
New South Wales Auditor-General's Report

Financial Audit

Volume Six 2014

Focusing on Premier and Cabinet



The role of the Auditor-General

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

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

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

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

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

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Pursuant to the *Public Finance and Audit Act 1983*,
I present Volume Six of my 2014 report.

A handwritten signature in black ink, appearing to read 'G Hehir'.

Grant Hehir
Auditor-General
13 November 2014

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Section One

Premier and Cabinet



Executive Summary

This report sets out the results of the financial statement audits of the 14 Premier and Cabinet cluster agencies and their associated entities for the year ended 30 June 2014.

Premier and Cabinet Cluster

A cluster represents a grouping of NSW Government agencies to enhance the coordination of policy development and the delivery of services. Each cluster is led by a Coordinating Minister and may be supported by Portfolio Ministers. The Department of Premier and Cabinet (the Department), led by the Premier, is the lead agency in the cluster. The cluster includes Public Service executive agencies related to the Department, separate Public Service agencies within the meaning of the *Government Sector Employment Act 2013* and a number of other agencies.

Premier and Cabinet Cluster

Expenses \$1.4 billion

Net Assets \$394 million

Surplus \$155 million

Government Contributions \$1.2 billion

Principal Department

- Department of Premier and Cabinet

Executive Agencies

- Parliamentary Counsel's Office
- Service NSW
- Infrastructure NSW
- Natural Resources Commission
- Barangaroo Delivery Authority

Separate Agencies

- New South Wales Electoral Commission
- Public Service Commission
- Ombudsman's Office
- Police Integrity Commission
- Independent Pricing and Regulatory Tribunal

Other Agencies

- Independent Commission Against Corruption
- Election Funding Authority of New South Wales
- Internal Audit Bureau

The report also provides Parliament and other users of the financial statements with an analysis of the cluster agencies' results, key observations and recommendations in the following areas:

- Financial and Performance Reporting
- Financial Controls
- Governance
- Service Delivery.

Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Confidence in public sector decision making and transparency is enhanced when financial and performance reporting is accurate, timely and clear.

Unqualified audit opinions were issued on the financial statements of all cluster agencies for the year ended 30 June 2014 and financial statements were submitted earlier than the previous year. In the past three years, there has also been a significant reduction in the number of misstatements identified during the audits. Our financial audits did identify a number of significant issues which are detailed within the sections of this volume.

The early close procedures mandated by Treasury facilitated the earlier resolution of accounting issues, especially those arising from restructuring within the Department during the year. Early close financial statements were received within mandated deadlines for all agencies and all but one agency demonstrated full compliance with the requirements of early close. As a result of timely financial reporting, my Office was able to complete the audit of the financial statements and issue audit opinions within the earlier statutory deadlines.

The cluster achieved an overall surplus of \$155 million in 2013-14 with total cluster revenue \$177 million lower and cluster expenditure \$287 million lower than the previous year. Total assets held by cluster agencies totalled \$910 million at 30 June 2014, down from \$4.8 billion at 30 June 2013 and total liabilities fell to \$516 million at 30 June 2014 from \$893 million in the previous year.

The significant decrease in cluster assets, liabilities, revenues and expenditure was primarily attributable to the Office of Environment and Heritage and the Office of Local Government becoming standalone agencies in the Planning and Environment cluster on 24 February 2014.

An examination of the cluster agencies' results to budget has highlighted the need for improvement in the accuracy of budgets. Nearly all agencies had variances of greater than five per cent between actual results and original budget for major financial statement line items. Cluster agencies need to implement further measures to improve the accuracy of budgets.

Over 82 per cent of the revenue of cluster agencies is derived from government sources in the form of capital and recurrent contributions. Only two of the 14 agencies are fully self funded. The liquidity of the cluster agencies is mostly within the normal range however some agencies appear to have liquidity surplus to requirements.

Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of agencies' policies. They are essential for quality and timely decision making to achieve desired outcomes.

My 2014 audits of cluster agencies did not identify any high risk internal control weaknesses. Generally, the internal controls of cluster agencies appear to be appropriately designed and operating effectively to produce reliable and timely financial reports.

The audits did identify areas where internal controls could be improved, and these were reported to the relevant agencies' management. A total of 37 issues were reported and two of these were repeat issues. The issues were related to compliance with agency policies, asset management processes and controls over expenditure and payroll functions.

Shared service arrangements aim to create efficiencies and reduce costs by centralising the delivery of services, such as human resources, financial and information technology, to central agencies from a single location.

Eight of the 14 cluster agencies utilise shared service arrangements provided by ServiceFirst, covering IT infrastructure and application support. Service Partnership Agreements (SPA) covering terms of support, the roles and responsibilities of relevant parties, and the level of assurance over IT controls were found to be in place between ServiceFirst and cluster agencies in all but one case.

Of the eight agencies, seven had a signed SPA for 2013-14 although many of these were not signed until part way during 2013-14 year. Agencies need to finalise these agreements earlier. This is discussed further in the 'Service Delivery' section of this report.

Managing excess annual leave continues to be a challenge for many cluster agencies and meeting the 30 June 2015 target of all staff having 30 days or less will be difficult.

Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled in agencies. It includes the systems the agencies, and those charged with governance, use and are held to account by others.

The Premier and Cabinet cluster is one of the nine clusters in the NSW public sector. The cluster arrangements were intended to provide a mechanism for coordination and strategic alignment of agencies. The Department is responsible for the NSW Public Sector Governance Framework. This Framework needs to be updated following the release of the *Government Sector Employment Act 2013*.

During our 2014 audits we reviewed how cluster agencies affected by the administrative restructure managed the separation process as at 24 February 2014. The audits identified a number of issues which could have been avoided through better planning. Agencies affected by machinery of government changes would benefit from timely guidance to assist them to understand the financial, legal and accounting implications.

The risk management frameworks and processes of agencies in the cluster are at different levels of maturity. I plan to examine this area more closely in my 2015 audits.

Over the years, my Office has reported on challenges faced by public sector agencies in managing major programs and projects. The Department has issued new guidance on governance frameworks for major transactions but needs to address current uncertainties in this guidance.

With respect to fraud control, the results of my 2013-14 audits indicated that procedures across the cluster were generally effective, with only one instance of possible corrupt conduct reported.

Service Delivery

The achievement of government outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not for profit sectors. Cluster agencies have been working to achieve the goals and targets outlined in NSW 2021 and address the recommendations made by the NSW Commission of Audit in its 2012 reports.

The Public Service Commission has continued to work with the government sector to embed the government's core values of integrity, trust, service and accountability in the culture, leadership, systems and practices of agencies and the conduct of employees. The *Government Sector Employment Act 2013* is a key development for the sector as is the new capability and performance development framework.

The Department is responsible for reporting on the 32 goals and 186 targets contained in the NSW 2021 Plan in the annual NSW 2021 Performance Report. The information presented in this performance report, and the systems used to collect the data, are not subject to independent assurance processes. In other jurisdictions, state Audit Offices have a mandate to audit this information to provide better government accountability.

A rigorous contract management framework is vital to ensure all parties meet their obligations, contractual relationships are well managed, value for money is achieved and deliverables meet the required standards and agreed timeframes.

Our review of the contract management frameworks for some of the larger agencies in the cluster highlighted that a more structured and comprehensive approach to contract management is needed. Two agencies did not have a centralised contract register or framework and we noted that oversight of the contract management process could be improved. Cluster agencies should perform a self-assessment against the key elements of my Office's Better Practice Contract Management Framework.

Key Recommendations

Cluster agencies should:

1. implement further measures to improve the accuracy of budgets
2. finalise and sign their Service Partnership Agreements with ServiceFirst before 1 July of the year to which the agreement relates
3. perform a self assessment against the key elements of our Better Practice Guide on Contract Management Framework.

The Department of Premier and Cabinet should:

1. update the NSW Public Sector Governance Framework following release of the *Government Sector Employment Act 2013*
2. provide additional clarity and guidance on which agencies are mandated by the requirement of 'C2014-09 Governance Framework for Major Transactions'.

Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. People need access to accurate and timely information about what their government is doing to hold it to account. Government requires accurate and timely financial and performance information from agencies to enable effective decision making.

This part of the volume summarises the results of agencies in the Premier and Cabinet cluster in 2013-14 in improving the accuracy and timeliness of financial and performance reporting.

Financial and Performing Reporting

2013-14 Audit Observations

Financial Reporting

- Accuracy and timeliness of agencies' financial statements improved
- No qualified audit opinions issued
- Early close procedures largely successful

Performance Reporting

- Operations of the cluster as a whole achieved within budget
- The actual results of most cluster agencies varied significantly to approved budgets

Quality of Financial Reporting

Unqualified audit opinions were issued on the financial statements of all agencies in the Premier and Cabinet cluster for the year ended 30 June 2014.

The table below provides an overview of the Premier and Cabinet cluster agencies:

- 30 June 2014 audit result
- number of significant matters reported to the Treasurer, portfolio Minister and those charged with governance
- financial misstatements detected during the audit process, both corrected by management and uncorrected, over the past five years.

