
New South Wales Auditor-General's Report

Financial Audit

Volume Twelve 2015

Trade and Investment

Water



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 Twelve of my 2015 report.

A handwritten signature in black ink, reading 'A. T. Whitfield'.

A T Whitfield PSM

Acting Auditor-General
15 December 2015

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Part One

Section One

Trade and Investment



Executive Summary

This report analyses the results of the financial statement audits of agencies within the Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS) cluster for the year ended 30 June 2015. During 2014-15 responsibility for skills development was included in the cluster and other significant changes to the cluster took effect from 1 July 2015. These changes included the abolition of DTIRIS and creation of the Department of Industry, Skills and Regional Development.

Financial performance and reporting

Financial reporting

Unqualified audit opinions were issued for all completed audits of financial statements except for TAFE NSW.

The quality of financial reporting has improved but further improvement is required. Timeliness remains an issue for financial reporting.

Revaluations of property plant and equipment

Revaluations should be performed early enough so the process is completed and quality reviewed before the early close deadline for financial statements.

Financial performance

Most agencies should improve the accuracy of their budgets.

Financial controls

Internal controls issues

Internal controls have improved but further work is required.

Disaster recovery planning

All agencies should review disaster recovery requirements, plans and testing for financial systems and ensure they comply with NSW Government policies.

The Department should formalise disaster recovery planning and testing requirements with its external service provider.

Human resources

Agencies should reduce employees' annual leave balances to meet whole-of-government targets.

Governance

Governance arrangements

The Department should benchmark its governance arrangement against relevant better practice guides such as the Audit Office's Governance Lighthouse Checklist.

Service provider arrangements

All agencies that use service providers should ensure the arrangement is supported by a finalised and signed service agreement, which includes appropriate performance indicators.

Fraud and corruption

To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015.

Service delivery

Corporate Plan accountability and clarity

Certain targets and measures in the Department's corporate plan lack clarity.

Aboriginal land claims

The Department should implement measures to reduce the number of unprocessed Aboriginal land claims.

Financial performance and reporting

The quality of financial reporting has improved

In 2014-15 five agencies had six significant matters reported to the relevant Minister and Treasurer. This is an improvement from 13 agencies with 24 significant matters last year.

The number of misstatements in cluster agencies' financial statements remained high, falling slightly from 122 in 2013-14 to 118 in 2014-15. All material misstatements were corrected.

Agencies can still improve their early close procedures

A number of agencies were unable to finalise their revaluations of property, plant and equipment by the early close deadline. Revaluation results were not always robustly reviewed by management prior to their inclusion in the financial statements.

Recommendation

Revaluations should be performed early enough so the process is completed before the early close deadline for financial statements.

Agencies should quality review the revaluation results before including them in financial statements and early close work papers.

Modified audit opinion for the Technical and Further Education Commission

Unqualified audit opinions were issued for all completed audits of financial statements except for Technical and Further Education Commission (TAFE NSW), which was qualified because of system limitations in the recording of student revenue and related transactions.

Recommendation

TAFE NSW should identify and resolve significant issues with its student and administration system.

All financial statements were submitted and most audits completed on time

Agencies submitted their financial statements on time and audit opinions were issued for 18 agencies' financial statements within statutory deadlines.

Audit opinions were issued after the statutory deadline for 13 agencies and a further three statutory audits are still ongoing.

Agencies actual financial performance varied significantly from budget

DTIRIS cluster agencies individually had significant variances between budget and actuals for the year ended 30 June 2015. While some of these variances were caused by revaluations of property, plant and equipment, which were not allowed for in the budget figures, other variances indicate that the initial budget was inaccurate.

Recommendation

Most agencies should improve the accuracy of their budgets.

Financial controls

Internal control issues significantly decreased in 2014-15

Internal controls have improved but further work is required. One hundred and forty nine (237 in 2014) internal control issues identified during the year were reported to agencies, including seven high risk issues (25 in 2014) and 47 repeat issues (65 in 2014). The significant reduction indicates cluster agency management are actively assessing and addressing issues.

Recommendation

Internal control issues should be actioned promptly and repeat issues avoided.

Cluster agencies could be exposed in the event of a disaster

Compliance reviews of two agencies in the cluster identified that they did not have a formal disaster recovery plan in place for their financial systems. This finding also impacts other entities in the cluster. The Department's key financial system is provided by an external service provider. Formalised disaster recovery planning and testing between the Department and the external IT provider of the shared accounting system has not occurred.

