
New South Wales Auditor-General's Report

Financial Audit

Volume One 2013

Focusing on themes from 2012



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 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 2013 report.

A handwritten signature in dark ink, reading 'Peter Achterstraat'.

Peter Achterstraat

Auditor-General

26 February 2013

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Significant Items

This summary shows the most significant issues identified during my audits.

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Overview of 2012

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| Over 85 per cent of my 2011 financial audit report recommendations were actioned by agencies | 7 |
| Repeat financial audit report recommendations have almost halved compared to the number reported in 2011 | 7 |
| Only 67 per cent of my 2011 management letter recommendations were actioned by agencies | 10 |
| Information Technology risk management was a concern for many agencies | 12 |
| Timeliness of financial reporting has improved. However, quality of financial reporting is still a concern | 15 |
| Treasury has acted on the October 2010 Public Accounts Committee report, and has made significant progress | 16 |
| Twenty-nine agencies did not meet the timetable for submitting financial information to Treasury | 17 |
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| Sixteen agencies did not meet the timetable for submitting supporting work papers | 18 |
| Earlier reporting should greatly enhance public sector accountability | 18 |
| Fewer qualified opinions were issued in 2012 | 20 |
| Agencies financial statements for the year ended 30 June 2012 contained 37 errors, each exceeding \$20.0 million | 21 |
| There was no reduction in the number of misstatements identified in agency financial statements | 21 |
| Number of errors exceeding \$20.0 million increased over the past three years | 22 |
| Significant deficiencies were noted in the valuation processes of some agencies | 23 |
| Agencies need to manage the risks in the valuation process | 23 |
| Agencies are not resolving IT issues I have previously reported, resulting in a 76 per cent increase of repeat issues in 2012 | 28 |
| I noted a decline in IT disaster recovery preparedness for agency key financial systems | 31 |
| Current annual reporting requirements may not meet the needs of stakeholders | 35 |
| Not all NSW Government agencies are required to publish annual reports | 36 |
| There are no annual reporting requirements at the cluster level | 36 |
| Annual report content requirements are prescriptive and detailed. There is no overall framework or principles underpinning content | 36 |

Recommendations

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

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Overview of 2012

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| The Premier and Treasurer should continue implementing the Public Accounts Committee recommendations relating to the quality and timeliness of financial reporting. | 16 |
| Agencies should as a priority implement more effective quality reviews in their financial reporting processes to prevent and detect errors in the financial statements. | 21 |
| All agencies should: | 30 |
| <ul style="list-style-type: none">• revise their information security management framework to align with Premier's Memorandum M2012-15 Digital Information Security Policy• enhance agency compliance with information security procedures and guidelines to focus on appropriate user access requirements including segregation of duties and security configurations• consider information security requirements during new system implementations and business process changes. | |
| All agencies should: | 31 |
| <ul style="list-style-type: none">• define their recovery requirements and ensure these are reflected in disaster recovery plans for financial systems• ensure disaster recovery plans are tested periodically. | |
| All agencies should: | 32 |
| <ul style="list-style-type: none">• periodically review and ensure automated controls are configured appropriately and are aligned with business requirements• ensure staff are given adequate training in the use of automated controls• consider the configuration of automated controls for new system implementations and business changes. | |
| Agencies should establish: | 34 |
| <ul style="list-style-type: none">• project governance principles through guidelines such as those provided by the Department of Finance and Service, as well as project management disciplines such as PMBOK (Project Management Body of Knowledge) and PRINCE2• clear roles, responsibilities and accountabilities for projects• appropriate stakeholder engagement throughout the life of the project• a formal project risk management framework to enable business owners to identify risks and appropriate mitigation strategies. | |

- establish common guidelines on shared service transition (NSW Government)
- identify control gaps at both the agency and shared services levels, and implement appropriate mitigating controls (agencies and shared service providers)
- review SLAs to ensure they better reflect their business requirements and establish appropriate service performance monitoring processes (agencies and shared service providers)
- Develop risk management strategies and procedures to manage all data and systems that are managed outside of Australia (NSW Government).

Section One

Overview

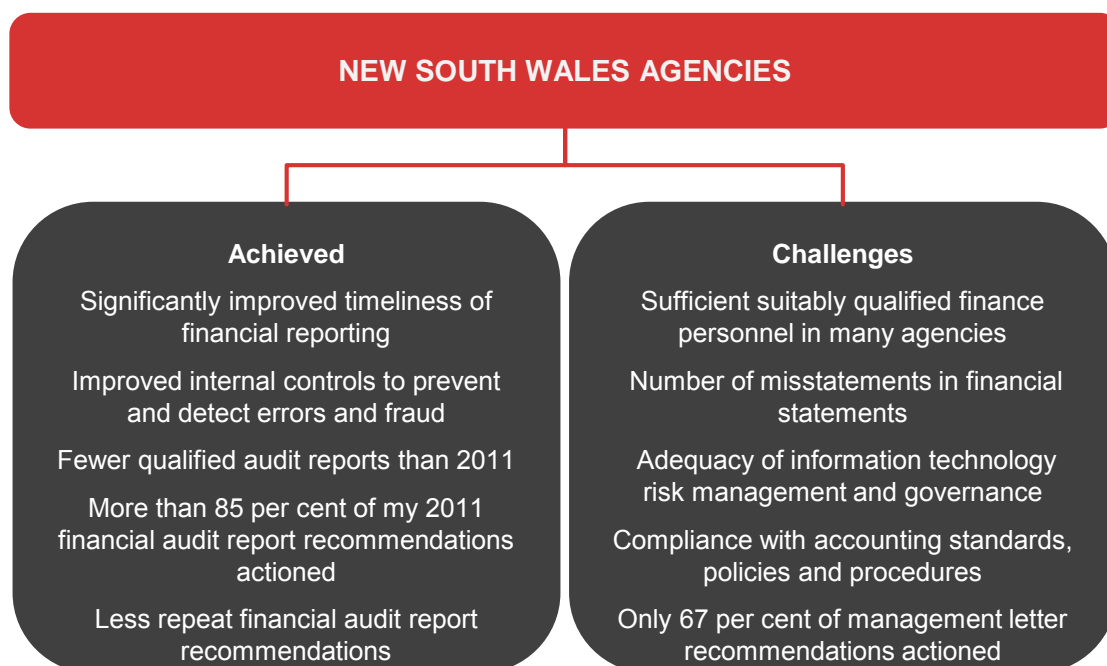
Overview of 2012



Overview of 2012

Last year, I tabled eleven financial audit report volumes and seven performance audit reports in the NSW Parliament. This overview summarises the significant findings included in my 2012 financial audit report, volumes three to eleven, and highlights NSW agencies' overall achievements and challenges.

The overview summarises key themes and messages arising from these audits to help readers understand common findings. Agencies and their audit and risk committees can use the overview to self-assess and identify issues that may be relevant to their organisations.



Financial Audit

My 2012 financial audit report, volumes three to eleven, analysed and commented on 107 agencies. Details of my reports were:

| Focus of volume | Number of audit recommendations | Tabling date | Volume number |
|---|---------------------------------|------------------|---------------|
| NSW State Finances | 23 | 31 October 2012 | Three |
| Electricity | 1 | 7 November 2012 | Four |
| Superannuation, Compensation and Housing | 14 | 12 November 2012 | Five |
| Environment, Water and Regional Infrastructure | 19 | 14 November 2012 | Six |
| Law, Order and Emergency Services | 19 | 28 November 2012 | Seven |
| Transport and Ports | 15 | 5 December 2012 | Eight |
| Education and Communities | 12 | 11 December 2012 | Nine |
| Half-Yearly Review and 2012-13 Engagement | -- | 20 December 2012 | Ten |
| Health | 18 | 18 December 2012 | Eleven |
| Total | 121 | | |

Recommendations

I am pleased to report over 85 per cent of my 2011 financial audit report recommendations were actioned by agencies (Volume Three, page 51).

Since 2011, all government agencies are within one of nine clusters except The Legislature, which is independent of government. The clusters, principal departments, other departments and some bodies within clusters, which remain as separate reporting entities for statutory and other purposes, are outlined in the schedule at the end of this section.

In volumes three to eleven, I made 104 (99 in 2011) recommendations to improve the financial management and internal control environment of agencies. Fifteen (29) of these were repeat recommendations. The recommendations and the clusters they relate to were:

| Cluster Year ended 30 June | Number of recommendations | | Number of repeat recommendations | |
|--|---------------------------|-----------|----------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Attorney General and Justice | 15 | 14 | 4 | 7 |
| Education and Communities | 11 | 3 | -- | 1 |
| Family and Community Services | 2 | 1 | -- | -- |
| Finance and Services | 13 | 11 | 1 | 2 |
| Health | 16 | 19 | 5 | 9 |
| Premier and Cabinet | 14 | 15 | 2 | 2 |
| Trade and Investment, Regional Infrastructure and Services | 7 | 7 | 3 | 2 |
| Transport | 15 | 15 | -- | 6 |
| Treasury | 11 | 14 | -- | -- |
| Total | 104* | 99 | 15 | 29 |

* Excludes four recommendations from the 2012 Fraud Survey in Volume Seven 2012 Focusing on Law, Order and Emergency Services, and 13 non-agency specific recommendations from Volume Three 2012 Focusing on NSW State Finances.

I am pleased to note the number of repeat financial audit report recommendations has almost halved compared to 2011.

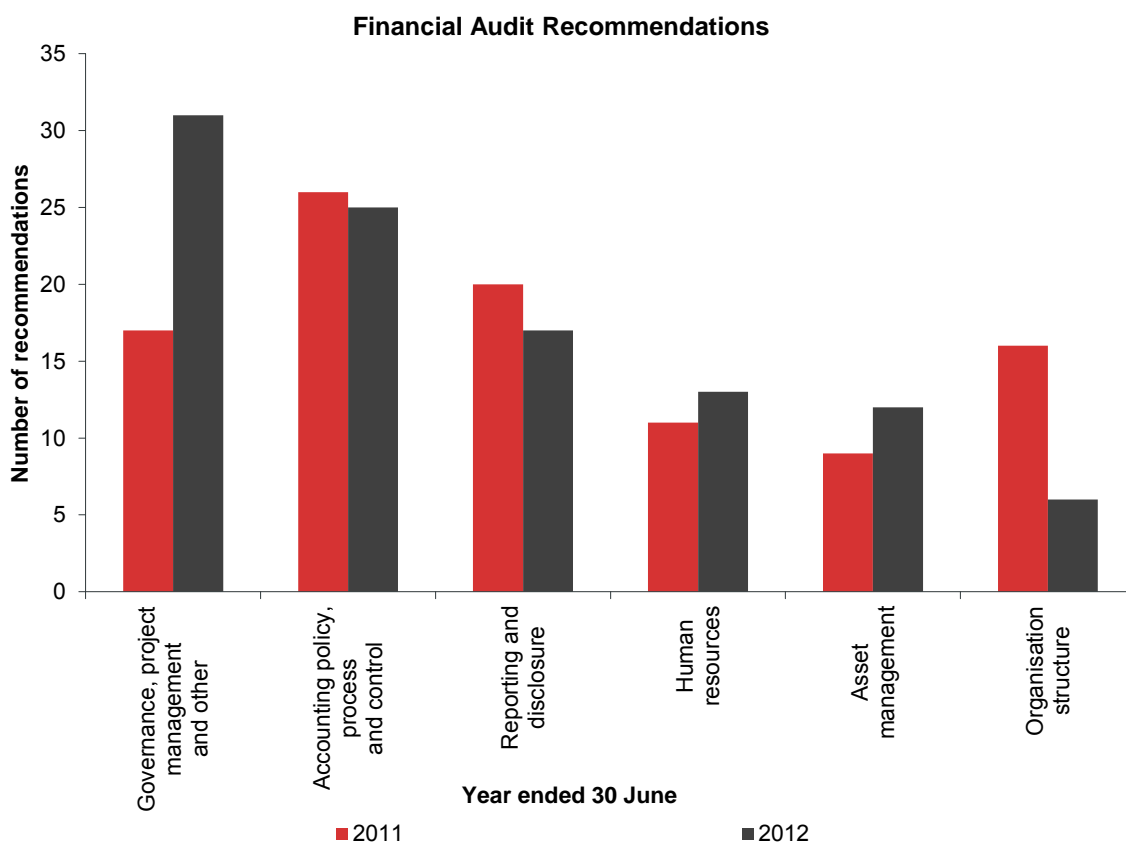
Some recommendations may take substantial time and resources to implement because of the breadth and complexity of the issue and the impact on agency operations. If my recommendations are not implemented in a timely manner, I advise agency management, its audit and risk committee and the Public Accounts Committee, which all have an interest in ensuring repeat recommendations are actioned efficiently and effectively.

Over 85 per cent of my 2011 financial audit report recommendations were actioned by agencies

Repeat financial audit report recommendations have almost halved compared to the number reported in 2011

Analysis of Recommendations

The following chart shows the number of financial audit report recommendations by category.



Governance and Project Management and Other – 31 recommendations

My recommendations related to:

- business cases supporting major financial decisions
- risk management strategies and frameworks for major projects
- service level agreements with service providers.

Inadequate governance and project management increases organisational risk and the potential for poor operational outcomes and higher costs.

Accounting Policy, Process and Control – 25 recommendations

My recommendations concerned:

- policies and procedures that were inconsistent with better practice guidelines
- non-compliance with established policies and procedures
- poor reconciliation and review procedures.

Poorly designed ineffective controls, policies and procedures or non-compliance with controls policies and procedures increases the risk of fraud and error.

Reporting and Disclosure – 17 recommendations

My recommendations detailed the need for:

- continuous improvement in timeliness and quality of financial statements
- accurate and complete work papers to support financial statements.

The implications of these matters are discussed later in the report.

Human Resources – 13 recommendations

My recommendations concerned:

- employees accruing excessive overtime
- ineffective management of annual leave balances
- inadequate strategies to manage an ageing workforce.

Poor management of such human resource issues may lead to higher employee related costs and other negative resourcing implications.

Premier's Memorandum, M2012-07, addresses the issue of excessive annual leave balances. Agencies must make reasonable attempts to reduce employee leave balances to 30 days or less by 30 June 2015.

Asset Management – 12 recommendations

My recommendations related to:

- inadequate systems and controls to manage assets effectively
- ineffective use of assets
- lack of asset management plans.