Agency	Audit result		Reported misstatements for the year ended				
	Modified opinion	Number of significant matters	2014	2013	2012	2011	2010
Principal department							
Department of Premier and Cabinet	No	--	--	4	16	13	5
Executive agencies							
Parliamentary Counsel's Office	No	--	2	N/A	N/A	N/A	N/A
Service NSW	No	--	3	4	N/A	N/A	N/A
Infrastructure NSW *	No	--	--	2	1	N/A	N/A
Natural Resources Commission*	No	--	--	1	2	2	2
Barangaroo Delivery Authority	No	--	3	4	4	6	2
Separate agencies							
New South Wales Electoral Commission*	No	2	1	4	3	3	4
Public Service Commission	No	--	--	1	7	N/A	N/A
Ombudsman's Office	No	--	--	2	4	4	5
Police Integrity Commission*	No	--	1	1	1	--	--
Independent Pricing and Regulatory Tribunal*	No	--	--	2	2	1	5
Other agencies							
Independent Commission Against Corruption	No	1	4	1	2	2	--
Election Funding Authority of New South Wales	No	1	--	--	--	--	--
Internal Audit Bureau*	No	--	--	1	4	5	5
Total		4	14	27	46	36	28

N/A Not applicable.

* excludes misstatements of staff agencies or divisions.

Note: The Department of Premier and Cabinet's misstatements included seven relating to the Office of Environment and Heritage (OEH) in 2011, eight in 2012 and three in 2013. The misstatements also include five for the Division of Local Government (now Office of Local Government (OLG)) in 2012. Both OEH and OLG were transferred out of the cluster on 24 February 2014.

Source: Statutory Audit Reports issued by the Audit Office.

Significant Matters Identified During Audit

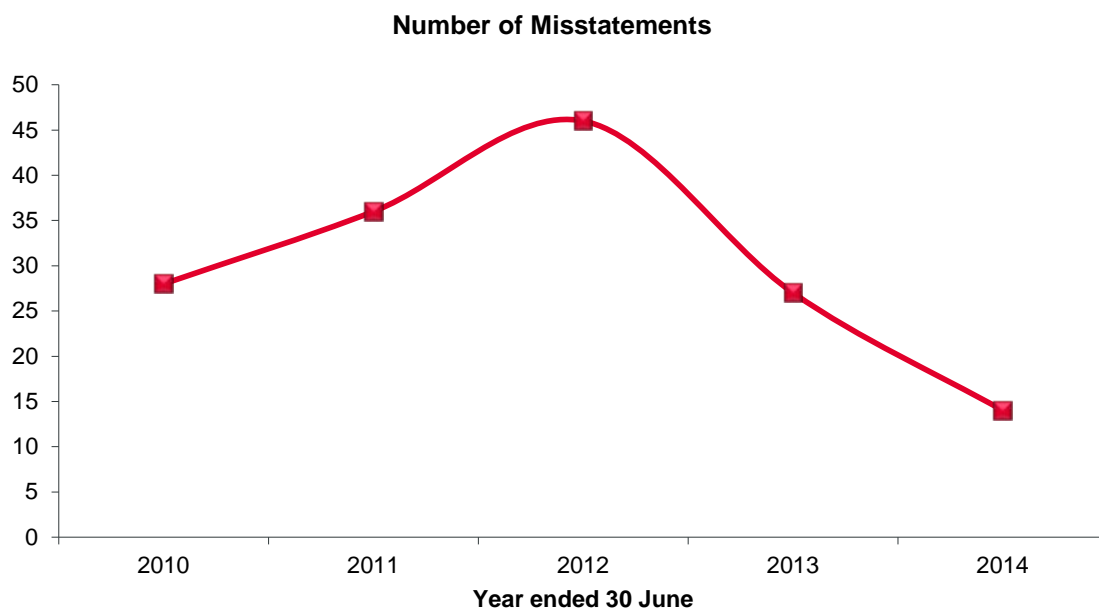
The following significant matters were reported within the cluster:

- the New South Wales Electoral Commission classified the costs of election officials as operating expenses. The Commission needs to consider if election officials are employees because they are appointed directly by the Commission and a contract of service exists between election officials and the Commission
- the merger of the New South Wales Electoral Commission and Election Funding Authority of New South Wales had not been completed at the time of issuing my audit opinion. The merger will be complete when the legislation becomes in force. This issue was reported in both agencies.
- issues were identified with the timeliness and quality of working papers supporting the financial statements submitted for audit by the Independent Commission Against Corruption.

Misstatements in the Financial Statements

Over the past three years, reported misstatements have fallen from 46 in 2011-12 to 14 in 2013-14.

The number of reported misstatements in the cluster over the past five years is detailed in the following chart:



Although the number of reported misstatements increased from 2009-10 to 2011-12, the past two years have shown significant improvements in the quality of financial reporting. The largest improvement was achieved in 2012-13 with the number of reported misstatements decreasing by 41 per cent compared to 2011-12. This was mainly attributable to accounting issues being resolved earlier as part of the early close procedures mandated by Treasury.

The number of misstatements for the Department of Premier and Cabinet dropped from 16 in 2011-12 to nil in 2013-14. This was a good achievement considering the complex accounting implications resulting from the restructuring due to the 'Administrative Arrangement Order 2014' which commenced on 24 February 2014. Further information is provided in the 'Key Financial Information' section on the following pages.

The number of misstatements reported for the Independent Commission Against Corruption in 2013-14 increased to four (one in 2012-13). These mainly related to legal expenses not being accrued, and errors in its make good provision calculation.

Timeliness of Financial Reporting

As a result of timely financial reporting, the Audit Office was able to complete the audit of the financial statements and issue audit opinions within the earlier statutory deadlines.

The timeliness of agency financial reporting in the cluster is detailed in the following table:

Agency	Early close procedures			Financial statements		Audit	
	Received by statutory date	Days late	Complied with TC 14-02	Received by statutory date	Days late	Completed by statutory date	Days late
Principal department							
Department of Premier and Cabinet	Yes	--	Yes	Yes	--	Yes	--
Executive agencies							
Parliamentary Counsel's Office	Yes	--	Yes	Yes	--	Yes	--
Service NSW	Yes	--	Yes	Yes	--	Yes	--
Infrastructure NSW	Yes	--	Yes	Yes	--	Yes	--
Natural Resources Commission	Yes	--	Yes	Yes	--	Yes	--
Barangaroo Delivery Authority	Yes	--	No	Yes	--	Yes	--
Separate agencies							
New South Wales Electoral Commission	Yes	--	Yes	Yes	--	Yes	--
Public Service Commission	Yes	--	Yes	Yes	--	Yes	--
Ombudsman's Office	Yes	--	Yes	Yes	--	Yes	--
Police Integrity Commission	Yes	--	Yes	Yes	--	Yes	--
Independent Pricing and Regulatory Tribunal	Yes	--	Yes	Yes	--	Yes	--
Other agencies							
Independent Commission Against Corruption	Yes	--	Yes	Yes	--	Yes	--
Election Funding Authority of New South Wales	Yes	--	Yes	Yes	--	Yes	--
Internal Audit Bureau	N/A	N/A	N/A	Yes	--	Yes	--

N/A Not Applicable.

Source: Statutory Audit Reports issued by the Audit Office.

Results of Early Close Procedures

Agencies in the Premier and Cabinet cluster were broadly successful in performing early close procedures and submitted the financial statements earlier in 2014.

Consistent with its practice of the last four years, Treasury issued TC 14/02 'Mandatory early close procedures for 2014'. The circular is designed to achieve continuous improvement in the quality and timeliness of agencies' annual financial statements.

The early close procedures largely assisted in ensuring the effective resolution of issues and risk areas in a timely manner, particularly in assessing and resolving the accounting and financial reporting implications of significant restructures within the Premier and Cabinet cluster in 2013-14.

Early close financial statements and 30 June 2014 financial statements were received within statutory deadlines for all agencies. Thirteen agencies demonstrated full compliance with TC 14/02. The Internal Audit Bureau was not required to comply with early close procedures.

As part of early close procedures, the Barangaroo Delivery Authority (Authority) sought confirmation from their independent valuer that the 2013 valuation could be relied upon. After the Authority's early close date, the independent valuer recommended a full revaluation of the assets because of the impact market evidence might have on the value of land. The Authority accepted the advice of their valuer and proceeded with a full revaluation of the assets. As a result, the Authority did not obtain property valuations as required by early close procedures.

It is important that agencies review their asset valuations and plan early to obtain valuation reports from independent experts to achieve early close requirements.

Other issues identified during our review of the early close procedures performed by agencies included:

- new disclosures required by accounting standards for the fair value measurement of non-financial assets (fair value hierarchy, valuation techniques, inputs and processes) were not updated in agency early close financial statements
- some agencies did not formally assess and classify the annual leave liability as long-term, as required by accounting standards, if it is not expected to be settled wholly within twelve months
- Infrastructure NSW expensed all costs associated with the Sydney International Convention, Exhibition and Entertainment Precinct project. A review of legislation and project documentation indicated that it may control assets associated with this project and we recommended management review its accounting treatment. See 'Sydney International Convention, Exhibition and Entertainment Precinct Project' below for further details.

