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# New South Wales Auditor-General's Report

## Financial Audit

### Volume One 2012

Focusing on themes from 2011

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## 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.

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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Pursuant to the *Public Finance and Audit Act 1983*,  
I present Volume One of my 2012 report.

A handwritten signature in black ink that reads 'Peter Achterstraat'.

**Peter Achterstraat**

Auditor-General

29 February 2012

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# Significant Items

This summary shows those matters I identified during my audits that I believe are the most significant issues agencies need to address.

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**South Eastern Sydney Local Health Network**

The timeliness and quality of financial reporting needs to improve	59
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# Recommendations

This summary shows my more significant recommendations to agencies to address issues I identified during my audits.

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## Overview of 2011

In Volume Three, I recommended the Department of Premier and Cabinet and Treasury continue to drive implementation of the Public Accounts Committee's recommendations to improve the quality and timeliness of financial reporting. I reiterate this recommendation. 17

In Volume Three, I recommended the Treasury and the Department of Premier and Cabinet take a lead role in monitoring, supporting and reporting on the implementation of common financial reporting and support systems within the new Departments. I reiterate this recommendation. 20

Agencies should assess whether their risk management culture supports effective risk management. 23

A common set of asset management ratios for the public sector should be developed and published annually in agency annual reports. Agencies should measure, compare and report these ratios against better practice benchmarks as well as internal targets. 23

The whole-of-government electronic information security guidelines currently under development should be finalised, issued, and supported by a communication and training plan. 27

The government should finalise its shared services framework, procedures and guidelines so agencies can more effectively manage the risks and costs of integrating their businesses with shared service entities. Agencies transitioning to shared service functions should also ensure appropriately skilled staff manage the transition successfully. 27

Whole-of-government better practice project governance and data migration procedures should be developed and communicated to all agencies. 28

Whole-of-government policies should be developed so agencies can effectively manage and control the risks of outsourced activities. These documented policies should include: 28

- clear roles and responsibilities for agencies and suppliers
- clear performance, management monitoring and reporting requirements
- contract clauses that include the 'right to audit' by an agency
- transparent cost and billing information.

I recommend that large government agencies and universities regularly review their governance frameworks against the Governance Lighthouse's 17 points, published in my Financial Audit Volume Two, 2011. 29

## Report on Complaint Investigation

RMS and Transport for NSW should: 40

- by December 2012, review its contract management framework against the better practice framework and ensure it has structures in place to effectively manage all IT services contracts, including purchases through State contracts. In particular, RMS and Transport for NSW should ensure they have:
  - an effective governance structure, which includes oversight outside the business unit that owns the contract
  - independent internal monitoring of individual contracts
  - a risk based contract management plan for all services contracts
- by December 2012, consider extending its contract management framework and structures to cover all services contracts it manages
- by June 2012, complete a risk assessment of existing services contracts and prepare contract management plans for those contracts identified as high risk.

RMS should: 40

- by June 2012, the RMS IM&T unit report to the RMS Audit and Risk Committee on:
  - progress in implementing the actions proposed in the RMS report on the complaint investigation
  - how it proposes to address the findings and recommendations in this report, including the requirement for obtaining bank guarantees (or equivalent) to offset the risk of payments in advance, regardless of the value
  - what it has done or proposes to do to address its failure to exercise key contractual provisions relating to rebates and over payments.
- by December 2012, the RMS governance unit report to the RMS Audit and Risk Committee on the scale and value for money of additional services provided under these contracts, including an end to end business process audit of a representative sample of additional services, and the adequacy of invoice supporting information.

Transport for NSW should: 40

- Transport for NSW is transitioning existing IT services contracts from RMS and RailCorp to establish whole of Transport arrangements. I recommend that, before establishing whole of Transport IT services contracts, Transport for NSW undertake a detailed review of the IT services contracts in place in both RMS and RailCorp to understand and address issues raised in RMS' report to me on this complaint, as well as my findings in this investigation.

## Office of the Protective Commissioner – Common Fund

The Office of the Protective Commissioner (the Office) should fully address control deficiencies in the payment of client expenses. 42

## Health Professional Councils

The Health Professional Councils Authority (the Authority) and Councils should finalise and approve 2011–12 service level agreements and review them regularly. 49

The health restructure was a significant, one-off event, which significantly impacted the preparation and audits of Councils' financial statements in 2011. Nevertheless, the Councils should prepare for next year's financial statement and audit processes earlier to ensure compliance with appropriate standards, legislation and frameworks and that deadlines are met. 49

## Health Reform Transitional Organisation Southern

The Organisation should improve the timeliness and quality of its financial statements and supporting work papers. 51

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# Section One

Overview

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Overview of 2011

# Overview of 2011

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NSW Auditor-General's Report  
Volume One 2012  
OVERVIEW OF 2011

Most of my 2010 financial audit recommendations were either fully actioned or partially implemented in 2011

Last year, I tabled ten Volumes of my financial audit report and nine performance audit reports in the New South Wales Parliament. Financial audit Volumes are discussed below and performance audit reports are discussed later in this overview.

## Key Insights

My 2011 financial audits highlighted:

- agency restructures significantly impacted agency financial reporting processes
- agencies are having difficulty establishing and enforcing compliance with their own policies and procedures
- agencies experienced problems complying with regulations and providing adequate documentation to support their financial statements
- the poor quality of some financial statements with 1,256 misstatements identified, 540 so significant they had to be corrected
- deficiencies in information security exist across many agencies
- computer system disaster recovery plans for financial systems not existing or outdated, do not align with agencies' business recovery requirements, do not properly identify and assess critical systems and processes and testing is incomplete
- only 38 per cent of my recommendations for improving information systems have been resolved
- the risk management culture in agencies is key to good risk management.

## Financial Audit Reports

I tabled ten financial audit volumes in parliament in 2011:

- Volume One – Overview of 2010, Electricity Sale Transactions and other reports
- Volume Two – Universities
- Volume Three – Total State Sector
- Volume Four – Electricity
- Volume Five – Superannuation, Compensation and Housing
- Volume Six – Environment, Water and Regional Infrastructure
- Volume Seven – Law, Order and Emergency Services
- Volume Eight – Transport and Ports
- Volume Nine – Education and Communities
- Volume Ten – Health

My office performed 450 financial audits in 2010–11 and I included commentary and analysis on 121 audits of significant agencies in my 2011 financial audit volumes, which I believe is sufficient to identify common themes across the public sector.

These included 375 significant items and 131 recommendations, which I will review during 2012 to establish the progress made in resolving the issues and implementing the recommendations. Most of my 2010 financial audit recommendations were either fully actioned or partially implemented in 2011 (Volume Three, page 39).

This overview is a summary of my 2011 financial audit report, volumes three to ten, which focussed on my 30 June 2011 audits. It analyses 99 recommendations and summarises the key themes and messages arising from those audits to help readers understand common findings. The overview can be used by agencies and audit and risk committees to self assess and identify issues that may be relevant to their organisation.

An important component of my financial audits is my review of controls over agencies' computerised information systems. I have summarised common issues arising from my information system audits in this report.

## Administrative Restructure

The restructure of government agencies in 2010–11 resulted in substantial changes, which significantly impacted agencies' financial reporting processes, contributed to issues highlighted under 'Key Insights' and to some agencies not meeting Treasury's timetable for earlier financial reporting.

The New South Wales Parliament's Public Bodies Review Committee has highlighted the challenges faced by principal departments in adapting performance evaluation and annual reporting processes to incorporate new areas of responsibility. Complex agencies have a particularly onerous task presenting large volumes of information clearly, concisely and meaningfully to users with widely varying information needs and interests.

Many agencies have been restructured in recent years and some functions have been transferred more than once during the same year.

The Public Sector Employment and Management (Departmental Amalgamations) Order 2009 significantly impacted agencies' financial reporting processes in 2009–10. The order amalgamated government agencies and offices into 13 new clusters with principal or 'super departments' with effect from 27 July 2009.

The Public Sector Employment and Management (Departments) Order 2011 further amalgamated agencies into nine 'principal departments' with effect from 4 April 2011. This order was amended further by the Public Sector Employment and Management (Departments and Ministers) Amendment Order 2011 on 2 June 2011.

The clusters, principal departments and some bodies within clusters which remain as separate reporting entities for statutory and other purposes are:

Cluster	Principal Department(s)	Other Bodies
<b>Attorney General and Justice</b>	Department of Attorney General and Justice	NSW Trustee and Guardian, Information and Privacy Commission, Legal Aid Commission, Office of the Director of Public Prosecutions, Fire and Rescue NSW, NSW Crime Commission, NSW Police Force, Rural Fire Service, Ministry for Police and Emergency Services
<b>Education and Communities</b>	Department of Education and Communities	TAFE (including Community Education and Public Schools), Institute of Teachers, Office of Board of Studies, NSW Institute of Sport, Sydney Olympic Park Authority
<b>Family and Community Services</b>	Department of Family and Community Services	Housing NSW, Aboriginal Housing Office, Home Care Service, NSW Businesslink Pty Ltd
<b>Finance and Services</b>	Department of Finance and Services	WorkCover Authority, NSW Land And Housing Corporation (jointly with Family and Community Services), Superannuation Corporation (Pillar, SAS, FSS, PCSF), Sydney Water Corporation,
<b>Trade and Investment, Regional Infrastructure and Services</b>	Department of Trade and Investment, Regional Infrastructure and Services	State Development, Regional Development, Office of Water, Food Authority, Forests NSW, Catchment Management, Art Gallery, State Library, State Water, Energy Corporations, Department of Primary Industries
<b>Health</b>	Department of Health	Local Health Districts, Ambulance Service of NSW, Cancer Institute, Justice Health, Health Administration Corporation

Cluster	Principal Department(s)	Other Bodies
<b>Premier and Cabinet</b>	Department of Premier and Cabinet	Office of Environment and Heritage, ICAC, IPART, Ombudsman, NSW Electoral Commission, Historic Houses Trust, Taronga Conservation Society, Luna Park Reserve Trust, Department of Planning and Infrastructure
<b>Transport</b>	Department of Transport	Roads and Maritime Services (RTA and NSW Maritime), RailCorp, State Transit, Country Rail Infrastructure Authority, Sydney Metro, Sydney Ferries, Transport Construction Authority and Port Corporations
<b>Treasury</b>	The Treasury	Crown Entity, Electricity Tariff Equalisation Ministerial Corporation, Liability Management Ministerial Corporation, NSW Self Insurance Corporation, NSW Treasury Corporation

For further details on the allocation of New South Wales Government agencies to clusters refer to the following website:

[http://www.dpc.nsw.gov.au/\\_data/assets/pdf\\_file/0005/126086/NSW\\_Public\\_Sector\\_Principals\\_Departments\\_and\\_Other\\_Bodies\\_as\\_at\\_17\\_August\\_2011.pdf](http://www.dpc.nsw.gov.au/_data/assets/pdf_file/0005/126086/NSW_Public_Sector_Principals_Departments_and_Other_Bodies_as_at_17_August_2011.pdf)

## Control Environment

Agencies are responsible for developing and maintaining adequate systems of internal control to ensure financial records and other information are complete and accurate, assets are adequately safeguarded, and errors and other irregularities are prevented or detected. Internal control procedures reduce variations in processes and procedures, leading to more predictable outcomes.

A strong system of internal control substantially reduces the risk of fraud and error and provides assurance to management and auditors that the amounts reported by entities' systems and financial statements are materially correct.

An integral part of the audit process is assessing the adequacy of an entity's internal control processes and identifying any weaknesses. In accordance with Australian Auditing Standards, these weaknesses and my recommendations for improvement are brought to the attention of management.

Weaknesses in internal controls identified during an audit will not necessarily result in a qualified auditor's opinion of an agency's financial statements as there are often other control procedures in place to compensate for these weaknesses. Audit processes can be used to determine the level of risk of a material error occurring. A qualified auditor's opinion may only be required where a lack of appropriate internal controls causes significant uncertainty about the financial information being reported.

## Recommendations in my 2011 Reports to Parliament

I made 99 recommendations to improve the control environment of agencies in volumes three to ten of my 2011 financial audit report to Parliament. Twenty-nine of these were repeat recommendations. The recommendations and the clusters they relate to were:

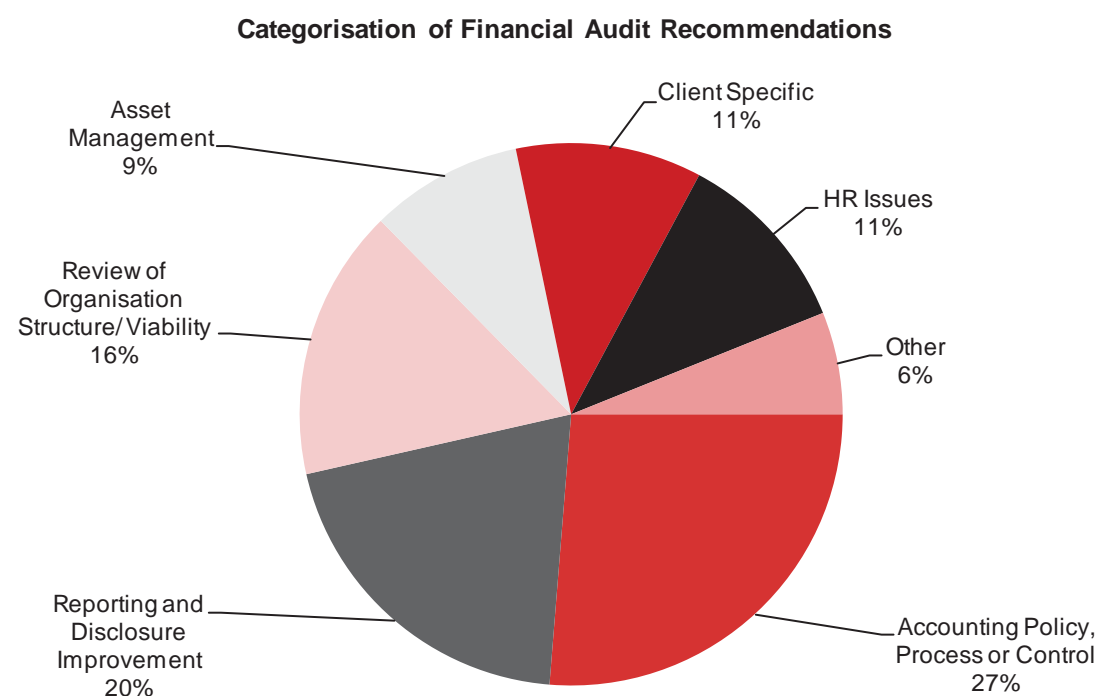
Cluster	Number of Recommendations	Repeat Recommendations
Attorney General and Justice	14	7
Education and Communities	3	1
Family and Community Services	1	--
Finance and Services	11	2
Health	19	9
Premier and Cabinet	15	2
Trade and Investment, Regional Infrastructure and Services	7	2
Transport	15	6
Treasury	14	--
<b>Total</b>	<b>99</b>	<b>29</b>

The Health, Attorney General and Justice, and Transport clusters had the highest number of repeat recommendations.

I take the need to repeat recommendations seriously, particularly if this reflects an agency's lack of commitment to rectify an issue. Some recommendations may take substantial time and resources to implement because of the breadth and complexity of the issue and the impact on agency operations. If warranted, I will make my concerns known to agency management, the agency's Audit and Risk Committee and the Public Accounts Committee, which is interested in ensuring repeat recommendations are actioned efficiently and effectively.

### Categories of Recommendations

The 99 recommendations are grouped in the following categories:



I made 99 recommendations to improve the control environment of agencies in eight of my 2011 financial audit reports. Twenty-nine were repeat recommendations

### Accounting Policy, Process or Control

I made 26 recommendations to agencies in seven of the nine agency clusters, covering:

- agencies not having appropriate policies and procedures or having policies and procedures that needed updating or clarification
- agencies not following their own policies and procedures
- Treasury not providing sufficient guidance to agencies, especially in the areas of revenue and provisions, and failing to implement better processes to identify and resolve accounting issues for significant transactions
- weaknesses in reconciliation processes and uncleared transaction backlogs
- poor controls over recording of accounting transactions and production of financial reporting data.