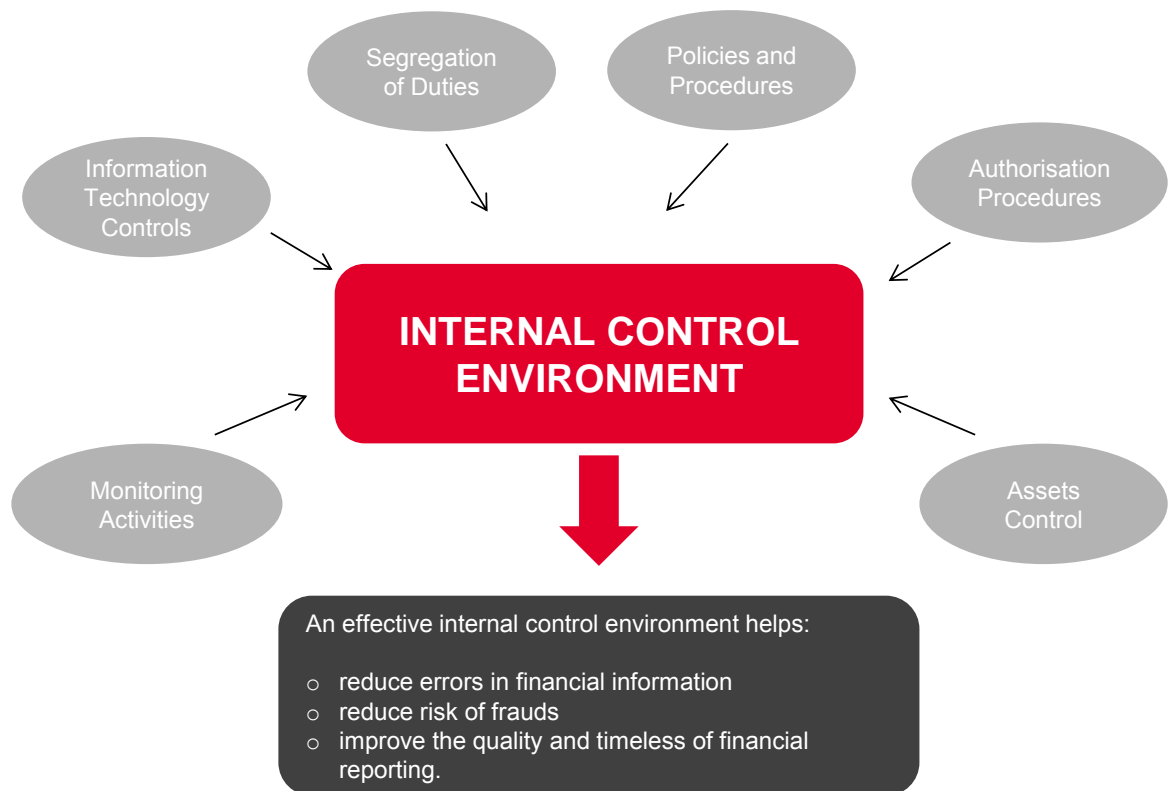
Inadequate asset management plans may result in disruption in service delivery to the public.

Organisation Structure – Six recommendations

My recommendations included the need for:

- continuous assessment of agencies' financial viability
- appropriate organisational structure to support efficient service delivery.

Lack of performance measurement and management may result in a drop in the quality and efficiency of service delivery by key agencies. The agencies may not align their performances against its objectives.



Agencies are responsible for designing and maintaining adequate systems of internal control to ensure:

- financial records and other information are complete and accurate
- assets are adequately safeguarded
- errors and frauds are prevented or detected.

An integral part of the audit process is assessing the adequacy of an entity's internal control environment and processes. I report significant internal control weaknesses and recommend improvements to agency management and those charged with governance of the respective agency.

Recommendations in Management Letters

While the more significant recommendations are included in my reports to parliament, I include more comprehensive recommendations in letters to management during and after each audit. The management letters also include issues identified in previous audits, which have not been satisfactorily actioned by management. These are described as repeat issues. Only 67 per cent of my 2011 management letter recommendations were satisfactorily actioned by agencies. Still, more could be done by agencies to implement my management letter recommendations on a more timely basis.

Only 67 per cent of my 2011 management letter recommendations were actioned by agencies

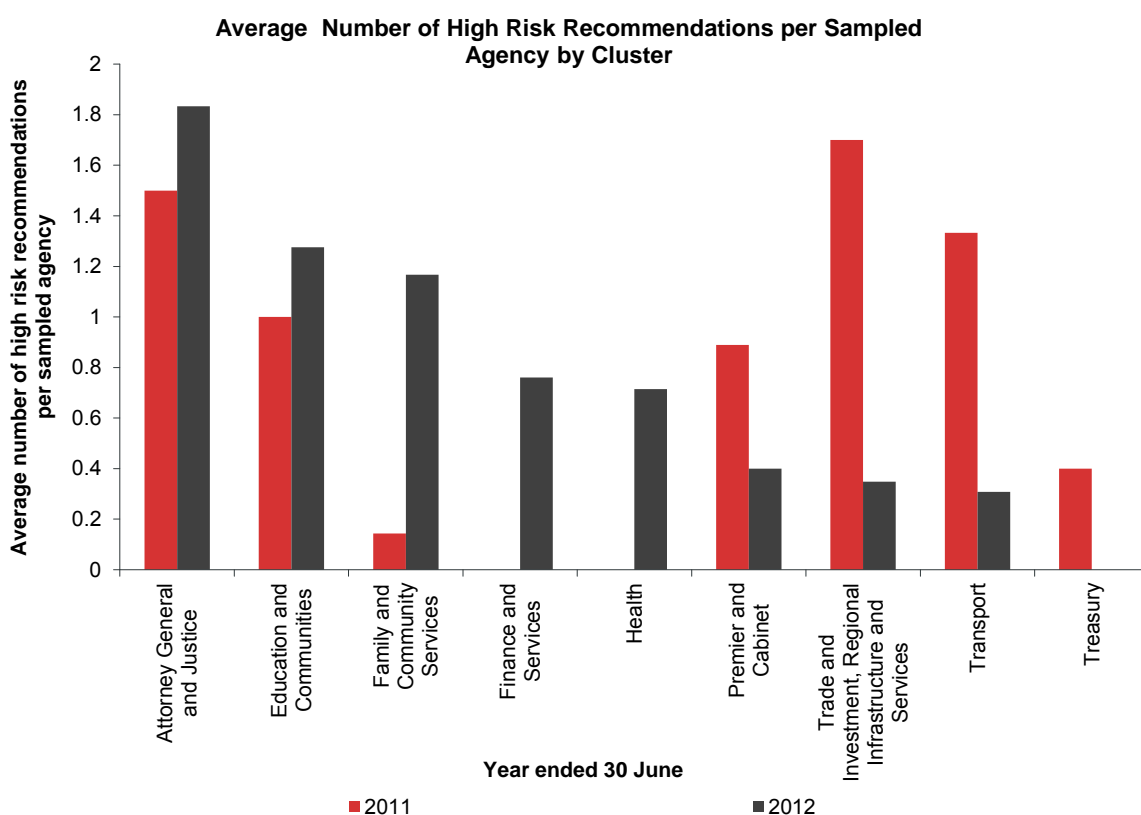
Management Letter Recommendations by Risk Levels

I analysed 1,408 (623 in 2011) of my management letter recommendations to 164 (70) agencies for the year ended 30 June 2012. Based on the risk levels ascribed to each issue:

- 123 issues were assessed as high risk
- 721 issues were assessed as moderate risk
- 564 issues were assessed as low risk.

High risk issues pose significant financial or operational risk to the agency and may result in a modified audit report. Moderate risk issues pose a moderate financial or operational risk to the entity, and may escalate to a high risk status if not addressed promptly. Low risk issues are non-systemic, isolated or procedural in nature including minor administrative shortcomings, which could be addressed in the context of the entity's overall control environment.

Below is an analysis of high risk recommendations reported in my management letters by cluster.

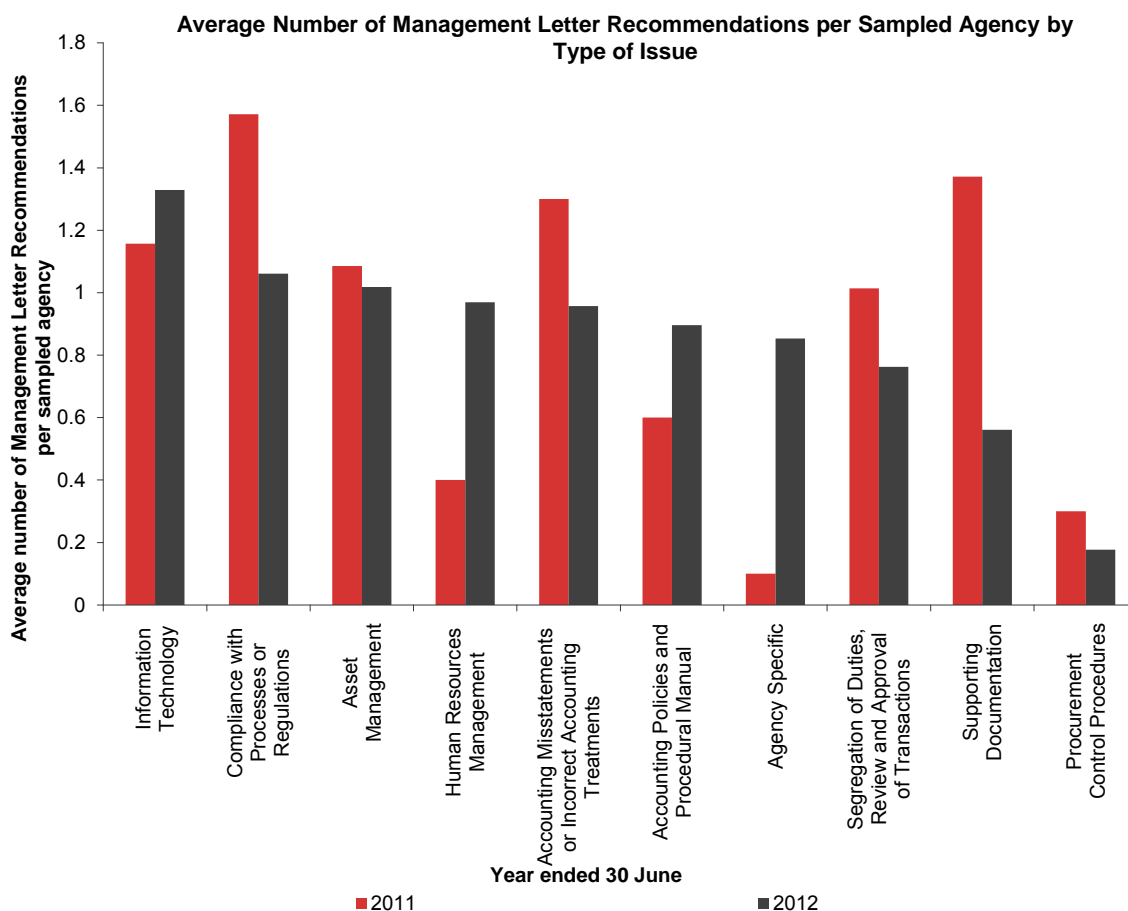


Four clusters, Premier and Cabinet, Trade and Investment Regional Infrastructure and Services, Transport, and Treasury had fewer high risk recommendations on average than the previous year.

Five clusters, Attorney General and Justice, Education and Communities, Family and Community Services, Finance and Services, and Health recorded more high risk recommendations on average this year.

Management Letter Recommendations by Type of Issue

Below is an analysis of management letter recommendations by type of issue.



Information Technology – 218 recommendations

My recommendations dealt with common issues such as:

- the absence of disaster and data recovery plans for financial systems
- terminated employees' ability to continue accessing systems and files
- weak password security
- inadequate policies around IT security.

Later in this report, I comment on 286 information system issues. Most of these are classified as 'Information Technology' above, however others are classified as 'Segregation of Duties' and 'Compliance with Processes or Regulations' where this is more appropriate based on the nature of the finding.

Compliance with Processes or Regulations – 174 recommendations

My recommendations related to agencies not complying with policies and procedures, including expenditure limits, legislative requirements or Treasurer's Directions, which increases the risk of fraud and error.

Information Technology risk management was a concern for many agencies

Asset Management – 167 recommendations

My recommendations were made to agencies without appropriate mechanisms to effectively control and manage their assets. Weaknesses in asset management mainly related to:

- non-renewal of expired leases
- poor review of asset useful lives
- failure to physically verify asset existence and condition
- incomplete property, plant and equipment registers.

These weaknesses increase the risk of misstatement and/or misappropriation of assets.

Human Resources Management – 159 recommendations

My recommendations dealt with the following human resource issues:

- excessive annual leave balances
- excessive overtime
- incorrect leave balances
- overpayment of salaries.

Failure to adequately manage and control these aspects of human resources increases the risk of escalating employee entitlement costs, fraud and work health and safety issues. One agency had 2,899 employees with excessive (more than 40 days) annual leave entitlements at 30 June 2012.

Accounting Misstatements or Incorrect Accounting Treatments – 157 recommendations

My recommendations related to accounting misstatements, incorrect accounting treatments or deficiencies in financial statement disclosures.

The most common causes for misstatements, incorrect accounting treatments and disclosure deficiencies were:

- poor understanding of accounting concepts
- inappropriate estimation processes
- incorrect classification of transactions
- poor review of periodic reconciliations
- failure to accurately assess complex transactions in accordance with accounting standard requirements.

These weaknesses increase the risk of misstatement and fraud. Agencies must establish effective review processes to ensure these matters are adequately addressed during the year and before year-end as part of early close procedures.

Accounting Policies and Procedures Manual – 147 recommendations

My recommendations dealt with the need for agencies to develop or update formal accounting manuals, policies and procedures, and formal fraud control plans.

Having up-to-date accounting policy and procedures manuals and formal fraud control plans improves the effectiveness of an agency's control environment.

Segregation of Duties, Review and Approval of Transactions – 125 recommendations

My recommendations dealt with inadequate segregation of duties, review and approval of transactions, and maintenance of supporting documentation as a result of my audits identifying:

- payments not being approved
- reconciliations and journals not being reviewed
- payables and payroll master files not being reviewed.

