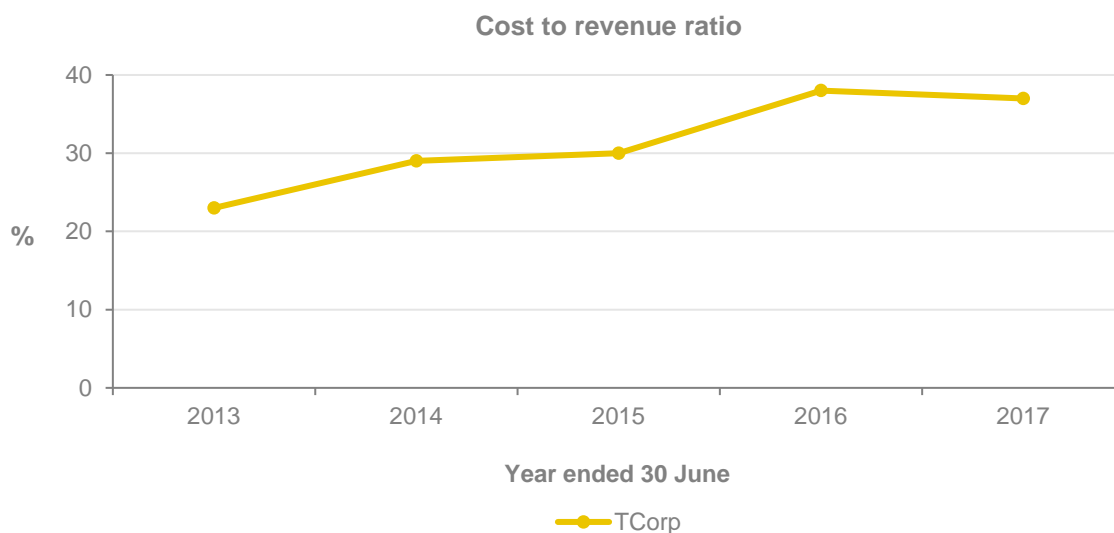


Note: The net interest margin is a measure of the difference between the interest income generated and the amount of interest paid, relative to the average balance of interest-earning assets.

Source: Financial statements (audited).

## Cost to revenue

The graph below shows the ratio of TCorp's cost to revenue for the last five years.



Note: The cost-to-revenue ratio shows the percentage of resources required to generate a dollar of revenue.

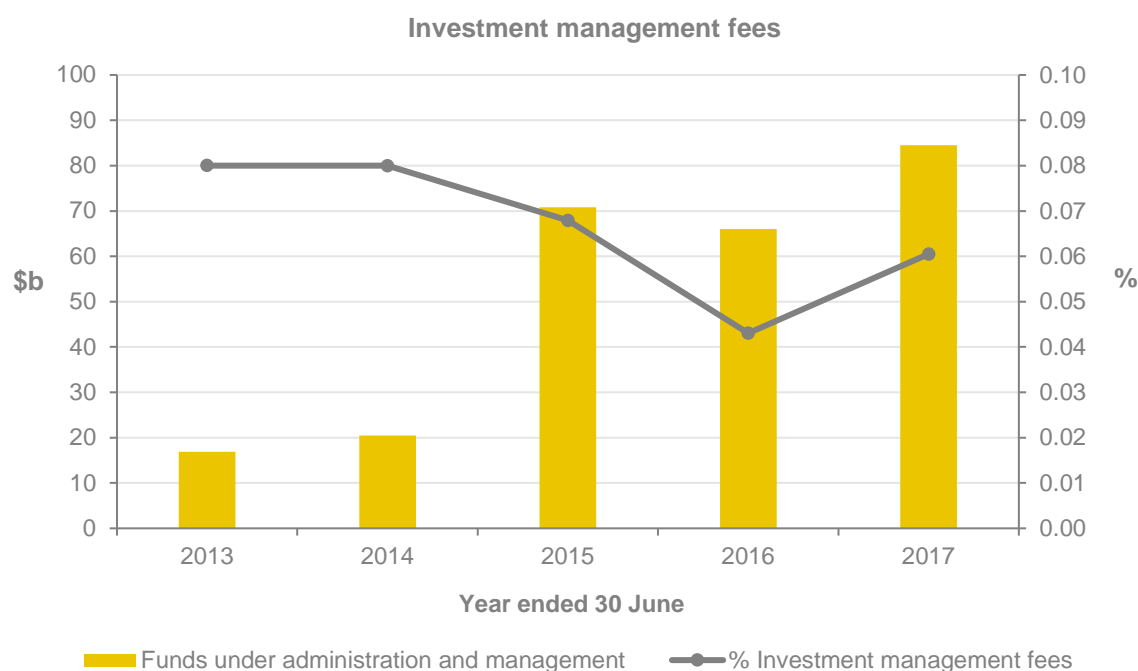
Source: Financial statements (audited).

TCorp's cost to revenue ratio increased from 23 per cent in 2012–13 to 37 per cent in 2016–17. TCorp's 2016–17 result was better than its budgeted target of 47 per cent. This was primarily due to:

- higher than budgeted revenues associated with the management of TCorp's balance sheet and funding risk management activities
- lower than budgeted salary and staff expenses.

## Investment management fees

The graph below shows TCorp's funds under management and the percentage of investment management fees over the last five years.



Source: Financial statements (audited).

TCorp's funds under management increased in 2014–15 as part of the NSW Government's strategy to amalgamate investment management functions of SAS Trustee Corporation (STC) Pooled Fund and Insurance and Care NSW (formerly Safety, Return to Work and Support). In 2016–17, funds under management increased further from the proceeds of the NSW Government's asset recycling program.