Key Issues from Financial Audits

Relocation of Central Government Agencies

Cabinet approved the relocation of the Department of Premier and Cabinet (including ministerial offices of the Premier and Deputy Premier) and Treasury from Governor Macquarie Tower (GMT) and Bligh House to 52 Martin Place, Sydney CBD.

The 12 year lease of the new premises commenced on 1 October 2013 and the relocation project involves the refurbishment of 19 floors in the new location. Under the lease terms, the landlord has provided lease incentives of:

- the first year rent free
- a \$39.7 million contribution towards the fit out cost.

Approximately 1,300 people from these agencies are being relocated to the new premises from 1 September 2014, with the move expected to be completed by December 2014.

The relocation is estimated by the Department to realise \$90.0 million in avoided costs over the 12 year lease term. Savings are expected through:

- a reduction in office space for the agencies by approximately 18 per cent compared to existing tenancies
- reduced rent as the cost of renting space at Martin Place is around \$250 per square metre lower compared with remaining at GMT
- reduced duplication and support facilities within the agencies (e.g. outsourcing of mail room services, security costs and facilities management).

Barangaroo Delivery Authority Value Sharing Payments

There is a risk the Barangaroo Delivery Authority may not be able to deliver the Barangaroo site at no net cost to Government as intended.

In August 2014, the Authority lost its appeal against a NSW Supreme Court decision on the interpretation of the methodology for calculating value sharing payments for the first two commercial towers of the Barangaroo South Project Development Agreement, entered into in March 2010. The decision does not relate to or determine the actual quantum of value sharing payments, nor does it preclude the Authority from receiving value sharing payments, which are yet to be determined. The decision is however likely to impact on the amount the Authority would otherwise have received if its interpretation had been successful.

The Authority is reviewing its forecasts for value sharing payments in light of the Court's decision, and will assess any impact of the decision in the context of an overall review of the forecasts for the balance of the project. The Authority advises it is not possible to estimate at this stage what impact the decision will have on the overall funding position for the Authority.

The Authority manages delivery of the \$6.0 billion waterfront development on the Barangaroo site, which is expected to be completed by 2021.

I have proposed a performance audit on 'Managing major urban redevelopment projects – Barangaroo' for 2015-16.

Sydney International Convention, Exhibition and Entertainment Precinct Project (SICEEP)

On 23 September 2011, the NSW Premier made a Project Authorisation Order (Order) pursuant to sections 30 and 32 of the *Infrastructure NSW Act 2011* (the Act). The Order made Infrastructure NSW (INSW) responsible for the functions of Sydney Harbour Foreshore Authority (SHFA) in relation to the SICEEP. The Order did not clarify the treatment of the assets, rights and liabilities of SICEEP. The NSW Treasurer subsequently provided clarification that the Order did not provide for the transfer of assets to INSW.

INSW and SHFA entered into a Public Private Partnership (PPP) agreement with a private sector company on 22 March 2013. INSW has significant rights and obligations under the PPP Project Deed. The project documentation created uncertainty as to which agency controlled the assets under development, and therefore in which agency's financial statements the project costs should be recorded. Management had to clarify the accounting treatment during the audit process.

INSW and SHFA entered into separate contractual agreements with a private sector entity for the three key components of the SICEEP, namely:

- the delivery of convention, exhibition and entertainment facilities and public open space (via a Public Private Partnership agreement)
- the Haymarket precinct including commercial, retail and residential developments (via a Project Delivery Agreement)
- a Hotel precinct, near the existing Harbourside facility (via a Project Delivery Agreement).

The \$1.2 billion project is expected to deliver world class conference and entertainment venues with residential and hotel properties and a modern public domain.

I have proposed a performance audit on 'Planning major urban redevelopment projects - Darling Harbour Exhibition Centre and Precinct' for 2016-17.

Key Financial Information

The table below provides a summary of key financial results for the cluster agencies.

	Total assets		Total liabilities		Total revenue		Total expense		Surplus/(deficit)	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Principal department										
Department of Premier and Cabinet	206,744	4,281,436	89,191	523,014	1,046,727	1,330,887	964,750	1,376,205	81,977	(45,318)
Executive agencies										
Parliamentary Counsel's Office	1,450	N/A	1,243	N/A	3,641	N/A	3,523	N/A	118	N/A
Service NSW	58,689	32,048	13,078	16,661	126,287	6,130	96,063	1,649	30,224	4,481
Infrastructure NSW	4,653	4,192	2,376	2,477	58,452	27,464	57,890	27,089	562	375
Natural Resources Commission	869	662	666	556	5,154	4,839	5,057	4,837	97	2
Barangaroo Delivery Authority	562,943	435,508	376,269	322,108	85,186	126,452	45,102	45,112	40,084	81,340
Separate agencies										
New South Wales Electoral Commission	22,246	22,833	4,200	3,820	33,211	47,938	34,178	48,311	(967)	(373)
Public Service Commission	9,426	8,746	3,139	3,278	35,296	32,752	34,477	29,828	819	2,924
Ombudsman's Office	5,347	3,839	3,803	3,000	29,995	27,981	29,290	26,908	705	1,073
Police Integrity Commission	5,168	5,165	2,663	2,291	18,793	18,391	19,162	18,546	(369)	(155)
Independent Pricing and Regulatory Tribunal	12,159	12,696	4,751	5,863	27,499	26,429	26,924	26,999	575	(570)
Other agencies										
Independent Commission Against Corruption	8,521	4,548	6,002	2,980	26,850	25,107	25,899	24,863	951	244
Election Funding Authority of New South Wales	--	--	--	--	14,109	12,858	14,109	12,858	--	--
Internal Audit Bureau	11,927	9,778	9,012	6,622	14,711	15,524	14,556	15,177	155	347
Total	910,142	4,821,451	516,393	892,670	1,525,911	1,702,752	1,370,980	1,658,382	154,931	44,370

N/A Not Applicable.

Source: financial statements (audited).

The Premier and Cabinet cluster achieved an overall surplus of \$155 million in 2013-14, an increase of \$111 million from the \$44.4 million surplus in 2012-13. In 2013-14, total cluster expenditure decreased by \$287 million and total cluster revenue decreased by \$177 million.

The value of assets held by cluster agencies totalled \$910 million at 30 June 2014, down from \$4.8 billion at 30 June 2013. Total liabilities also fell to \$516 million at 30 June 2014 from \$893 million in the previous year.

The significant decrease in cluster assets, liabilities, revenues and expenditures is mostly attributable to the Office of Environment and Heritage (OEH), and Office of Local Government (OLG) becoming standalone agencies upon transfer to the Planning and Environment cluster on 24 February, as discussed below.

Department of Premier and Cabinet

The decrease in the Department's assets and liabilities at 30 June 2014, and revenues and expenses for 2013-14, was mostly attributable to the 'Administrative Arrangement Order 2014' which commenced on 24 February 2014. This Order resulted in the OEH, OLG and the Parliamentary Counsel's Office (PCO), previously offices within the Department, becoming standalone agencies. OEH and OLG were transferred to the Planning and Environment cluster while the PCO remained as a separate executive agency within the Premier and Cabinet cluster.

The table below details the balances transferred from the Department to the three newly created agencies on 24 February 2014, and the revenues, expenses and surplus/(deficit) relating to the new agencies from 24 February 2014 to 30 June 2014.

As at 24 February	Office of Environment and Heritage \$000	Office of Local Government \$000	Parliamentary Counsel's Office \$000	Total \$000
Total assets	4,334,527	8,218	960	4,343,705
Total liabilities	512,576	3,139	871	516,586
Equity	3,821,951	5,079	89	3,827,119
For period 24 February to 30 June 2014				
Revenue	348,501	14,643	3,641	366,785
Expenses	463,638	13,163	3,523	480,324
Surplus/(deficit)	(115,137)	1,480	118	(113,539)

Source: Financial statements (audited).

Of the \$4.3 billion of assets transferred to OEH on 24 February 2014, \$3.7 billion related to land and buildings, plant and equipment and infrastructure assets. Further details on the financial results of OEH and OLG for the period ended 30 June 2014 will be available in my 2014 volume on the Planning and Environment cluster.

Service NSW

Service NSW is in a growth phase having commenced operations on 14 June 2013 and, as such, 2013-14 was the first full year of operations. This explains the increase in total assets from \$32.0 million in 2012-13 to \$58.7 million at 30 June 2014 and expenditure from \$1.6 million in 2012-13 to \$96.1 million in 2013-14.

The expansion of Service NSW's operations is further detailed in the 'Service Delivery' section of this volume.