Recommendation

All agencies should review disaster recovery requirements, plans and testing for financial systems and ensure they comply with NSW Government policies.

The Department should formalise disaster recovery planning and testing requirements with its external service provider for its key financial systems.

Annual leave balances continue to exceed Government targets

On average, cluster agencies had 24 per cent of staff with annual leave balances above the whole-of-government target of 30 days at 30 June 2015.

Recommendation

Agencies should reduce employees' annual leave balances to meet whole-of-government targets.

Governance

Impact of new administrative arrangements

There have been significant changes to the DTIRIS cluster including:

- eight agencies were dissolved and continuing operations were transferred to the Department
- establishing the Department of Industry, Skills and Regional Development and abolishment of the Department of Trade and Investment, Regional Infrastructure and Services, effective 1 July 2015
- TAFE NSW transferred from the Education cluster to the Industry, Skills and Regional Development cluster
- eighteen agencies, including all the cultural institutions, were transferred to other clusters on 1 July 2015.

Despite these changes the cluster still has a large number of agencies. The Department advised it is continuing to review the need for a number of entities in the cluster. The significant changes in the focus and composition of the Department provide an opportunity to reassess its governance arrangements.

Recommendation

The Department should benchmark its governance arrangement against relevant better practice guides such as the Audit Office's Governance Lighthouse Checklist.

A number of cluster entities do not have a signed Service Partnership Agreement

The Department has developed a number of Service Partnership Agreements with its serviced divisions, however 15 agreements are not finalised. Eight of these relate to divisions within the Department and one agency which was newly established during the year.

Recommendation

The Department should sign Service Partnership Agreements with all serviced divisions and agencies.

TAFE NSW continues to receive corporate services from the Department of Education without a signed Service Level Agreement.

Recommendation

TAFE NSW should update, finalise and sign the Service Level Agreement with its shared service provider.

Incidents of fraud and corruption have been referred to ICAC by agencies in the cluster

Seven agencies advised they have referred instances of possible corrupt conduct to the NSW Independent Commission Against Corruption (ICAC). ICAC is currently conducting two investigations relating to agencies in the cluster, TAFE NSW and the Mine Subsidence Board.

A number of agencies in the cluster do not have fraud and prevention policies and procedures in place.

Recommendation

To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015.

Service delivery

Performance against the Department's goals may be difficult to measure

The targets and measures for the new 'State Priorities' are outlined in 'NSW: Making it Happen'. The Department integrated the relevant Premier's Priorities in its 2015-2019 corporate plan. However, certain targets and measures in the corporate plan lack clarity and it may be difficult to measure achievement.

Recommendation

The Department should clarify the measures it uses to determine goal achievement.

Unprocessed Aboriginal land claims rose by 2,330 or nine per cent

The number of unprocessed Aboriginal land claims at 30 June 2015 was 28,054 (25,724 at 30 June 2014). Based on the five year average clearance rate, it will take approximately 80 years to clear the existing backlog, not accounting for any future claims.

Recommendation

The Department should implement measures to reduce the number of unprocessed Aboriginal land claims.

Introduction

This report sets out the results of the financial statement audits of the Department of Trade and Investment, Regional Infrastructure and Services cluster agencies (DTIRIS cluster) for the year ended 30 June 2015. It provides Parliament and other users of the financial statements an analysis of the results and key observations in the following areas:

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

The DTIRIS cluster

DTIRIS is the State's lead economic development agency, supporting investment, trade, innovation, productivity and regional growth across all sectors.

DTIRIS cluster agencies promote trade and investment locally and internationally, providing business support, technical knowledge, and science and research capabilities to industries. They also support the tourism, hospitality, racing and cultural sectors. Agencies work to secure and regulate energy and mineral resources for New South Wales, support food and fibre industries, and encourage natural resource management.

During 2014-15 responsibility for skills development was included in the cluster, and significant changes to the cluster took effect from 1 July 2015.

There are 68 agencies in the DTIRIS cluster. These agencies have been divided into three components:

- electricity agencies which are reported on in a separate volume of the Auditor-General's Report to Parliament
- water agencies which were reported on in Part Two of this volume
- other agencies reported on in this Part One.

All figures and commentary in this Part exclude the electricity and water agencies.