TCorp's average investment management fees decreased from 0.08 per cent in 2012–13 to 0.06 per cent in 2016–17. The decrease is due to the amalgamation of the investment management functions of STC Pooled Fund and Insurance and Care NSW.

## 4.3 Investment performance

### Superannuation fund investments

#### **The Funds did not exceed their long-term investment targets**

The PCS Fund and STC Pooled Fund met their annual targets, while neither of the funds met their long-term 10-year rolling target return.

A key objective of superannuation funds is to meet their long-term investment targets, as investment performance affects the net assets available to pay member benefits.

The investment returns for these funds and targets are below.

Investment returns						
Investment return at 30 June	2017 Actual	2017 Target	Variance	Rolling 10-year average actual	Rolling 10-year target	Variance
	%	%	% points	%	%	% points
STC Pooled Fund	9.77	6.40	3.37	5.10	6.90	(1.80)
PCS Fund	13.00	6.40	6.60	6.30	7.00	(0.70)

Note: The return on investments is calculated by dividing the investment revenue for the year by the average investments under management.

The target returns are reviewed by the fund's actuary on an annual basis. For the STC Pooled Fund and PCS Fund, the target return for 2016–17 was a base rate of 4.5 per cent plus consumer price index. The 10-year rolling target for STC Pooled Fund is similarly calculated, while the PCS Fund has historically used custom benchmarks incorporating exposure in various asset portfolios. For both funds, the targets are determined with the aim of eliminating the unfunded liability and meeting member benefit payments in the long-term.

### Management expense ratio remains stable, however no target was set for the PCS Fund

#### Recommendation

**The Fund Secretary for the PCS Fund, in conjunction with the Trustee, should consider establishing an appropriate management expense ratio target to measure performance.**

The Funds have been able to maintain the management expense ratio (MER) at relatively consistent levels over the past two years.

The PCS Fund continued to have the lowest MER over the last two years, while the EISS Fund met its target the last two years. The PCS Fund does not set a target MER to measure its performance against.

STC Pooled Fund's MER marginally exceeded its target over the last two years. This was due to additional performance fees on some of its unlisted assets where the investment performance exceeded their benchmark outcomes.

The Funds MER's are listed below.

MER at 30 June	2017 Actual	2017 Target	2016 Actual	2016 Target
	%	%	%	%
STC Pooled Fund	0.45	0.42	0.41	0.39
EISS Fund	0.64	0.72	0.65	0.68
PCS Fund	0.14	N/A	0.15	N/A

N/A No target is set.

MER is an industry recognised ratio used to measure the cost of investment managers. It is calculated as a percentage of the fund's investment management expenses over funds under management. Costs included in this ratio are manager fees, performance fees, custody fees, consulting fees and an administration fee component.

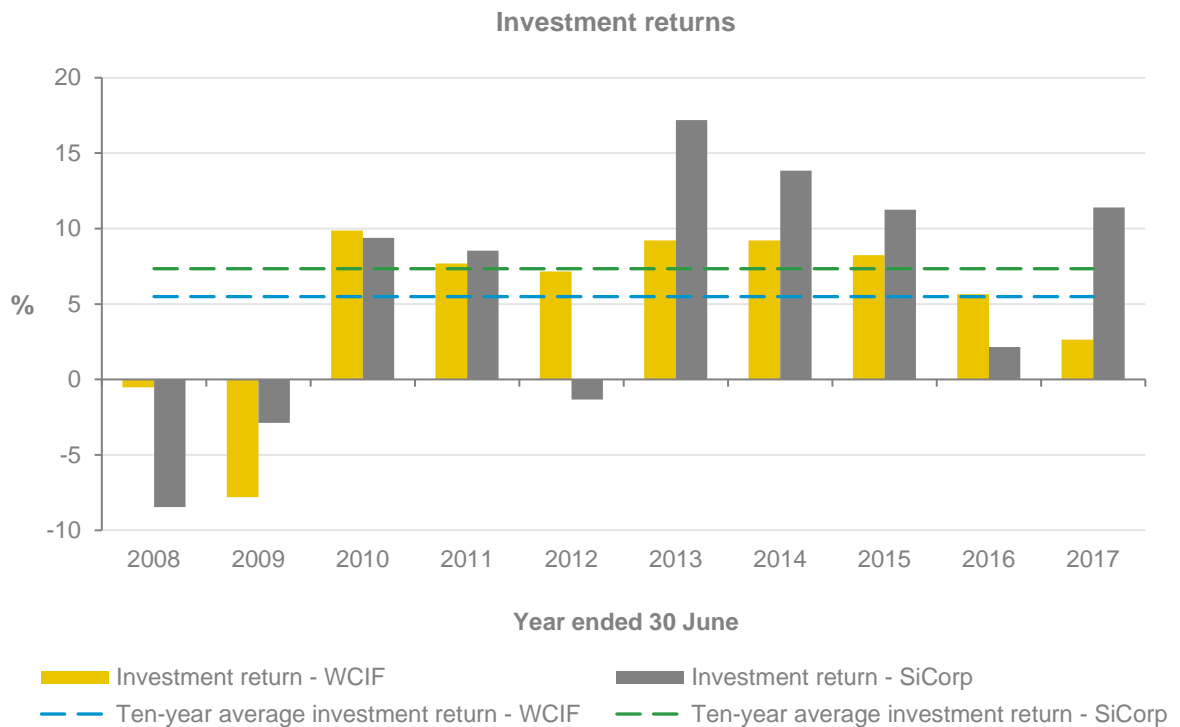


## Insurance and compensation

### Mixed investment performance by Workers Compensation Insurance Fund and NSW Self Insurance Corporation

The Nominal Insurer's Workers Compensation Insurance Fund (WCIF) cash and investment returns declined over the past five years from 9.2 per cent in 2012–13 to 2.6 per cent in 2016–17. Over a 10-year cycle the WCIF has made a weighted average return of 5.4 per cent per annum, while NSW Self Insurance Corporation has made a weighted average return of 7.3 per cent per annum. The NSW Self Insurance Corporation's investment return calculation includes cash and investments of the Treasury Managed Fund, Home Building Compensation Fund and other smaller administered managed fund schemes.