Infrastructure NSW

As discussed earlier in this volume, Infrastructure NSW (INSW) manages the Sydney International Convention, Exhibition and Entertainment Precinct Project (SICEEP) on behalf of the Sydney Harbour Foreshore Authority (SHFA). INSW recharges SHFA its costs incurred for the management of the SICEEP. The significant increase in both revenue and expenses in 2013-14 was mainly due to the ramping up of this project.

Barangaroo Delivery Authority

The Authority's total assets increased to \$563 million at 30 June 2014, an increase of \$127 million from 30 June 2013. This was primarily due to a revaluation of land (\$33.2 million) and additions to work in progress for the construction of Headland Park (\$83.5 million).

The Authority had total liabilities of \$376 million at 30 June 2014, an increase of \$54.2 million from 30 June 2013. This increase was mainly due to additional borrowings of \$76.6 million predominately for funding the construction of Headland Park. The increase in liabilities was partially offset by a decrease in other provisions of \$9.9 million due to the completion of the Passenger Terminal project and a further decrease in payables of \$12.7 million due to the settlement of a special dividend to Treasury of \$21.9 million.

Total revenue decreased by \$41.3 million to \$85.2 million in 2013-14 (\$126 million in 2012-13). The 2013-14 revenue mainly resulted from a gain of \$80.0 million from the sale of leased land. This compares with a gain of \$125 million from leased land sales in 2012-13.

Performance against Budget

Comparing agency performance against budget assists in understanding how public funds are being used to achieve NSW Government policy objectives.

The Treasurer has continued to communicate with agency Chief Financial Officers, the importance of accurate financial information at various forums. The Treasurer's request for the Auditor-General to review the estimates and forecasts in the 2013-14 'Half Yearly Budget Review' and 2014-15 'Budget Papers' was also aimed at improving the overall quality of budgets and projections.

The Secretary of the Department is responsible for control of the budget for the cluster. The Department aims to manage cluster activities to achieve a net result within budget. Agencies monitor individual budgets and the Principal Cluster Department can reprioritise expenditure as required within the cluster to meet required service levels. Some independent agencies receive funding directly from The Treasury and the Department has no authority to reprioritise budgets to meet required service levels within the cluster.

Budget Performance for the Premier and Cabinet Cluster

The table in Appendix One compares the 2013-14 actual results of agencies within the cluster to their 2013-14 original budgets and highlights variances.

The table shows that most cluster agencies had variances of greater than five per cent between actual results and budget for major financial statement line items.

Recommendation

Premier and Cabinet cluster agencies need to implement further measures to improve the accuracy of budgets.

Meaningful analysis of the Department's actual results to budget is hampered by the major restructuring on 24 February 2014 mentioned earlier in this volume. The transfer of the Office of Environment and Heritage and Office of Local Government from the Department to newly created agencies in the Planning and Environment cluster is the primary reason for the large budget variances reported. The operations of these entities were included in the Department's 2014 budget.

Excluding the Department, of the 13 agencies in the Premier and Cabinet cluster in 2013-14:

- some agencies did not have budget information available as it was included in the Department's budget prior to the restructure of agencies
- four agencies exceeded their budget for 'employee expenses'
- six agencies exceeded their budget for 'other expenses'
- six agencies were not able to budget their net asset position to within 20 per cent of actual
- four agencies were not able to budget their purchases of property plant and equipment within 25 per cent of actual.

Our analysis above is based on the original budget, however a number of agencies had a revised budget to reflect changes in roles and activities during the year. Given the significant variations between the original and revised budget compared to actual results for the agencies in the cluster, further analysis against budget is not considered possible.

Financial Analysis

Within the Premier and Cabinet cluster there are two self-funded agencies which generate the majority of revenue from their own operations. These agencies must generate sufficient revenue to meet their financial obligations, and to fund asset replacement and new asset acquisitions, if they are to be financially sustainable over the long term.

The majority of agencies in the cluster are funded by government grants and contributions. They do not generate any revenue to recover their own costs.

The table below summarises the performance of cluster agencies against some key financial indicators as at, and for, the year ended 30 June 2014.

Financial Analysis Indicators at 30 June 2014

Cluster agencies	Surplus/ (deficit) \$'000	Liquidity	Government funding (%)	Expense growth rate (%)
Principal department				
Department of Premier and Cabinet	81,977	1.4	83.6	(29.9)
Executive agencies				
Parliamentary Counsel's Office	118	0.4	95.1	N/A
Service NSW	30,224	1.2	94.0	>100
Infrastructure NSW	562	1.9	14.6	>100
Natural Resources Commission	97	1.5	94.2	4.5
Barangaroo Delivery Authority	40,084	0.8	--	(0.0)
Separate agencies				
New South Wales Electoral Commission	(967)	1.7	96.1	(29.3)
Public Service Commission	819	2.0	93.1	15.6
Ombudsman's Office	705	1.0	93.4	8.9
Police Integrity Commission	(369)	1.2	94.9	3.3
Independent Pricing and Regulatory Tribunal	575	2.7	87.0	(0.3)
Other agencies				
Independent Commission Against Corruption	951	0.9	94.1	4.2
Election Funding Authority of New South	--	N/A	74.2	9.7
Internal Audit Bureau	155	1.6	--	(4.1)
Cluster total	154,931	1.1	81.7	(17.3)

N/A Not Applicable.

Source: financial statements (audited). Appendix two includes the definition of each of the indicators.

Surplus/Deficit

The surplus of the Department of Premier and Cabinet was impacted by the significant restructures previously mentioned.

The surplus of Service NSW was due to significant growth in expenditure and revenue since its establishment in June 2013.

The surplus of the Barangaroo Delivery Authority was due to the sale of leased land as part of the project delivery arrangements.

Liquidity

Liquidity, as measured by the current ratio, for most agencies within the cluster remains within the normal range of 1.0 to 2.0. This indicates that the agencies are highly liquid and able to meet their short term liabilities.

The Parliamentary Counsel's Office has a low current ratio. It became a stand alone agency on 24 February 2014.

The Barangaroo Delivery Authority has a low current ratio, indicating it may not be able meet its short term obligations. However as the Authority is a self funded agency, Treasury has approved a borrowing facility of up to \$305 million and a 'come and go' facility of \$50.0 million to meet any short term obligations. The Independent Pricing and Regulatory Tribunal had a current ratio of 2.7 indicating surplus cash on hand at 30 June 2014.

Government Funding

All agencies in the cluster, with the exception of the Barangaroo Delivery Authority and the Internal Audit Bureau, are funded by the State Government in the form capital and recurrent appropriation or grants. This funding source made up 82 per cent of total cluster revenue in 2013-14 (82 per cent in 2012-13).

Infrastructure NSW recouped its costs in relation to management of the Sydney International Convention, Exhibition and Entertainment Precinct Project from the Sydney Harbour Foreshore Authority.

Expense Growth Rate

Expense growth rates vary across the cluster. The expenses have declined for some agencies since last year, such as the Department of Premier and Cabinet (due to the restructure previously mentioned), the Internal Audit Bureau, the Independent Pricing and Regulatory Tribunal and the New South Wales Electoral Commission. In other cases, expenses have increased significantly compared to the previous year.

The expenses of Infrastructure NSW increased by over 100 per cent in 2013-14 due to the ramping up of the Sydney International Convention, Exhibition and Entertainment Precinct Project. Infrastructure NSW spent \$49.8 million on this project in 2013-14 (\$18.5 million in 2012-13).

The expenses for Service NSW increased by over 100 per cent in 2013-14. It commenced operations on 14 June 2013. The results of Service NSW were included within the Department of Premier and Cabinet in 2012-13.

Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of agency policies. They are essential for quality and timely decision making to achieve desired outcomes

Financial Controls

2013-14 Audit Observations

Internal Controls

Some areas could be improved such as compliance with agency policies, asset management processes and controls over aspects of the expenditure and payroll functions

Human Resources

The management of excess annual leave could be improved

Information Technology

- Significant improvements in the management of information security risks over the last three years
- Most of the significant IT operations are located at the shared service centre and not within the cluster agencies

Internal Controls

My audits of the financial statements of Premier and Cabinet cluster agencies for the year ended 30 June 2014 did not identify any high risk internal control weaknesses.

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. The financial statement audits for 2014 concluded that, generally, internal controls of agencies in the Premier and Cabinet cluster were appropriately designed and operated effectively to produce reliable and timely financial reports.

The 2014 audits did not identify any high risk internal control weaknesses. The audits did, however, identify areas where internal controls could be improved, and these were reported to the relevant agencies' management. A total of 37 financial reporting and control issues were reported and two of these were repeat issues.

Issues Specific to an Agency

- Issues were identified with the timeliness and quality of working papers supporting the financial statements submitted for audit.
- An assessment of the risk management maturity of one agency identified:
 - key risk indicators, risk appetite and tolerance limits were only in the development stages
 - risk management processes were inconsistently applied across business units
 - no formal procedures exist for compliance enforcement; inconsistent risk monitoring and reporting practices
 - the lack of organisational wide training and workshops to align risk awareness and risk management practices.
- The Treasurer's approval for financial accommodation under the *Public Authorities Financial Arrangements Act 1987* relating to transaction negotiation authority limits was not obtained.
- Long outstanding open purchase orders were not monitored, investigated and cleared.
- The level of approval of a gift received was not in accordance with the agency's code of conduct.
- The make good provision for one agency was incorrectly calculated. In another agency, the make good asset was not recorded.