These issues were more common in smaller agencies particularly in the revenue, payments and payroll areas. Whether by design or because of resource constraints, poor segregation of duties increases the risk of fraud and error.

Supporting Documentation – 92 recommendations

My recommendations related to agencies not having adequate documentation to support significant account balances in their financial statements. Issues included:

- absence of key supporting documents
- differences not investigated and explained
- no documentation to support manual journals
- absence of compliance registers.

It is critical for agencies to maintain sufficient documentation to support the validity and accuracy of financial statements and to reduce the risk of fraud.

Procurement Control Procedures – 29 recommendations

My recommendations dealt with weaknesses in internal controls over expenditure and accounts payable, including:

- poor procurement practices
- poor controls over purchase orders.

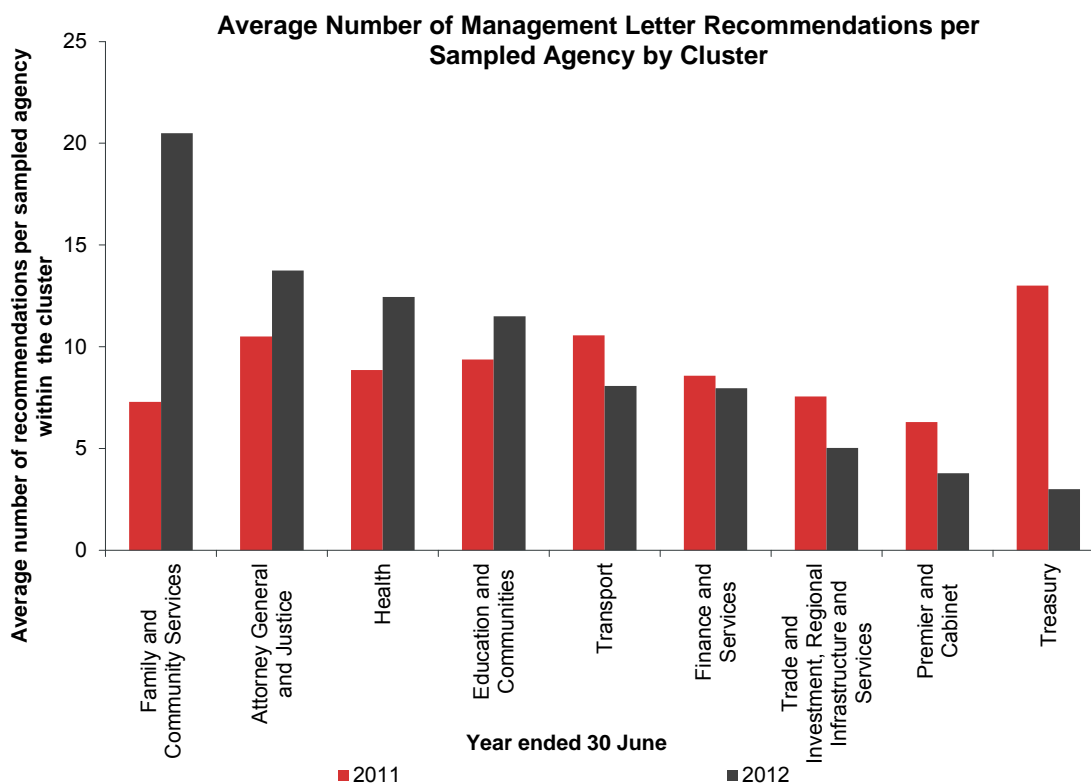
Procurement is an area which requires strong controls to mitigate inherent risks of fraud.

Agency Specific – 140 recommendations

The remainder of my recommendations were for agency specific issues.

Management Letter Recommendations by Cluster

The following chart shows the average number of recommendations per sampled agency within the cluster. Family and Community Services, Attorney General and Justice, Health and Education and Communities had disproportionately high level of findings with an average of over ten recommendations per agency within the cluster.



Quality and Timeliness of Financial Reporting

Timeliness of financial reporting has improved. However, quality of financial reporting is still a concern

I continue to have concerns about the quality and timeliness of financial reporting across the sector. I note several large agencies have taken initiatives and improved their reporting timelines, but the quality of financial reporting is still concerning. I believe the lack of suitably qualified finance personnel in many agencies is a contributing factor.

High quality and timely financial reporting is essential for the government to make informed and timely decisions. This enables effective and efficient management of public funds by agencies and improves the accountability of public expenditure.

The quality and timeliness of whole-of-government financial statements 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.

Treasury has acted on the October 2010 Public Accounts Committee report, and has made significant progress

In Volume Three of my 2012 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 the recommendations in that report and the current status below because of its importance to improving this area.

| No. | Public Accounts Committee recommendation | Current status of progress towards implementing responses |
|-----|--|--|
| 1 | The Treasurer requires all agencies to conduct a hard close of their accounts at 31 March from 2011. | For 2012 financial reporting, Treasury mandated larger agencies perform expanded 'early close procedures'. |
| 2 | The Treasurer proposes 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 express an opinion as to the effectiveness of internal controls over financial information prepared by their agencies by 12 August 2012. |
| 3 | The Premier ensures that accountability for accurate and timely financial reporting is included in all chief executive officers' performance agreements. | Treasury advises that CEO performance agreements for principal departments include a section on budget compliance and 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 considers 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' which was published in 1999, is still current and the government believed this issue could be managed more flexibly through current arrangements rather than legislative amendment. |

Treasury has taken steps to address the PAC's recommendations. Progress has been achieved on improving the quality and timeliness of financial reporting through:

- Treasury Circular, TC 12-03, Mandatory early close procedures commencing in 2012
- TC 12-03 mandating that financial statement supporting work papers must be available when the financial statements are submitted for audit
- Treasury Circular 13-01, issued 25 January 2013, mandating early close procedures be performed by for more agencies, including State owned corporations, in 2013
- liaising with chief financial officers of agency clusters to further improve financial reporting.

Recommendation

The Premier and Treasurer should continue implementing the Public Accounts Committee recommendations relating to the quality and timeliness of financial reporting.

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

- Treasury should ensure all agencies adopt its improved processes for submitting financial reporting data
- Treasury should consider developing minimum requirements for agencies' month-end reporting and set a clear standard of performance
- agencies financial reporting processes should include more effective quality reviews
- Treasury should implement sector-wide training and improve guidance in accounting for property, plant and equipment valuations to reduce errors
- Treasury should streamline and update current requirements in all chief executive officers' performance agreements to promote accountability for accurate and timely financial reporting
- Treasury should implement chief financial officer certifications of financial reporting systems as a legislative requirement
- Premier's Circular 99-69 minimum qualification requirements for chief financial officers, now 13 years old, should be reviewed to ensure it addresses the PAC's recommendations.

For further details, refer to my Financial Audit Volume Three (pages 42–50).

Improved Timeliness of Financial Statements

Reductions in the time taken to prepare and audit financial statements were achieved in 2011-12. Agencies, Treasury and my Office are working together on further reductions. The earlier completion of financial statements enables agencies annual reports to be published earlier.

In 2012, Treasury set deadlines for submission of financial information including financial statements to Treasury. The majority of agencies met those deadlines as shown below.

Treasury Submissions

Treasury Circular, TC 12-03, Mandatory early close procedures commencing in 2012, categorised agencies into groups one, two and three based on their size and importance.

The Treasury advised 29 of the 140 agencies in groups one, two and three did not meet the timetable for submitting financial statements and other information to it.

| Groups | Statutory deadline | Met deadline | Did not meet deadline | Total | % of agencies met deadline |
|--------------|--------------------|--------------|-----------------------|------------|----------------------------|
| One | 26 July 2012 | 16 | 11 | 27 | 59 |
| Two | 27 July 2012 | 23 | 10 | 33 | 70 |
| Three | 31 July 2012 | 72 | 8 | 80 | 90 |
| Total | | 111 | 29 | 140 | |

Almost all of the further 183 agencies submitted their financial statements for audit by the six week statutory deadline.

Twenty-nine agencies did not meet the timetable for submitting financial information to Treasury

Financial Statements

Deadlines are set for agencies to submit their financial statements for audit. For 2011-12, 94 per cent of agencies met the deadlines.

Twenty agencies did not meet the timetable for submitting financial statements

| Groups | Statutory deadline | Met deadline | Did not meet deadline | Total | % of agencies met deadline |
|--------------|--------------------|--------------|-----------------------|------------|----------------------------|
| One | 26 July 2012 | 26 | 1 | 27 | 96 |
| Two | 27 July 2012 | 32 | 1 | 33 | 97 |
| Three | 31 July 2012 | 75 | 5 | 80 | 94 |
| Others | 13 August 2012 | 170 | 13 | 183 | 92 |
| Total | | 303 | 20 | 323 | 94 |

Supporting Work Papers

High quality work papers supporting the financial statements are essential for timely completion of audits. TC 12-03 mandated for the first time that supporting work papers needed to be available when the financial statements were submitted for audit. In 2011-12, 16 of the 323 agencies did not submit the supporting work papers on time. However, 15 per cent (four agencies) from group one did not comply with this mandatory requirement. The late provision of supporting work papers contributes to delays in finalising audits and increases audit costs.

Sixteen agencies did not meet the timetable for submitting supporting work papers

| Groups | Statutory deadline | Met deadline | Did not meet deadline | Total | % of agencies met deadline |
|--------------|--------------------|--------------|-----------------------|------------|----------------------------|
| One | 26 July 2012 | 23 | 4 | 27 | 85 |
| Two | 27 July 2012 | 33 | -- | 33 | 100 |
| Three | 31 July 2012 | 76 | 4 | 80 | 95 |
| Others | 13 August 2012 | 175 | 8 | 183 | 96 |
| Total | | 307 | 16 | 323 | 95 |

Future Financial Reporting Requirements

As the Treasury Circular 13-01 further reduces reporting timeframes for preparing and submitting financial statements and completing the respective audits, it becomes more critical for agencies to comply with the mandated timeframes.

Timeliness of Audit Completion

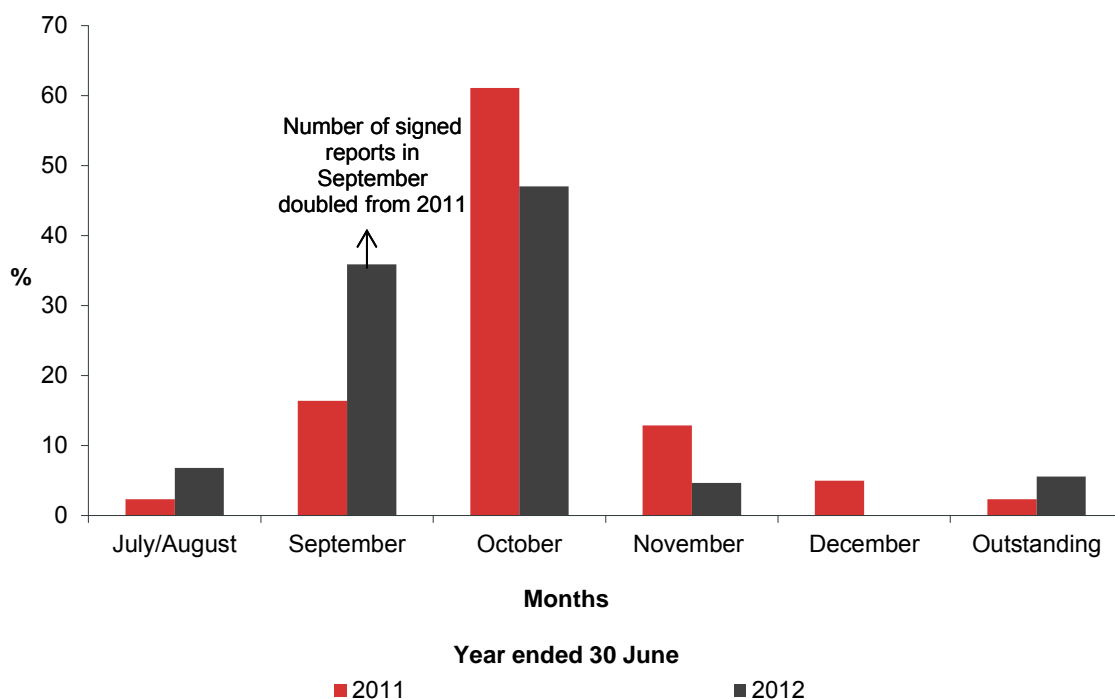
My Office completed the audits and issued the audit opinions for 90 per cent of agencies (80 per cent in 2011) by the end of October 2012. The early close procedures helped increase the number of audit opinions issued by 30 September from 64 in 2011 to 138 in 2012. This is a significant improvement. I will continue working with agencies and Treasury to further improve timeliness.

Earlier reporting should greatly enhance public sector accountability

| Audit opinions issued | | | | |
|---------------------------|------------|------------|------------|------------|
| Month | 2012 | % | 2011 | % |
| July/August | 22 | 7 | 8 | 2 |
| September | 116 | 36 | 56 | 16 |
| October | 152 | 47 | 209 | 62 |
| November | 15 | 4 | 44 | 13 |
| December | -- | -- | 17 | 5 |
| Unissued | 18 | 6 | 8 | 2 |
| Total ¹ | 323 | 100 | 342 | 100 |

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.

When Independent Auditor's Reports were signed (2011 and 2012)



I analysed the number of audit opinions issued by month and by cluster in 2012. The table below shows 18 per cent of Trade and Investment, Regional Infrastructure and Services agencies' financial statements were outstanding at 31 December 2012.

| Audit opinions issued Cluster | July/August 2012 | September 2012 | October 2012 | November 2012 | December 2012 | Unissued | Total |
|--|---------------------|-------------------|-----------------|------------------|------------------|-----------|------------|
| Attorney General and Justice | 1 | 12 | 3 | 1 | -- | 2 | 19 |
| Education and Communities | -- | 6 | 12 | 1 | -- | -- | 19 |
| Family and Community Services | -- | 7 | 1 | -- | -- | -- | 8 |
| Finance and Services | 11 | 14 | 21 | -- | -- | 1 | 47 |
| Health | -- | 4 | 56 | 6 | -- | -- | 66 |
| Premier and Cabinet | 5 | 20 | 24 | -- | -- | -- | 49 |
| Trade and Investment, Regional Infrastructure and Services | 4 | 22 | 27 | 5 | -- | 13 | 71 |
| Transport | -- | 16 | 5 | -- | -- | -- | 21 |
| Treasury | 1 | 15 | 3 | 2 | -- | 2 | 23 |
| Total ¹ | 22 | 116 | 152 | 15 | -- | 18 | 323 |

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.