The variability in cash and investment returns between the WCIF and NSW Self Insurance Corporation is because of their different investment strategies. The graph below shows the investment returns of the WCIF and NSW Self Insurance Corporation over the past ten years.



Source: Financial statements (audited).

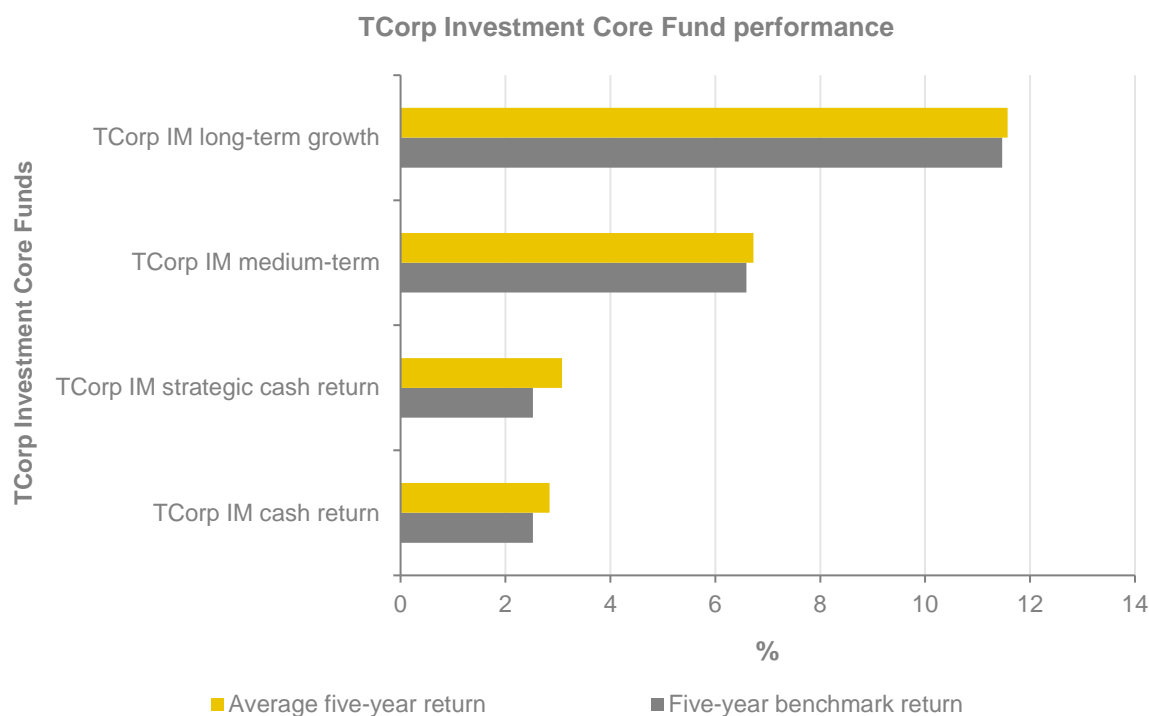
It is important for WCIF to monitor their investment performance to reduce the impact on premiums required to maintain an adequate funding ratio.

## NSW Treasury Corporation

### Five-year investment returns exceeded the set benchmark for Core Funds

All of the Core Funds performance exceeded their five-year benchmark return. NSW Treasury Corporation (TCorp) uses industry benchmarks based on the Core Funds strategic asset allocation to measure investment performance.

The total balance of the four Core Funds at 30 June 2017 was \$4.9 billion.



Investors in the TCorp Investment Core Funds include NSW public sector agencies, local councils and public bodies, such as not-for-profit organisations.

## **Section two**

### Appendices





# Appendix one – List of 2017 recommendations

The table below lists the recommendations made in this report.



## 1. Financial reporting and controls

### 1.1 Information technology controls

Agencies should review user administration access to critical systems to ensure:

- policies for user access creation, modification and deactivation are documented
- approval is being obtained to establish, modify or delete user accounts
- regular user access reviews are performed and highly privileged user account activity is logged and monitored
- evidence of review is maintained.



## 2. Government financial services

### 2.1 Prudential oversight of public sector superannuation funds

The Treasury should liaise with the respective Trustees to implement appropriate prudential standards and oversight arrangements for the exempt public sector superannuation funds.



### 2.2 Superannuation fund investments

The Fund Secretary for the Parliamentary Contributory Superannuation Fund, in conjunction with the Trustee, should consider establishing an appropriate management expense ratio target to measure performance.



Key



Low risk



Medium risks









High risks



## Appendix two – Status of 2016 recommendations

The table below lists the status of recommendations made in the 2016 Auditor-General's Reports to Parliament on the Premier and Cabinet cluster and Finance, Services and Innovation (including Insurance) cluster.