Issues Common across Multiple Agencies

- Some agencies did not have a centralised contracts register to capture all relevant details of contracts entered into.
- Agency policies and procedures were outdated.
- Fully depreciated assets were still in use in a number of agencies and some assets which were disposed of, or no longer in use, were still recorded in the fixed assets register.

Repeat Issues

- Capital expenditure that was invoiced in July 2014 was not accrued even though services were provided in 2013-14. In addition some capital payments were made without purchase orders being raised.
- A formal policy outlining how cost recovery estimates are determined for commercial elections, and who is responsible for approving the final estimates, were still being drafted and expected to be finalised by 31 October 2014.

Human Resources

Excess Annual Leave

Managing excess annual leave is a continual challenge for many agencies in the Premier and Cabinet cluster.

Treasury Circular TC14/11 'Reduction of Accrued Recreation Leave Balances' requires agencies to make all reasonable attempts to reduce accrued employee recreation leave balances to a maximum of 30 days or less by 30 June 2015. This target is reduced from 35 days or less at 30 June 2014 and 40 days or less at 30 June 2013.

At 30 June 2014, the number of employees with balances exceeding 35 days was 141. In the previous year, 80 employees had more than 40 days at 30 June 2013.

The table below provides the details for each agency in the cluster.

Cluster agencies	30 June 2013 headcount > 40 days	30 June 2014 headcount > 35 days
Principal department		
Department of Premier and Cabinet*	41	75
Executive agencies		
Parliamentary Counsel's Office	N/A	--
Service NSW	5	13
Infrastructure NSW	--	--
Natural Resources Commission	--	--
Barangaroo Delivery Authority	1	2
Separate agencies		
New South Wales Electoral Commission	16	13
Public Service Commission	1	7
Ombudsman's Office	--	2
Police Integrity Commission	--	--
Independent Pricing and Regulatory Tribunal	5	7
Other agencies		
Independent Commission Against Corruption	11	22
Election Funding Authority of New South Wales	--	--
Internal Audit Bureau	--	--
Total	80	141

* Excludes Office of Environment and Heritage.

Source: Data provided by the respective agencies (unaudited).

The Department of Premier and Cabinet, being the largest agency in the cluster, had the most employees with excess annual leave balances. The Department has advised that initiatives are in place to manage excess annual leave.

The health and welfare of staff can be adversely affected if they do not take sufficient breaks from work during the year. Allowing excess annual leave balances also means employees performing key control functions may not be rotated regularly, which is a preventive control against fraud.

Information Technology

Information Systems Issues

Information systems audits focus on the information technology (IT) processes and controls supporting the integrity of financial data used in the preparation of agencies' financial statements.

In past years, we identified IT issues during our audits of the Premier and Cabinet cluster agencies. We did not identify any IT issues in the 2013-14 audits (two issues in 2012-13).

Eight of the 14 cluster agencies utilise shared service arrangements, with the majority using ServiceFirst Government Services (ServiceFirst) to provide IT infrastructure and application support. The Audit Office audits ServiceFirst and obtained assurance that key controls operated effectively throughout 2013-14. Service Partnership Agreements covering terms of support, the roles and responsibilities of relevant parties, and the level of assurance over IT controls were found to be in place between ServiceFirst and cluster agencies in all but one case.

Refer to the comment on 'Shared Services' in the 'Service Delivery' section of this volume for further details.

Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems the agencies, and those charged with governance, use and are held to account by others.

The comments and observations in this section are based on the results and findings of our financial audits of agencies in the Premier and Cabinet cluster for 2013-14.

Governance

2013-14 Audit Observations

Governance Frameworks Supporting Service Delivery

- The cluster includes a number of independent agencies resulting in limited oversight by the Department
- Guidance should be provided to agencies affected by machinery of government changes

Risk Management

Agency risk management processes need to be responsive to changes in their environment

Governance Frameworks Supporting Service Delivery

In April 2011, individual government agencies were organised into nine clusters, each headed by a Principal Department. The head of the Principal Department is the Secretary of the Department. This administrative arrangement was intended to provide a mechanism for coordination and strategic alignment of agencies. Since that time, in the Premier and Cabinet cluster, there have been amalgamations of agencies, new agencies created, agencies transferred in/out and others abolished.

The Department is responsible for arranging agencies into the nine relevant clusters and maintains the government organisational database, which contains information on all cluster-specific reporting relationships between entities, complete with links to the entity's enabling legislation. This database is amended for administrative restructures and legislative changes.

NSW Public Sector Governance Framework

Recommendation

The Department of Premier and Cabinet should update the NSW Public Sector Governance Framework released in February 2013.

The NSW Public Sector Governance Framework (the Framework) provides guidance when determining the appropriate governance arrangements and level of Government control required in respect of functions for which the NSW Government is accountable.

The Framework, released by the Department of Premier and Cabinet in February 2013, has been designed as a tool to assist with the process for establishing new entities and reviewing existing entities in the Executive branch of Government.

During our 2013-14 financial audits we observed:

- the Framework still refers to the *Public Sector Employment and Management Act 2002* which has been replaced by the *Government Sector Employment Act 2013*
- differences in the nature of the agencies within the cluster makes the sharing of a common governance structure difficult
- the alignment of independent agencies within the Premier and Cabinet cluster may not be appropriate.

The Premier and Cabinet Cluster

The Premier and Cabinet cluster consists of four categories of agencies within the Public Service. The Principal Department is the Department of Premier and Cabinet (the Department). There are five Public Service Executive Agencies related to the Department and five Separate Public Service Agencies. The cluster includes three Other Agencies which operate outside the *Government Sector Employment Act 2013*.

Independent Agencies

The Premier and Cabinet cluster is very different in its makeup to other clusters. The cluster includes a number of agencies that have been established as independent agencies for reasons of constitutional or statutory independence. Such agencies include the Independent Commission Against Corruption and the Internal Audit Bureau. The need for independence results in limited oversight of these agencies by the Department. Generally, independent bodies report directly to Parliament and not to the Department. Further, there is no internal financial reporting at a cluster level, or oversight of independent agencies, by the Chief Financial Officer of the Department.

In performing their roles and legislative mandates, independent agencies need to have a clear understanding of the government's strategic priorities and desired service delivery outcomes. However, to maintain independence, these agencies must be able to operate autonomously, including having their own Audit and Risk Committees.

Collaboration across Cluster Agencies

Agencies within the Premier and Cabinet cluster have taken opportunities to share resources, improve efficiency and reduce costs. An example is the sharing of the Audit and Risk Committee of the Department with the Natural Resources Commission, Office of Local Government, Lord Howe Island Board and Parliamentary Counsel's Office, as permitted by TPP 12-04 'Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees'.

Such arrangements increase efficiency and reduce costs to government through the sharing of independent Audit and Risk Committees members, secretariat services, the function of Chief Audit Executives, as well as reduced costs for travel and logistical arrangements.

Administrative Restructures

Administrative Arrangements Order 2014

Agencies affected by machinery of government changes would benefit from timely guidance to assist them to understand the financial, legal and accounting implications.

The administrative restructuring of agencies creates complexity with respect to accounting and financial reporting. The time taken to implement changes should be considered when administrative arrangement orders are issued. The effective date should allow time for agencies to address issues and implement the changes.

The 'Administrative Arrangements Order 2014' issued on 24 February 2014 transferred many functions of the Department to newly established agencies.

- The Office of Environment and Heritage, previously an office within the Department, was created as a separate agency within the Planning and Environment cluster.
- The Division of Local Government, previously a division within the Department, was created as a separate agency named the Office of Local Government. This agency was also transferred to the Planning and Environment cluster.
- The Parliamentary Counsel's Office, previously an office within the Department, was established as a new executive agency within the Premier and Cabinet cluster.

The 'Administrative Arrangements (Administrative Changes – Miscellaneous Agencies) Order 2014' resulted in further changes to the Premier and Cabinet cluster, effective from 1 July 2014. Refer to the table at Appendix Three for details of the changes.

During our financial audits we reviewed how agencies affected by the administrative restructure managed the separation process as at 24 February 2014. The audits identified the following issues:

- agencies were not advised of the changes outlined in the 'Administrative Arrangements Order 2014' in advance. Therefore a transition plan to facilitate the orderly transfer of functions for administrative and accounting purposes could not be prepared in advance
- separate accounting systems for the Office of Local Government and the Parliamentary Counsel's Office were only set up on 1 July 2014. These agencies used manual reconciliation processes to address the separation as at 24 February 2014 resulting in a number of accounting errors that were detected during audit
- without advance notice, the agencies were unable to establish the necessary bank accounts, financial accounting systems and gain separate GST statuses.

Risk Management

The risk management frameworks and processes of agencies in the Premier and Cabinet cluster are at different levels of maturity. I will be examining this area more closely in my 2015 financial and performance audits.