If procedures in accounting manuals and Treasury Circulars are not followed the risk of fraud increases.

### Reporting and Disclosure

I made 20 recommendations to agencies in six clusters covering the need for:

- them to improve the timeliness and quality of financial statements and supporting work papers
- Treasury to mandate early close procedures for agencies' 2011-12 year end reporting, and earlier dates for submitting financial statements for audit and for annual report tabling.

### Review of Organisation Structure/Viability

I made 16 recommendations to agencies in six out of nine clusters covering the need:

- for them and Treasury to review organisational structures to confirm efficiencies are likely to be achieved through consolidation or restructuring of entities in a particular group
- to monitor the viability of agency provided services and built infrastructure to ensure public resources are not being used for services/projects with low public demand or need
- for agencies to closely monitor their financial positions and liquidity to ensure they have adequate funds to meet their financial and statutory responsibilities.

### Human Resource Issues

In 2010, I reviewed human resource issues across the public sector and found:

- a lack of contractor registers and monitoring of the use and reliance on contractors
- employees working and accruing excessive overtime
- ineffective management of annual leave and flex leave
- a lack of strategies to manage an ageing workforce.

In 2011, I reviewed whether my 2010 recommendations had been acted on and found more work was needed in these areas.

### Asset Management

I made nine recommendations to agencies in six out of nine clusters relating to:

- agencies not having adequate systems and controls to manage assets effectively, ranging from asset identification to the review of assets' useful lives
- issues around the recording, depreciation, revaluation and maintenance of assets.

## Other

I made 18 recommendations across the nine clusters relating to:

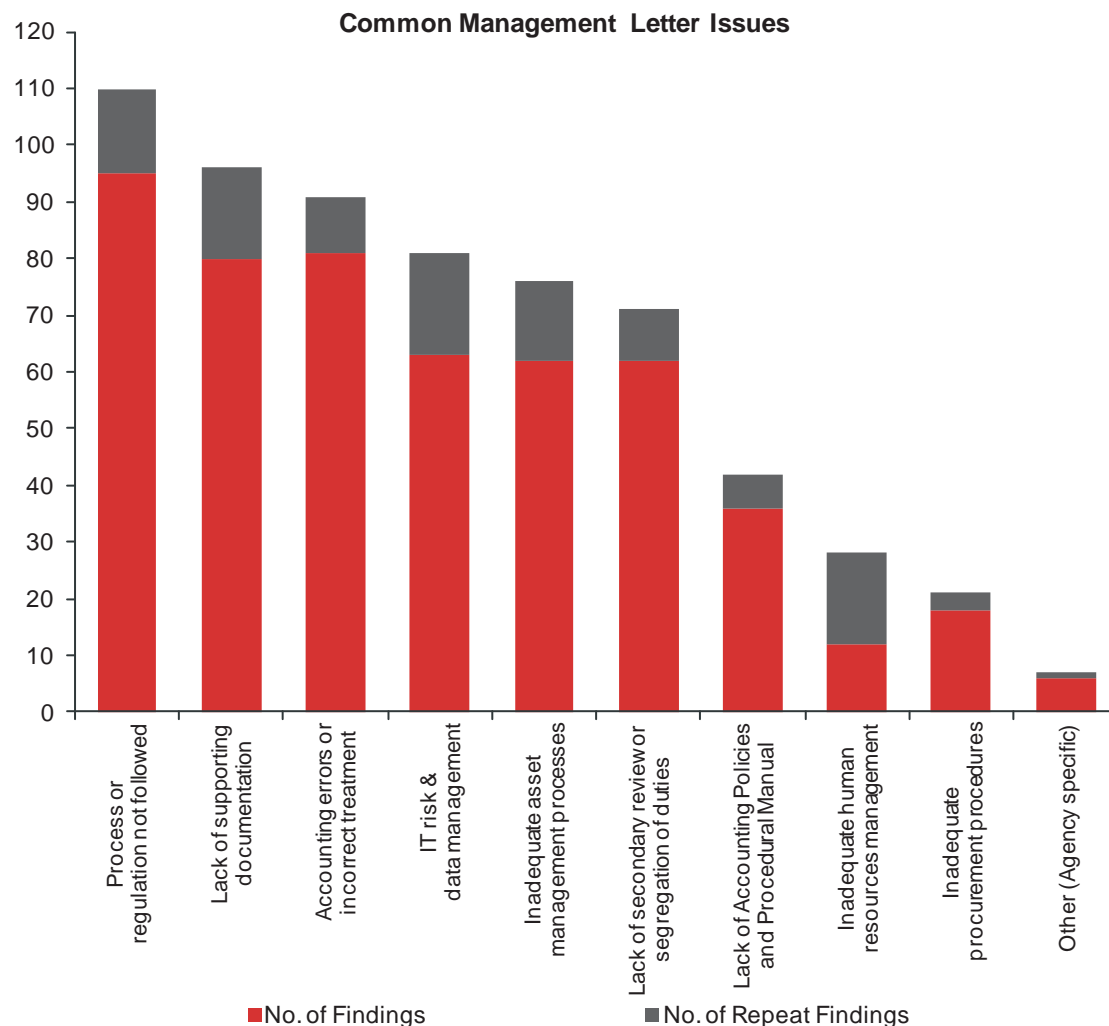
- agencies not implementing overseeing bodies' recommendations (e.g. recommendations by the Ombudsman, Public Accounts Committee or arising from a sustainability review)
- the need for agencies to have formal service level agreements, where applicable, detailing the respective parties responsibilities.

## Recommendations in 2011 Management Letters

In addition to the recommendations in my reports to Parliament, I made recommendations in management letters sent to the Chief Executive Officer/Department Head or Chair of the Board (where applicable) of many agencies. The recommendations were designed to help agencies address issues identified during their audits. The management letters also included issues identified during previous audits, which had not been satisfactorily resolved by management (repeat issues).

To identify common issues for this overview, I have analysed 623 issues and recommendations made to 70 of 342 agencies with 30 June 2011 year ends. This sample includes 36 large statutory bodies and State owned corporations (SOCs), 14 departments and 20 small agencies. Of the 623 issues, 59 were assessed to be high risk, 275 moderate risk and 289 low risk.

The common issues are summarised in the table below:



The most common issues across agencies are: not following processes or regulations; not having supporting documentation; accounting errors or incorrect treatments

**Compliance with Processes or Regulations**

Of the 623 recommendations, 110 related to agencies not complying with their own policies and procedures, including expenditure limits, legislative requirements or Treasurer's Directions, increasing the risk of fraud and error.

**Supporting Documentation**

Ninety-six recommendations related to agencies not having adequate documentation to support significant account balances in their financial statements, including:

- lack of reconciliations between general ledgers and subsystems
- incorrect reconciliations
- reconciling differences not being cleared or explained
- no documentation to support account balances
- lack of formal agreements to support transactions
- absence of compliance registers (e.g compliance with legislative requirements).

**Accounting Errors or Incorrect Accounting Treatments**

Ninety-one recommendations related to accounting misstatements, incorrect accounting treatments or deficiencies in financial statement disclosures.

Misstatements occurred most frequently where agencies did not quality review important reconciliations, had no documentation to support account balances, or did not have appropriate segregation of duties.

In many agencies, misstatements result from a combination of control weaknesses which, if not properly addressed, increases the risk of misstatements in reported results and fraud. Agencies must proactively implement appropriate business process level controls to establish effective internal control environments.

**IT Data and Risk Management**

I made 81 recommendations to agencies that are not managing their IT control environments adequately. The recommendations covered agencies' processes for addressing IT Security, Data Centre Management and IT user management. For further details, refer to the Information Systems Audit section later in this overview.

**Asset Management**

I made 76 recommendations to agencies without the necessary checks in place to effectively control and manage their assets, including acquisitions, disposals, recording, depreciation, revaluations, and stocktakes.

**Segregation of Duties, Review and Approval of Transactions**

I made 71 recommendations to agencies where the segregation of duties, review and approval of transactions and maintenance of supporting documentation were inadequate. I found reconciliations were not being independently reviewed and changes to financial systems, such as accounts payable and payroll master files, were not being monitored and approved. Intentional or unintentional errors in data can significantly impact the accuracy and validity of transactions, increasing the importance of management oversight and independent checks and verification.

Some small agencies were unable to satisfactorily segregate incompatible duties in the revenue, payments and payroll areas. Whether by design or because of resource constraints, poor segregation of duties increases the risk of fraud. Compensating controls need to be introduced.

**Accounting Policies and Procedural Manual**

I made 42 recommendations to agencies to develop or update formal accounting manuals and policies and procedures, including formal fraud control plans. Having up-to-date accounting policy and procedural manuals improves the effectiveness of an agency's control environment.



## Human Resources Management

I made 28 recommendations, some were repeat recommendations to address human resource issues, including inadequate management of:

- contract staff
- excessive overtime
- excessive annual leave balances
- an ageing workforce
- flex leave.

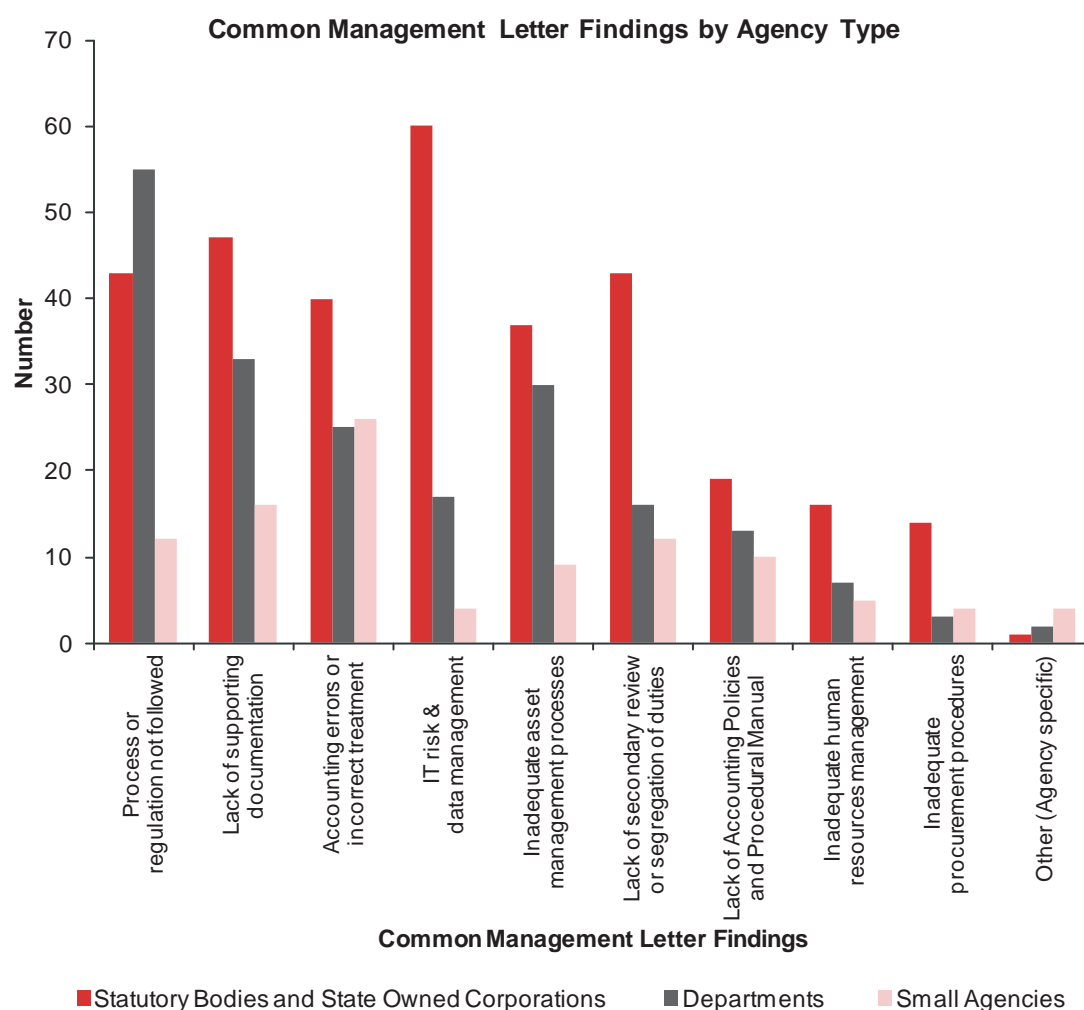
## Procurement Control Procedures

I made 21 recommendations where agencies had weaknesses in their controls over expenditure and accounts payable, including: poor procurement practices; inadequate checks of expenditure transactions processed; and poor controls over purchase orders and receipting goods.

Procurement is an area which requires strong controls to mitigate against the high inherent risk of fraud.

## Other (Agency Specific)

The remainder of my recommendations (seven) were for agency specific issues.



There are  
insufficient  
suitably qualified  
finance personnel  
in many agencies

The chart shows that of the 623 issues identified, 320 related to the 36 statutory bodies and SOC's (approximately nine management letter points per agency), 201 to the 14 Departments (14 per agency), and 102 to the 20 small agencies (five per agency).

Departments have a disproportionately high level of findings compared to statutory bodies and SOC's relating to:

- processes or regulations not being followed
- lack of supporting documentation
- accounting errors or incorrect accounting treatments
- inadequate asset management processes.

I believe factors such as the quality of accounting and finance personnel, poor risk management processes and poor cultural practices may have contributed to these findings and are worthy of review by central agencies.

Agency Heads should also consider whether they have access to sufficient resources and expertise to comply with the requirements of the *Public Finance and Audit Act 1983* and other legislative and regulatory requirements

In my view, there are insufficient suitably qualified finance personnel in many agencies, which limits their ability to establish and maintain robust internal control environments, to correctly interpret accounting standards and to produce high quality financial statements. The most common issue for small agencies related to the number of errors and incorrect accounting treatments I detected. Agencies should review their human resource strategies to retain and attract appropriately skilled personnel.

The chart also highlights that statutory bodies and SOC's have a disproportionately high level of IT risk and data management issues compared to other agencies, possibly due to the complexity of systems used in these agencies. Further analysis of the underlying reasons for this should be undertaken so the causes can be addressed.

## Quality and Timeliness of Financial Reporting

In previous years, I have expressed concerns about the quality and timeliness of financial reporting. I believe high quality and timely financial reporting by agencies is essential for the government to make informed and timely decisions based on accurate information. This also enables more effective, efficient and timely management of public funds by government agencies and improves the accountability of public expenditure.

The quality and timeliness of whole-of-government financial reports (General Government and Total State Sector) largely depends on:

- the quality and timeliness of financial information provided by agencies
- Treasury's year end processes, including coordination and guidance to agencies
- the competency of those preparing and providing financial information.

In Volume Three of my 2011 report, I referred to the October 2010 Public Accounts Committee (PAC) report on the Quality and Timeliness of Financial Reporting. I have included a summary of that report below because of its importance to improving this area.

No.	Public Accounts Committee Recommendation	Government Response
1	The Treasurer require all agencies to conduct a hard close of their accounts at 31 March from 2011.	After relevant consultation, Treasury concluded a full hard close was impracticable, and instead started strongly encouraging large and medium sized agencies to perform 'early close procedures' via its Circular 11/01 'Early Reporting Program – Strategy'. This involved agencies performing various aspects of their year-end reporting processes before 30 June 2011. Though encouraged, it was not mandatory.
2	The Treasurer propose amendments to the <i>Public Finance and Audit Act 1983</i> requiring chief financial officers to certify their financial reporting systems.	Treasury requested all chief financial officers to formally assert that their agency had effective systems and processes to generate the financial information required by Treasury.
3	The Premier ensure that accountability for accurate and timely financial reporting is included in all chief executive officers' performance agreements.	Recommendation to be incorporated as part of a broader reform of accountability of chief executive officers.  Treasury advises that CEO performance agreements for principal departments now reflect their accountability for accurate and timely financial reporting.
4	The Treasurer develop and implement a program to bring forward the deadline for the tabling of annual reports in parliament to three months after the end of the financial year by 2013 at the latest.	'Early close procedures' designed to facilitate earlier tabling of annual reports.
5	The Treasurer consider proposing amendments to prescribe minimum qualifications of chief financial officers in the <i>Public Finance and Audit Act 1983</i> .	Premier's Circular 99-69 'Qualifications for Senior Financial Management and Accounting Positions' is still current and the government believed this issue could be managed more flexibly through current arrangements rather than legislative amendment.