Recommendation	Current status
<b>NSW Government agencies should:</b>	
<ul style="list-style-type: none"> <li>Have an IT risk register which aligns with the agency-wide risk register and assign risks to individual owners.</li> <li>Ensure their IT strategic plans address IT risks.</li> <li>Ensure, where applicable, that their SLAs sufficiently cover IT security risks and controls.</li> <li>Collaborate when formulating and reviewing IT risks.</li> </ul>	<p>Agencies continue to update IT risk registers and strategic plans to address IT risks.</p> <p>The ICT and Digital Leadership Group is responsible for overall ICT Strategy on behalf of the NSW Government and comprises members from all cluster agencies.</p> <p>Specific ICT working groups are established to enable information sharing and collaboration across NSW Government.</p>
Submit their digital information security attestation to DFSI annually and this should be monitored by DFSI.	<p>The Department of Finance, Services and Innovation prepares a summary report on attestation in agencies' annual reports for the ICT and Digital Leadership group, which is comprised of members from all clusters.</p> <p>However, we continue to note instances of agencies not attesting to compliance with the Digital Information Security Policy in their annual reports.</p> <p>Refer to section 3.3 of this report.</p>
<b>Finance, Services and Innovation cluster agencies should:</b>	
Ensure all supporting documents for early close and year-end are ready by the due dates. All significant accounting issues should be resolved as part of the early close procedures.	<p>Finance, Services and Innovation cluster agencies complied with the mandatory early close procedures set by NSW Treasury. However, we noted opportunities to improve other aspects of early close procedures.</p> <p>Refer to section 2.2 of this report.</p>
Review the 2015–16 budget variances and identify opportunities to improve future year budgets.	<p>Variances of more than five per cent between cluster agency original budgets and actual financial performance continue to be noted.</p> <p>Major budget variations and the reasons are disclosed in cluster agency financial statements, where their budget is presented to Parliament.</p>
<b>The Rental Bond Board should:</b>	
Seek the necessary legislative or other mechanism to confirm its accounting treatment of rental bonds.	<p>A review of the <i>Residential Tenancies Act 2010</i> was completed in mid-2016 with recommendations made to the Minister for Innovation and Better Regulation. We will continue to monitor the status of this matter, as any change in legislation may trigger a re-assessment of the accounting treatment.</p>

Recommendation	Current status
<b>Insurance and Care NSW should:</b>	
Address data quality issues impacting claims' valuations.	<p>Whist action has been taken during the year the actuaries of the Workers Compensation Nominal Insurer and NSW Self Insurance Corporation schemes identified areas where data quality could be further enhanced.</p> <p>Management advise enhancements will continue as data relating to section 39 claims are collected.</p> <p>Refer to section 2.1 of this report.</p> 
Design appropriate measures to assess whether programs implemented after the 2012 reforms improve workers' return to work.	<p>Return to work is a key metric for the schemes and is measured across a number of dimensions. Monitoring of post 2012 experience is conducted on a regular basis, which is important from a performance, reserving and pricing perspective.</p> <p>Where individual initiatives were introduced after the 2012 reforms the performance is measured relative to the expectations set at the point the initiative was introduced. Pilot programs are run to evaluate initiatives, where possible.</p> <p>Insurance and Care NSW advised it is primarily concerned with each individual customer's outcome with quality and sustainability of the return to work being the focus.</p> 
Design detailed measurable performance objectives for specific outcomes from its strategic plan and report on performance against these measures in its annual report.	<p>The 2016–17 annual report includes performance measures based on the strategic plan.</p> 
<b>The Workers Compensation Nominal Insurer and NSW Self-Insurance Corporation should:</b>	
Monitor trends in Work Injury Damages to avoid increases in common law claims.	<p>Work injury damages claims experience is internally monitored quarterly for the Nominal Insurer. Work injury damages claims experience for NSW Self-Insurance Corporation was performed externally last year. Management advised internal monitoring will commence in the next quarter and onwards.</p> <p>Additionally, half yearly valuations are performed, which examine work injury damages experience and trends.</p> 
Review premium rates annually for all insurance types to ensure long-term financial sustainability of the schemes.	<p>Premium rates for all service lines (and therefore schemes) are reviewed on an annual basis to help ensure long-term financial sustainability of the schemes.</p> 
<b>The Home Building Compensation Fund should:</b>	
Perform a strategic review to address the gap between premiums and expected claims.	<p>Funding arrangements introduced during 2016–17 allow the Home Building Compensation Fund to apply to the Crown for reimbursement of unfunded realised losses from under-pricing of premiums.</p> <p>Refer to section 4.2 of this report.</p> 

**Recommendation****Current status****Premier and Cabinet cluster agencies should:**

Implement further measures to improve the accuracy of budgets.

Variances of more than five per cent between cluster agency original budgets and actual financial performance continue to be noted.

Major budget variations and the reasons are disclosed in cluster agency financial statements, where their budget is presented to Parliament.

**Fully addressed****Partially addressed****Not addressed**





## Appendix three – Agencies selected for this volume

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### Agencies

#### **Finance, Services and Innovation cluster**

[Department of Finance, Services and Innovation](#)  
[Board of Surveying and Spatial Information of NSW](#)  
[Building Professionals Board](#)  
[Fair Trading Administration Corporation](#)  
[Financial Counselling Trust Fund](#)  
[Luna Park Reserve Trust](#)  
[Mine Subsidence Board](#)  
[NSW Architects Registration Board](#)  
[NSW Government Telecommunications Authority](#)  
[Place Management NSW](#)  
[Property NSW](#)  
[Rental Bond Board](#)  
[Service NSW](#)  
[State Archives and Records Authority of New South Wales](#)  
[State Insurance Regulatory Authority](#)  
[Teacher Housing Authority of NSW](#)  
[Waste Assets Management Corporation](#)

#### **Premier and Cabinet cluster**

[Department of Premier and Cabinet](#)  
[Barangaroo Delivery Authority](#)  
[Independent Commission Against Corruption](#)  
[Independent Pricing and Regulatory Tribunal](#)  
[Infrastructure NSW](#)  
[Natural Resources Commission](#)  
[New South Wales Electoral Commission](#)  
[Ombudsman's Office](#)  
[Parliamentary Counsel's Office](#)  
[Public Service Commission](#)  
[Sesquicentenary of Responsible Government Trust Fund](#)  
[UrbanGrowth NSW Development Corporation](#)