Audit Opinions

I issued the following types of audit opinions on 30 June 2012 financial statements:

Fewer qualified opinions were issued in 2012

- '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 I obtained reasonable assurance the financial statements as a whole were free from material misstatement, whether due to fraud or error
- 'qualified' opinions, which indicate I concluded, 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 the financial statements as a whole were free from material misstatement.

| Cluster Year ended 30 June | Unqualified | | Qualified | | Outstanding | | Total | |
|--|-------------|------------|-----------|-----------|-------------|----------|------------|------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Attorney General and Justice | 17 | 15 | -- | -- | 2 | 1 | 19 | 16 |
| Education and Communities | 17 | 23 | 2 | -- | -- | 1 | 19 | 24 |
| Family and Community Services | 8 | 9 | -- | -- | -- | -- | 8 | 9 |
| Finance and Services | 45 | 44 | 1 | 1 | 1 | -- | 47 | 45 |
| Health | 63 | 79 | 3 | 2 | -- | 1 | 66 | 82 |
| Premier and Cabinet | 48 | 46 | 1 | 4 | -- | -- | 49 | 50 |
| Trade and Investment, Regional Infrastructure and Services | 57 | 79 | 1 | 1 | 13 | 5 | 71 | 85 |
| Transport | 21 | 21 | -- | -- | -- | -- | 21 | 21 |
| Treasury | 20 | 8 | 1 | 2 | 2 | -- | 23 | 10 |
| Total | 296 | 324 | 9 | 10 | 18 | 8 | 323 | 342 |

My reasons for qualifying my audit opinions included:

- not being able to obtain all relevant information I needed to form an opinion on the value of assets, such as land and buildings
- not being able to conclude on the completeness of income from fund raising, voluntary contributions and donations
- agencies incorrectly including transactions and balances of other agencies in their financial statements
- agencies not complying with accounting standard requirements.

Financial Reporting Systems

High quality financial reporting systems improve accuracy and provide timely information. As mentioned earlier, several large agencies took initiatives to improve the timeliness of financial reporting in 2012. However, the quality of financial information continued to be disappointing.

In 2012, the quality of financial statements was adversely impacted by:

- insufficient quality reviews in agencies' financial reporting processes
- insufficient financial accounting expertise when applying accounting standards
- delays in identifying and resolving accounting issues arising from significant transactions
- lack of strategic financial management capability.

As a result, agencies' financial statements for 30 June 2012 contained 37 (25 in 2011) errors, each exceeding \$20.0 million.

Recommendation

Agencies should as a priority implement more effective quality reviews in their financial reporting processes to prevent and detect errors in the financial statements.

For further details on quality of financial statements and my recommendations, refer to Volume Three of my 2012 report.

The importance of implementing quality financial reporting systems is emphasised when the number and dollar value of the misstatements identified in my 2012 financial audits is considered. I identified 1,265 (1,256) misstatements, 584 (540) of which needed to be corrected by the agencies before I could issue my audit opinions.

The table below indicates total misstatements by the Health cluster decreased significantly in 2012, whereas total misstatements by Education and Communities, Premier and Cabinet, Trade and Investment, Regional Infrastructure and Services, Transport and Treasury increased. Four of the nine clusters had more than 100 individual misstatements.

Number of Misstatements

| Number of misstatements Clusters Year ended 30 June | 2012 | 2011 |
|--|--------------|--------------|
| Attorney General and Justice | 82 | 85 |
| Education and Communities | 73 | 62 |
| Family and Community Services | 20 | 35 |
| Finance and Services | 84 | 112 |
| Health | 359 | 538 |
| Premier and Cabinet | 164 | 114 |
| Trade and Investment, Regional Infrastructure and Services | 238 | 180 |
| Transport | 211 | 105 |
| Treasury | 34 | 25 |
| Total | 1,265 | 1,256 |

Agencies financial statements for the year ended 30 June 2012 contained 37 errors, each exceeding \$20.0 million

There was no reduction in the number of misstatements identified in agency financial statements

The impact of the misstatements in dollar terms on net assets and income of each cluster is summarised below (eliminations have not been made for related entity relationships):

Dollar Value of Misstatements

| Year ended 30 June | 2012 | | 2011 | |
|---|--|--|--|--|
| Dollar value of misstatements Cluster | Net assets increase/ (decrease) \$m | Income increase/ (decrease) \$m | Net assets increase/ (decrease) \$m | Income increase/ (decrease) \$m |
| Attorney General and Justice | 31 | (11) | 19 | 6 |
| Education and Communities | 21 | (47) | (13) | 16 |
| Family and Community Services | (42) | 5 | 46 | (2) |
| Finance and Services | (34) | (1) | 40 | (41) |
| Health | 360 | (368) | 3 | (185) |
| Premier and Cabinet | 63 | 7 | (13) | 1 |
| Trade and Investment, Regional Infrastructure and Services | (77) | (27) | 120 | (57) |
| Transport | (1,567) | 20 | (29) | 16 |
| Treasury | (42) | (1,598) | (223) | 67 |
| Total | (1,287) | (2,020) | (50) | (179) |

When the value of the State's investment in Snowy Hydro Limited was revised to reflect an independent valuation, only part of the revaluation should have impacted the current year's result. The balance should have been reflected in the prior year. This was the most significant issue contributing to the higher level of misstatements by The Treasury cluster.

The higher level of misstatements by the Transport cluster was predominantly due to Roads and Maritime Services' valuation of infrastructure assets relating to earthworks.

Generally, users of financial statements will accept a level of immaterial 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' 2012 financial statements submitted for audit contained 37 individual errors exceeding \$20.0 million.

| | Number of Errors | | |
|---|------------------|-----------|-----------|
| | 2012 | 2011 | 2010 |
| \$20–\$50 million | 19 | 14 | 11 |
| \$50–\$100 million | 7 | 4 | 5 |
| \$100 million–\$1 billion | 9 | 6 | 6 |
| Greater than \$1 billion | 2 | 1 | 2 |
| Total errors greater than \$20 million | 37 | 25 | 24 |

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*.

Number of
errors
exceeding
\$20.0 million
increased
over the
past three
years

My review of these errors identified the following common causes:

- mistakes in spreadsheet formulae and data entry errors when calculating carrying values and depreciation of property, plant and equipment
- deficiencies in determining year-end accruals and provisions
- errors in inter-agency payables and receivables, indicating agencies do not regularly reconcile these balances as part of effective monthly reporting processes.

As I reported in Volume Three of my 2012 report, these issues indicate insufficient review mechanisms in agency financial reporting processes and insufficient expertise in accounting standard requirements when accounting for complex transactions.

Asset Valuations

I noted significant deficiencies in the valuation processes used by some agencies. In two cases, these deficiencies were so significant I was unable to form an opinion on the value of some physical assets included in the financial statements.

Property, plant and equipment represents 84 per cent of the State's \$304 billion asset base. Physical assets comprise land and buildings, infrastructure systems and plant and equipment, and are generally used to provide or support service delivery.

The valuation of assets significantly impacts the financial reporting of the State. My observations on valuations in 2011-12 are:

Valuation of Property, Plant and Equipment

These assets are reported at fair value, which is usually the cost to replace the remaining service potential of the assets.

Agencies undertake regular revaluations of these assets to ensure they remain at fair value. Revaluations added over \$36.9 billion to asset values over the past five years.

What were the significant revaluations in 2011-12?

Department of Education and Communities

Land and Buildings value increased by \$6.0 billion

Former Roads and Traffic Authority

Land under Roads value decreased by \$2.6 billion

Roads and Maritime Services

Road Infrastructure value increased by \$1.7 billion

NSW Land and Housing Corporation

Housing Portfolio value increased by \$1.1 billion

Source: 2011-12 NSW Report on State Finances.

Significant deficiencies were noted in the valuation processes of some agencies

Agencies need to manage the risks in the valuation process

What were the significant deficiencies?

I noted the following significant deficiencies:

- Treasury's valuation policy was not always fully understood or addressed by agencies
- experts engaged for valuations were not always engaged appropriately
- methodologies supporting the valuation approach were carried forward from previous years without consideration of economic or industry changes
- some agencies did not correctly identify different components of assets requiring separate valuation (for example, the structure of a building, the fit out etc.)
- some agencies revalued assets using the cost of assets they would replace them with, instead of the cost of a modern day equivalent of the existing asset
- documentation supporting the costs used in the valuation was often inadequate
- for one large valuation, costs were not tested against the market to validate the results
- inappropriate use of indexation to perform a full revaluation.

What can agencies do to improve the valuation process?

Project Management

- the valuation project should be started early in the financial year
- the effective date of the valuation should be early in the financial year
- ensure there is appropriate oversight of the valuation
- project team members should understand the requirements of the Accounting Standards and Treasury guidelines.

Stakeholder Engagement

- experts (i.e. valuer or quantity surveyor) should be engaged appropriately
- ensure the expert understands how their information will be used
- consider who needs to be involved and/or advised of progress with the valuation (such as the Audit and Risk Committee).

Understand the Assets

- when undertaking mass valuations, we noted an inadequate understanding of the asset base and key cost drivers
- understand the unique characteristics of the asset being valued
- determine an appropriate way to determine replacement costs or market value
- ensure asset registers are complete, accurate, and reconciled to the general ledger.

Using Indexation

- consider engaging a valuer to determine the appropriate indexation to use in the years between full valuations
- the index should be appropriate for the asset being valued
- indexation should be supported by appropriate evidence
- indexation should not be used as a substitute for a full valuation.

The valuations in 2011-12 highlighted the complexity of valuing physical assets used for service delivery. Focussing on the consider points above will help agencies plan future revaluations.

2012 Fraud Survey

My Volume Seven 2012 report included the outcomes from my 2012 Fraud Survey of 92 NSW agencies.

NSW Government agencies identified 4,649 frauds valued at \$21.0 million in the three years to 30 June 2012.

Key findings:

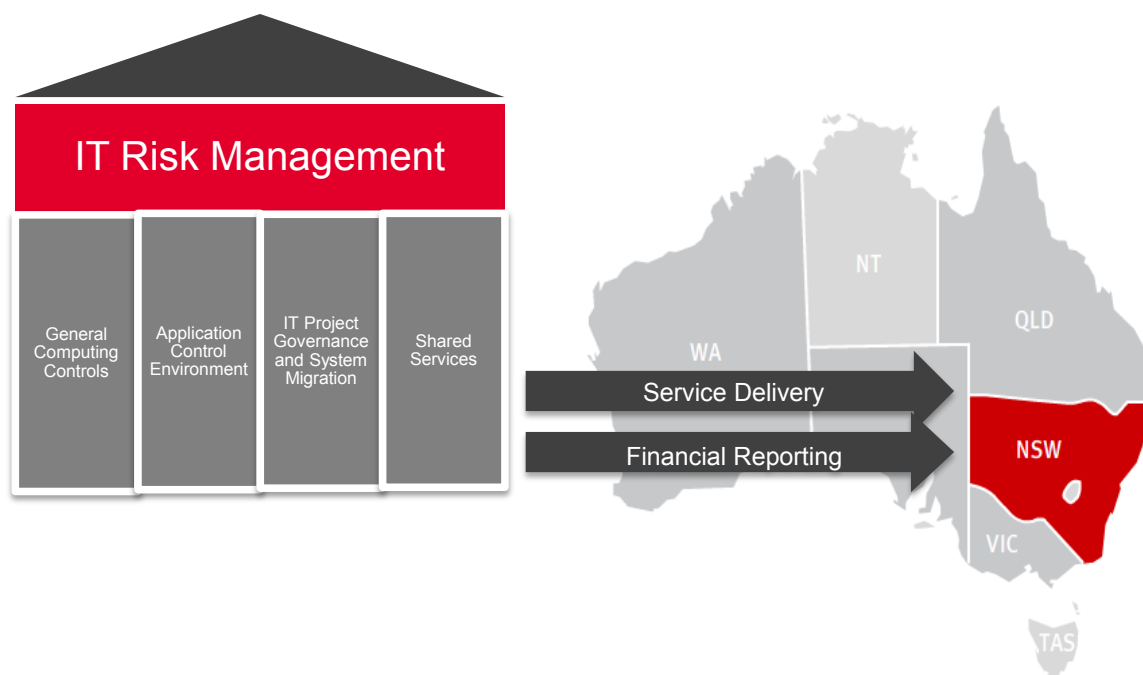
- procurement was identified as being the top fraud risk
- there is an increasing trend of frauds in outsourced functions or non-government organisations, which are providing services on behalf of the government
- agencies are at greater risk of fraud from their own employees than an external perpetrator
- 25 per cent of internal fraud perpetrators didn't think they would get caught
- 23 per cent of frauds occurred because internal controls or processes were not followed
- there are weaknesses in fraud awareness and training
- while a high proportion of agencies conduct risk assessments and have a fraud control plan, a much lower proportion revise these when there is a major change to their role or function
- while a high proportion of agencies have a code of conduct, a much lower proportion require staff to regularly attest they know and understand it
- more than two out of five agencies do not require staff to take at least two weeks continuous leave each year
- one in ten agencies do not routinely conduct pre-employment checks of criminal records, work histories and qualifications.

The report recommends agencies evaluate their fraud control measures against my 2012 survey findings and satisfy their respective audit and risk committees they have responded appropriately.

The full report on my 2012 Fraud Survey can be viewed under the publications section at <http://www.audit.nsw.gov.au>.

Information Systems Audit

My 2012 information systems audits focused on the assessment of Information Technology (IT) risk management for 91 NSW agencies. I identified four core IT areas where the management of IT risks plays a crucial role in service delivery and financial reporting to the people of New South Wales. These core IT areas are General Computing Controls, Application Control Environment, IT Project Governance and System Migration and Shared Services. These areas are explored further below.