### Recommendation

In Volume Three, I recommended the Department of Premier and Cabinet and Treasury continue to drive implementation of the Public Accounts Committee's recommendations to improve the quality and timeliness of financial reporting. I reiterate this recommendation.

More needs to be done to implement the PAC's recommendations to improve the quality and timing of financial reporting. For example:

- Treasury should expand its 'early close procedure' requirements and make them mandatory
- Treasury should help agencies improve monthly financial reporting processes and streamline the process agencies use to provide financial data to Treasury
- accountability for accurate and timely financial reporting should be strengthened by including relevant requirements in all Chief Executive Officers' performance agreements
- limitations in Premier's Circular 99-69 minimum qualification requirements for Chief Financial Officers, now 12 years old, should be updated to address the fact the requirements are mandated for government departments, but only encouraged for statutory bodies, only apply to future recruitment and include many exemptions.

Treasury's requirement for annual certification of financial systems by Chief Financial Officers would benefit from more guidance to agencies and rigorous oversight by audit and risk committees.

Most agencies were required to submit their 30 June 2011 financial statements to the Audit Office by 11 August 2011 so the audits could be completed within ten weeks, or by 20 October 2011.

Whilst almost all agencies met the legislative submission deadline in 2011, almost half did not meet other aspects of the earlier timetable set by Treasury.

For further details, refer to my Financial Audit Volume Three (pages 31–38).

The table below details the number of audit opinions signed and issued by month and by cluster in 2011. More needs to be done to bring the signing of audit opinions forward from October/November to meet an earlier reporting regime for the State as a whole. I will continue working with Treasury to achieve this objective.

The table shows that 80 per cent of my audit opinions were signed by the end of October and 18 per cent were signed from November onwards. At 31 December, eight per cent (two per cent) were outstanding, of which about half were signed shortly thereafter.

Cluster	July/August	September	October	November	December	Outstanding*	Total
Attorney General and Justice	1	--	14	--	--	1	16
Education and Communities	--	1	18	2	2	1	24
Family and Community Services	--	1	8	--	--	--	9
Finance and Services	4	10	30	--	1	--	45
Health	--	7	38	29	7	1	82
Premier and Cabinet	--	2	43	5	--	--	50
Trade and Investment, Regional Infrastructure and Services	3	25	42	4	6	5	85
Transport	--	4	14	2	1	--	21
Treasury	--	6	2	2	--	--	10
<b>Total <sup>1</sup></b>	<b>8</b>	<b>56</b>	<b>209</b>	<b>44</b>	<b>17</b>	<b>8</b>	<b>342</b>

1 The table above excludes University audits which have a 31 December year end and the Total State Sector financial statements which are a consolidation of individual agencies.

\* Outstanding at 31 December 2011.

## Audit Opinions

I issued the following types of audit opinions on 30 June 2011 financial statements:

- 'unqualified' opinions, which indicated I was satisfied the financial statements were prepared, in all material respects, in accordance with the applicable financial reporting framework and relevant standards and obtained reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- 'qualified' opinions, which indicate I concluded that, based on the audit evidence obtained, the financial statements as a whole were not free from material misstatement or that I was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Some opinions included an emphasis of matter paragraph to highlight a matter affecting the financial statements, which did not affect my overall opinion.

The following table summarises the types of audit opinions I issued for 30 June 2011 financial statement audits by cluster.

Cluster	Unqualified	Qualified	Unqualified with Emphasis of Matter	Outstanding*	Total
Attorney General and Justice	15	--	--	1	16
Education and Communities	23	--	--	1	24
Family and Community Services	9	--	--	--	9
Finance and Services	44	1	--	--	45
Health	79	2	--	1	82
Premier and Cabinet	46	4	--	--	50
Trade and Investment, Regional Infrastructure and Services	78	1	1	5	85
Transport	21	--	--	--	21
Treasury	7	2	1	--	10
<b>Total</b>	<b>322</b>	<b>10</b>	<b>2</b>	<b>8</b>	<b>342</b>

\* Outstanding at 31 December 2011.

My reasons for qualifying opinions included:

- being unable to obtain all relevant information required to recognise and value assets, such as land and investments
- being unable to conclude on the completeness of income from fund raising, voluntary contributions and donations
- agencies incorrectly including in their financial statements transactions and balances of another agency
- agencies incorrectly accounting for contractual or lease arrangements resulting in material misstatement of assets and liabilities.

## Financial Reporting Systems

As I reported under 'Administrative Restructure', various orders resulting in restructures significantly impacted agencies' financial reporting processes for the year ended 30 June 2011.

In my view, the April 2011 order and subsequent amending order created uncertainty in agencies' understanding of the impacts of the government's decisions.

Following the April and subsequent order, the Department of Premier and Cabinet did not update the government structure it publishes on its website until 17 August 2011, which was in my view indicative of the complexities associated with the impact of the restructures.

The restructures and changes to financial reporting systems and processes had negative consequences for the quality, timing and audit of agency financial statements and associated costs.

This was especially so because the restructures occurred part way through the financial year and meant agencies had to prepare financial reporting information for two reporting periods within the same financial year, both of which had to be audited.

Amalgamating agencies creates dislocation risks and uncertainty for the organisation, its staff, suppliers, clients and customers.

Agencies' 30 June 2011 financial statements contained 25 individual errors exceeding \$20.0 million

I identified 1,256 misstatements, 540 of which needed to be corrected by the agencies before I could issue my audit opinions

I believe advance notice of amalgamations and restructures would give agencies the opportunity to better plan for any associated risks; implement strategies to mitigate negative impacts; achieve the desired outcomes, and enable them to effectively measure the success of the restructure.

### Recommendation

In Volume Three, I recommended the Treasury and the Department of Premier and Cabinet take a lead role in monitoring, supporting and reporting on the implementation of common financial reporting and support systems within the new Departments. I reiterate this recommendation.

My 2011 audits of agencies identified that:

- many of the agencies impacted by restructures are yet to make significant progress implementing common financial reporting and support systems to achieve the benefits expected from the restructures
- additional costs associated with the amalgamations are not readily identifiable
- systems have not been put in place to capture and report cost savings achieved by the restructures
- agencies' 30 June 2011 financial statements contained 25 individual errors exceeding \$20.0 million.

The financial reporting process is complicated by the structure and number of reporting entities in the New South Wales public sector, which was exacerbated by the 2011 restructures. The Public Accounts Committee has recognised the challenges faced by principal departments in reporting comprehensively and succinctly on several diverse functions, which in turn impacts the objective of improving the timeliness of government reporting.

For further details on restructuring activities during the year, and my recommendations, refer to Volume Three of my 2011 report.

The importance of implementing quality financial reporting systems is further emphasised when the number and dollar value of misstatements identified in my 2011 financial audits is considered. The number and value of misstatements needs to decrease significantly if the public sector is to improve the timeliness and quality of its reporting. I identified 1,256 misstatements, 540 of which needed to be corrected by the agencies before I could issue my audit opinions.

Five of the nine clusters had more than 100 individual misstatements, which are summarised by cluster in the table below:

Clusters	Number of corrected misstatements	Number of uncorrected misstatements	Total
Attorney General and Justice	21	64	85
Education and Communities	34	28	62
Family and Community Services	12	23	35
Finance and Services	48	64	112
Health	251	287	538
Premier and Cabinet	62	52	114
Trade and Investment, Regional Infrastructure and Services	67	113	180
Transport	32	73	105
Treasury	13	12	25
<b>Total</b>	<b>540</b>	<b>716</b>	<b>1,256</b>

The impact of the misstatements in dollar terms on net assets and income is summarised below:

Cluster	Corrected misstatements		Uncorrected misstatements*		Total	
	Net assets Increase/ (decrease) \$000	Income Increase/ (decrease) \$000	Net assets Increase/ (decrease) \$000	Income Increase/ (decrease) \$000	Net assets Increase/ (decrease) \$000	Income Increase/ (decrease) \$000
Attorney General and Justice	(2,521)	2,521	21,099	3,063	18,578	5,584
Education and Communities	(12,483)	12,207	(545)	3,461	(13,028)	15,668
Family and Community Services	43,643	(346)	2,824	(1,238)	46,467	(1,584)
Finance and Services	1,745	775	38,416	(41,924)	40,161	(41,149)
Health	55,776	(155,237)	(52,930)	(29,828)	2,846	(185,065)
Premier and Cabinet	(13,828)	3,365	507	(2,538)	(13,321)	827
Trade and Investment, Regional Infrastructure and Services	68,277	(17,370)	51,816	(39,784)	120,093	(57,154)
Transport	(34,486)	19,949	5,252	(3,881)	(29,234)	16,068
Treasury	(67,472)	67,472	(155,169)	(494)	(222,641)	66,978
<b>Total</b>	<b>38,651</b>	<b>(66,664)</b>	<b>(88,730)</b>	<b>(113,163)</b>	<b>(50,079)</b>	<b>(179,827)</b>

\* Uncorrected misstatements were considered immaterial to the individual agencies' financial statements.

The table above aggregates individual agency errors within each cluster, and shows the net impact for the cluster (eliminations have not been made for related entity relationships).

Generally, users of financial statements will accept a level of errors as a trade off to receiving timely financial information, as long as that level is not significant enough to affect their ability to make sound decisions based on that information.

The nature and extent of errors in agencies' financial statements provides insights into the quality of their financial reporting. Agencies' 2010–11 financial statements submitted for audit contained 25 individual errors exceeding \$20.0 million.

	Number of Errors	
	2010–11	2009–2010
\$20–\$50 million	14	11
\$50–\$100 million	4	5
\$100 million–\$1 billion	6	6
Greater than \$1 billion	1	2
<b>Total errors greater than \$20 million</b>	<b>25</b>	<b>24</b>

Agencies' financial statements were corrected as necessary to ensure compliance with Australian Accounting Standards and the requirements of the *Public Finance and Audit Act 1983*.



The risk management culture is a key factor in agencies managing risk well

My review of these errors identified the following common causes:

- mistakes in spreadsheet formulae and data entry when calculating carrying values of property, plant and equipment
- errors in applying Australian Accounting Standard requirements applicable to revenue, resulting in recognition of revenue in the wrong financial year
- deficiencies in determining year-end accruals
- use of inappropriate and inaccurate assumptions when calculating provision balances
- errors in inter-agency payables and receivables, indicating agencies do not regularly reconcile these balances as part of effective monthly reporting processes.

These issues indicate insufficient review mechanisms in agency financial reporting processes and insufficient expertise in accounting standard requirements when accounting for complex transactions.

## Risk Management

My financial statement audits require an understanding of each agency's approach to risk management.

Most Government agencies are required to comply with Treasury's Policy and Guidelines Paper 09-05 'Internal Audit and Risk Management Policy for the New South Wales Public Sector' which was released in August 2009. The six core requirements of the policy are aimed at meeting the minimum internal audit and risk management standards. The policy is currently being reviewed by Treasury, as outlined in my financial audit report (Volume Three 2011, page 41).

Ineffective risk management within agencies is a concern to me. I hope to review agency compliance with the Treasury's policy once revisions to the current policy have been issued. I previously surveyed agencies on their readiness to attest to their compliance with the current policy in 2010 (Volume Eleven 2010, page 3). That survey concluded most agencies had implemented policies and procedures to address the six core requirements, with larger agencies appearing to be better prepared than smaller agencies.

Both Treasury's policy guidance and risk management standards emphasise the importance of an appropriate risk management culture to achieve effective risk management. The risk management culture is a key factor in agencies managing risk well.

Agencies that manage risks well often display the following characteristics:

- committed leadership – significant risks are actively and regularly discussed at Board/executive/senior management levels of the agency, and risk owners are committed and responsible for managing those risks. Risk management is closely linked to strategic, business and project plans
- regular review of risks – the agency CEO/executive conduct quarterly or biannual reviews of key agency risks with their risk owners to ensure all significant risks are identified, understood and are being managed
- focus on effective mitigating controls – the CEO/executive quarterly or biannual review with risk owners includes a reassessment of the effectiveness of risk mitigating controls
- reporting and discussion - regular reporting and discussion of top agency risks at the Board/executive level of agencies
- responsibility – risk management is shared throughout the agency and is not just the responsibility of the agency risk manager
- active learning – successes and failures are reviewed to understand root causes, enabling action to replicate successes and prevent future failures
- risk management is a day to day activity – the assessment of risk is part of the decision-making process that happens on a day to day basis.



Effective risk management cannot be achieved by focusing on compliance and 'box ticking'. Developing a culture of risk management is a key element in effectively managing agency risk.

### Recommendation

Agencies should assess whether their risk management culture supports effective risk management.

## Sustainable Asset Management

The reported value of built assets across the public sector at 30 June 2011 exceeded \$200 billion. These assets are crucial for the State to function. The replacement and maintenance of these assets is an expensive and major undertaking, requiring effective monitoring of the State's asset portfolio to achieve sustainable asset management.

I could only find limited published information to ascertain whether NSW agencies' asset management strategies improve, maintain or erode their overall asset base. Without such information I am unable to readily assess the performance of agencies in managing their asset base in a sustainable way.

### Recommendation

A common set of asset management ratios for the public sector should be developed and published annually in agency annual reports. Agencies should measure, compare and report these ratios against better practice benchmarks as well as internal targets.

The Australian Infrastructure Financial Management Guidelines (2010) and the Guide to Integrated Strategic Asset Management (Australian Asset Management Collaborative Group, 2011) have been published, both promoting sustainable asset management practices. The Australian Infrastructure Financial Management Guidelines in particular promote a range of asset sustainability, consumption and renewal funding ratios aimed at providing improved information on organisations' sustainable asset management practices.

NSW Local Government Councils are now disclosing their buildings and infrastructure renewals ratios, along with other financial ratios in their annual reports and their audited financial statements as a means of providing information on the sustainability of their asset management strategies. NSW public sector agencies are not required to provide equivalent information in either their annual reports or audited financial statements.

## Information Systems Audit

The New South Wales public sector spends over \$2.0 billion each year on information, communications and technology (ICT) tools, applications and services. It is essential that strong information and communication technology management and control processes operate effectively across the State's agencies.

### Recommendations to Improve Controls

My reports recommended that agencies:

- implement effective IT security governance, awareness and administration processes
- establish minimum security standards, policies and rules to mitigate the risks identified
- implement monitoring and review procedures so that all parties involved in supporting the IT environment, including external and shared providers, are effectively and appropriately managed
- establish and adhere to formal change management procedures
- establish comprehensive disaster recovery plans that are tested on a periodic basis.

I recommend agencies assess whether their risk management culture supports effective risk management

I could only find limited published information to ascertain whether NSW agencies' asset management strategies improve, maintain or erode their overall asset base

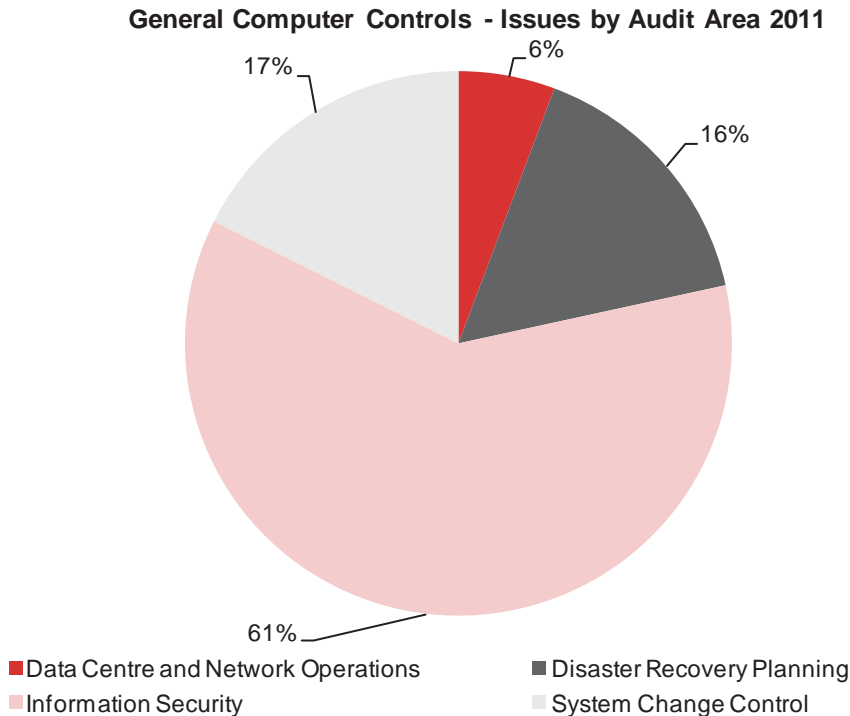
My Office performs information system (IS) related audits as part of the financial statement audits. The key focus of these audits is general computing controls (GCC), whose primary purpose is the attestation of control effectiveness over data integrity, availability and security.