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## Agencies

### The Treasury cluster

#### The Treasury

Alpha Distribution Ministerial Holding Corporation

Building Insurers' Guarantee Corporation

Buroba Pty Ltd

Cobbora Holding Company Pty Limited

Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund

Crown Entity

EIF Pty Limited

Electricity Assets Ministerial Holding Corporation

Electricity Retained Interest Corporation - Ausgrid

Sixteen controlled entities of the Electricity Retained Interest Corporation - Ausgrid

Electricity Retained Interest Corporation - Endeavour

Sixteen controlled entities of the Electricity Retained Interest Corporation - Endeavour

Electricity Transmission Ministerial Holding Corporation

Energy Industries Superannuation Scheme Pool A

Energy Industries Superannuation Scheme Pool B

Energy Industries Superannuation Scheme Pty Limited

Energy Investment Fund

Epsilon Distribution Ministerial Holding Corporation Pty Ltd

ERIC Alpha Holdings Pty Ltd

ERIC Epsilon Holdings Pty Ltd

Generator Property Management Pty Ltd

#### Insurance and Care NSW

Liability Management Ministerial Corporation

Lifetime Care and Support Authority of NSW

Local Government Superannuation Scheme Pty Ltd

Long Service Corporation

Macquarie University Professorial Superannuation Scheme

Ministerial Holding Corporation

New South Wales Treasury Corporation

NSW Fire Brigades Superannuation Pty Ltd

NSW Self Insurance Corporation

Parliamentary Contributory Superannuation Fund

Port Botany Lessor Pty Limited

Port Kembla Lessor Pty Limited

Port of Newcastle Lessor Pty Limited

Ports Assets Ministerial Holding Corporation

SAS Trustee Corporation

## Agencies

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Sporting Injuries Compensation Authority

State Rail Authorities Residual Holding Corporation

SAS Trustee Corporation Pooled Fund

Trustees of the Parliamentary Contributory Superannuation Fund

University of Sydney Professorial Superannuation System

Valley Commerce Pty Limited

Workers' Compensation (Dust Diseases) Authority

Workers Compensation Nominal Insurer

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## Appendix four –Timeliness of financial reporting and audit reporting

Agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat <sup>*</sup>
<b>Finance, Services and Innovation cluster</b>								
<b>Department of Finance, Services and Innovation</b>	✓	✓	✓	--	17	11	<b>28</b>	7
Board of Surveying and Spatial Information of NSW	N/A	✓	✓	--	--	--	--	--
Building Professionals Board	N/A	✓	✓	--	1	1	<b>2</b>	--
<b>Fair Trading Administration Corporation</b>	N/A	✓	✓	--	--	--	--	--
Financial Counselling Trust Fund	N/A	✓	✓	--	1	1	<b>2</b>	1
<b>Luna Park Reserve Trust</b>	✓	✓	✓	--	--	--	--	--
Mine Subsidence Board	✓	✓	✓	--	--	--	--	--
NSW Architects Registration Board	✓	✓	✓	--	--	--	--	--
<b>NSW Government Telecommunications Authority</b>	✓	✓	✓	--	1	5	<b>6</b>	1
<b>Place Management NSW</b>	✓	✓	✓	--	1	1	<b>2</b>	--
<b>Property NSW</b>	✓	✓	✓	1	4	3	<b>8</b>	3
<b>Rental Bond Board</b>	✓	✓	✓	--	1	3	<b>4</b>	1
<b>Service NSW</b>	✓	✓	✓	--	3	1	<b>4</b>	1
<b>State Archives and Records Authority of New South Wales</b>	✓	✓	✓	--	3	2	<b>5</b>	1
<b>State Insurance Regulatory Authority</b>	✓	✓	✓	--	3	1	<b>4</b>	1
<b>Teacher Housing Authority of NSW</b>	✓	✓	✓	--	1	--	<b>1</b>	--
<b>Waste Assets Management Corporation</b>	✓	✓	✓	--	--	--	--	--

Agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat <sup>*</sup>
<b>Premier and Cabinet cluster</b>								
Department of Premier and Cabinet	✓	✓	✓	--	2	4	6	1
Barangaroo Delivery Authority	✓	✓	✓	--	3	--	3	--
Independent Commission Against Corruption	✓	✓	✓	--	--	2	2	1
Independent Pricing and Regulatory Tribunal	✓	✓	✓	--	1	1	2	--
Infrastructure NSW	✓	✓	✓	--	--	3	3	--
Natural Resources Commission	N/A	✓	✓	--	--	--	--	--
New South Wales Electoral Commission	!	✓	✓	--	4	5	9	1
Ombudsman's Office	✓	✓	✓	--	--	3	3	1
Parliamentary Counsel's Office	✓	✓	✓	--	1	1	2	1
Public Service Commission	✓	✓	✓	--	--	3	3	--
Sesquicentenary of Responsible Government Trust Fund	N/A	✓	✓	--	--	--	--	--
UrbanGrowth NSW Development Corporation	✓	✓	✓	--	2	1	3	--
<b>The Treasury cluster</b>								
The Treasury	✓	✓	✓	--	4	2	6	3
Alpha Distribution Ministerial Holding Corporation	N/A	✓	✓	--	--	--	--	--
Building Insurers' Guarantee Corporation	✓	✓	✓	--	--	--	--	--
Buroba Pty Ltd	#	#	#	--	--	--	--	--
Cobbora Holding Company Pty Limited	✓	✓	! <sup>1</sup>	--	--	--	--	--
Crown Employees (NSW Fire Brigades Firefighting Staff	#	#	#	--	--	--	--	--

Agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat <sup>†</sup>
Death and Disability) Superannuation Fund								
<b>Crown Entity</b>	✓	✓	✓	--	--	--	--	--
EIF Pty Limited	#	#	#	--	--	--	--	--
<b>Electricity Assets Ministerial Holding Corporation</b>	✓	✓	✓	--	--	--	--	--
<b>Electricity Retained Interest Corporation - Ausgrid</b>	N/A	✓	✓	--	--	--	--	--
Sixteen controlled entities of the Electricity Retained Interest Corporation - Ausgrid	N/A	! <sup>2</sup>	2					
<b>Electricity Retained Interest Corporation - Endeavour</b>	N/A	✓	3	--	--	--	--	--
Sixteen controlled entities of the Electricity Retained Interest Corporation - Endeavour	N/A	! <sup>2</sup>	2					
<b>Electricity Transmission Ministerial Holding Corporation</b>	✓	✓	! <sup>4</sup>	--	--	--	--	--
Energy Industries Superannuation Scheme Pool A	#	#	#	--	--	--	--	--
Energy Industries Superannuation Scheme Pool B	#	#	#	--	--	--	--	--
Energy Industries Superannuation Scheme Pty Limited	#	#	#	--	--	--	--	--
Energy Investment Fund	#	#	#	--	--	--	--	--
<b>Epsilon Distribution Ministerial Holding Corporation Pty Ltd</b>	^	^	^	--	--	--	--	--
ERIC Alpha Holdings Pty Ltd	N/A	✓	✓	--	--	--	--	--
ERIC Epsilon Holdings Pty Ltd	N/A	✓	✓	--	--	--	--	--

Agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat <sup>*</sup>
Generator Property Management Pty Ltd	✓	✓	✓	--	3	1	4	--
<b>Insurance and Care NSW</b>	✓	✓	✓	--	7	9	16	1
<b>Liability Management Ministerial Corporation</b>	✓	✓	✓	--	--	--	--	--
<b>Lifetime Care and Support Authority of NSW</b>	✓	✓	✓	--	--	--	--	--
Local Government Superannuation Scheme Pty Ltd	#	#	#	--	--	--	--	--
<b>Long Service Corporation</b>	✓	✓	✓	--	--	--	--	--
Macquarie University Professorial Superannuation Scheme	#	#	#	--	--	--	--	--
Ministerial Holding Corporation	N/A	✓	✓	--	--	--	--	--
<b>New South Wales Treasury Corporation</b>	✓	✓	✓	--	--	3	3	--
NSW Fire Brigades Superannuation Pty Ltd	#	#	#	--	--	--	--	--
<b>NSW Self Insurance Corporation</b>	✓	✓	✓	--	--	--	--	--
Parliamentary Contributory Superannuation Fund	#	#	#	--	--	--	--	--
Port Botany Lessor Pty Limited	✓	✓	✓	--	--	--	--	--
Port Kembla Lessor Pty Limited	✓	✓	✓	--	--	--	--	--
Port of Newcastle Lessor Pty Limited	✓	✓	✓	--	--	--	--	--
<b>Ports Assets Ministerial Holding Corporation</b>	✓	✓	✓	--	--	--	--	--
SAS Trustee Corporation	✓	✓	✓	--	--	1	1	--

Agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat <sup>*</sup>
Sporting Injuries Compensation Authority	✓	✓	✓	--	--	--	--	--
State Rail Authorities Residual Holding Corporation	N/A	✓	✓	--	--	--	--	--
SAS Trustee Corporation Pooled Fund	#	#	#	--	4	3	7	2
Trustees of the Parliamentary Contributory Superannuation Fund	#	#	#	--	--	--	--	--
University of Sydney Professorial Superannuation System	#	#	#	--	--	--	--	--
Valley Commerce Pty Limited	#	#	#	--	--	--	--	--
<b>Workers' Compensation (Dust Diseases) Authority</b>	✓	✓	✓	--	--	--	--	--
Workers Compensation Nominal Insurer	✓	✓	✓	--	--	--	--	--



Statutory financial reporting deadline was not met.



Statutory financial reporting deadline was met.

Note: Agencies in bold are considered both material for whole-of-government purposes and are controlled by the NSW Government.

N/A Agency not required to complete early close procedures.

\* Repeat management letter findings have been classified within the 'High', 'Moderate' and 'Low' columns and form part of the total.

# Agency is a prescribed or request audit and is not subject to statutory financial reporting deadlines.

^ Epsilon Distribution Ministerial Holding Corporation Pty Ltd was incorporated on 14 June 2017 and will prepare its first set of financial statements for the period ending 30 June 2018.

1 The audit opinion for Cobbora Holding Company Pty Limited was not signed by the due date as the Statement by the Directors could not be certified until the Board meeting, which was held on 27 October 2017.

2 The financial statements of 16 subsidiaries of both the Electricity Retained Interest Corporation – Ausgrid (ERIC-A) and Electricity Retained Interest Corporation – Endeavour (ERIC-E) were reported on a consolidated basis as part of the ERIC-A and ERIC-E group financial statements. The Directors advise that all material financial and non-financial information pertaining to the subsidiaries has been captured as part of the audited consolidated ERIC-A and ERIC-E parent and Holding Co. financial statements.

3 The Electricity Retained Interest Corporation – Endeavour certification was signed on 27 September before the statutory deadline, but the audit opinion was signed seven business days later on 9 October 2017.

4 The audit opinion for the Electricity Transmission Ministerial Holding Corporation was not signed by the due date because of a delay receiving the signed certification from the agency head required by the *Public Finance and Audit Act 1983*.