Risk Management is a process of identifying, assessing and prioritising risks to minimise, monitor and control the impact of unforeseen events or to maximise the realisation of opportunities. An agencies' risk management framework should be integrated with its organisational management systems and processes.

In 2009, NSW Treasury's TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector' (TPP 09-05) introduced requirements on department heads and governing boards of statutory bodies to establish and maintain a risk management process that is consistent with the current Australian/New Zealand standard on risk management.

In 2012, Treasury published a Risk Management Toolkit 'NSW Treasury Policy and Guidelines Paper TPP 12-03' to support agencies in developing and implementing their risk management framework and processes.

Each of the agencies within the Premier and Cabinet cluster have their own risk profile and risk management framework. Overall, at the cluster level there is no oversight of risk, and risk management is performed at an agency level with oversight by separate Audit and Risk Committee's.

During our financial audits, we examined if agencies within the cluster have:

- a risk management framework
- integrated risk management processes.

The results highlighted:

- the Department is mature in implementing its risk management framework
- agencies in the cluster are at different maturity levels in implementing risk management frameworks and in some cases risk management processes were not integrated across business units.

I have proposed a Performance Audit on 'Implementation of the Government's Risk Management Framework'. It is expected to be completed by July 2015.

In addition, during next year's financial audits, we will further assess the risk management maturity of a number of agencies across the clusters. We will assess how agencies identify and assess its business and other key risks through:

- risk governance - whether there is a systematic approach to decision making processes associated with operational and strategic risks
- risk management systems and oversight - the system that supports identifying, monitoring and reporting of risk management processes
- risk ownership and culture - the assignment of responsibility for risk management and embedding of risk culture in the organisation.

Governance Framework for Major Transactions

In October 2014, the Department of Premier and Cabinet (the Department) released Circular C2014-09 'Governance Framework for Major Transactions' (Governance Framework). Major transactions are overseen by a Cabinet Standing Committee on Expenditure Review (ERC) on behalf of Cabinet.

A transaction is a 'major transaction' if it:

- involves the sale, or the granting of exclusive or limited rights for more than five years through a lease or licence, of a physical or financial asset
- is expected to result in a payment or benefit to the Government exceeding \$20.0 million (Net Present Value).

An oversight committee is to be established for every major transaction. This committee is to be chaired by Treasury and report to ERC through the Treasurer and relevant portfolio Minister. It is expected that this Governance Framework will assist agencies in scoping out major projects with more accuracy.

The table below shows which agencies are required, or not required, to comply with this Governance Framework.

Agencies mandated with this requirement	Agencies not required to comply with this requirement
Departments	Statutory authorities / bodies
Public service executive agencies related to Departments	State owned corporations
Separate public service agencies	Advisory entities
	Councils under the Local Government Act
	Subsidiaries of the NSW Government established under the <i>Corporations Act</i>
	Universities

Executive agencies are required to comply with the Governance Framework, while statutory authorities / bodies are excluded. As a result, the obligation to comply for agencies considered Executive Agencies under the *Government Sector Employment Act 2013*, but also a statutory authority under *Public Finance and Audit Act 1983* remains unclear.

Recommendation

The Department should provide additional clarity and guidance on which agencies are mandated by the requirements of 'C2014-09 Governance Framework for Major Transactions.'

The Natural Resources Commission is one example of an agency that is an executive agency and also a statutory body under the *Public Finance and Audit Act 1983*. It is unclear if the Governance Framework applies to the Natural Resources Commission.

Program Evaluation and Review

The Department released Circular C2013-08 'Program Evaluation and Review' in August 2013. Agencies are expected to evaluate their programs, both new and existing, in line with the 'NSW Government Evaluation Framework August 2013'. The findings of this evaluation exercise are to be made available publicly, unless there is an overriding public interest against disclosure. This reform is expected to increase transparency of program expenditure and provide a better understanding of the outcomes delivered by programs.

Fraud Control

The results of our fraud review indicated that fraud control procedures across the Premier and Cabinet cluster were generally effective.

We inquired with all agencies within the Premier and Cabinet cluster on reported instances of fraud in 2013-14. Only one instance of possible corrupt conduct was reported. This matter was investigated and new practices implemented at the agency as a result.

Service Delivery

Service Delivery

2013-14 Audit Observations

NSW 2021 Performance

Agencies in the cluster have been working towards achieving the performance goals for the Premier and Cabinet cluster

Shared Services

Comprehensive service partnership agreements to support service delivery are in place for most agencies

Contract Management

A more structured and comprehensive approach to contract management is needed

Performance Information

NSW 2021 Performance

The NSW Government's ten year plan, NSW 2021, includes the following performance goals for the Premier and Cabinet cluster:

- invest in critical infrastructure
- restore trust in the state and local government as a service provider
- improve government transparency by increasing access to government information
- involve the community in decision-making on government policy.

Public Service Commission - Restoring Trust

The Public Service Commission (the Commission) has continued to work with the government sector to embed the government's core values of integrity, trust, service and accountability in the culture, leadership, systems and practices of agencies and the conduct of employees.

In 2013-14, this included:

- commencement of the *Government Sector Employment Act 2013* (the GSE Act), including specific provisions making the Secretaries of Departments and heads of agencies responsible for the conduct and management of their agencies in accordance with government sector core values
- inclusion in the model contract of employment for Public Service senior executives the requirement they perform their duties and responsibilities in accordance with the government sector core values
- consultation with government sector agency heads to implement a new sector-wide Code of Ethics and Conduct and new minimum standards for the management of gifts and benefits
- the 2013 State of the NSW Public Sector Report on performance of the sector and progress in implementing key workforce reforms including the introduction of new capability and performance development frameworks
- the 2014 People Matter Employee survey across the public sector to obtain employee's perceptions on a range of workplace matters including the extent to which they experience the government's core values.

In May 2012, the NSW Commission of Audit released its report on 'Government Expenditure'. The report highlighted the need for workforce reforms to ensure the public sector has the right executive structures, people and skills.

Service NSW - Restoring Trust

Launched in July 2013, Service NSW is addressing the NSW 2021 plan to restore trust in the State Government as a service provider by enhancing the delivery of government customer services.

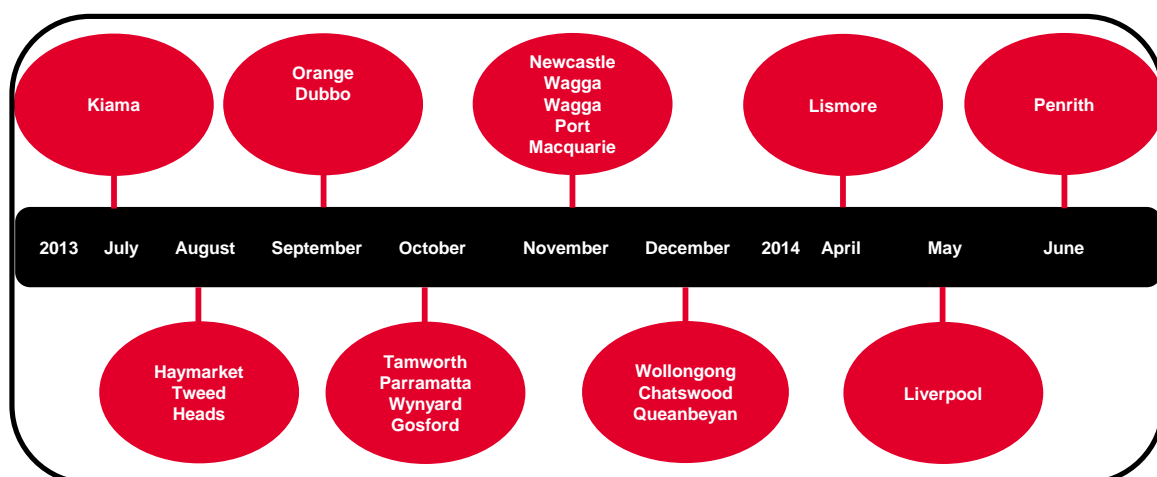
Service NSW has successfully completed its 'proof of concept' phase with the introduction of 18 service centres, launch of a 24/7 phone service and a new digital channel.

During 2013-14, Service NSW successfully completed its 'proof of concept' phase delivering:

- a new digital service with new online transactions such as seniors cards and birth, death and marriage certificate applications
- a 24/7 phone service answered by a person
- 18 service centres with extended trading hours and concierge services across New South Wales.

Operations commenced in service centres and the 120 seat Parramatta Contact Centre from July 2013 as a gateway for more than 800 government transactions. The partner agencies include NSW Fair Trading, Roads and Maritime Services, NSW Registry of Births Deaths and Marriages and NSW Housing and Department of Planning and Environment, with more services being added over time.

The current service centre locations are as follows:



Source: Service NSW Annual Report 2013-14.