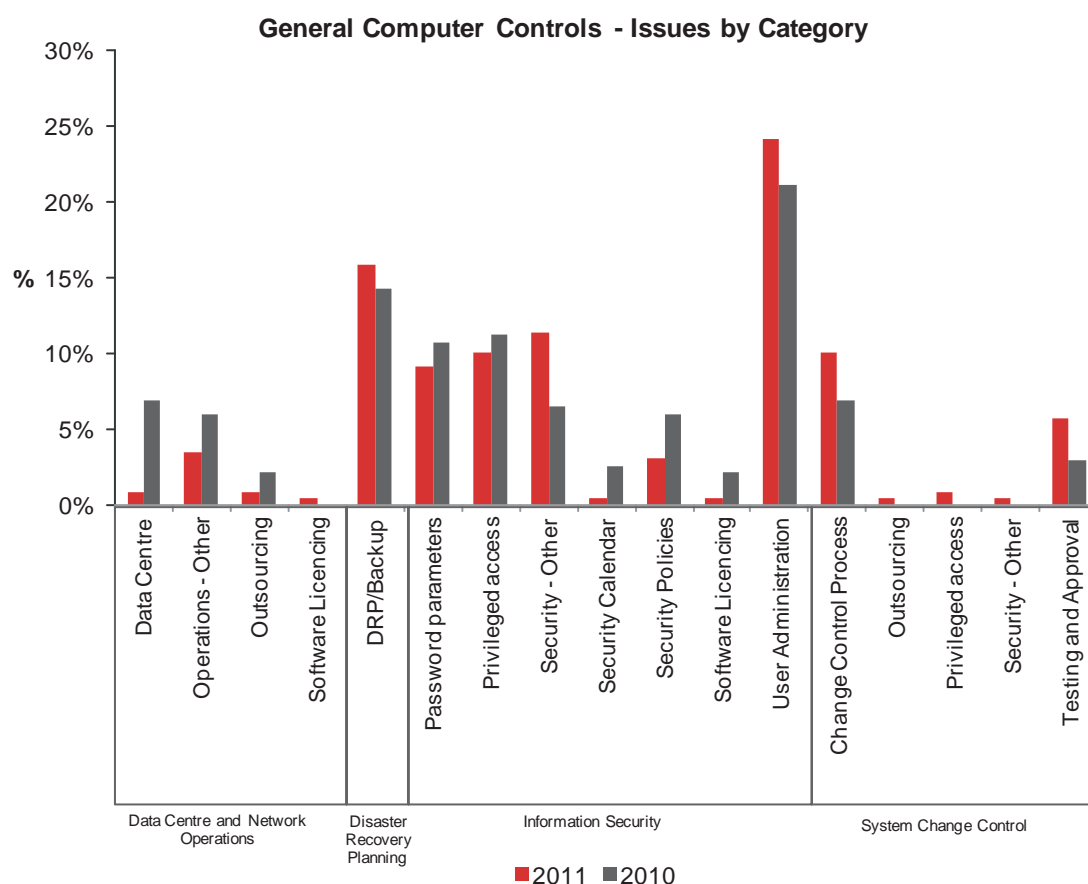
The GCC audits address four areas:

GCC Audit Area	Description
<b>Information Security</b>	Review of controls that prevent or detect unauthorised use of, and changes to data, systems or programs including establishing of system-based segregation of duties
<b>Data Centre and Network Operations</b>	Review of controls that ensure the integrity of information as it is processed, stored, or communicated
<b>Disaster Recovery Planning</b>	Review of controls surrounding establishing and testing of plans relating to disaster recovery (including back-up), protecting the capability of critical systems availability and recovery
<b>System Change Control</b>	Review of change controls over application systems, database management systems, network and communication software, systems software, and hardware, i.e. verifying that they have been effectively acquired, developed, implemented, and maintained

### General Computing Controls

I identified issues across all four GCC areas, most of which pertain to information security management, system change control and disaster recovery planning as shown in the graph below.





I noted improvements since last year, particularly in data centre security and network operations, but again observed the following deficiencies:

### Security

- conflicts in segregation of duties for core financial systems (e.g. SAP, ORACLE, PeopleSoft)
- ineffective management oversight of firewall security
- dormant network accounts that had not been used for over a year
- users who had never changed or do not regularly change their passwords
- unauthorised users granted potent administrative access to the financial system
- network users with administrative access that could permit installation of unlicensed software
- external service and shared service providers with unrestricted access to privileged user accounts.

### Change Management

- non-adherence to formal change management procedures for software revisions
- incomplete documentation.

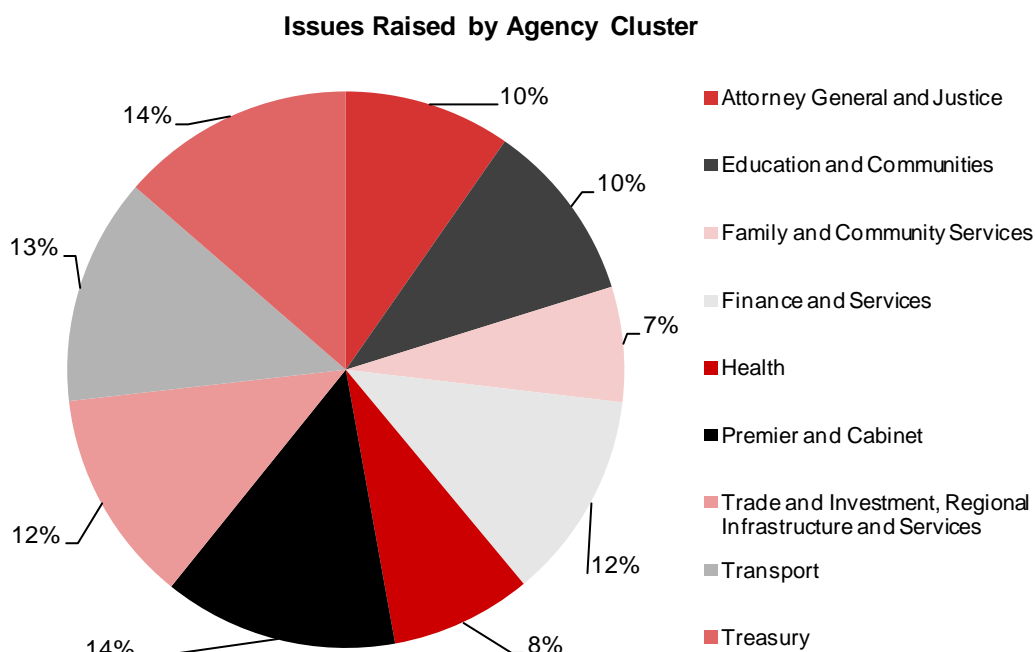
My follow-up of 2010 information system issues indicated that only 38 per cent of issues had been entirely resolved by agencies

My review raised concerns over the State's readiness to recover its financial systems from a catastrophic event

## Disaster Recovery Planning

- incomplete disaster recovery plans and inappropriate levels of disaster recovery testing.

The chart below shows that the 2011 issues are fairly evenly spread across agency clusters with no particular cluster significantly better or worse in this respect.



My follow-up of 2010 information system issues indicated that only 38 per cent of issues had been entirely resolved by agencies

While some agencies needed more than 12 months to address identified risks, I am concerned many 2011 issues are 'repeat' or partially repeat issues requiring further work. I will revisit these issues and continue to report them until they are appropriately resolved.

The key repeat issues are in disaster recovery planning, data security and shared services:

## Disaster Recovery Planning

### *Disaster Recovery Plans Managed In-House*

I noted disaster recovery plans:

- were outdated
- did not align with the agency's business recovery requirements
- did not properly identify and assess critical systems and processes
- had incomplete testing that did not ensure the plan's effectiveness.

These findings are of some concern and reflect on the readiness of our State's agencies to recover its financial systems in the event of a catastrophe.

Lack of senior management buy-in and involvement in disaster recovery planning has resulted in insufficient allocation of resources to disaster recovery activities. There is scope for agencies to improve staff awareness of disaster recovery plans and procedures.

My review of the 76 largest agencies' disaster recovery planning indicated:

Disaster Recovery Planning	Yes (%)	No (%)
Does the agency have a Disaster Recovery Plan covering its key financial systems?	82	18
Have significant portions of the plan been tested within the last twelve months?	55	45
Does the agency have any type of arrangement to recover its financial systems in the event of an emergency?	95	5
Are backup copies of all significant application system programs and data files stored at an off-site location?	100	--

I am concerned that 18 per cent of these agencies do not have a disaster recovery plan for their key financial systems. It is pleasing to note that major agencies backup their data, but concerning that 45 per cent had not tested a significant portion of their disaster recovery plans. I also found five per cent have no arrangements in place to recover their financial systems.

#### **Disaster Recovery Plans Outsourced**

An increasing number of agencies are transitioning to shared service entities, with disaster recovery infrastructure and support provided by an external organisation. Several agencies had not formally established disaster recovery service agreements, while others had insufficient accountability processes established and poor monitoring of outsourced disaster recovery arrangements. I specifically noted insufficient documentation of key processes on how services will be recovered, the timeframes for recovery and whether these are acceptable to agencies.

#### **Data Security**

Some agencies had not established an effective security framework which adequately addressed risk and mitigating controls indicating they had not sufficiently understood their electronic information security risks.

For agencies transitioning to a shared services model, data security service agreements had not been formally established, with little accountability and monitoring performed in relation to data security risk. I also found there are no formal whole-of-government security policies to guide agencies and to establish accountability for security management.

#### **Recommendation**

The whole-of-government electronic information security guidelines currently under development should be finalised, issued, and supported by a communication and training plan.

#### **Shared Services**

In recent years, shared service entities have been established to support many government agencies and in 2011 this initiative continued to grow. There were no guidelines to help agencies transition to these entities. In some cases the transition has resulted in agency frustration and a perceived reduction in service levels. Some shared service functions were unable to initiate effective communications and establish processes to manage IT risks, particularly logical security and disaster recovery controls.

#### **Recommendation**

The government should finalise its shared services framework, procedures and guidelines so agencies can more effectively manage the risks and costs of integrating their businesses with shared service entities. Agencies transitioning to shared service functions should also ensure appropriately skilled staff manage the transition successfully.

Eighteen per cent of the 76 largest agencies do not have a disaster recovery plan for their financial systems

Forty-five per cent of agencies with disaster recovery plans for their financial systems had not tested a significant portion of their plans in the last 12 months

## Project Governance and System Migrations

Better project governance over system implementations is required. This was highlighted in 2011 when an agency had to defer a major system replacement project pending a review of how to best meet its business needs. Inadequate skills, resources and knowledge to support the system in a shared service centre environment, poor testing and inadequate training of new users compounded the issue.

In 2011, I reviewed data conversion and migration activities where agencies were upgrading and replacing core financial systems. I found:

- ownership of data migration activities remained with IT departments instead of the business data owners
- key stakeholders were not appropriately engaged in decision-making
- ownership of risks and issues were not clearly identified
- ineffective data migration management resulted in data integrity issues leading to financial errors and operational problems.

Specific guidelines for agencies to manage data migration activities do not exist.

### *Recommendation*

Whole-of-government better practice project governance and data migration procedures should be developed and communicated to all agencies.

## Management of Outsourcing Arrangements

Nineteen per cent of the 76 largest agencies audited in 2011 outsourced some of their IT needs to external service providers. In many instances contracts were poorly managed and not adequately understood by agencies which meant they were unable to effectively manage risks, activities, deliverables and costs relating to the services delivered. Poor reporting and transparency between agencies and external suppliers was also evident, adding to the cost of managing the contracts.

### *Recommendation*

Whole-of-government policies should be developed so agencies can effectively manage and control the risks of outsourced activities. These documented policies should include:

- clear roles and responsibilities for agencies and suppliers
- clear performance, management monitoring and reporting requirements
- contract clauses that include the 'right to audit' by an agency
- transparent cost and billing information.

## Landscape for 2012

Agencies' plans and efforts to streamline infrastructure, systems and processes into common platforms continue. Shared service developments continue to interest me and my audits will consider related risk exposures in 2012.

I also plan to focus on:

- the development of strategies and processes to target procurement fraud
- in-depth system access reviews to identify segregation of duties issues across operational functions
- automated controls within key financial applications to ensure the accuracy, validity and completeness of data
- the governance and effectiveness of project management.

## Performance Audit Reports

### Performance audits – shining the light on governance

Over the last 12 months I have tabled ten performance audit reports:

- Effectiveness of Cautioning for Minor Cannabis Offences (April 2011)
- Transport of Dangerous Goods (May 2011)
- Two Ways Together - NSW Aboriginal Affairs Plan (May 2011)
- Government Expenditure and Transport Planning in Relation to Implementing Barrangaroo (June 2011)
- Improving Road Safety: Speed Cameras (July 2011)
- Prequalification Scheme: Performance and Management Services (September 2011)
- Improving Road Safety: Young Drivers (October 2011)
- Responding to Domestic and Family Violence (November 2011)
- Visiting Medical Officers and Staff Specialists (December 2011)
- Managing IT Services Contracts (February 2012)

Many of the findings and recommendations in these reports highlight the need for good public sector governance.

Simply put, good corporate governance promotes public confidence in government and its agencies. The better governed agencies are, the better they will perform and the more satisfied the public will be.

Well governed agencies will encounter a public more willing for its public sector to explore opportunities to improve or add to its services. Prices paid by the taxpayer for services or capital provided by the private sector and NGOs will be more favourable for a public sector that is well governed.

Sound corporate governance is about identifying and addressing emerging risks and opportunities. It is paramount to service delivery and the efficient use of taxpayers' money.

In 2011, I introduced my model, the Governance Lighthouse. Governance is there to shine a light. Sometimes it is a warning, sometimes it is there to attract attention, and sometimes it is there to guide.

#### *Recommendation*

I recommend that large government agencies and universities regularly review their governance frameworks against the Governance Lighthouse's 17 points, published in my Financial Audit Volume Two, 2011.

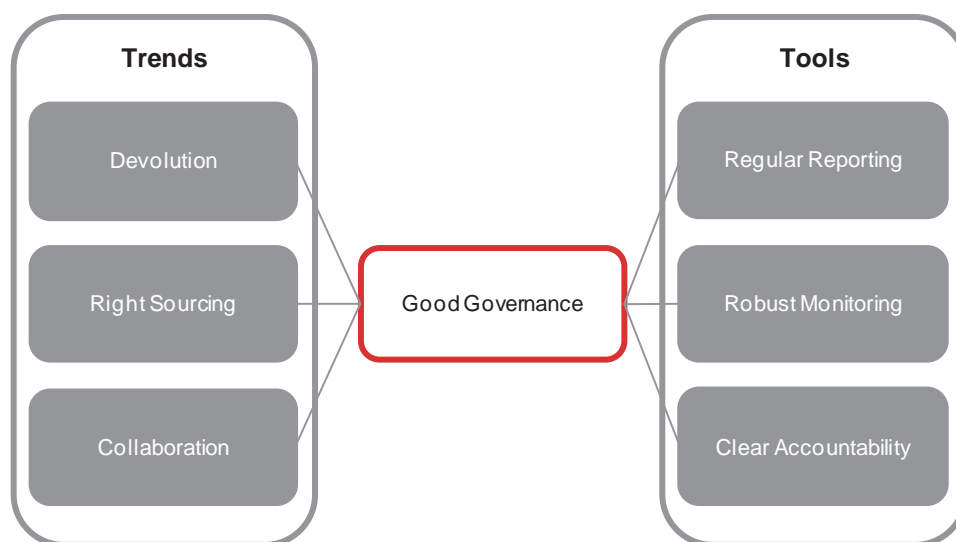




I am particularly concerned about the need for the lighthouse to have strong foundations and for regular reporting against plans and clear accountability.