## Appendix five – Financial audit reporting

	Total assets		Total liabilities		Total revenue		Total expense	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Finance, Services and Innovation cluster</b>								
Department of Finance, Services and Innovation	1,473	1,573	3,640	1,164	2,292	2,166	2,213	2,235
Board of Surveying and Spatial Information of NSW	1	1	--	--	1	1	1	1
Building Professionals Board	2	1	2	2	5	2	4	5
Fair Trading Administration Corporation	14	14	--	--	--	--	--	--
Financial Counselling Trust Fund	4	6	--	--	--	--	3	2
Luna Park Reserve Trust	44	43	1	--	5	2	4	2
Mine Subsidence Board	138	137	41	34	25	31	31	10
NSW Architects Registration Board	3	2	--	--	1	1	1	1
NSW Government Telecommunications Authority	125	86	28	14	88	43	64	42
Place Management NSW	2,857	1,483	1,491	47	321	203	283	138
Property NSW	1,495	1,202	354	352	746	531	562	717
Rental Bond Board	62	70	1	7	55	57	56	61
Service NSW	308	276	67	85	383	424	333	330
State Archives and Records Authority of New South Wales	1,046	994	6	7	75	38	29	26
State Insurance Regulatory Authority	400	326	285	254	529	464	486	449
Teacher Housing Authority of NSW	170	170	2	1	17	17	20	20
Waste Assets Management Corporation	100	101	69	75	113	116	108	104
<b>Finance Services and Innovation cluster total</b>	<b>8,242</b>	<b>6,485</b>	<b>5,987</b>	<b>2,042</b>	<b>4,656</b>	<b>4,096</b>	<b>4,198</b>	<b>4,143</b>
<b>Premier and Cabinet cluster</b>								
Department of Premier and Cabinet	217	188	88	70	237	245	248	239

	Total assets		Total liabilities		Total revenue		Total expense	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Barangaroo Delivery Authority	1,077	916	885	833	144	79	66	79
Independent Commission Against Corruption	8	11	5	7	21	24	21	27
Independent Pricing and Regulatory Tribunal	5	7	5	5	29	25	31	34
Infrastructure NSW	35	11	30	10	95	25	91	24
Natural Resources Commission	2	3	1	1	4	6	5	5
New South Wales Electoral Commission	22	24	5	4	72	62	75	59
Ombudsman's Office	6	6	6	7	34	34	35	34
Parliamentary Counsel's Office	2	1	2	1	10	10	10	10
Public Service Commission	4	5	5	5	38	30	39	38
Sesquicentenary of Responsible Government Trust Fund	--	--	--	--	--	--	--	--
UrbanGrowth NSW Development Corporation	356	350	2	6	25	94	15	10
<b>Premier and Cabinet cluster total</b>	<b>1,734</b>	<b>1,522</b>	<b>1,034</b>	<b>949</b>	<b>709</b>	<b>634</b>	<b>636</b>	<b>559</b>
<b>The Treasury cluster</b>								
The Treasury	88	73	50	57	147	137	130	118
Alpha Distribution Ministerial Holding Corporation	159	15,960	24	11,833	6,577	2,692	1,521	2,944
Cobbora Holding Company Pty Limited	66	96	2	3	8	9	8	53
Crown Entity	38,690	35,764	106,527	122,610	60,635	57,191	61,802	57,518
Electricity Assets Ministerial Holding Corporation	176	80	48	46	2	2	10	--
Electricity Retained Interest Corporation - Ausgrid	3,924	--	--	--	133	--	98	--
Electricity Retained Interest Corporation - Endeavour	1,946	--	--	--	--	--	--	--
Electricity Transmission Ministerial Holding Corporation	184	180	173	250	5	4,344	7	575

	Total assets		Total liabilities		Total revenue		Total expense	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
ERIC Alpha Holdings Pty Ltd	3,924	--	--	--	133	--	98	--
ERIC Epsilon Holdings Pty Ltd	1,946	--	--	--	--	--	--	--
Generator Property Management Pty Ltd	14	--	13	--	2	--	9	--
Liability Management Ministerial Corporation	135	103	--	--	32	19	--	--
Long Service Corporation	1,378	1,184	1,012	943	279	196	154	148
Ministerial Holding Corporation	6	6	--	--	1	(1)	--	--
New South Wales Treasury Corporation	65,098	80,318	64,867	80,099	209	168	117	95
Port Botany Lessor Pty Limited	161	151	--	--	36	34	25	24
Port Kembla Lessor Pty Limited	18	16	--	--	7	6	6	5
Port of Newcastle Lessor Pty Limited	25	24	--	--	6	6	4	4
Ports Assets Ministerial Holding Corporation	205	191	--	--	48	45	35	33
State Rail Authorities Residual Holding Corporation	--	--	--	--	--	--	--	--
<b>Treasury total</b>	<b>118,143</b>	<b>134,146</b>	<b>172,716</b>	<b>215,841</b>	<b>68,260</b>	<b>64,848</b>	<b>64,024</b>	<b>61,517</b>
<b>Insurance and compensation</b>								
Building Insurers' Guarantee Corporation	61	67	32	40	1	9	(1)	1
Insurance and Care NSW	248	165	235	151	647	576	647	576
Lifetime Care and Support Authority of NSW	5,171	4,484	3,359	2,988	882	566	565	347
NSW Self Insurance Corporation	8,627	8,320	7,971	7,516	2,249	1,448	2,397	1,961
Sporting Injuries Compensation Authority	5	5	3	3	1	1	1	1
Workers' Compensation (Dust Diseases) Authority	1,706	1,774	1,686	1,762	206	158	198	157
Workers Compensation Nominal Insurer	17,695	17,907	15,330	14,554	2,753	3,254	3,741	3,892