Since 1 July 2013, more than 3.5 million transactions with customers were delivered over the telephone, through digital services or in service centres. To ensure continued quality service to customers, feedback and customer satisfaction ratings are tracked in real time. Service NSW advised that customer satisfaction ratings averaged at 98 per cent, unchanged since the launch in July 2013.

By June 2015, Service NSW plans to have 36 one-stop shops trading across New South Wales. From 1 July 2014, the 200 seat Newcastle Contact Centre (transitioned from Roads and Maritime Services) commenced operations.

Total capital expenditure budgeted in 2014-15 is \$87.2 million (\$32.4 million in 2013-14), which includes:

Project description	Budgeted cost (\$m)
Service centre site refurbishment and establishment	24.0
Network technology, customer service system integration, technology upgrades and initial work on the payments gateway project	56.0
Other capital expenditure	7.2

I have proposed a Performance Audit - 'Mid-Implementation Review of Service NSW'. It is scheduled to be completed in June 2015.

Infrastructure NSW - 'Investing in Critical Infrastructure'

Infrastructure NSW (INSW) was established in July 2011 to assist the NSW Government in identifying and prioritising the delivery of critical public infrastructure.

The 20-Year State Infrastructure Strategy

In September 2012, INSW delivered the 20-year State Infrastructure Strategy (the Strategy) to the NSW Premier, as required under the *Infrastructure NSW Act 2011* (the Act). The Strategy, titled 'First Things First' was INSW's advice to the NSW Government on guiding infrastructure investment. It made a total of 70 recommendations for projects and reforms costing \$30.0 billion over 20 years, comprising \$20.0 billion in government funding and \$10.0 billion in user funding.

In 2014-15 INSW will prepare a revised Strategy following the Premier's request for advice on the highest priority projects for funding from the proceeds of the planned sale of electricity distribution networks.

Five-Year State Infrastructure Plan

INSW prepared the first 'Five-Year State Infrastructure Plan' (Plan) to help the NSW Government adopt the recommendations made in the State Infrastructure Strategy. The Plan was delivered to the Premier in May 2013.

INSW delivered its second Five Year Plan to the Premier in April 2014 and it was published in the NSW Government Infrastructure Statement 2014-15 Budget Paper No. 4. The Plan includes major projects currently underway like the South West Rail Link, North West Rail Link, WestConnex and the Northern Beaches Hospital. It also includes projects assessed for budget approval which will begin within the next five years, like an initial \$1.4 billion (of a \$3.5 billion package) for Western Sydney roads to support Sydney's second airport at Badgerys Creek.

Performance Reporting: Role of the Department of Premier and Cabinet in Monitoring the NSW 2021 Plan

The Department of Premier and Cabinet (the Department) is responsible for monitoring and reporting on the 32 goals and 186 targets of the NSW 2021 Plan. The Department reports performance against each goal and target twice per year in the NSW 2021 Performance Report (published alongside the Budget) and NSW 2021 Measures Report.

The Department has consulted with the other clusters across the State to develop targets and baseline measures and uses an online tool to obtain information from agencies for monitoring and reporting purposes. The Department has not formally documented this process.

There are currently 321 measures, with 15 measures still not fully developed. Portfolio Ministers are required to sign off against their agencies performance data and report. The data is not audited for accuracy by the Department but is assessed for reasonableness. Other state Audit Offices have a mandate to audit key performance indicators of government entities, as a way to provide better government accountability. At present, my Office does not have a similar mandate.

Shared Services

Shared service arrangements aim to create efficiencies and reduce costs by centralising the delivery of services, such as human resources, financial and information technology, to central agencies from a single location.

The NSW Commission of Audit, in their May 2012 report on 'Government Expenditure', recommended improvements in the delivery of corporate and shared services across the government sector.

Recommendation

Agencies in the Premier and Cabinet cluster should finalise and sign their Service Partnership Agreements with ServiceFirst before 1 July of the year to which the agreement relates.

The following table provides an overview of the shared service arrangements in place in the Premier and Cabinet cluster.

Cluster agencies	Shared service arrangements	Service partnership agreement in place	Key performance measures in place
Principal department			
Department of Premier and Cabinet	Yes	Yes	Yes
Executive agencies			
Parliamentary Counsel's Office	Yes	Yes	Yes
Service NSW	Yes	Yes	Yes
Infrastructure NSW	Yes	Yes	Yes
Natural Resources Commission	Yes	Yes	Yes
Barangaroo Delivery Authority	Yes	Yes	Yes
Separate agencies			
New South Wales Electoral Commission	No	N/A	N/A
Public Service Commission	Yes	Yes	Yes
Ombudsman's Office	No	N/A	N/A
Police Integrity Commission	No	N/A	N/A
Independent Pricing and Regulatory Tribunal	Yes	No	No
Other agencies			
Independent Commission Against Corruption	No	N/A	N/A
Election Funding Authority of New South Wales	No	N/A	N/A
Internal Audit Bureau	No	N/A	N/A

Eight agencies in the Premier and Cabinet cluster utilise the services of the shared service provider ServiceFirst. As the NSW Government's only multi-tenanted shared services provider, ServiceFirst delivers a standard catalogue of HR and Workplace, Finance and Information and Communications Technology (ICT) services to NSW Government agencies. ServiceFirst operates within the Office of Finance and Services - Government Services Division.

Of the eight agencies, seven had a signed Service Partnership Agreement (SPA) for 2013-14. Many of these SPAs were not signed until part way through the year. The Independent Pricing and Regulatory Tribunal (Tribunal) did not finalise their SPA during 2013-14. This matter was also raised in the Tribunal's previous year's audit.

The SPA is a mutual undertaking between the agency and ServiceFirst and it enables the transparent delivery of efficient and cost-effective shared services. The SPA also defines the key performance measures and outlines the responsibilities of both ServiceFirst and the agency. ServiceFirst provides monthly performance reports detailing performance against agreed targets.

Contract Management

Recommendation

Cluster agencies should perform a self assessment against the key elements of our Better Practice Guide on Contract Management Framework.

A rigorous contract management framework is vital to ensure all parties meet their obligations, contractual relationships are well managed, value for money is achieved and deliverables meet the required standards and agreed timeframes.

We looked at five of the larger cluster agencies' compliance with some elements of our Better Practice Contract Management Framework'. Some of the common issues identified during our audits of these five agencies in relation to contract management can be addressed by:

- having a contract management framework and a centralised contracts register
- agency Audit and Risk Committees reviewing the contract register annually for relevance and compliance with government and agency procurement policies
- having a risk based contract management plan for each contract to effectively monitor and manage performance against the contract objectives, service delivery standards and key performance indicators.

Refer below for a summary of the five cluster agencies compliance with elements of our 'Better Practice Contract Management Framework'.

Cluster agencies	Centralised contract register exists	Contract management framework in place	Contract register reviewed by Audit and Risk Committee annually	Each contract has a risk based contract management plan
Department of Premier and Cabinet	No	No	N/A	N/A
Public Service Commission	No	No	N/A	N/A
Service NSW	Yes	Yes	Yes	No
Barangaroo Delivery Authority	Yes	Yes	No	No, in place for large contracts that warrant the appropriate risk management profile and where contractual value exceeds \$2.0 million.
Infrastructure NSW	Yes	Yes	Yes	No

Neither the Department of Premier and Cabinet or the Public Service Commission have a centralised contract register or contract management framework.

We published key elements of a 'Better Practice Contract Management Framework' in Appendix One of our Auditor-General's Report to Parliament - 'Making the most of government purchasing power – telecommunications' which was tabled in Parliament on 26 June 2014.

Section Two

Appendices



Appendix One – Performance Against Budget

	Department of Premier and Cabinet**		Independent Commission Against Corruption		Public Service Commission		Election Funding Authority of New South Wales		Service NSW	
	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Abridged statement of comprehensive income - year ended 30 June 2014										
Employee expenses	367,089	472,344	17,782	16,500	15,638	17,770	3,638	--	32,457	--
All other expenses and losses	597,661	1,029,323	8,117	7,791	18,839	17,801	10,471	--	63,606	--
Total expenses	964,750	1,501,667	25,899	24,291	34,477	35,571	14,109	--	96,063	--
Government contributions	875,326	1,232,152	25,277	31,794	32,847	34,311	10,471	--	118,759	--
Other revenue	171,401	210,026	1,573	968	2,449	1,752	3,638	--	7,528	--
Total revenue	1,046,727	1,442,178	26,850	32,762	35,296	36,063	14,109	--	126,287	--
Surplus/(deficit)	81,977	(59,489)	951	8,471	819	492	--	--	30,224	--
Total other comprehensive income/(expense)*	(4,492)	--	--	--	--	--	--	--	--	--
Total comprehensive income/(expense)	77,485	(59,489)	951	8,471	819	492	--	--	30,224	--
Abridged statement of financial position - at 30 June 2014										
Current assets	76,362	333,393	5,478	1,856	5,537	3,735	--	--	14,443	--
Non-current assets	130,382	4,024,635	3,043	10,761	3,889	4,371	--	--	44,246	--
Total assets	206,744	4,358,028	8,521	12,617	9,426	8,106	--	--	58,689	--
Current liabilities	54,656	192,188	5,976	2,377	2,773	2,920	--	--	11,917	--
Non-current liabilities	34,535	344,673	26	407	366	305	--	--	1,161	--
Total liabilities	89,191	536,861	6,002	2,784	3,139	3,225	--	--	13,078	--
Net assets	117,553	3,821,167	2,519	9,833	6,287	4,881	--	--	45,611	--
Extract statement of cash flows - year ended 30 June 2014										
Purchases of property, plant and equipment	36,014	64,465	1,757	10,644	966	1,350	--	--	36,701	--

* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

** Includes budget for Office of Environment and Heritage, Parliamentary Counsel's Office and Office of Local Government and excludes actual and budget for Service NSW.