My audits in 2011 found some common trends in governance arrangements that present risks and opportunities for government. They also found some common weaknesses in tools that support good governance.





### Devolution

Decision-making is increasingly being devolved to those providing the services – the front line workers and those supporting them. When devolving decision making it is important that agencies do not confuse loosening the reins with letting go of the reins completely.

In my IT Services Contracts report I recommended that the State Contracts Control Board and the Department of Finance and Services enhance their Agency Accreditation Scheme and develop better guidance to agencies on managing IT services contracts. I also recommended they extend such guidance to other service contracts. I made similar recommendations in my audit of the Prequalification Scheme.

### Right sourcing

Right sourcing is deciding whether to undertake a particular activity within the agency or whether to outsource the activity. Robust business cases are usually completed before a decision is made.

Where there has been an increase in contracting out, agencies must ensure they are receiving value for money. My audits on domestic and family violence, the prequalification scheme for consultants and IT service contracts provide valuable insights for agencies when contracting out services.

In my Prequalification Scheme report the Department of Finance and Services was unable to assess the performance of all consultants, as only five per cent of the required reports on consultant performance were prepared by agencies.

In my IT Services Contracts audit I found that the Ministry of Health and the NSW Police Force could not demonstrate continued value for money in the long term IT services contracts I reviewed.

Agencies must demonstrate that they achieve value for money from contractors, not just when signing a contract, but over the life of the arrangement. Unfortunately, some agencies are putting all their effort into signing the contract, but not managing it for the long term.

### Collaboration

Collaboration is the 'glue' that keeps many government programs together. Government programs are often complex and involve many organisations working together – Government, NGOs and the private sector.

My Two Ways Together and Domestic Violence reports made a number of recommendations about agencies and NGOs establishing better protocols, meeting regularly and better integrating their services.

My Domestic and Family Violence report recommended that government and non-government organisations adopt a common framework to identify domestic and family violence, assess risk, prioritise need and refer people to services. I also recommended that Government needs to resolve problems around the sharing of information so government and non-government staff can work together locally to help victims and perpetrators.

My Transport of Dangerous Goods report found little evidence that the Office of Environment and Heritage and WorkCover share information on those transporting dangerous goods and whether they breach any regulations. Agencies who share responsibility for regulating the transportation of dangerous goods must work more closely to better use their resources and target areas of greatest risk.

### **Regular Reporting**

Regular public reporting by agencies on their performance is essential. The public has a right to know on what and how well the Government is spending their money.

In my Domestic and Family Violence report I recommended that the Chief Executives of the NSW Police Force, Department of Family and Community Services, NSW Ministry of Health and the Department of Attorney General and Justice report on:

- the impact and the estimated cost of domestic and family violence on their operations
- what they are doing, or funding other organisations to do and what this is achieving.

In my Speed Camera report I recommended that the RTA (now Roads and Maritime Services) publicise trends in crashes, revenue, and speeding or infringement data, for each speed camera, and update this annually.

My Barrangaroo report recommended that the Authority should continue to ensure ongoing disclosure of financial information currently withheld for commercial reasons.

### **Robust monitoring**

Monitoring is fundamental to good governance and management.

In my report on Two Ways Together, I commented on the many indicators reported and the lack of effective monitoring. I recommended an annual program of reviews against specific outcomes and timelines; and public reporting of the results.

In my Speed Cameras audit I recommended that the RTA annually monitor the effectiveness of individual speed cameras.

In my Visiting Medical Officers and Staff specialist report I recommended that NSW Health develop consistent guidelines to assist AHS and hospitals when verifying payments to VMOs.

### **Clear Accountability**

The Department of Premier and Cabinet and Treasury need to ensure that there are clear guidelines for agencies and that a governance framework exists to ensure agencies are implementing their policies and directions.

My 2010 Electronic Information Security report found that the government is not able to provide assurance on safeguarding its holdings of sensitive personal information because its policy has not been properly implemented. This is likely to remain the case until there are clear, mandatory, minimum standards that agencies sign up to.

My Two Ways Together report highlighted that the aim of the NSW Aboriginal Affairs Plan was to ensure agencies were held accountable for results and for achieving specific outcomes for Aboriginal people. However weaknesses in its original framework and changes in performance measures over the life of the Plan meant that accountability was not clear. Agencies given money to improve the wellbeing of Aboriginal people must be able to show at the end of the year how they spent it and what has been achieved. There needs to be clear recognition that the local community is best placed to understand its own needs and be responsible for its own future.

## The Way Ahead

I intend to continue emphasising the need for good governance and for central agencies to take a leadership role in setting overall policy and standards for the public sector. Central agencies should be also be ensuring that high quality, comparative information on agency performance and conformance is collected and communicated both to the agencies and the general public.



# Section Two

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Report on Complaint Investigation



# Report on Complaint Investigation

36

NSW Auditor-General's Report  
Volume One 2012

REPORT ON COMPLAINT  
INVESTIGATION

Of seven specific allegations, four were not fully explained to my satisfaction

Rebates for the contractor's failure to meet minimum performance levels not claimed

## Contract Management Practices at the former Roads and Traffic Authority (now Roads and Maritime Services)

I received correspondence from a complainant in April 2011, alleging waste and mismanagement by the Roads and Traffic Authority (RTA), now known as Roads and Maritime Services (RMS), on two large, long term Information Technology (IT) services contracts with a combined estimated expenditure of over \$28.0 million per year.

There were 15 specific allegations with supporting materials. Thirteen were about waste and mismanagement. Not all of these were serious or substantial enough to warrant specific investigation. However, together they suggested some further enquiries were needed.

The complainant also sent the correspondence to the Chief Executive RTA, who advised me that RTA was investigating the complainant's allegations. I agreed that RTA would provide a report on its investigation to me. On presentation of this report in December 2011, I sought to verify its major findings by requesting RTA provide me the evidence that supported them.

Of seven specific allegations I examined, I was satisfied that RTA dealt with two of them satisfactorily, another needed further enquires by my staff. The remaining four issues were not fully explained to my satisfaction and should be further examined by Roads and Maritime Services (RMS) and Transport NSW.

My findings on these are:

1. RTA did not exercise some key contractual provisions. These were:
  - (a) Rebates for the contractor's failure to meet minimum performance levels not claimed:

The contract contains service level requirements and outlines rebates payable to RTA for the contractor's failure to meet these performance levels. The contractor produces monthly reports with key performance information, including failure to meet contractual service level requirements. Failure to meet service levels will not trigger a rebate entitlement in all cases, for example where the service interruption is caused by factors outside the responsibilities of the contractor.

The complainant alleged that the contractor failed to credit RTA with performance rebates to which it was entitled. In the six year duration of this contract, RTA advised that it could only find evidence that one performance rebate was paid in July 2011.

The annual audit of the contract conducted by RTA's Contract Management Unit (CMU), completed in November 2011, reported there was no process for performance rebate calculations, reporting and payments. This was noted as a major non-compliance issue. Effectively it left the contractor responsible for judging its own performance. In response, RTA is instigating changes to the monthly contractor report to require more detailed information to assist the assessment of rebates. RTA has reported that a thorough review of 2011 incidents is needed, and it should require the contractor to provide better justification for not crediting a rebate.

The CMU audit report finding indicates that RTA had not previously addressed this issue and had not required the contractor to provide all the relevant technical information to assess its rebate entitlements.

I note that the complainant had raised this issue with RTA management before the contract was renewed in late 2010. Earlier attention to this issue may have allowed RTA to review incidents in the previous contract period, not just in the current contract period from calendar year 2011.

## (b) RTA paid for services that were not provided:

One contractor was entitled to be paid \$4,494.60 each month for providing a temporary service for the initial two years of its contract. The complainant alleged that the contractor continued to invoice RTA for this service after the two year period expired in January 2009 and RTA continued to make payments up until February 2011. I estimate this constituted a potential overpayment of up to \$112,000 over two years.

RTA reported that this arrangement was varied to continue the temporary services and payments. RTA was not able to advise when the need expired, and provide the supporting documentation. RTA has yet to reach a resolution of this issue with the contractor.

While this amount is only around two per cent of the contract value over two years, it still indicates a weakness in RTA's contract management approach.

RTA paid for  
services that were  
not provided

2. RTA did not examine some allegations in enough detail to satisfy me that the risks were mitigated.

RTA took a decision to investigate in detail two allegations that it regarded as most critical. It also did a more general review of the other allegations, focussing on processes, procedures and controls. I reviewed some of these other allegations raised by the complainant and found:

- a) The complainant provided RTA with five examples of potential excessive pricing of additional services provided by a contractor in 2010 and paid for by RTA. The complainant also provided RTA with a schedule of 78 quotations submitted by the contractor for the individual additional services it quoted on in 2010, and alleged many of these demonstrated overpricing. RTA did not investigate these specific examples because, it said, the costs of doing so would exceed the benefit, given the often-technical judgements involved, and its effort would be better spent on ensuring there were robust procedures and controls in place. In relation to the latter, RTA advised that it had reviewed and updated its procedures for managing additional services in February 2011.

RTA estimated the total expenditure on these additional services in financial year 2010-11 was nearly \$5.0 million or 22.5 per cent of one contract, and \$4.0 million or nearly 63 per cent of the other contract. This indicates there is a significant spend on additional services under both contracts. In my view it is worth regularly testing if RTA's procedures and controls are effective in achieving value for money in a situation where RTA must get these services from these contractors. As part of my regular financial audits I will review the adequacy of these procedures and controls going forward.

- b) RTA's review of a sample of paid invoices found there was insufficient detail given by the contractor to understand what services RTA had paid for. It did not look further and did not make recommendations to address the weakness identified. As part of my regular financial audits I will review the adequacy of the information provided on supplier invoices.

RTA does not  
have a contract  
management plan  
in place for either  
contract

Value for money  
in doubt

3. My additional inquiries identified some good features, but also some weaknesses in its contract management framework.

In my review I was able to access additional documentation and information that was not considered in RTA's limited review. These included contract management documents showing ongoing annual benchmarking, and documents supporting annual price reviews and payment of rebates. Based on my review, I found that RTA was able to demonstrate it had many elements of a good contract management framework in place to manage these complex and long term IT services contracts. However, in addition to the failure to exercise some key contractual conditions noted in section 1, I found the following weaknesses:

- a) RTA does not have a contract management plan in place for either contract. One of the benefits of a contract management plan is to outline clearly the contract governance structure and how operational clauses are managed so that there is consistent practice. Without it there is an increasing risk of misinterpretation.

This is illustrated by the complainant's allegations about the "double-payment" of project management fees for the provision of additional services. RTA advised that there had been a consistent practice since 2004 that project management fees for additional services were not covered by the core service fee, and could be claimed as a fee component for additional services. I found that the original interpretation and consistent application of this practice relied on the knowledge of staff involved, as it was not documented in RTA's contract management procedures. RTA advises that its most recent legal advice confirmed some potentially ambiguous and contradictory terms in the contract that may have been the basis for the complainant's views.

- b) Under the terms and conditions of one contract, 40 per cent of the labour component for additional services is invoiced in advance of services being provided and paid by RTA 30 days from the date of the invoice. RTA advised these were for additional services where there was a substantial fixed price labour component (greater than \$5,000). RTA advises that the monthly average payment in advance for this contract is \$72,000. Treasurer's Direction 180.5 requires bank guarantees (or equivalent) to offset the risk of payments in advance, regardless of the value. RTA advises that it does not request these guarantees.
- c) Management and accountability for additional services are scattered amongst many different business units and managed by different project managers. No one person appears to have overall day to day accountability for these particular contracts as a whole.

These findings on two significant contracts put in doubt whether RTA was effectively managing its IT services contracts more generally, and therefore whether it was getting value for money.

## Background

Of the contracts the subject of the allegations, one was awarded at the start of 2004, and had an initial contract period of three years commencing after completion of a transition period of two years. The contract had two renewal options, each with a maximum period of two years, thus making the maximum duration seven years plus the transition period. This contract was most recently renewed in late December 2010 until 2013. In 2010-11 the total value of the contract was just over \$22.0 million.

The other contract commenced at the start of 2006 and had an initial contract period of two years, with two extension options for periods of two years each, thus making the maximum contract duration six years. The contract was most recently renewed on a month by month basis in June 2011, and expired on 31 December 2011. In 2010-11 the total value of the contract was nearly \$6.5 million.



Both contracts have two main parts. One part consists of the provision of a range of core and other specific services for fixed prices over a 12 month period. The other part consists of an arrangement whereby any additional services which were not included in the core and specific services would be carried out as variations, each with a separately negotiated scope and price. Under the terms of the contracts, RTA could not procure these additional services from other contractors.

RMS advises that responsibility for the services under these contracts will transition to Transport for NSW as they expire. This has already occurred with the contract that expired in December 2011, with the other contract transitioning on its expiry in 2013.

## Commentary

State government agencies are becoming increasingly reliant on private sector IT contractors to provide core operational services. It is therefore very important to have strong contract management in place for agencies to extract value for money from these often complex and long term arrangements. The risk of agency 'capture' by a contractor in these arrangements is great, which can put value for money at risk in the long term.

The Commonwealth Auditor-General, in his report titled 'Direct Source' issued in 2010 made the point that when agencies seek to continue an existing contractor relationship rather than approach the market, the state of the competition and value for money cannot be assessed. This comment is particularly pertinent to long term and complex IT services contracts where even if the initial arrangement is established after a competitive process, the contract may be renewed or extended over a long period with the original contractor.

The failure to conduct proper value for money assessments results in agencies not knowing whether they are getting value for money. This was borne out by findings I made in my February 2012 report titled 'Managing IT services contracts', where agencies failed to effectively manage the contracts including performance of contractors. My findings of the IT services contract management arrangements at RTA serve to reinforce some of the recommendations I made in that report for improvements in the way that agencies manage and demonstrate value for money in such contracts.

My February 2012 report also provided a good practice framework for agencies to help them manage their contracts effectively. Key components of that framework are:

- the need for a risk based comprehensive contract management plan for individual contracts
- an effective governance structure, which includes oversight outside the business unit that owns the contract
- independent internal monitoring of individual contracts, through internal audit programs to check compliance with contractual obligations and the agency's contract management framework.

I am concerned that there has been a significant amount of the annual spend under one contract (nearly 63 per cent) on additional services. Under the contract, the types of services that can be provided as additional services (variations) is defined for this contractor and RTA can only obtain these services from that one contractor. RTA has essentially set up a monopoly arrangement for the provision of these services. The problem with this is there is no competitive tension to drive down prices or at least demonstrate value for money.

Sixty-three per cent of annual spend is on additional services under one contract

RTA has essentially set up a monopoly arrangement for the provision of these services

## Recommendations

### RMS and Transport for NSW should:

- by December 2012, review its contract management framework against the better practice framework and ensure it has structures in place to effectively manage all IT services contracts, including purchases through State contracts. In particular, RMS and Transport for NSW should ensure they have:
  - an effective governance structure, which includes oversight outside the business unit that owns the contract
  - independent internal monitoring of individual contracts
  - a risk based contract management plan for all services contracts
- by December 2012, consider extending its contract management framework and structures to cover all services contracts it manages
- by June 2012, complete a risk assessment of existing services contracts and prepare contract management plans for those contracts identified as high risk.