Overall Comments

Agencies need to enhance IT risk management and governance. The following recommendations are common themes from my information system audits:

- establishing an appropriate information security management framework, including segregation of duties and automated controls
- ensuring financial systems continue to support business processes in the event of a disaster
- establishing better IT project management practices for effective and reliable systems implementations
- defining and monitoring accountabilities and responsibilities in shared service relationships.

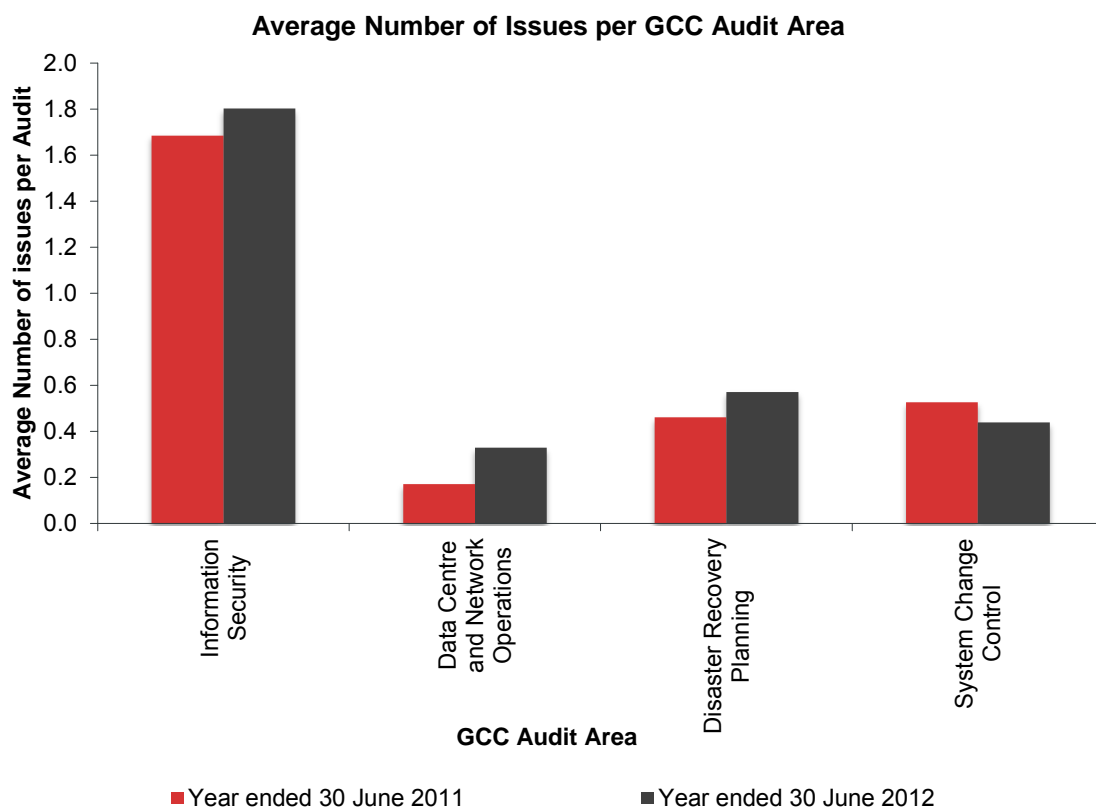
Agencies can improve IT risk management and governance by better understanding the IT risk landscape and applying appropriate controls to mitigate those risks.

General Computing Controls

The key focus of my information systems audits is the agency General Computing Controls environment (GCC). Their primary purpose is the attestation of control effectiveness over data integrity, availability and security. I identified the following issues in the four GCC categories:

| GCC AUDIT AREA | DESCRIPTION | DISTRIBUTION OF 2012 ISSUES RAISED |
|---|---|------------------------------------|
| Information Security | 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. | 58% |
| Data Centre and Network Operations | Review of controls that ensure the integrity of information as it is processed, stored, or communicated. | 15% |
| Disaster Recovery Planning (DRP) | 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. | 17% |
| System Change Control | 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. | 10% |

I noticed a 12 per cent increase in the average number of issues raised per audit in 2012 compared to 2011. This upward trend is concerning and can be largely attributed to the IT control environment not keeping pace with organisational restructures and related system changes.

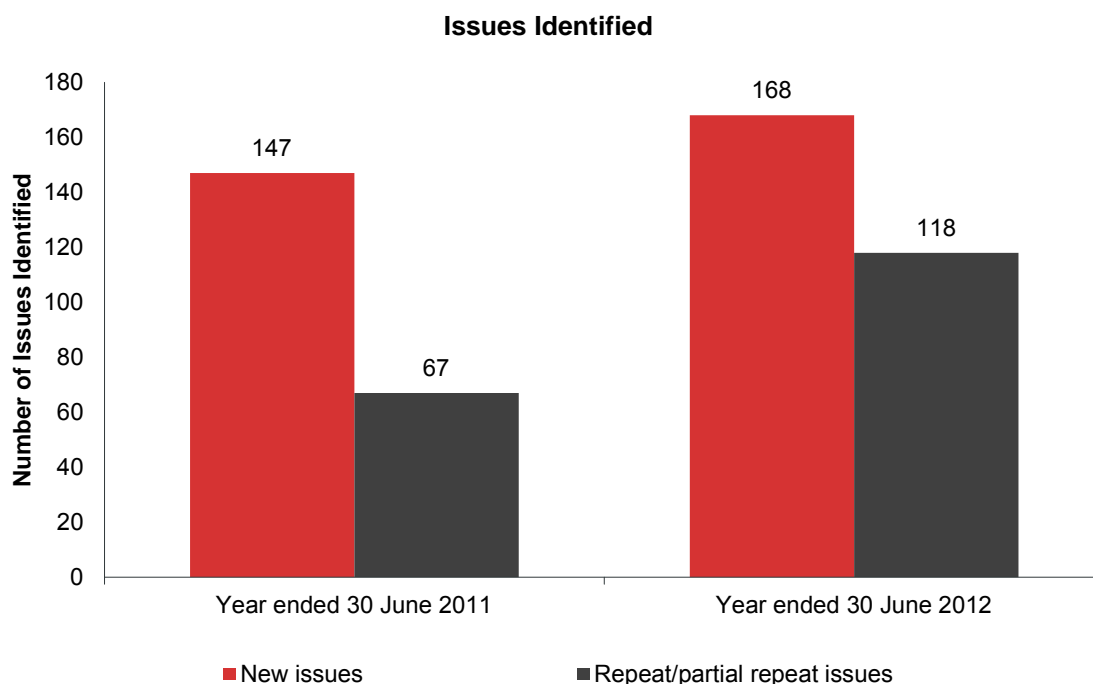


The number of audits I performed and the number of issues reported over the last two years are as follows:

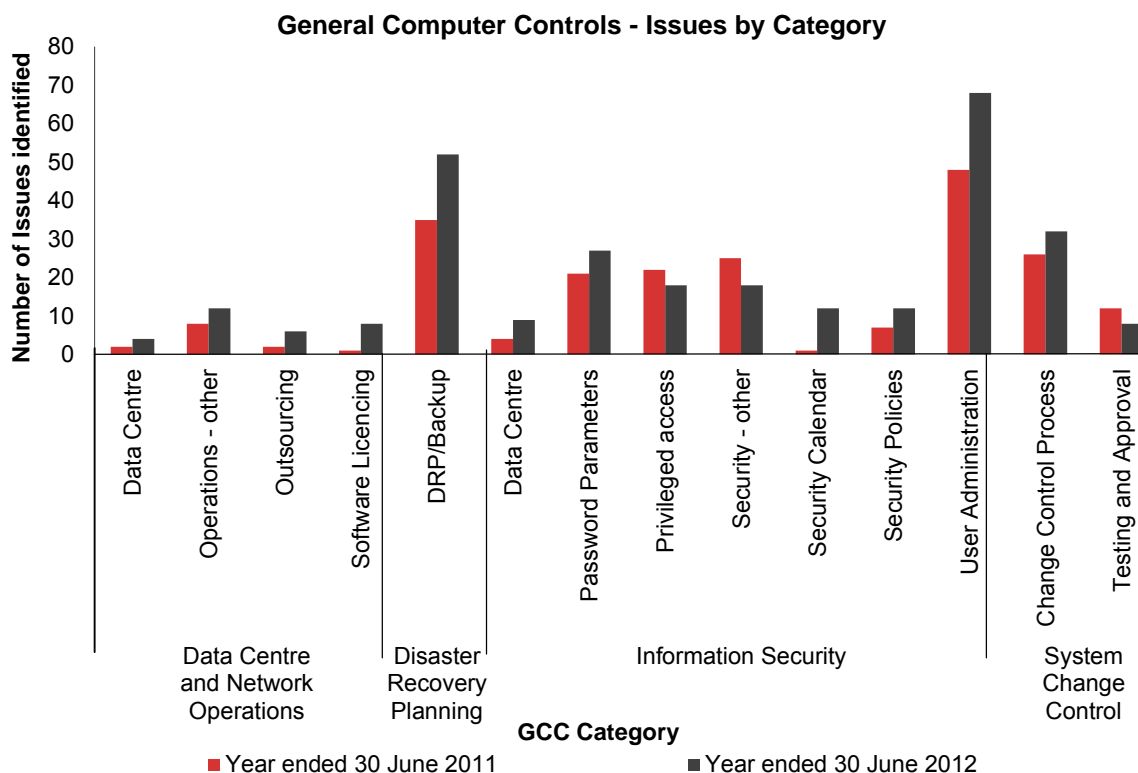
- 2012: 91 audits performed and 286 issues reported
- 2011: 76 audits performed and 214 issues reported.

Agencies are not resolving IT issues I have previously reported, resulting in a 76 per cent increase of repeat issues in 2012. The primary repeat item is related to information security. By not addressing these issues in a timely manner agencies are not effectively managing their IT risk which could result in data or systems integrity issues.

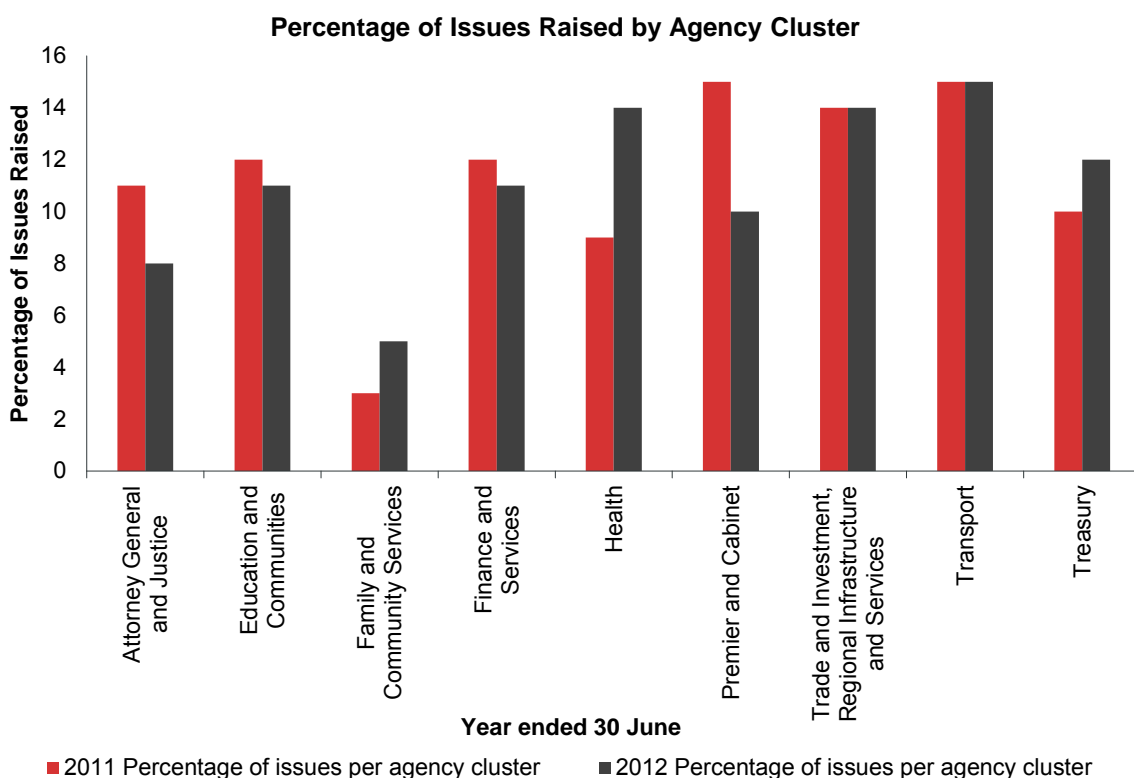
Agencies are not resolving IT issues I have previously reported, resulting in a 76 per cent increase of repeat issues in 2012



In 2012, there was a significant increase in the number of issues reported for User Administration and Disaster Recovery Planning/Backup, as depicted below.



Comparing issues raised across agency clusters, I note that the Health cluster needs to address both application security management (user access and password parameters) as well as disaster recovery planning issues. While it is encouraging to note that Premier and Cabinet have shown an improvement in their control environment.