	Total assets		Total liabilities		Total revenue		Total expense	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Insurance and compensation total</b>	<b>33,513</b>	<b>32,722</b>	<b>28,616</b>	<b>27,014</b>	<b>6,739</b>	<b>6,012</b>	<b>7,548</b>	<b>6,935</b>
<b>Superannuation</b>								
Buroba Pty Ltd	--	--	--	--	--	--	--	--
Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund	3	7	2	6	1	1	1	1
EIF Pty Limited	--	--	--	--	--	--	--	--
Energy Industries Superannuation Scheme (EISS) Pool A	3,353	3,004	3,343	2,994	229	97	229	95
Energy Industries Superannuation Scheme (EISS) Pool B	2,012	2,062	1,943	2,021	159	69	132	39
Energy Industries Superannuation Scheme Pty Limited	21	15	21	15	31	30	32	29
Energy Investment Fund	5,295	4,956	5,295	4,956	387	250	387	250
Local Government Superannuation Scheme Pty Ltd	8	8	8	8	37	33	37	33
Macquarie University Professorial Superannuation Scheme	14	14	13	13	1	--	1	1
NSW Fire Brigades Superannuation Pty Ltd	--	--	--	--	--	--	--	--
Parliamentary Contributory Superannuation Fund	296	271	435	387	37	5	--	1
SAS Trustee Corporation	15	12	15	12	42	49	42	48
SAS Trustee Corporation Pooled Fund	45,294	44,530	59,562	59,685	4,226	2,064	3,339	5,505
Trustees of the Parliamentary Contributory Superannuation Fund	--	--	--	--	--	--	--	--
University of Sydney Professorial Superannuation System	35	35	35	35	4	1	4	4
Valley Commerce Pty Limited	--	--	--	--	--	--	--	--
<b>Superannuation total*</b>	<b>56,346</b>	<b>54,914</b>	<b>70,672</b>	<b>70,132</b>	<b>5,154</b>	<b>2,599</b>	<b>4,204</b>	<b>6,006</b>

\* The total will not reconcile to the Cluster snapshot in section 1.1 because the Energy Investment Fund has been excluded from the snapshot. The Energy Investment Fund's unitholder net assets and profits are captured in the EISS Pool A and EISS Pool B financial statements.



## Appendix six – Financial analysis

The table below summarises the performance of agencies against some key financial sustainability indicators.

Agencies	Operating margin	Liquidity	Employee expenses growth rate	Other expenses growth rate
	%	ratio	%	%
<b>Finance Services and Innovation cluster</b>				
Department of Finance, Services and Innovation	3	1.46	(10)	4
Fair Trading Administration Corporation	51	160	0	109
Luna Park Reserve Trust	(4)	3.50	0	161
New South Wales Government Telecommunications Authority	27	1.82	32	54
Place Management NSW	12	3.13	(46)	136
Property NSW	4	2.27	48	(24)
Rental Bond Board	(2)	61	0	(9)
Service NSW	13	0.64	18	(11)
State Archives and Records Authority of New South Wales	61	3.33	28	1
State Insurance Regulatory Authority	8	6.45	(20)	13
Teacher Housing Authority of New South Wales	(17)	6.01	(33)	6
Waste Assets Management Corporation	5	3.11	4	4
<b>Premier and Cabinet cluster</b>				
Department of Premier and Cabinet	(4)	0.76	7	1
Barangaroo Delivery Authority	94	0.24	9	(21)
Independent Commission Against Corruption	(3)	0.50	(27)	(7)
Independent Pricing and Regulatory Tribunal	(8)	0.54	(3)	(13)
Infrastructure NSW	4	1.93	56	334
Natural Resources Commission	(15)	1.30	(11)	(5)
New South Wales Electoral Commission	(4)	2.46	91	10
Ombudsman's Office	(1)	0.70	(2)	15
Parliamentary Counsel's Office	4	0.93	3	0
Public Service Commission	(2)	0.50	6	(2)
UrbanGrowth NSW Development Corporation	51	167	65	24
<b>The Treasury cluster</b>				
The Treasury	12	0.77	7	16
Long Service Corporation	45	3.56	(65)	11

Note: Table excludes NSW Treasury Corporation, Crown Entity, insurance and superannuation agencies, ministerial holding corporations and agencies not listed in the Budget Papers. Refer to section 2.3 of this report for analysis against the sustainability indicators.

Source: Financial statements (audited).

The formulas used to calculate the ratios and a description of the indicators is below:

Indicator	Formula	Description
<b>Operating margin (%)</b>	Adjusted net result / Total underlying revenue	Net result and total underlying revenue is obtained from the Statement of Comprehensive Income and is adjusted to take into account large one-off (non-recurring) transactions.
<b>Liquidity (ratio)</b>	Current assets / Current liabilities	<p>This measures the ability to pay existing liabilities in the next 12 months.</p> <p>A ratio of one or more means there are more cash and liquid assets than short-term liabilities.</p> <p>Current liabilities exclude long-term employee provisions and revenue in advance.</p>
<b>Employee-related expenses or personnel service expenses growth rate (%)</b>	$\frac{(\text{Employee-related expenses or personnel service expenses 2016-17})}{(\text{Employee-related expenses or personnel service expenses 2015-16}) - 1}$	This demonstrates the rate at which employee-related expenses or personnel service expenses for an agency has increased or decreased in the financial year 2016-17, compared to 2015-16. A positive growth rate indicates that expenses have increased compared to prior year, while a negative growth rate indicates that expenses have decreased compared to prior year.
<b>Other expenses growth rate (%)</b>	$\frac{(\text{Other expenses 2016-17})}{(\text{Other expenses 2015-16}) - 1}$	This demonstrates the rate at which other expenses for an agency has increased or decreased in the financial year 2016-17, compared to 2015-16. A positive growth rate indicates that expenses have increased compared to prior year, while a negative growth rate indicates that expenses have decreased compared to prior year.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR MISSION

To help parliament hold government accountable for its use of public resources.

## OUR VALUES

**Purpose** – we have an impact, are accountable, and work as a team.

**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.

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