### RMS should:

- by June 2012, the RMS IM&T unit report to the RMS Audit and Risk Committee on:
  - progress in implementing the actions proposed in the RMS report on the complaint investigation
  - how it proposes to address the findings and recommendations in this report, including the requirement for obtaining bank guarantees (or equivalent) to offset the risk of payments in advance, regardless of the value
  - what it has done or proposes to do to address its failure to exercise key contractual provisions relating to rebates and over payments.
- by December 2012, the RMS governance unit report to the RMS Audit and Risk Committee on the scale and value for money of additional services provided under these contracts, including an end to end business process audit of a representative sample of additional services, and the adequacy of invoice supporting information.

### Transport for NSW should:

- Transport for NSW is transitioning existing IT services contracts from RMS and RailCorp to establish whole of Transport arrangements. I recommend that, before establishing whole of Transport IT services contracts, Transport for NSW undertake a detailed review of the IT services contracts in place in both RMS and RailCorp to understand and address issues raised in RMS' report to me on this complaint, as well as my findings in this investigation.

# Section Three

## Agencies with Individual Comments

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Attorney General

Minister for Health

Minister for Primary Industries

Minister for Regional Infrastructure and Services

# Office of the Protective Commissioner – Common Fund

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NSW Auditor-General's Report  
Volume One 2012

OFFICE OF THE PROTECTIVE  
COMMISSIONER – COMMON  
FUND

## Audit Opinion

The audit of the Office of the Protective Commissioner – Common Fund's financial statements for the years ended 30 June 2008 and 2009 resulted in unmodified audit opinions within the respective Independent Auditor's Reports.

## Key Issues

### Control Deficiencies

#### *Recommendation*

The Office of the Protective Commissioner (the Office) should fully address control deficiencies in the payment of client expenses.

The Office's financial control deficiencies, discussed below, have contributed to the considerable delay in finalising the 2009 audit.

The audit of the 2010 financial statements is expected to be finished in the first half of 2012 and the 2011 audit by 31 December 2012.

Serious control weaknesses relating to the payment of client expenses were identified in 2007, which increased the risk of fraudulent and/or invalid payments. The weaknesses included inappropriate segregation of duties, ineffective client budgets, insufficient access controls within the Office's Client Information System (CIS) and inadequate policies and procedures over processing client payments.

The weakness prevented me from placing reliance on the Office's internal controls. As a result, I had to perform additional audit work to gain assurance over the validity of client expense payments. This work did not identify any fraudulent or invalid payments.

The Office has made progress in addressing these weaknesses and in implementing my recommendations to improve controls. Due to the nature of some of the weaknesses, however, remedial actions have required lengthy implementation, extending into 2012.

## Performance Information

Management of client investment funds is outsourced to a private sector custodian and fund manager. The funds are invested on an index basis and benchmarked to financial market indices as shown below.

Investment Fund	Benchmark	30 June 09	2008–09	2008–09	30 June 08	2007–08
		Total client funds %	Benchmark Return* %	Fund Return* %	Total client funds %	Fund Return* %
Access**	UBS Australian 90 day Bank Bill Index	39	4.98	5.95	33	6.7
Australian Cash	UBS Australian 90 day Bank Bill Index	13	4.98	5.95	13	6.7
Australian Cash Plus	UBS Australian 0-3 year Composite Bond Index	9	9.58	9.71	9	5.4
Australian Fixed Interest	UBS Australian All Maturities Composite Bond Index	6	10.32	9.16	6	3.86
Australian Shares	S&P/ASX 200 Accumulation Index	20	(20.73)	(20.28)	24	(13.56)
Australian Listed Property Securities Fund	S&P/ASX 200 Listed Property Trust Accumulation Index	3	(42.77)	(39.38)	4	(34.96)
International Bonds	JP Morgan Global Bond (ex-Australia) Index	1	10.98	10.25	1	8.14
International Shares	MSCI World (ex-Australia) Index	9	(16.74)	(15.88)	10	(21.09)

Source: Office of the Protective Commissioner (unaudited)

\* Net of fees.

\*\* Clients' day to day working account invested in Australian Cash

Most funds performed better than their 2009 benchmark, although actual revenue was only \$83.0 million in 2008–09 (\$100 million in 2007–08). The fall in earnings reflects the unfavourable market conditions over this period.

Investment performance since 30 June 2009 has varied considerably, but the fund's investment value had increased by \$84.0 million (unaudited) or 7.5 per cent to \$1.2 billion at 30 June 2011.

## Other Information

### Merger of the Office with the Public Trustee

On 1 July 2009 under the *NSW Trustee and Guardian Act 2009*, the Office merged with the Public Trustee NSW Common Fund to form NSW Trustee and Guardian Common Fund – Financial Management. NSW Trustee and Guardian will continue to provide a full range of services.

### Independent Pricing and Regulatory Tribunal (IPART) Review of Fees of the Office

During 2008, IPART reviewed the fees charged by the Office. It made recommendations about fee levels, which were accepted by the NSW Government, and included that:

- the four per cent annual income fee for privately managed clients be capped at \$2,000 from 1 April 2009
- the annual cap on the management fee for directly managed clients be lowered from \$50,000 to \$15,000 from 1 July 2009
- the cap on the establishment fee be increased from \$2,200 to \$3,300 from 1 July 2009
- the fee for account keeping be increased from \$100 to \$200, or \$300 for complex clients, from 1 July 2009.

The full report is available on the IPART website at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

## Financial Information

### Abridged Statements of Comprehensive Income

Year ended 30 June	2009 \$'000	2008 \$'000
Investment income	82,736	100,272
<b>Total Revenue</b>	<b>82,736</b>	<b>100,272</b>
Management Fees	20,371	22,431
Other expenses	1,759	2,445
Unrealised loss in market value investments	126,560	151,060
<b>Total Expenditure</b>	<b>148,690</b>	<b>175,936</b>
<b>Deficit</b>	<b>(65,954)</b>	<b>(75,664)</b>
Net transfer from/(to) equity	185	(1,007)
Distributions to clients	60,672	74,521
<b>Change in Net Assets Attributable to Clients</b>	<b>(126,441)</b>	<b>(151,192)</b>

Total revenue decreased by \$17.5 million largely due to a \$13.3 million decrease in realised gains on the sale of investments compared to the previous year. Total expenditure decreased by \$27.3 million predominately due to the fall in unrealised losses in the value of investments.

The decrease in distributions to clients reflected investment market performance in this period, especially in relation to the Australian Share Fund.

## Abridged Statements of Financial Position

At 30 June	2009 \$'000	2008 \$'000
Cash assets	24,095	24,208
Receivables	674	24,420
Investments	1,137,052	1,209,657
<b>Total Assets</b>	<b>1,161,821</b>	<b>1,258,285</b>
Payables	1,149	1,965
Other liabilities	2,539	2,334
Assets attributable to clients	1,141,671	1,237,245
Other non-current liabilities	122	156
<b>Total Liabilities</b>	<b>1,145,481</b>	<b>1,241,700</b>
<b>Net Assets</b>	<b>16,340</b>	<b>16,585</b>

The \$23.7 million decrease in receivables is due to a fall in accrued income of \$23.8 million. The \$72.6 million decrease in investments reflects the investment market performance in the period.

## Office Activities

The Common Fund consists of funds received by the Protective Commissioner from the estates of protected persons. The *Protected Estates Act 1983* outlines how the Protective Commissioner should manage the estates of protected persons. The main principles for all current accounts in the trust fund (Common Fund) are:

- the funds are to be invested in accordance with the *Trustee Act 1925*
- to maintain one or more investment funds and a reserve fund
- money in an investment fund may be used to purchase investments, make payments to the reserve fund, make payments for the operation of the Office or make periodic payments to clients' accounts
- any income from an investment fund is to be divided equally amongst clients' accounts
- any capital profit or loss is to be divided equally amongst clients' accounts.

For further information on the Office of the Protective Commissioner and the Office of the Public Guardian, see [www.lawlink.nsw.gov.au/opc](http://www.lawlink.nsw.gov.au/opc) and [www.lawlink.nsw.gov.au/opg](http://www.lawlink.nsw.gov.au/opg) respectively.



# NSW Trustee and Guardian Common Fund - Trustee

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NSW Auditor-General's Report  
Volume One 2012

NSW TRUSTEE AND  
GUARDIAN COMMON FUND -  
TRUSTEE

## Audit Opinion

The audits of the NSW Trustee and Guardian Common Fund – Trustee (the Common Fund) financial statements for the years ended 30 June 2009 and 2010 resulted in unmodified audit opinions within the respective Independent Auditor's Reports.

The audit of the Common Fund financial statements for the year ended 30 June 2011 is in progress.

## Operational Snapshot

The Common Fund comprises monies received from an estate, trust or power of attorney held by the NSW Trustee and Guardian. At 30 June 2010, net assets attributable to clients stood at \$1.4 billion (\$1.4 billion at 30 June 2009).

The money earns interest calculated on daily balances and is credited to each account in June and December. Distributions to clients during 2010 totalled \$87.5 million (\$13.5 million). The NSW Trustee and Guardian invests these funds in cash and fixed interest securities, such as bonds and term deposits.

## Performance Information

The Common Fund has two portfolios. The primary portfolio invests in fixed interest securities, such as bonds, commercial mortgages and term deposits. The growth portfolio invests in the Indexed Australian Shares Sector Trust managed by the New South Wales Treasury Corporation.

Investment	Benchmark	Benchmark Return 2010 %	Actual Return 2010 %	Actual Return 2009 %	Actual Return 2008 %	Actual Return 2007 %
<b>Primary Portfolio</b>						
– Bonds	UBS 0+Yr Composite Bond Index	7.9	8.8	10.9	4.0	4.0
– Mortgages	UBS 0-5 Composite Bond Index	6.6	6.1	12.2	7.3	6.9
– Deposits	RBA Cash Target Rate	3.8	4.5	5.5	7.3	6.4
<b>Growth Portfolio</b>	ASX200 Accumulation Index	*	11.27	(22.5)	(13.8)	27.9

Source: NSW Trustee and Guardian Common Fund - Trustee (unaudited).

\* The Public Trustee Common Fund Growth Portfolio Trust (PTCFGPT) could not be benchmarked for 2008–09 and 2009–10. The portfolio commenced 1 August 2008 with the intention over time of achieving an asset allocation on 70 per cent Indexed Australian Shares and 30 per cent Indexed International Shares. Until that asset allocation is reached, performance will not be comparable to the benchmark. The asset allocation was reached in November 2010.

Investment performance was in line with benchmarks in 2010. At 30 June 2010, 74 per cent (70 per cent) of investments were in bonds, six per cent (six per cent) in mortgages, four per cent (nine per cent) in deposits and 16 per cent (15 per cent) in the growth portfolio.

## Other Information

### Continuation of the Common Fund

The *NSW Trustee and Guardian Act 2009* (the Act) replaced the *Public Trustee Act 1913* from 1 July 2009. The Act merged the Public Trustee NSW with the Office of the Protective Commissioner to form the NSW Trustee and Guardian. It directs NSW Trustee and Guardian to establish one or more common funds and provides for the existing Public Trustee NSW – Common Fund (Common Fund) to continue indefinitely with some changes to the operations of the Primary portfolio.

In 2010–11, work started on establishing the NSW Trustee and Guardian Common Fund and harmonising the Common Fund with the Financial Management – Common Fund (previously the Office of the Protective Commissioner – Common Fund). NSW Trustee and Guardian moved towards implementing a new investment approach and closing the Interest Suspense Account as required under the Act.

## Financial Information

### Abridged Income Statement

Year ended 30 June	2010 \$'000	2009 \$'000
Investment income	82,392	81,336
Amortisation of investments	1,410	1,520
Unrealised Gain in Market Value of Investments	17,546	--
<b>Total Revenue</b>	<b>101,348</b>	<b>82,856</b>
Management Fees	11,924	10,219
Unrealised losses	--	59,961
Other expenses	109	145
Contribution to operating costs for NSW Trustee and Guardian	3,345	--
<b>Total Expenditure</b>	<b>15,378</b>	<b>70,325</b>
<b>Surplus before distribution</b>	<b>85,970</b>	<b>12,531</b>
Distributions to clients	87,487	13,461
<b>Net Operating Deficit</b>	<b>1,517</b>	<b>930</b>

Total revenue increased due to \$17.5 million unrealised gains (\$60.0 million loss) from the growth portfolio as the market started to recover from the 2008–09 global financial crisis. An additional expense of \$3.3 million relates to the contribution to the operating costs of NSW Trustee and Guardian in accordance with the Act.

### Abridged Balance Sheet

At 30 June	2010 \$'000	2009 \$'000
Cash and cash equivalents	54,452	108,046
Financial Assets	1,368,659	1,307,547
Receivables	20,132	21,811
<b>Total Assets</b>	<b>1,443,243</b>	<b>1,437,404</b>
Payables	6,057	5,507
Net assets attributable to clients	1,365,332	1,358,526
<b>Total Liabilities</b>	<b>1,371,389</b>	<b>1,364,033</b>
<b>Net Assets</b>	<b>71,854</b>	<b>73,371</b>

The decrease in cash is largely due to a \$72.3 million distribution to trust accounts.

## Trustee Activities

Comment on the NSW Trustee and Guardian is included in Volume Seven of the 2011 Auditor-General's Report to Parliament.

The Common Fund was established under the *NSW Trustee and Guardian Act 2009* (the Act) and is managed by the NSW Trustee and Guardian in accordance with the provisions of the Act. The NSW Trustee and Guardian provides:

- trustee services to the people of New South Wales
- financial management services to people with impaired decision-making abilities
- lifestyle decision-making services through the Public Guardian to people with impaired decision-making abilities.

Section 103 of the Act directs that the NSW Trustee must keep a separate account in a common fund with respect to each trust matter of the NSW Trustee and each estate for which the NSW Trustee is the manager.

The Act:

- authorises the NSW Trustee and Guardian to invest the Common Fund in securities authorised by the *Trustee Act 1925*
- requires the interest received on investments to be credited to an account called the Retained Earnings Account and allocated as provided in Section 106:
  - investments authorised by the Act
  - payment into the Reserve Fund
  - payment of costs incurred by the NSW Trustee and Guardian in exercise of functions under the Act
  - payments in respect of the accounts from which the fund is derived.

For further information on NSW Trustee and Guardian, see [www.tag.nsw.gov.au](http://www.tag.nsw.gov.au).

# Health Professional Councils

## Audit Opinion

The audits of the ten New South Wales health professional councils (the Councils) financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

## Key Issues

### Health Structural Changes

#### *Recommendation*

The Health Professional Councils Authority (the Authority) and Councils should finalise and approve 2011–12 service level agreements and review them regularly.

The Authority is currently drafting service level agreements (SLA) between Councils and related parties including the Australian Health Practitioner Regulation Agency and the Ministry for Health. During 2010–11, the Councils operated without a SLA for financial, human resources, information technology, legal and administration services, increasing the risk of operational issues arising.

### 2011 Financial Reporting

#### *Recommendation*

The health restructure was a significant, one-off event, which significantly impacted the preparation and audits of Councils' financial statements in 2011. Nevertheless, the Councils should prepare for next year's financial statement and audit processes earlier to ensure compliance with appropriate standards, legislation and frameworks and that deadlines are met.

Issues with the financial statements submitted for audit in 2011 included:

- delayed submission of financial statements for audit. However, the financial statements were submitted within an extended deadline granted by Treasury because it was the first time financial statements had to be prepared
- errors and deficiencies in note disclosures.

## Council Activities

The Councils were established on 1 July 2010 with the commencement of the National Registration and Accreditation Scheme. The Councils are:

- Chiropractic Council of New South Wales
- Dental Council of New South Wales
- Medical Council of New South Wales
- Nursing and Midwifery Council of New South Wales
- Optometry Council of New South Wales
- Osteopathy Council of New South Wales
- Pharmacy Council of New South Wales
- Physiotherapy Council of New South Wales
- Podiatry Council of New South Wales
- Psychology Council of New South Wales

The Councils regulate health practitioners and are self funded from annual registration fees paid by health practitioners practising in New South Wales. The Australian Health Practitioner Regulation Authority collects registration fees and is responsible for registering health practitioners on behalf of the New South Wales Councils.