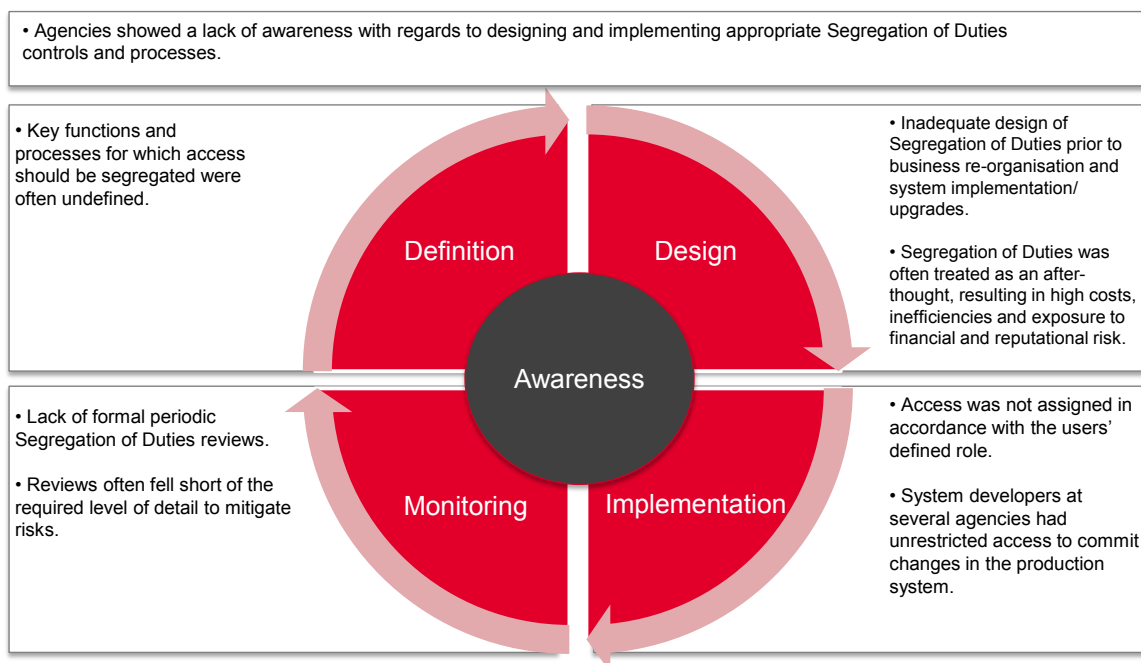
Information Security

The two primary issues relating to Information Security that I reported in 2012 were:

- user administration (24 per cent of all 2012 issues): over half the issues related to an absence of or weak processes surrounding user accounts management and access reviews.
- password parameters (nine per cent of all 2012 issues): Most of the issues related to weak password configurations or were not in line with agency's established password policies.

Issues Identified Across the Segregation of Duties Lifecycle

Segregation of duties is an underlying theme I identified across Information Security and other GCC areas. The key issues identified across the segregation of duties lifecycle in 2012 are described below.



Since 2007, the government's approach to digital information security has been prescribed in the Premier's Memorandum M2007-04 Security of Electronic Information. In 2010, I identified weaknesses in implementing the policy, particularly the lack of enforcing and monitoring agencies' compliance with the policy. The government has released its NSW Government ICT Strategy 2012 and Premier's Memorandum, M2012-15, Digital Information Security Policy. I am interested in how agency compliance with the policy will be enforced and monitored, particularly in light of the information security issues I reported in 2012. In 2013, I intend to monitor the level of agency compliance with the new policy.

Recommendation

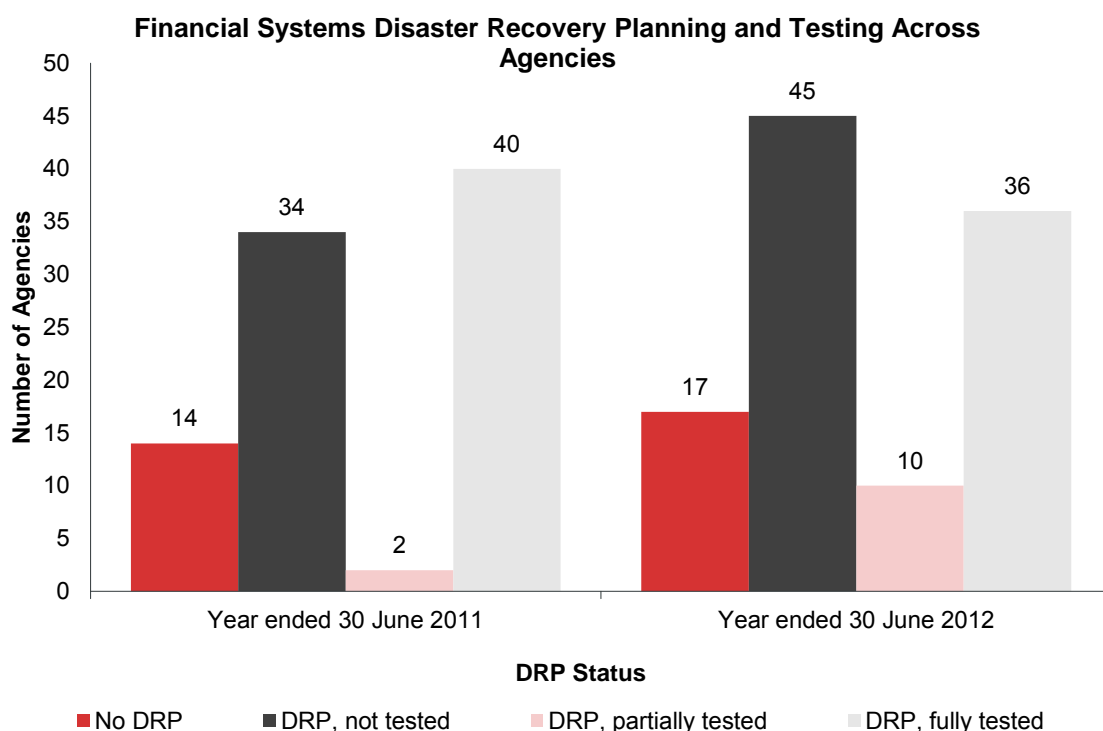
All agencies should:

- revise their information security management framework to align with Premier's Memorandum M2012-15 Digital Information Security Policy
- enhance agency compliance with information security procedures and guidelines to focus on appropriate user access requirements including segregation of duties and security configurations
- consider information security requirements during new system implementations and business process changes.

I noted a decline in IT disaster recovery preparedness for agency key financial systems

Disaster Recovery Planning on Key Financial Systems

I noted a decline in IT disaster recovery preparedness for agency key financial systems. Disaster recovery planning provides the means for recovering processes and capabilities of financial systems and supporting IT infrastructure in the event of a disaster. Although some agencies have invested in building disaster recovery capabilities (80 per cent of agencies audited had disaster recovery plans in place) I continue to note agencies are not testing significant or critical portions of their recovery capabilities and plans. Without a documented plan and sufficient testing, the effectiveness of disaster recovery solutions may only be determined when an actual disaster occurs.



Recommendation

All agencies should:

- define their recovery requirements and ensure these are reflected in disaster recovery plans for financial systems
- ensure disaster recovery plans are tested periodically.

Application Control Environment

Automated controls aim to restrict user access to the respective job functions and the defined business rules within the application. Some common automated controls are password configurations, in-built approval workflows and financial delegations. I identified the following areas of concern, which could lead to the lack of financial accountability, transaction validity and data integrity within some agencies:

| AREAS OF CONCERN | IMPACT |
|---|---|
| Weak Design of Automated Controls <ul style="list-style-type: none"> Automated configuration requirements were not defined in detail and/or approved. Automated controls did not meet business requirements. In one agency, automated controls around purchase order approval had only been partially configured, enabling some purchase orders to bypass the approval process. | <ul style="list-style-type: none"> Increased risk of unauthorised transactions, impacts on data validity and integrity, inefficiencies, increased costs, processing errors and users having to rely on manual workarounds to complete tasks. |
| Weak User Access and Segregation of Duties <ul style="list-style-type: none"> Some agencies had poorly configured or non-configured user authentication settings (e.g. password settings). | <ul style="list-style-type: none"> Increased risk of unauthorised access that potentially compromises the integrity and validity of data in financial systems and fraud. |
| Weak Processes Surrounding Automated Controls <ul style="list-style-type: none"> Some agencies may have implemented automated controls but have not established associated monitoring activities to support the effectiveness of the controls, such as periodic audit log reviews and effective escalation of notifications. | <ul style="list-style-type: none"> Increased risk of security exception events going unnoticed for an extended period of time or indefinitely; resulting in potential data validity errors, undetected transaction anomalies and fraud. |

Recommendation

All agencies should:

- periodically review and ensure automated controls are configured appropriately and are aligned with business requirements
- ensure staff are given adequate training in the use of automated controls
- consider the configuration of automated controls for new system implementations and business changes.

IT Project Governance and System Migration

In 2012, I reviewed the overall project governance and management for one major program (Case Study One) and two projects (Case Study Two). The key areas I reviewed were the management of project governance, requirements, communication, data, quality, risk and change practices.

Overall, I observed:

- poor project management practices resulting in information technology systems not meeting user needs, exceeding planned budgets and not providing the expected service delivery
- a lack of accountability for resolving issues or problems arising from the projects' poor system implementation
- business-as-usual is negatively impacted by projects' poor system implementation resulting in reliance on manual workarounds.

My findings are detailed below:

| Criteria | Case Study One | | Case Study Two | |
|---|--|-------------|--|-------------|
| | Analysis | Risk Rating | Analysis | Risk Rating |
| Project Governance <ul style="list-style-type: none"> Project management methodology established Defined business case Defined benefits for the project Defined project roles and responsibilities Defined monitoring and reporting processes Lessons learnt are captured and evaluated throughout the project | <ul style="list-style-type: none"> The governance approach varied throughout the program. Initially there was minimal management oversight. As the program progressed, many stakeholders became involved and competing stakeholder requirements were difficult to manage. The governance structure in the program lacked transparency at the senior management level and at the project team level. Lessons learnt from the program had not been formally captured and were not used in improving project controls. | M | <ul style="list-style-type: none"> Absence of appropriate project governance structures. Formal business cases with clear identification of benefits had not been defined. End-to-end business process mapping for pre- and post-implementation of the system had not been performed. Roles and responsibilities of various project stakeholders had not been formally defined. End user sign-offs on the final scoping report agreeing on anticipated data quality levels in the new system had not been provided. | H |
| Communications Management <ul style="list-style-type: none"> Appropriate stakeholder engagement Timely and accurate communications | <ul style="list-style-type: none"> Little consideration was given to activities surrounding stakeholder engagement. | M | <ul style="list-style-type: none"> Little consideration was given to activities surrounding stakeholder engagement. Agencies were not informed on a timely basis prior to a regulatory change. | M |
| Requirements Management <ul style="list-style-type: none"> Defined business requirements (functional and non functional) Agreed business requirements are captured in the implementation | <ul style="list-style-type: none"> Business requirements were not a primary focus, and it was expected that the business would adapt to the new system implemented. For example, user access granted as part of the system implementation did not ensure adequate segregation of duties. | H | <ul style="list-style-type: none"> Business validation rules enforcing regulatory requirements had not been integrated into the system design. This resulted in agency staff relying on manual and inefficient processes. Comprehensive requirements such as audit logging, user access setup and other expected security features had not been defined. | H |
| Data Cleansing, Conversion and Migration <ul style="list-style-type: none"> Data for migration is identified, cleansed and converted as agreed The data is validated for accuracy, completeness and validity | <ul style="list-style-type: none"> Data cleansing and data type requirements were not adequately considered prior to data being migrated from the legacy systems to the new system. This resulted in inaccurate data being populated in incorrect fields and incorrect setup of data categories leading to data integrity and validity issues. | H | <ul style="list-style-type: none"> No data migration execution strategy or data migration models had been developed to identify gaps between the old and new systems. As a result, there were cases of duplicate records being generated and key data being omitted. | H |
| Dependency Management <ul style="list-style-type: none"> Dependencies are identified and integrated into the new solution | <ul style="list-style-type: none"> Technical dependencies such as automated data transfer interfaces that exist from the old systems had not been appropriately considered in the program. Rather, they were considered as an after-thought. | H | <ul style="list-style-type: none"> Technical dependencies such as automated data transfer interfaces that exist from the old systems had not been appropriately considered in the projects. | M |

| Criteria | Case Study One | | Case Study Two | |
|--|--|-------------|--|-------------|
| | Analysis | Risk Rating | Analysis | Risk Rating |
| Quality Management <ul style="list-style-type: none"> Adequacy of testing against business requirements and for accurate, complete and valid data | <ul style="list-style-type: none"> Comprehensive testing of the system had not been performed to validate that all defined business requirements prior to implementation. | M | <ul style="list-style-type: none"> Comprehensive testing of the system had not been performed to validate that all defined business requirements prior to implementation. | M |
| Transition Management <ul style="list-style-type: none"> Business processes and other organisational changes required are adapted with the introduction of the new solution Adequate and targeted training is provided to ensure users are able to effectively and efficiently utilise the new solution | <ul style="list-style-type: none"> There was minimal focus on organisational change management or business transformation. Little consideration of tailored business training, business process re-engineering, including controls and support arrangements for the project to "Business-As Usual" transition. | H | <ul style="list-style-type: none"> There was no focus on organisational change management or business transformation. | H |
| Risk and Issue Management <ul style="list-style-type: none"> Risks and issues from the project are managed in accordance with a pre-defined framework Risks and issues mitigation or resolution are tracked | <ul style="list-style-type: none"> Ownership and accountability for project issues were not clearly established by the Program Management Team or the 'Business-As-Usual' support teams. | M | <ul style="list-style-type: none"> Formal risk assessments and the identification of risk mitigation strategies had not been undertaken during the system implementation by the agencies. Formal procedures for issue and exception management had not been defined. | H |

H – High Risk: No evidence of controls in place.

M – Moderate Risk: Controls are in place but not operating effectively.

L – Low Risk: Controls are in place and are operating effectively to mitigate risks and support accurate, complete and valid processing of data.

Recommendation

Agencies should establish:

- project governance principles through guidelines such as those provided by the Department of Finance and Service, as well as project management disciplines such as PMBOK (Project Management Body of Knowledge) and PRINCE2
- clear roles, responsibilities and accountabilities for projects
- appropriate stakeholder engagement throughout the life of the project
- a formal project risk management framework to enable business owners to identify risks and appropriate mitigation strategies.

Shared Services

Shared service providers continue to bring agencies on board for back office processing functions such as finance, payroll and IT. I am concerned that both the agencies and shared service providers do not understand their respective responsibilities and accountabilities; especially in managing risks in shared service arrangements. I have identified instances:

- of no clear direction to address risks associated with maintaining ageing platforms for those transitioning to shared services
- where existing IT controls are not being applied to agencies' legacy systems supported by shared service providers. I have reported the absence of controls such as disaster recovery testing for a number of agencies' older systems
- of no or poorly defined Service Level Agreements (SLA) between agencies and shared service providers. Some SLAs do not have business specific requirements articulated for Information Security and Disaster Recovery Planning requirements

- of no monitoring and reporting of service levels for shared services. In one agency, I reported there was no monitoring of the services provided by shared service providers where the agencies' data is being off-shored to storage and processing sites outside of Australia through means such as cloud computing. In this instance there was no corresponding strategy to manage the inherent risks associated with cloud computing and the off-shoring of data.