Source: Financial statements (audited).

	Ombudsman's Office		Police Integrity Commission		Independent Pricing and Regulatory Tribunal		Internal Audit Bureau		Parliamentary Counsel's Office	
	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Abridged statement of comprehensive income - year ended 30 June 2014										
Employee expenses	23,376	20,705	14,206	14,423	18,261	17,412	2,316	--	2,877	--
All other expenses and losses	5,914	5,174	4,956	5,826	8,663	9,479	12,240	--	646	--
Total expenses	29,290	25,879	19,162	20,249	26,924	26,891	14,556	--	3,523	--
Government contributions	28,002	25,033	17,833	19,770	23,922	24,622	--	--	3,464	--
Other revenue	1,993	1,457	960	799	3,577	2,162	14,711	--	177	--
Total revenue	29,995	26,490	18,793	20,569	27,499	26,784	14,711	--	3,641	--
Surplus/(deficit)	705	611	(369)	320	575	(107)	155	--	118	--
Total other comprehensive income/(expense)*	--	--	--	--	--	--	85	--	--	--
Total comprehensive income/(expense)	705	611	(369)	320	575	(107)	240	--	118	--
Abridged statement of financial position - at 30 June 2014										
Current assets	3,284	2,518	2,516	2,233	11,516	9,649	11,776	--	395	--
Non-current assets	2,063	2,176	2,652	3,667	643	470	151	--	1,055	--
Total assets	5,347	4,694	5,168	5,900	12,159	10,119	11,927	--	1,450	--
Current liabilities	3,278	2,958	2,183	1,698	4,251	2,793	7,181	--	975	--
Non-current liabilities	525	474	480	725	500	136	1,831	--	268	--
Total liabilities	3,803	3,432	2,663	2,423	4,751	2,929	9,012	--	1,243	--
Net assets	1,544	1,262	2,505	3,477	7,408	7,190	2,915	--	207	--
Extract statement of cash flows - year ended 30 June 2014										
Purchases of property, plant and equipment	1,324	1,364	909	1,790	195	180	37	--	194	--

* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

Source: Financial statements (audited).

	Natural Resources Commission		Barangaroo Delivery Authority		New South Wales Electoral Commission		Infrastructure NSW		Total Premier and Cabinet	
	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget	2014 Actual	2014 Budget
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Abridged statement of comprehensive income - year ended 30 June 2014										
Employee expenses	3,180	3,262	8,458	7,354	8,432	11,919	3,601	4,159	521,311	585,848
All other expenses and losses	1,877	1,455	36,644	41,070	25,746	20,327	54,289	29,613	849,669	1,167,859
Total expenses	5,057	4,717	45,102	48,424	34,178	32,246	57,890	33,772	1,370,980	1,753,707
Government contributions	4,853	4,853	-	-	31,912	34,184	8,524	10,202	1,181,190	1,416,921
Other revenue	301	66	85,186	95,261	1,299	1,543	49,928	23,570	344,721	337,604
Total revenue	5,154	4,919	85,186	95,261	33,211	35,727	58,452	33,772	1,525,911	1,754,525
Surplus/(deficit)	97	202	40,084	46,837	(967)	3,481	562	--	154,931	818
Total other comprehensive income/(expense)*	--	--	33,190	--	--	--	--	--	28,783	--
Total comprehensive income/(expense)	97	202	73,274	46,837	(967)	3,481	562	--	183,714	818
Abridged statement of financial position - at 30 June 2014										
Current assets	830	531	93,313	217,942	6,339	7,638	4,253	4,932	236,042	584,427
Non-current assets	39	128	469,630	335,438	15,907	16,338	400	350	674,100	4,398,334
Total assets	869	659	562,943	553,380	22,246	23,976	4,653	5,282	910,142	4,982,761
Current liabilities	552	437	120,094	17,001	3,698	1,314	2,210	3,390	219,744	227,076
Non-current liabilities	114	101	256,175	380,027	502	150	166	464	296,649	727,462
Total liabilities	666	538	376,269	397,028	4,200	1,464	2,376	3,854	516,393	954,538
Net assets	203	121	186,674	156,352	18,046	22,512	2,277	1,428	393,749	4,028,223
Extract statement of cash flows - year ended 30 June 2014										
Purchases of property, plant and equipment	32	130	83,533	96,434	5,640	6,175	19	--	167,321	182,532

* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

Source: Financial statements (audited).

Actual v Budget Indicator

- Variance below 2 per cent of budget
- Variance between 2 and 5 per cent of budget
- Variance greater than 5 per cent of budget

Appendix Two – Financial Analysis

Indicator	Formula	Description
Surplus/ (deficit) (\$)	Net result from statement of comprehensive income	A positive result indicates a surplus, while a negative result indicates deficit. Operating deficits cannot be sustained in the long term.
Liquidity (ratio)	Current assets / current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities. Current liabilities exclude long-term employee provisions and revenue in advance.
Government funding (%)	Government grants and contributions/ total revenue	Indicates the proportion of total revenue which is contributed by State and Federal Government. A higher percentage means that the agency relies on the Government to fund its expenditure. This percentage is expected to be lower for self funding agencies.
Expense growth rate (%)	(Total expenditure 2014 - Total expenditure 2013) / Total expenditure 2013	This demonstrates the rate at which total expenditure for an agency has increased or decreased in the financial year 2013-14, compared to 2012-13. A positive growth rate indicates that expenses have increased compared to prior year, while a negative growth rate indicates that expenses have decreased compared to prior year.

Appendix Three – Agency transfers on 1 July 2014

Transferred into the Premier and Cabinet cluster	
Office of Sport NSW Institute of Sport and Staff Agency Sydney Cricket and Sports Ground Trust and Staff Agency Sydney Olympic Park Authority Venues NSW Office of Veteran Affairs	<p>The Office of Sport is established as a Public Service executive agency related to the Department of Premier and Cabinet. The Office of Sport is responsible to the Minister for Sport and Recreation.</p> <p>Parts of the Department of Education and Communities are transferred to the Office of Sport established by Administrative Arrangements Order 2014.</p>
Transferred out of the Premier and Cabinet cluster	
Service NSW	Service NSW is responsible to the Minister for Finance and Services
Merger within the Premier and Cabinet cluster	
New South Wales Electoral Commission Election Funding Authority of New South Wales	<p><i>The Electoral and Lobbying Legislation Amendment (Electoral Commission) Act 2014</i> was assented in Parliament on 24 June 2014 to merge these two agencies within the cluster.</p>

Appendix Four – Cluster Information

Agency	Website
Principal department	
Department of Premier and Cabinet	www.dpc.nsw.gov.au
Executive agencies	
Parliamentary Counsel's Office	www.pco.nsw.gov.au
Service NSW	www.service.nsw.gov.au
Infrastructure NSW	www.infrastructure.nsw.gov.au
Natural Resources Commission	www.nrc.nsw.gov.au
Barangaroo Delivery Authority	www.barangaroo.nsw.gov.au
Separate agencies	
New South Wales Electoral Commission	www.elections.nsw.gov.au
Public Service Commission	www.psc.nsw.gov.au
Ombudsman's Office	www.ombo.nsw.gov.au
Police Integrity Commission	www.pic.nsw.gov.au
Independent Pricing and Regulatory Tribunal	www.ipart.nsw.gov.au
Other agencies	
Independent Commission Against Corruption	www.icac.nsw.gov.au
Election Funding Authority of New South Wales	www.efa.nsw.gov.au
Internal Audit Bureau	www.iab.nsw.gov.au
Audit Office of New South Wales	www.audit.nsw.gov.au

Appendix Five – Agencies not previously commented on, by Minister

The following audits resulted in unmodified independent auditor's reports.

Agency name	Website	Period/year ended
Sesquicentenary of Responsible Government Trust Fund	*	30 June 2014
Infrastructure NSW Staff Agency	*	30 June 2014
Natural Resources Commission Staff Agency	*	30 June 2014
New South Wales Electoral Commission Staff Agency	*	30 June 2014
Internal Audit Bureau Division	*	30 June 2014
Police Integrity Commission Staff Agency	*	30 June 2014
Independent Pricing and Regulatory Tribunal Division	*	30 June 2014

* This entity has no website.

Our vision

Making a difference through audit excellence.

Our mission

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

Our values

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

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

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

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