The Council's staff are employed by the Director General of the Ministry for Health. The legislation governing the practice of registered health practitioners in New South Wales is the *Health Practitioner Regulation National Law (NSW) No 86a*.

The Authority administers the Health Administration Corporation and provides business, regulatory and legislative support for the Councils. The Authority's primary role is to protect the public.

For more information on Health Professional Council's Authority, refer to <http://www.hpca.nsw.gov.au/>.

# Health Reform Transitional Organisation Southern

## Audit Opinion

The audits of Health Reform Transitional Organisation Southern and its controlled entities' financial statements for the period ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

## Operational Snapshot

The Health Reform Transitional Organisation Southern commenced on 1 January 2011, primarily in response to the national health reform. Net liabilities transferred to the Organisation from the former Greater Southern and South Eastern Sydney and Illawarra Area Health Services totalled \$38 million.

The Organisation had 2,451 full-time equivalent staff at 30 June 2011 and in the six month period to that date, it earned revenue of \$200 million and incurred costs of \$247 million.

## Key Issues

### Timeliness and Quality of Financial Statements and Supporting Work Papers

#### *Recommendation*

The Organisation should improve the timeliness and quality of its financial statements and supporting work papers.

The restructure of the former Greater Southern and South Eastern Sydney and Illawarra Area Health Services was a significant, one-off event that stretched the Organisation's resources. As a result, key reconciliations were not performed on a timely basis, which affected the quality of the financial statements and supporting work papers, and delayed the audit. The Organisation should review the lessons learned and make changes to address the timeliness and quality issues.

### Audit and Risk Committee

A strong governance structure requires an effective audit and risk committee, which meets regularly and on a timely basis to discharge its governance responsibilities. The organisation did not establish such a committee.

### Dissolution of the Organisation

A revised governance framework, endorsed by the minister in August 2011, will dissolve the Organisation and assign the majority of its staff and services to the respective Local Health Districts. It is unclear when the Organisation will be dissolved and the transition will occur.

The Organisation needs to improve the timeliness and quality of its financial reporting

The Organisation did not establish an audit and risk committee

## Financial Information

## Abridged Statement of Comprehensive Income

Period ended 30 June	Consolidated 2011 \$'000	Parent 2011 \$'000
Employee related	122,297	--
Personnel services	--	122,297
Visiting medical officers	3,101	3,101
Other expenses	121,217	121,217
<b>Total Expenses</b>	<b>246,615</b>	<b>246,615</b>
Corporate services revenue	83,540	83,540
Medical services revenue	62,265	62,265
Patient inflows from interstate	18,264	18,264
Infrastructure fees	18,335	18,335
Other Revenue	17,569	17,569
<b>Total Revenue</b>	<b>199,973</b>	<b>199,973</b>
<b>Net Cost of Services</b>	<b>46,642</b>	<b>46,642</b>
Government Contributions	70,226	70,226
<b>Surplus</b>	<b>23,584</b>	<b>23,584</b>
<b>Other Comprehensive Income</b>	<b>--</b>	<b>--</b>
<b>Total Comprehensive Income</b>	<b>23,584</b>	<b>23,584</b>

Employee related expenses represented 49.6 per cent of total expenses. Other expenses included \$11.0 million for contracted pathology and medical imaging services, \$39.1 million for contracted patient services and \$8.8 million for information management expenses.

## Abridged Statement of Financial Position

At 30 June	Consolidated 2011 \$'000	Parent 2011 \$'000
Current assets	102,399	102,399
Non-current assets	40,656	40,656
<b>Total Assets</b>	<b>145,055</b>	<b>145,055</b>
Current liabilities	153,052	153,052
Non-current liabilities	4,617	4,617
<b>Total Liabilities</b>	<b>157,669</b>	<b>157,669</b>
<b>Net Liabilities</b>	<b>(14,614)</b>	<b>(14,614)</b>

Current assets include \$10.0 million cash, \$13.4 million in investments and \$72.3 million in receivables. Of the \$10.0 million cash, \$3.2 million was in special purpose and trust funds, which the Organisation can only use for restricted purposes.

Current liabilities include \$36.9 million in employee provisions, \$40.6 million owed to external creditors, \$15.4 million of accrued salaries and payroll costs and \$56.7 million owed to other health entities.



## Entity Activities

The Organisation is responsible for providing certain functions transferred to it from the former Greater Southern and South Eastern Sydney and Illawarra Area Health Services. It provides medical imaging, pathology, population, health and planning and corporate services to the local health districts in the southern cluster.

## Controlled Entities

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidate entity.

Entity Name	Website
South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity	*
Greater Southern Area Health Service Special Purpose Service Entity	*

\* This entity does not have a website.

# Health Reform Transitional Organisation Western

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NSW Auditor-General's Report  
Volume One 2012

HEALTH REFORM  
TRANSITIONAL  
ORGANISATION WESTERN

The Organisation needs to improve the timeliness and quality of its financial reporting

The Organisation did not establish an audit and risk committee

## Audit Opinion

The audits of the Health Reform Transitional Organisation Western and its controlled entities' financial statements for the six months ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

## Operational Snapshot

The Health Reform Transitional Organisation Western commenced on 1 January 2011 primarily in response to the national health reform. Net assets transferred to the Organisation from the former Sydney South West, Sydney West and Greater Western Area Health Services totalled \$178 million.

The Organisation had 5,283 full-time equivalent staff at 30 June 2011 and in the six month period to that date earned revenue of \$372 million and incurred costs of \$354 million.

## Key Issues

### Timeliness and Quality of Financial Statements and Supporting Work Papers

#### *Recommendation*

The Organisation should improve the timeliness and quality of its financial statements and supporting work papers.

The restructure of the former Area Health Services was a significant, one-off event that stretched the resources of the Organisation. As a result, the financial statement preparation process was protracted, which significantly delayed the audit and increased costs. The Organisation should examine lessons learned to significantly improve next year's financial reporting process.

### Intrahealth Transactions

#### *Recommendation*

The Organisation, together with the Ministry of Health, should develop more effective processes for recording, reconciling and settling intrahealth transactions.

The Organisation engages in transactions with other health entities and had not fully reconciled the balances at 30 June 2011.

### Audit and Risk Management Committee

A strong governance structure requires an effective audit and risk committee, which meets regularly and on a timely basis to adequately discharge its governance responsibilities. The organisation did not establish such a committee.

### Dissolution of the Organisation

A revised governance framework, endorsed by the Minister in August 2011, will dissolve the Organisation and assign the majority of its staff and services to the respective Local Health Districts. It is unclear when the Organisation will be dissolved and the transition will occur.

## Financial Information

### Abridged Statement of Comprehensive Income

Period ended 30 June	Consolidated 2011 \$'000	Parent 2011 \$'000
Employee related	219,824	--
Personnel services	--	219,824
Visiting medical officers	1,500	1,500
Other expenses	132,556	132,556
<b>Total Expenses</b>	<b>353,880</b>	<b>353,880</b>
Sale of Goods and Services	351,970	351,970
Other Revenue	19,822	35,556
<b>Total Revenue</b>	<b>371,792</b>	<b>387,526</b>
<b>Surplus Before Government Contributions</b>	<b>17,912</b>	<b>33,646</b>
Government Contributions	81,501	65,767
<b>Surplus</b>	<b>99,413</b>	<b>99,413</b>
Other comprehensive income	--	--
<b>Total Comprehensive Income</b>	<b>99,413</b>	<b>99,413</b>

Employee related expenses represent 62 per cent of the Organisation's total expenses.

Other expenses include payments to affiliated entities of \$16.1 million, grants and subsidies of \$13.9 million and special services costs (which include services for pathology) of \$32.6 million.

Sale of Goods and Services includes service charges to Local Health Networks of \$162 million, infrastructure fees of \$39.5 million and revenue from commercial activities of \$56.4 million.

### Abridged Statement of Financial Position

At 30 June	Consolidated 2011 \$'000	Parent 2011 \$'000
Current assets	337,186	337,186
Non-current assets	162,770	162,770
<b>Total Assets</b>	<b>499,956</b>	<b>499,956</b>
Current liabilities	222,650	222,650
Non-current liabilities	302	302
<b>Total Liabilities</b>	<b>222,952</b>	<b>222,952</b>
<b>Net Assets</b>	<b>277,004</b>	<b>277,004</b>

Current assets include cash of \$179 million and intra-health receivables of \$96.1 million.

Non-current assets include \$108 million of land and buildings and \$44.8 million of plant and equipment.

Current liabilities include intra-health payables of \$52.9 million and employee benefits of \$63.7 million.

## Organisation's Activities

The Organisation is responsible for providing functions transferred to it from the following former Area Health Services:

- Sydney South West
- Sydney West
- Greater Western.

The Organisation's functions include:

- corporate services
- medical imaging
- sterilising
- pathology
- mental health
- interpreter services
- population health
- information management and technology
- education and training
- financial accounting and reporting.

## Controlled Entity

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
Sydney South West Area Health Service Special Purpose Service Entity	*
Sydney West Area Health Service Special Purpose Service Entity	*
Greater Western Area Health Service Special Purpose Service Entity	*

This entity does not have a website.

# Illawarra Shoalhaven Local Health Network

## Audit Opinion

The audits of Illawarra Shoalhaven Local Health Network and its controlled entity's financial statements for the six months ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

## Operational Snapshot

The Illawarra Shoalhaven Local Health Network commenced on 1 January 2011, primarily in response to the national health reform. Net assets transferred to the Network from the former South Eastern Sydney and Illawarra Area Health Service totalled \$346 million. The Network was renamed the Illawarra Shoalhaven Local Health District and is referred to as the LHD throughout this report. Its board was appointed on 1 July 2011.

The LHD had 4,310 full-time equivalent staff at 30 June 2011. In the six months to that date, it provided 152,049 acute bed days and its net cost of services was \$284 million.

## Key Issues

### Timeliness and quality of financial statements and supporting work papers

#### *Recommendation*

The LHD should improve the timeliness and quality of its financial statements and supporting work papers.

The restructure of the former South Eastern Sydney and Illawarra Area Health Service was a significant, one-off event that stretched the LHD's resources. As a result, key reconciliations were not performed on a timely basis, which affected the quality of the financial statements and supporting work papers, and delayed the audit. The LHD should review the lessons learned and make changes to address the timeliness and quality issues.

## Financial Information

### Abridged Statement of Comprehensive Income

Six months ended 30 June	Consolidated 2011 \$'000	Parent 2011 \$'000
Employee related expenses	200,534	--
Personnel expenses	--	200,534
Other expenses	125,659	125,659
<b>Total Expenses</b>	<b>326,193</b>	<b>326,193</b>
Patient fee revenue	19,575	19,575
Other revenue	22,246	22,246
<b>Total Revenue</b>	<b>41,821</b>	<b>41,821</b>
<b>Net Cost of Services</b>	<b>284,372</b>	<b>284,372</b>
Government contributions	284,326	284,326
<b>Deficit</b>	<b>46</b>	<b>46</b>
Other comprehensive income	--	--
<b>Total Comprehensive Expense</b>	<b>46</b>	<b>46</b>

Employee related expenses represented 61.5 per cent of total expenses. Other expenses included \$36.5 million for services such as pathology, information technology and corporate services from the Health Reform Transition Organisation Southern. The LHD also spent \$28.7 million on drugs, medical and surgical supplies and \$7.3 million on food supplies.

The timeliness  
and quality of  
financial reporting  
needs to improve

**Abridged Statement of Financial Position**

At 30 June	Consolidated 2011 \$'000	Parent 2011 \$'000
Current assets	48,338	48,338
Non-current assets	385,850	385,850
<b>Total Assets</b>	<b>434,188</b>	<b>434,188</b>
Current liabilities	88,061	88,061
Non-current liabilities	195	195
<b>Total Liabilities</b>	<b>88,256</b>	<b>88,256</b>
<b>Net Assets</b>	<b>345,932</b>	<b>345,932</b>

Current assets include \$2.2 million cash, \$12.1 million in investments and \$27.4 million in receivables. All the cash was in special purpose and trust funds, which can only be used for restricted purposes. Non-current assets include land and buildings valued at \$335 million.

Current liabilities include \$49.7 million in employee provisions, \$26.4 million owed to external creditors, \$8.4 million accrued salaries and payroll costs and \$3.7 million owed to other health entities.

**Entity Activities**

The LHD is responsible for providing health care services to approximately 390,000 people in New South Wales and comprises:

- Bulli Hospital
- Coledale District Hospital
- David Berry Hospital
- Kiama Hospital and Community Health Service
- Milton-Ulladulla Hospital
- Port Kembla Hospital
- Shellharbour Hospital
- Shoalhaven Hospital
- Wollongong Hospital.

For more information on the LHD, refer to <http://www.health.nsw.gov.au/islhd/index.asp>.

**Controlled Entity**

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name	Website
Illawarra Shoalhaven Local Health Network Special Purpose Service Entity	

\* This entity does not have a website.

# South Eastern Sydney Local Health Network

## Audit Opinion

The audits of South Eastern Sydney Local Health Network and its controlled entity's financial statements for the six months ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

## Operational Snapshot

The South Eastern Sydney Local Health Network commenced on 1 January 2011, primarily in response to the national health reform. Net assets transferred to the Network from the former South Eastern Sydney and Illawarra Area Health Service totalled \$923 million. The Network was renamed the South Eastern Sydney Local Health District and is referred to as the LHD throughout this report. Its board was appointed on 1 July 2011.

The LHD had 7,833 full-time equivalent staff at 30 June 2011. In the six months to that date, it provided 256,981 acute bed days and its net cost of services was \$545 million.

## Key Issues

### Timeliness and Quality of Financial Statements and Supporting Work Papers

#### Recommendation

The LHD should improve the timeliness and quality of its financial statements and supporting work papers.

The restructure of the former South Eastern Sydney and Illawarra Area Health Service was a significant, one-off event that stretched the LHD's resources. As a result, key reconciliations were not performed on a timely basis, which affected the quality of the financial statements and supporting work papers and delayed the audit. The LHD should review the lessons learned and make changes to address the timeliness and quality issues.

## Financial Information

### Abridged Statement of Comprehensive Income

Six months ended 30 June	Consolidated 2011 \$'000	Parent 2011 \$'000
Employee related expenses	396,934	--
Personnel expenses	--	396,934
Other expenses	256,129	256,129
<b>Total Expenses</b>	<b>653,063</b>	<b>653,063</b>
Patient fee revenue	47,207	47,207
Other revenue	60,824	60,824
<b>Total Revenue</b>	<b>108,031</b>	<b>108,031</b>
<b>Net Cost of Services</b>	<b>545,032</b>	<b>545,032</b>
Government contributions	509,633	509,633
<b>Deficit</b>	<b>35,399</b>	<b>35,399</b>
Other comprehensive income	--	--
<b>Total Comprehensive Expense</b>	<b>35,399</b>	<b>35,399</b>

Employee related expenses represented 60.8 per cent of total expenses. Other expenses included \$70.9 million for services such as pathology, information technology and corporate services from the Health Reform Transition Organisation Southern. The LHD also spent \$64.7 million on drugs, medical and surgical supplies and \$11.2 million on food supplies.

The timeliness  
and quality of  
financial reporting  
needs to improve



**Abridged Statement of Financial Position**

<b>At 30 June</b>	<b>Consolidated 2011 \$'000</b>	<b>Parent 2011 \$'000</b>
Current assets	152,385	152,385
Non-current assets	989,905	989,905
<b>Total Assets</b>	<b>1,142,290</b>	<b>1,142,290</b>
Current liabilities	240,165	240,165
Non-current liabilities	14,783	14,783
<b>Total Liabilities</b>	<b>254,948</b>	<b>254,948</b>
<b>Net Assets</b>	<b>887,342</b>	<b>887,342</b>

Current assets include \$7.6 million cash, \$68.3 million in investments and \$62.6 million in receivables. All the cash was in special purpose and trust funds, which can only be used for restricted purposes. Non-current assets include land and buildings valued at \$826 million.