Recommendations

The relevant stakeholders should:

- establish common guidelines on shared service transition (NSW Government)
- identify control gaps at both the agency and shared services levels, and implement appropriate mitigating controls (agencies and shared service providers)
- review SLAs to ensure they better reflect their business requirements and establish appropriate service performance monitoring processes (agencies and shared service providers)
- Develop risk management strategies and procedures to manage all data and systems that are managed outside of Australia (NSW Government).

Agency Annual Reporting

'The annual report is the key medium by which public sector agencies discharge their accountability to the parliament, the government and the general community. The NSW annual reporting legislation requires all statutory bodies and departments to prepare and present to parliament an annual report containing both financial and non-financial information on their operational activities.'

http://www.treasury.nsw.gov.au/Annual_Reporting/Annual_Reporting

As part of the financial audit process, the Audit Office looks at agency annual reports each year. From this work come observations that could indicate annual reports may not provide the parliament, the government and the general community with a full picture of the information they need to hold agencies accountable. This concern stems from the following observations:

- not all agencies are required to produce annual reports
- inconsistencies exist between the scope of financial reporting and annual reporting requirements
- annual reporting requirements do not reflect the current structure of government used to manage resources
- the absence of an overall performance reporting framework. In its place, requirements to report specific data items create a risk of annual reports being an unbalanced mixture of great detail and great generality
- new requirements to reduce the content of annual reports to the minimum necessary to fulfil statutory requirements.

The requirement for agencies to publish an annual report on their financial and operational performance was established in legislation almost 30 years ago. This was before the internet and agency webpages, and before the analytic power of computers became widely available. As a result, annual reporting, being once a year static reporting, does not reflect today's capacity to deliver information, nor the general appetite for timely information.

I recognise that agencies are required to publish annual reports on their websites and meet minimum standards for accessibility. Websites also provide public access to substantial information on operations that was not easily available prior to the annual reporting legislation being introduced. However, in general, there is no standard form to these websites or to their content. They are not designed for accountability purposes.

Current annual reporting requirements may not meet the needs of stakeholders

Treasury is aware of these and other limitations in the coverage and content of annual reports. It is developing initiatives to improve the broader accountability framework for reporting agency financial management and operational performance. I support such developments.

Which Agencies Must Prepare Annual Reports?

Treasury's quote above is correct in that all statutory bodies and departments listed in schedules to the *Public Finance and Audit Act 1983*, as well as State owned corporations, must prepare an annual report. However, this does not capture all NSW public sector agencies.

Currently, financial reporting legislation captures more agencies than annual reporting legislation. This potentially means there are agencies for which a clear financial accountability requirement has been established, which do not have an annual reporting requirement to publish their financial report or other information.

Many government controlled entities exist but have no annual reporting function. A corporation created via statute and controlled by a minister, for example, has no legislative requirement to publish an annual report. Equally, companies incorporated by ministers for specific purposes would not need to publish annual reports.

Further, the many agencies that have an annual reporting requirement have subsidiary agencies that will not necessarily have their own separate reporting requirements. In such circumstances, the parent agency's annual report is supposed to include the financial statements of its subsidiaries. However, I have seen instances where this has not occurred.

Cluster Reporting

The NSW public sector is currently structured to nine clusters. Each cluster has a principal department and includes various other government agencies. The current legislative annual reporting requirements do not reflect this structure. This is because annual reporting legislation captures individual agencies and not clusters. There is no requirement in current legislation to present cluster wide information, either financial or non-financial.

From an accounting perspective, the principal departments do not generally control the other agencies in the cluster. This means there is not even a requirement for all the cluster's financial reports to be presented in a single place.

What Must Be Reported in Annual Reports?

The annual reporting legislation contains the requirements for inclusion in annual reports, which are prescriptive rather than principles based. The specifics to be included in reports have been refined and extended progressively since 1984. Additions have included:

- information on the use of consultants
- the number and type of public interest disclosures
- details of performance in paying accounts
- an internal audit and risk management policy attestation.

Such additions continue to be introduced. I understand the cost of advice from external legal firms and attestations on compliance with a digital information security policy are to be included in future annual reports. I note these latest additions have not been introduced by the agency responsible for annual reporting legislation and these new requirements are not centrally located within this legislation.

These requirements have added to the detail of annual reports, with some reports now running to three volumes and nearly 500 pages. However, such additions do not by themselves improve information on financial and operational accountability overall. Without the context of a principles based accountability framework, the bigger performance picture may be lost in the detail. The ability to compare and contrast information across time, agency and now cluster, for accountability purposes is no easier now than it has ever been.

Not all NSW Government agencies are required to publish annual reports

There are no annual reporting requirements at the cluster level

Annual report content requirements are prescriptive and detailed. There is no overall framework or principles underpinning content

In 2012, the NSW Department of Premier and Cabinet issued a memorandum to agencies to curb the length and the production costs of annual reports, limiting content to 'recording performance and meeting statutory obligations'. Without an overall performance reporting framework, this may reduce the length of annual reports but do little to improve their contribution to accountability.

Example of the Impact of the Limitations Discussed

Coverage of one specific annual reporting requirement, the use of consultants, illustrates the difficulties faced by parliament, the government and the public in forming conclusions from the required information in annual reports.

The Audit Office reviewed information reported on the use of consultants in a sample of agency annual reports for 2011-12 and 2010-11. Our sample included 37 government agencies in total, all 9 principal departments and 28 other agencies with a history of consultant use. In these sample agencies (the same agencies, or their predecessors, were included in both years), the total cost of consultant use reported was \$104 million in 2010-11 and \$94.0 million in 2011-12. A list of agencies sampled appears at the end of this section.

Our review of this sample of agencies suggests the coverage of current annual reports under-represents total consultant use across the NSW public sector as a whole. Observations supporting this suggestion include:

- the current requirements do not require agencies to include in their annual reports the consultant activity of their controlled entities. The most notable example was the Ministry of Health, which did not include in its 2011-12 annual report over \$10.0 million of consultants used by Local Health Districts and other controlled health entities
- the largest spender on consultants in 2010-11, being the Crown Entity at around \$78.0 million, is not captured by the annual reporting legislation. This figure included significant costs associated with the restructure of the State's energy industry and was reported in an annual report prepared voluntarily. The Crown Entity is yet to publish an annual report for 2011-12, but my audit work confirms expenditure on consultants has dropped to around \$14.0 million for that year
- some agencies have been granted partial exemption from reporting the detail of consultancies for commercial reasons (energy agencies in particular)
- many agencies do not include details of consultants used on capital projects in their annual report
- some agencies include services that would appear to fall under the definition of 'contractors' rather than 'consultants', such as audit services and project managers.

Background on Annual Reporting Requirements

Annual reporting for most agencies is addressed mainly via two pieces of legislation, which are the responsibility of the Treasurer:

- *Annual Reports (Departments) Act 1985*
- *Annual Reports (Statutory Bodies) Act 1984.*

The annual reporting requirements for State owned corporations are within the *State Owned Corporations Act 1989*, which is the responsibility of the Premier.

Financial reporting is addressed via the *Public Finance and Audit Act 1983*, which is also the responsibility of the Treasurer, for the main part.

| Annual Reported Expenditure on Consultants Thirty-seven sample agencies | 2012 \$ | 2011 \$ |
|--|--------------------|--------------------|
| The Treasury | 11,970,777 | 13,805,943 |
| Hunter Water Corporation | 10,343,987 | 12,506,784 |
| Barangaroo Delivery Authority | 8,712,846 | 17,730,346 |
| RailCorp | 7,475,725 | 2,079,969 |
| Department of Trade and Investment, Regional Infrastructure and Services | 6,373,830 | 2,111,722 |
| Transport of NSW/Department of Transport ¹ | 5,979,000 | 2,956,000 |
| Department of Finance and Services | 5,161,691 | 4,401,994 |
| Department of Premier and Cabinet ² | 4,013,487 | 4,173,799 |
| Roads and Maritime Services ³ | 2,873,226 | -- |
| Roads and Traffic Authority ⁴ | 828,834 | 5,650,751 |
| NSW Maritime ⁵ | 114,590 | 210,455 |
| Attorney-General's Division | 3,033,236 | 827,856 |
| Independent Liquor and Gaming Authority | 2,761,522 | 1,218,439 |
| Independent Pricing and Regulatory Tribunal | 2,716,885 | 3,165,290 |
| Macquarie Generation | 2,049,000 | 4,112,000 |
| Endeavour Energy | 2,048,000 | 1,807,000 |
| Department of Family and Community Services | 1,877,832 | 3,414,864 |
| Sydney Water Corporation | 1,744,104 | 666,961 |
| Ausgrid | 1,613,145 | 581,689 |
| Sydney Metropolitan Development Authority ⁶ | 1,488,067 | 45,506 |
| WorkCover Authority | 1,308,856 | 2,728,669 |
| Transport Construction Authority | 1,245,576 | 1,575,859 |
| NSW Self Insurance Corporation | 1,222,468 | 2,583,892 |
| Ministry of Health | 1,192,543 | 2,289,507 |
| Delta Electricity | 1,030,000 | 3,060,000 |
| Office of Environment and Heritage | 979,195 | 1,233,915 |
| Sydney Cricket and Sports Ground Trust | 977,000 | 943,000 |
| Corrective Services | 862,229 | 515,582 |
| Fire and Rescue NSW | 659,484 | 1,080,163 |
| Department of Planning and Infrastructure | 374,172 | 918,268 |
| Ministry for Police and Emergency Services | 337,895 | -- |
| Eraring Energy | 123,365 | 2,497,426 |
| Juvenile Justice | 74,237 | 93,450 |
| TransGrid | 56,620 | 14,903 |
| NSW Police Force | 26,100 | 237,540 |
| Department of Education and Communities ⁷ | na | 2,408,061 |
| Essential Energy | exempt | exempt |
| Total of sample | 93,649,524 | 103,647,603 |

Source: Agency Annual Reports 2012, 2011.

- 1 During 2011-12 a large number of policy, planning and related functions were transferred to Transport for NSW from other transport agencies.
- 2 Amounts paid to consultants by the Department of Premier and Cabinet, excluding the Office of Environment and Heritage.
- 3 The Roads and Maritime Services was formed on 1 November 2011.
- 4 The Roads and Traffic Authority was abolished on 1 November 2011.
- 5 NSW Maritime was abolished on 1 November 2011.
- 6 The Sydney Metropolitan Development Authority was formed on 17 December 2010.
- 7 Agency has a December year-end and annual reporting cycle and has not yet published 2012.

Performance Audit

Maintaining Value for Money and Accountability in Changing Times

Over the past year, I have tabled performance audits on a wide range of issues including: managing overtime; physical activity in government primary schools; and settling humanitarian entrants in New South Wales.

The following is a summary of general issues emerging from my audits, and the issues I will be focusing on in the year ahead. In the last year a key theme was the challenges of managing service delivery across organisations, agencies and governments. Another theme was getting the fundamentals right in children's education.

I am pleased to see that progress has been made on issues reported last year but more still needs to be done.

Challenges of Managing Service Delivery Across Agencies

I highlight the following:

- Issues around managing contracts in general. My audit on Managing IT Services Contracts highlights the weaknesses in contract management and accountability. With increasing reliance on IT support for service delivery and savings, it is critical to get this practice right.
- My audits of Settling Humanitarian Entrants in NSW and Monitoring Local Government highlight the issues of inter-jurisdictional funding and service coordination and the need for agencies to work together.

Challenges in Managing Contracts

Poor contract management is a key concern. Many agencies use external providers to support day-to-day operations particularly in information and communication technology.

Risks, activities, deliverables and costs are often poorly monitored; and there is limited reporting between agencies and providers.

Often projects are not delivered on time, on budget and according to the original specifications.

Some agencies do not monitor the provider's activities as they believe they can outsource both operational and reputational risk to the provider.

Not all risks can be outsourced. Ultimately, agencies remain accountable for how well a system operates.

In my 2012 performance audit on Managing IT Services Contracts in Health and Police I found some critical gaps in agencies' contract management frameworks. Two key gaps were not assigning a contract manager and having limited contract management plans.

I am pleased with the agencies' response to the audit in that they considered the audit an opportunity to continuously improve practices and value for money from IT services contracts.

Challenges in Coordinating Services for Humanitarian Entrants

Unlike some States, New South Wales did not have a single point of contact that humanitarian entrants could go to, to assist them with settling in a new country.

Many humanitarian entrants arrived with little understanding of our social norms and systems of government, they need coordinated support, sometimes for a number of years. Some agencies such as the Department of Education and Communities and NSW Health had developed good approaches to support humanitarian entrants. What was lacking was an overall framework to bring all this good work together.

The Community Relations Commission must be the 'go to place' for all humanitarian issues. They needed to drive accountability and publically report on how well humanitarian entrants are settling in.

New South Wales also needed to work better with the Commonwealth Government. New South Wales did not provide any information to the Commonwealth on where humanitarian entrants are best suited to settle. For example, where there are employment possibilities, affordable housing, a supportive environment and appropriate services.

I am pleased to note that despite differences of opinion, the agency response indicated substantial agreement with my recommendations.

Challenges in Local Government and its Oversight by the State

The Division of Local Government (DLG) has helped many NSW councils improve their long-term financial planning and asset management practice. Many councils were serving their communities well. However, because DLG lacked the power, it found it difficult to respond effectively when things go wrong.

DLG does not have a standard way to determine whether councils are in good financial health. Even though NSW councils spend more than \$9.3 billion annually, manage over \$117 billion in public assets and employ over 50,000 people, there was no consistent way to identify councils in financial trouble.

DLG has no power to direct councils or demand their compliance with local government legislation. As a last resort, DLG could recommend a public inquiry that may lead to the dismissal of all the council's elected councillors. This last occurred in 2008.

DLG also found it difficult to address complaints about the behaviour of individual councillors. Since July 2008, DLG had only once imposed its maximum penalty for misbehaviour, being one month's suspension. The law is complex and it took DLG a year from being notified of the misbehaviour to issuing the penalty.

I am pleased to report that DLG accepted the recommendations and quickly undertook a number of initiatives to address issues raised in the audit.

Getting the Fundamentals Right in Education

A second major theme that emerged from the audits that I completed in the last 12 months relates to education. Research shows that children who stay at school longer have better prospects. Children who remain at school longer are more likely to be employed, earn higher wages and have better health outcomes. Accordingly, I reviewed the government's initiative to raise the school leaving age from 15 to 17 years of age.

I also examined literacy of Aboriginal students and physical activity in government primary schools.

Raising the School Leaving Age

From 1 January 2010, all students in the State must complete Year Ten and continue education or training or be in paid work, or a combination of these activities, until they turn 17 years of age. Students who were in Year 10 in 2010 were the first group affected by the change.

The Department of Education and Communities did not know which students were not participating and consequently could not take appropriate action to support them.

Of the 54,607 students enrolled at government schools in Year Ten in 2010, only 47,695 were enrolled at government schools in Year 11 the following year, even though the majority of them would not have turned 17 years of age.

One in eight students (6,912) were unaccounted for. They may be on an approved alternative pathway, enrolled in a non-government school, or not participating as required. The key issues was the department did not know.

Some of those who choose school were disruptive or did not turn up. There was also evidence that more students who remained at school until 17 years of age were disengaged.

Year 11 students were absent more often and more likely to be suspended than those in previous years. The impact of managing these disengaged students put a strain on already stretched resources. There is a risk that disengaged students not only disrupt others but also waste teachers' time.

The Department needs to find out where these young people are and, for those at government schools, provide programs that better suit these students' needs and ensure students have access to high quality career advice.

I am pleased that the agency expressed their appreciation for the collaborative approach taken by the audit team and will consider the recommendations in the context of other policy initiatives in this area.

Improving the Literacy of Aboriginal Students

By Year Three around 40 per cent of Aboriginal students are at or below minimum standard for reading. Unfortunately, this is almost triple the rate of non-Aboriginal students. By Year Five around 50 per cent of Aboriginal students are at or below the minimum standard.

Notwithstanding gains at individual schools, NSW test results over the last decade show no discernible signs of improvement in the overall performance of Aboriginal students. Unless there is a change in approach, the NSW government's goal to halve the gap between Aboriginal and non-Aboriginal students by 2018 looks unattainable.

The Department has an extensive range of programs that can be utilised to assist Aboriginal students to improve literacy, but lacks the systems to identify and track those students at risk and support their needs.

Goals can be aspirational, but school targets need to be realistic and achievable. Those individuals most in need should be pinpointed and their progress closely monitored. All Aboriginal students who perform at or below national standards in literacy should be provided with the additional support they need.

I am pleased to note that the Department in its response restated its commitment to providing all Aboriginal students in NSW government schools with a quality education.

Physical Activity in Government Primary Schools Needs to Improve

Around 30 per cent of government primary schools were not providing the required two hours of physical education and sport per week.

While some schools were doing well, many needed to make better use of their students' physical activity time. Students were spending too much time waiting their turn, setting up equipment or travelling to venues and not enough time on moderate to vigorous activity and learning fundamental movement skills.

Less than 40 per cent of year four students had mastered fundamental movement skills. Physical inactivity contributes to the deaths of over 13,000 Australians and results in more than \$1.5 billion in direct healthcare costs each year. One in four kids is overweight or obese. If we increase activity amongst our children, there will be immediate health benefits.

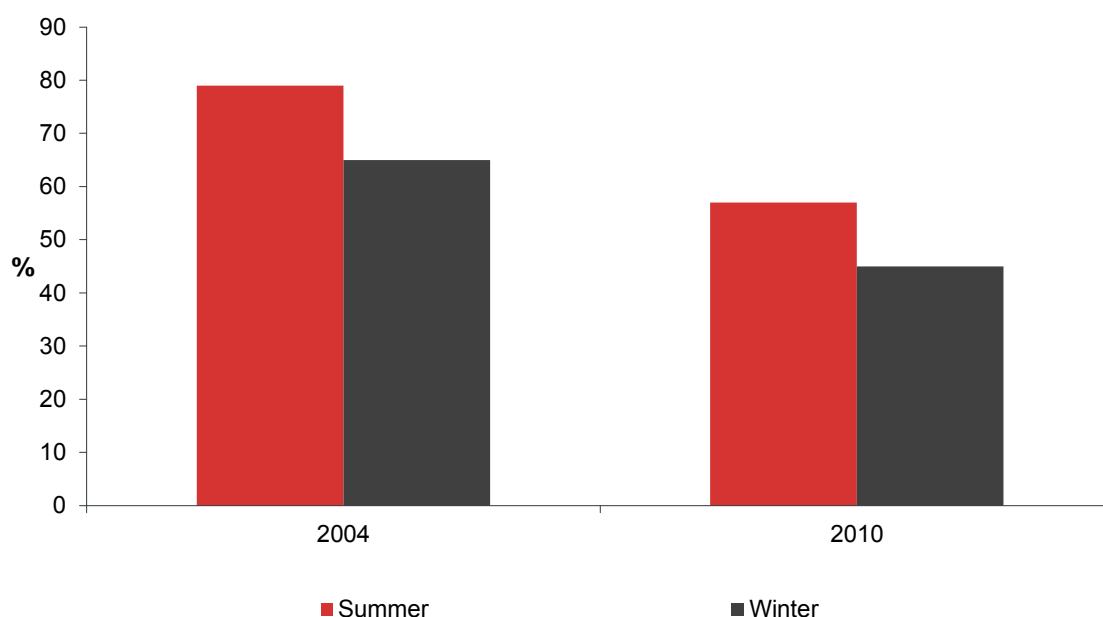
Physical activity does not have to come at the expense of reading and writing. Higher levels of physical fitness are linked to improved academic performance. While the Department extensively monitored academic performance it did not monitor children's physical activity at schools.

Schools are uniquely placed to ensure most NSW children get at least a minimum amount of physical activity and gain skills and positive experiences which place them on a path to a long and active life. I would like to see local community leaders and business people who adopt and advocate an active lifestyle act as role models and visit schools and champion the lifelong benefits of physical activity.

Schools should report to parents on their child's physical activity – their aptitude, attitude, skills and level of activity. Schools should also report publicly on their physical activity programs and achievements.

I am pleased to note that the Department accepts the recommendations and thanked my staff for their professional and collaborative approach to audit conduct.

Prevalence of Achieving at least 60 minutes of Moderate to Vigorous Physical Activity every day during Summer and Winter School Terms among Year Six Students in 2004 and 2010 (%)



Source: NSW Department of Health's 2010 Schools Physical Activity and Nutrition Survey (page 4).

The Way Ahead

My audits over the last 12 months have highlighted the need for greater accountability, transparency and good governance and for central agencies to take a leadership role in setting overall policy and raising the standards for the public sector. In raising the standards, further skill development will be essential for the public sector both in contract management and forecasting.

I anticipate there will be three major themes emerging in future performance audits:

- adding value at times of fiscal austerity, i.e. efficiency and utilisation issues. For example:
 - better use of operating theatres
 - better use of public housing
 - reducing costs in death and disability schemes
 - improved energy efficiency in hospitals
 - better management of police exhibits and high risk goods
 - increasing availability of ambulances
- looking at long term benefits and costs of prevention not just short term treatment. For example:
 - homelessness
 - reducing Aboriginal driving offences
 - managing heritage assets
 - out of home care – prevention and early intervention measures
- making sure controls are not compromised as the pressure for expenditure reductions increases. For example:
 - fraud – gifts and benefits
 - risk management
 - club grants
 - crown lands
 - government advertising.

Conclusion

My Governance Lighthouse model illustrates that governance is there to shine a light. Sometimes it's a warning, sometimes it's there to attract attention, and sometimes it's there to guide.

Good governance promotes public confidence. 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 be innovative.

In an environment where more services will be provided by the private sector and non-government organisations, the requirement for effective governance is even more pressing. The Audit Office has a vital role to play in assuring effective governance in the changing role of government.

Looking Forward Beyond 2012

Implementation of New Audit Methodology

My Office is implementing a new audit methodology and software. It has tailored the methodology used by a 'Big 4' professional services firm to meet the needs of the NSW public sector. The new methodology, which addresses the requirements of the professional standard setters and legislators and uses world leading audit software, is designed to target risks and deliver effective, value adding audits. This should positively impact audit outcomes for parliament and agencies.

The new methodology will be progressively rolled out to agencies and will be in use for all 30 June 2014 year-end audits and onwards.

Maintaining Effective Accountability in New South Wales

Legislation determines what Auditors-General can do to ensure accountability and this has a significant influence on their effectiveness.

All Australian Auditors-General have a mandate to audit the finances and performance of government agencies in their respective jurisdictions, but the way governments operate is changing. Governments are adopting new forms of managing service delivery by increasing their use of privatisation, partnership and joint venture with non-government organisations (NGOs) and other levels of government. Many parliaments now have legislation to ensure Auditors-General provide them with independent assurance about service delivery outcomes and financial accountability in these arrangements ('follow the money' powers).

This has not occurred in New South Wales, where the *Public Finance and Audit Act* has not been significantly amended since its introduction in 1983.

The table below compares the current mandates of the Australian Auditors-General.

| | NSW | ANAO | VIC | QLD | WA | SA | TAS | NT | ACT |
|--|-----|------|-----|-----|-----|----|---------------------|-----|-----|
| Auditor-General has a specific mandate to: | | | | | | | | | |
| - audit key performance indicators (KPIs) of government entities ¹ | No | Yes | Yes | No | Yes | No | No | No | No |
| - audit local government and report the results to parliament ² | No | n/a | Yes | Yes | No | No | Yes | No | n/a |
| - follow the money and audit whether NGOs provided with public resources have used them for the intended purposes ³ | No | Yes | Yes | Yes | Yes | No | Yes for grants only | Yes | No |

Note: 'No' above means there is no specific mandate in legislation. Some Auditors-General may have the ability within their legislation to audit the above areas without a specified mandate.

1 ACAG – comparison of audit acts October 2012 p. 11 and *WA Auditor General Act* 2006 s. 15.

2 NSW Monitoring Local Government Audit – NSW Performance Audit 2012.

3 ACAG – comparison of audit acts October 2012 pp.4–6 and WA audit of St John's Ambulance.

The NSW Auditor-General does not have a mandate to audit KPIs or reporting against them, but the 2021 NSW State Plan proposes the mandate be extended to audit agency reporting under that plan.

My ability to provide independent assurance is limited to state agencies. For example, I audit the finances and performance of NSW Roads and Maritime Services. But unlike four other states, I cannot report to parliament on the condition of roads and bridges across the State because many of these assets belong to local councils which are outside my mandate.

Five Australian Auditors-General have a mandate to follow the money. While the extent of this mandate varies, all five can audit service outcomes and financial accountability of NGOs using government resources to deliver services to the public. A disproportionate number of complaints from the public to the Australian Security and Investments Commission concern NGOs, and the Independent Commission Against Corruption has already recommended parliament give the NSW Auditor-General power to audit the financial compliance and performance of NGOs receiving government funding to deliver services to the public.*

I am in discussions with Treasury on this topic.

* ICAC Funding NGO delivery of human services in New South Wales: A period of transition - position paper. 2012

Schedule – Clusters, Principal Departments and Other Agencies

| Cluster | Principal Department(s) | Other Departments/Bodies |
|---|--|--|
| Attorney General and Justice | 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, NSW Rural Fire Service, Ministry for Police and Emergency Services |
| Education and Communities | Department of Education and Communities | TAFE, Institute of Teachers, Board of Studies, NSW Institute of Sport, Sydney Olympic Park Authority |
| Family and Community Services | Department of Family and Community Services | Aboriginal Housing Office, Home Care Service of NSW, NSW Businesslink Pty Ltd |
| Finance and Services | 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, |
| Trade and Investment, Regional Infrastructure and Services | Department of Trade and Investment, Regional Infrastructure and Services | NSW Food Authority, Forests NSW, Catchment Management Authorities, Art Gallery of NSW, State Library of NSW, State Water Corporations, Energy Corporations, Australian Museum |
| Health | Ministry of Health | Local Health Districts, Ambulance Service of NSW, Cancer Institute, Health Administration Corporation |
| Premier and Cabinet | 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 |
| Transport | Department of Transport | Transport for NSW, Independent Transport Safety Regulator, Office of Transport Safety Investigations, Roads and Maritime Services (RTA and NSW Maritime), Rail Corporation New South Wales, State Transit Authority, Sydney Metro, Sydney Ferries, Sydney Ports Corporation, Newcastle Port Corporation, Port Kembla Port Corporation. |
| Treasury | Treasury | Crown Entity, Electricity Tariff Equalisation Ministerial Corporation, Liability Management Ministerial Corporation, NSW Self Insurance Corporation, NSW Treasury Corporation |

Section Two

Agencies with Individual Comments

Minister for Primary Industries



State Management Council of Livestock Health and Pest Authorities of New South Wales

Audit Opinion

I issued unqualified audit opinions on the State Management Council of Livestock Health and Pest Authorities of New South Wales' (the Council) and its controlled entity's financial statements for the 30 June 2011 and 2012 financial years.

Key Issues

Completion of Outstanding Late Financial Statements

My 2012 Volume 11 report noted that the 2011 and 2012 financial statements were submitted late due to late completion of the 2010 financial statements.

The new management team, established in late 2010, have completed all outstanding financial reports. The Council appointed an independent investigative accountant to review current systems and processes. The final report is expected by the end of February 2013.

Appendix

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 |
|--|--|-------------------|
| Minister for Regional Infrastructure and Services | | |
| Ministerial Corporation for Industry | www.business.nsw.gov.au | 30 June 2012 |
| Treasurer | | |
| Residual Business Management Corporation | www.pacificpower.nsw.gov.au | 30 June 2012 |

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| Aboriginal Land Council, New South Wales | Vol 11 2012 |
| Access Macquarie Limited | Vol 2 2012 |
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| ACN 125 694 546 Pty Ltd | Vol 2 2012 |
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| Art Gallery of New South Wales Foundation | Vol 9 2012 |
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Board of Surveying and Spatial
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Cancer Institute NSW Vol 11 2012

Cancer Institute Division Vol 11 2012

CCP Holdings Pty Limited Vol 4 2012

Centennial Park and Moore Park
Trust Vol 6 2012

Centennial Parklands Foundation Vol 6 2012

Central Coast Local Health District Vol 11 2012

Central Coast Local Health District
Special Purpose Service Entity Vol 11 2012

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