Current liabilities include \$122.5 million in employee provisions, \$63.2 million owed to external creditors, \$19.5 million accrued salaries and payroll costs and \$33.5 million owed to other health entities.

**Entity Activities**

The LHD is responsible for providing health care services to approximately 840,000 people in New South Wales and comprises:

- Calvary Health Care Sydney (affiliated health organisation)
- Gower Wilson – Multiple Purpose Service
- Prince of Wales Hospital
- Royal Hospital for Women
- St George Hospital
- Sydney and Eye Hospital
- Sutherland Hospital
- War Memorial Hospital (affiliated health organisation).

For more information on the LHD, refer to <http://www.health.nsw.gov.au/seslhd/index.asp>.

**Controlled Entity**

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

<b>Entity Name</b>	<b>Website</b>
South Eastern Sydney Local Health Network Special Purpose Service Entity	*

\* This entity does not have a website.

## Audit Opinion

The audit of the Wyong Water Supply Authority's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

## Operational Snapshot

The Authority, with the Gosford Water Supply Authority, manages the urban water supply system on the Central Coast. It is the third largest urban water supply system in New South Wales after Sydney and Hunter. The system includes three dams, three weirs, two water treatment plants, 40 reservoirs, and 1,900 kilometres of pipelines. It serves an urban population of approximately 300,000 people.

## Key Issues

### Central Coast Water Corporation

The *Central Coast Water Corporation Act 2006* commenced in late 2010. Under this Act, the water supply and sewerage activities of Wyong Shire and Gosford City Councils will merge into a single entity, the Central Coast Water Corporation (the Corporation). Each council owns 50 per cent of the issued shares in the Corporation.

The Corporation is developing its business model. Wyong Shire Council and Gosford City Council agreed in principle to transfer their Water Supply Authority businesses to the Corporation from 1 July 2013. The councils will continue to provide water, sewer and relevant drainage services until 1 July 2013.

On 15 December 2011, the NSW Governor endorsed the appointment of five directors to the Corporation's Board. The Board is responsible for the governance of the Corporation and will have its first official meeting in February 2012.

The Corporation has not yet obtained an operating licence to supply water and other water related services on the Central Coast.

The merger is expected to increase efficiencies in areas such as planning, environmental issues and drought management whilst maintaining benefits to the Central Coast community.

## Performance Information

The table below shows the Wyong Water Supply Authority's performance over the past five years on some key indicators.

Year ended 30 June	2011	2010	2009	2008	2007
Average volume of water consumed (kilolitres) per residential property	157	153	141	146	139
Water quality complaints per 1,000 properties	16.5	4.9	4.9	3.4	7.2
Average frequency of unplanned water supply interruptions per 1,000 properties	85.0	59.9	58.8	39.0	33.0
Water main breaks per 100 km of water main	9.6	6.0	8.6	4.0	4.0
Water losses (kilolitres/water main kilometre/day)	1.7	1.5	1.5	1.5	1.4
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	57.1	47.4	47.7	46.6	38.0
Percentage of sewage treated to a secondary level	93.7	93.0	91.0	92.0	91.0
Percentage of sewage treated to a tertiary level	6.3	7.0	9.0	8.0	10.0

Source: Indicators for 2007 to 2009 from National Water Commission Reports. Wyong Water Supply Authority provided the 2010 and 2011 indicators (unaudited).

The increase in the average volume of residential water usage in 2010–11 reflects a continuing recovery in usage since the recent drought..

The one-off system adjustments in the commissioning of new works at the Mardi Water Treatment Plant and Mardi Dam caused the significant increase in water quality complaints per 1,000 properties in 2010–11. The works resulted in variable water quality in the reticulation system. The situation has now stabilised and the Authority expects no further complaint spikes.

The new works also caused rapid and irregular pressure variations within the systems pipes. These variations lead to an increase in pipe breakages particularly in older pipes and an increase in the average frequency of unplanned water supply interruptions.

Sewage treated to a tertiary level is for a number of uses predominantly the outdoor watering of facilities such as ovals and golf courses. Sewage treated to a tertiary level is highly weather dependent and can vary from year to year.

## Other Information

### Review of Major Capital Projects

In 2010–11, the Authority incurred capital expenditure of \$72.5 million for water supply projects and \$5.2 million for sewerage projects. Its capital expenditure targets were \$80.6 million for water supply projects and \$6.1 million for sewerage projects. The main reasons for variances between original and current cost estimates and service delivery dates are contingency allowance savings for water supply projects and development process delays of sewerage projects.

The original and current cost estimates and service delivery dates for capital projects with an original cost above \$10.0 million are listed in the table below.

Project	Original Cost Estimate (and year) \$m	Current Cost Estimate \$m	Original Service Delivery Date	Achieved/ estimated Service Delivery Date
<b>Completed at 30 June 2011:</b>				
Mardi Suite of Works	59 (2008)	56	August 2010	November 2010
<b>In progress at 30 June 2011:</b>				
Mardi to Mangrove Link	110 (2008)	120	June 2010	December 2011

Source: Wyong Water (unaudited).

The current cost estimates represent the successful tender prices achieved for these projects. Increases in delivery dates are due to the preconstruction delays and normal site delays, such as wet weather.

The Mardi Suite of Works project provides additional water transfer capacity between Mardi Dam and Mardi Water Treatment Works and a larger capacity to transfer bulk water to Gosford.

The aim of the Mardi to Mangrove Link project is to increase yield and drought security on the Central Coast. It includes a 21.1 kilometre buried water pipeline, new pumps and other associated works.

The Authority considers the overall risk profile of its capital program is low.

## Financial Information

### Abridged Statement of Comprehensive Income

Year ended 30 June	2011 \$'000	2010 \$'000
Service charges	39,408	37,485
Usage charges	22,147	22,464
Other	37,734	27,236
<b>Total Revenue</b>	<b>99,289</b>	<b>87,185</b>
<b>Total Expenses</b>	<b>83,365</b>	<b>79,262</b>
<b>Surplus</b>	<b>15,924</b>	<b>7,923</b>
Other comprehensive income		
Gain on revaluation of infrastructure, property, plant and equipment	27,224	91,017
<b>Total Other Comprehensive Income</b>	<b>27,224</b>	<b>91,017</b>
<b>Total Comprehensive Income</b>	<b>43,148</b>	<b>98,940</b>

The increase in other revenue is mainly due to \$27.7 million (\$12.8 million in 2009–10) in grants to fund the Mardi-Mangrove link project.

The Authority revalued water and sewerage assets at 30 June 2011 using cost indexation factors provided in the NSW Office of Water's Rates Reference Manual. This increased the values of these assets by \$27.2 million (\$91.0 million).

### Abridged Statement of Financial Position

At 30 June	2011 \$'000	2010 \$'000
Current assets	88,333	82,534
Non-current assets	1,200,684	1,145,900
<b>Total Assets</b>	<b>1,289,017</b>	<b>1,228,434</b>
Current liabilities	34,905	32,990
Non-current liabilities	177,835	161,949
<b>Total Liabilities</b>	<b>212,740</b>	<b>194,939</b>
<b>Net Assets</b>	<b>1,076,277</b>	<b>1,033,495</b>

The increase in current assets is due to increased grants and additional funds borrowed during the year.

The increase in non-current assets was due to the revaluation of water and sewerage assets and infrastructure additions.

The increase in liabilities was mainly due to increases in accrued expenses and interest bearing loans of \$16.2 million for the capital works program.

## Authority Activities

Wyang Water Supply Authority is part of Wyong Shire Council and provides water, sewerage and related services.

For further information on Wyong Shire Council, refer to [www.wyong.nsw.gov.au](http://www.wyong.nsw.gov.au).

# Department of Trade and Investment, Regional Infrastructure and Services

## Audit Opinion

The audit of the Department of Trade and Investment, Regional Infrastructure and Services (Department) financial statements for the year ended 30 June 2011 resulted in an adverse audit opinion within the Independent Auditor's Report.

The adverse audit opinion was because transactions and balances for the Department of Primary Industries (DPI) for the period 4 April 2011 to 30 June 2011 were included in the Department's financial statements. For this period the DPI was a separate entity and not part of the Department.

The inclusion of the DPI transactions and balances resulted in the Department's financial position at 30 June 2011 and financial performance and its cashflows for the year being materially misstated.

On 4 April 2011, DPI was established as a separate entity. It comprised certain functions previously conducted by the Department, the former Land and Property Management Authority and the former Department of Environmental Climate Change and Water. The Department planned to separate the two entities, whilst seeking formal re-integration of DPI with the Department prior to 30 June 2011. However, this did not occur until 1 July 2011. The Department decided not to prepare separate financial statements for DPI for the period 4 April to 30 June 2011. Comments on DPI have been included within this comment.

## Key Issues

### Restructure of the Department

The restructure created financial reporting challenges as the Department was required to liaise with a number of former agencies and include a portion of their 2010–11 financial results and operations.

In 2011, the Department of Industry and Investment's name was changed to the Department of Trade and Investment, Regional Infrastructure and Services. At 30 June 2011 the Department incorporated certain functions of the former Communities New South Wales and former Department of Services, Technology and Administration.

### Information System Control Deficiencies

I reported last year on deficiencies in general information system controls. These deficiencies still existed in 2010–11. Management has recently advised that upgrades have now occurred to rectify the deficiencies.

### Financial Statements

#### *Recommendation*

**The Department review the extent and quality of procedures and resources utilised for financial reporting.**

The quality over the preparation of the financial statements and supporting documentation requires improvement. The financial statements submitted for audit contained many accounting issues including, inconsistent classification of expenditure.

The transfer of other agencies' functions to the Department brought in accounting issues unresolved by the former agencies. For example, inappropriate accounting for joint ventures.

For some areas it was not possible to conclude whether there was an error or the value of the error.

Management has recruited two new senior financial staff and commenced work on improving the quality of financial information and reporting.

## Improving Internal Controls (Repeat Issue)

Last year I identified opportunities to improve internal controls, which were discussed and reported to the Department. These included:

- reconciling the Department's land holdings to the Government Property Register maintained by the former Land and Property Management Authority (LPMA), now with the Department of Finance and Services
- general journal control deficiencies.

Management is now reviewing its processes and procedures.

## Crown Land

The restructure of the Department included the responsibility for Crown land transferring from the former LPMA to the Department on 1 July 2011. Uncertainty remains over the control of certain parcels of this land and related infrastructure. The Department has continued the former LPMA's project to identify and value that land and infrastructure which may be controlled as Crown Reserves and therefore should be recognised in the financial statements. The Department has also created a working party with an independent chair to oversee this project. Representatives of my Office and NSW Treasury are part of the working group. Estimates of the value of land not recognised, but potentially controlled, range between \$3.0 billion and \$4.0 billion, and the related infrastructure between \$4.0 billion and \$5.5 billion.

## Derelict Mines

I recommended last year the Department seek adequate funding to identify, assess and rehabilitate derelict mine sites.

Management has advised that that funding is sought on a regular basis by the Department, however is not always approved by the government. Supplementary funding of \$6.3 million over three years was granted for rehabilitation works on Woodsreef Asbestos Mine.

## Aboriginal Land Claims

The transfer of certain activities on 1 July 2011 from the former LPMA to the Department included the updating of land records for successful Aboriginal land claims. Since 2007, I have been recommending to the former LPMA that the time taken to process Aboriginal land claims be significantly reduced and that legal title over land granted to successful Aboriginal land claimants be issued as soon as practicable. In December 2011, there was a backlog of 26,000 Aboriginal land claims.

The Department has directed more resources to these matters, including the recruitment of an additional 14 positions. The Registrar of Land Claims is developing a pilot to progress a new approach among agencies in dealing with this issue.

## Department Response

The Department advises they will continue to be committed to working through these issues to reach practical and agreeable solutions.

## Performance Information

### Key Performance Indicator (KPI) Targets

Management of natural resources and safety, health and biosecurity measures have been in line with forecasts for the 2011 financial year.

### Management of Natural Resources

Year ended 30 June	Forecast#		Actual	
	2011	2011*	2010	2009
Mines operating to agreed operation plans and management subsidence plans (%)	97	97	97	97
Primary/target and secondary fish species harvested at biologically sustainable levels (%)	90	90	90	90

Source: Department of Industry and Investment, Regional Infrastructure and Services Annual Report 2011 (unaudited).

# Current estimates at 30 June 2011.

\* 2011 Estimate of Actual.

### Safety, Health and Biosecurity

Year ended 30 June	Forecast#		Actual	
	2011	2011*	2010	2009
Fatal injury frequency rate per million hours in the mining industry				
Coal five year average	0.03	0.03	0.02	0.02
Non- coal five year average	0.03	0.02	0.02	0.04

Source: Department of Industry and Investment, Regional Infrastructure and Services Annual Report 2011 (unaudited).

# Current estimates at 30 June 2011.

\* 2011 Estimate of Actual.

## Other Information

Last year, I reported on the following human resources issues:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- management of excessive flex leave balances
- extent of overtime
- extent of contract staff.

Due to the restructure in 2011, I have not reported on these issues this year.



## Financial Information

The restructure in 2011 has caused significant variances from the previous year's financial performance and financial position. The comments in the Audit Opinion section need to be considered in reviewing the following financial information.

### Abridged Statement of Comprehensive Income

Year ended 30 June	2011 \$'000	2010 \$'000
Employee related	441,270	361,014
Other operating expenses	177,920	143,377
Depreciation and amortisation	43,347	23,428
Grants and subsidies	382,816	223,884
Finance costs	(352)	1,276
Other expenses	129,133	102,408
<b>Operating Expenses</b>	<b>1,174,134</b>	<b>855,387</b>
Sales of Goods and Services	95,804	71,688
Investment Income	22,488	4,511
Retained taxes, fees and fines	13,351	13,257
Grants and Contributions	96,978	84,950
Other revenue	21,246	7,660
Personnel services revenue	104,961	66,505
<b>Operating Revenue</b>	<b>354,828</b>	<b>248,571</b>
Gain/(loss) on disposal	(16,963)	473
Other gains	23,041	346
<b>Net Cost Of Services</b>	<b>813,228</b>	<b>605,997</b>
Government contributions	807,993	641,136
<b>(Deficit)/Surplus</b>	<b>(5,235)</b>	<b>35,139</b>
<b>Other Comprehensive Income</b>		
Increase in Property Plant and Equipment Asset Revaluation Reserve	22,516	5,056
Other net increases/(decreases) in equity	50,385	923
<b>Total Other Comprehensive Income</b>	<b>72,901</b>	<b>5,979</b>
<b>Total Comprehensive Income</b>	<b>67,666</b>	<b>41,118</b>

## Department Activities

The Department of Trade and Investment, Regional Infrastructure works with and supports a range of businesses and industries across New South Wales with the aim of advancing investment, innovation, activity and business improvement across all sectors.

The Department's activities include:

- promoting trade and investment within the state and key international markets
- providing business support, technical knowledge and science and research capabilities to industries
- developing and sustaining profitable food and fibre industries, and best practice natural resource management
- securing and regulating energy and mineral resources for the State
- supporting tourism, hospitality, racing and cultural sectors

For further information on the Department, please refer to [www.trade.nsw.gov.au](http://www.trade.nsw.gov.au).

# Appendix 1

## Agencies not reported elsewhere in this volume by Minister

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity name	Website	Period/year ended
<b>Minister for Regional Infrastructure and Services</b>		
Upper Parramatta River Catchment Trust	<a href="http://www.uprct.nsw.gov.au">www.uprct.nsw.gov.au</a>	30 June 2011
Upper Parramatta River Catchment Trust Division	*	30 June 2011
<b>Minister for Sport and Recreation</b>		
Hunter Region Sporting Venues Authority	<a href="http://www.huntervenues.com.au">www.huntervenues.com.au</a>	30 June 2011
Hunter International Sports Centre Club	*	30 June 2011

\* This entity does not have a website.



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## Our vision

To make the people of New South Wales  
proud of the work we do.

## Our mission

To perform high quality independent audits  
of government in New South Wales.

## 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.

**Professional people with purpose**

Making the people of New South Wales  
proud of the work we do.

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