The commentary covers the following agencies in the DTIRIS cluster:

DTIRIS Cluster at 30 June 2015 (Agencies with total assets greater than \$20.0 million)	
Lead agency	<ul style="list-style-type: none"> Department of Trade and Investment, Regional Infrastructure and Services (the Department)
Primary Industries and Resources and Energy	<ul style="list-style-type: none"> Agricultural Scientific Collections Trust CB Alexander Foundation Coal Innovation NSW Fund Destination NSW Forestry Corporation of New South Wales Land Administration Ministerial Corporation Local Land Services Marine Parks Authority Mine Subsidence Board New South Wales Rural Assistance Authority NSW Food Authority Public Reserve Management Fund Responsible Gambling Fund Water Administration Ministerial Corporation Wentworth Park Sporting Complex Trust
Cultural institutions	<ul style="list-style-type: none"> Art Gallery of New South Wales Foundation Art Gallery of New South Wales Trust Australian Museum Trust Library Council of New South Wales Trustee of the Museum of Applied Arts and Sciences Sydney Opera House Trust
Skills	<ul style="list-style-type: none"> Technical and Further Education Commission

Snapshot of cluster agencies

A snapshot of the cluster's combined financial results for the year ended 30 June 2015 is shown below

\$4.7 billion Expenditure	\$25.5 million Net deficit
\$27.5 billion Assets	\$2.4 billion Liabilities







Changes to the cluster agencies












As of 1 July 2015, the Department of Trade and Investment, Regional Infrastructure and Services was abolished and the Department of Industry, Skills and Regional Development (DISRD) was established. Reference to the Department in this volume refers to DISRD from 1 July 2015 and DTIRIS prior to that.







Further commentary on the changes in the cluster is provided in the Governance chapter.







Status of 2014 Recommendations

Last year's Auditor-General's Report to Parliament included 25 recommendations for agencies to improve their financial management and internal controls. The current status of each recommendation is shown below.

Recommendation		Current Status
DTIRIS cluster agencies should:		
	Implement measures to improve the accuracy of their budgets.	Performance against budget continues to be an issue. Details are provided in the chapter on Financial Performance and Reporting.
	Arrange asset revaluations as early as possible given the unique characteristics of some fixed assets and the overall complexity of the fixed assets portfolio.	There were delays in the completion of revaluations for many agencies in the cluster. Details are provided in the chapter on Financial Performance and Reporting.
	Take more effective action to reduce employee recreation leave balances to a maximum of 30 days, or less, by 30 June 2015.	The number of employees with excess annual leave balances increased in most agencies. Details are provided in the chapter on Financial Controls.
	Ensure audit management letter issues are addressed in a timely manner.	Repeat management letter issues have reduced, however continue to exist. Details are provided in the chapter on Financial Controls.
	Regularly monitor IT service provider performance against criteria outlined in the Service Level Agreements.	Performance monitoring has improved between the Department and the IT provider, but further improvement is required.
	Have a fraud prevention policy and procedures.	Ten out of thirteen agencies confirmed they have appropriate mechanisms to manage the risk of fraud. Details are provided in the chapter on Governance.

Recommendation	Current Status
The Department of Trade and Investment, Regional Infrastructure and Services should:	
 Initiate and monitor IT Disaster Recovery testing across all cluster agencies.	<p>Further issues were identified in 2014-15. Details are provided in the chapter on Financial Controls.</p>
 Review the need for the Water Administration Ministerial Corporation and seek legislative change if a separate entity is not required.	<p>The Department advised a review is underway to determine the implications of abolishing this entity.</p>
 Ensure the records and financial statements of Marine Parks Authority are complete and accurate.	<p>This agency was abolished on 19 December 2014. Prior to the abolition, the Department completed a revaluation of the marine parks. The Audit Office is finalising audits dating back to 2011-12.</p>
 Develop formal IT service delivery management processes with its clients.	<p>The Department advised it has approved change plans which will include addressing this capability with cluster agencies. Details are provided in the chapter on Financial Controls.</p>
 Undertake a review of all major assets to determine the extent of backlog maintenance.	<p>The Department advised it has identified the extent of backlog maintenance for its Corporate Operations.</p>
 Ensure all cluster agencies have risk management frameworks and risk registers.	<p>However, there is a variety of maintenance data across the Department, with varying degrees of integrity and accuracy. Details are provided in the chapter on Financial Controls.</p>
 Sign Service Partnership Agreements (SPAs) with all serviced divisions and agencies. Such SPAs should include relevant KPIs and penalty clauses for not meeting Key Performance Indicators (KPIs).	<p>Not all agencies in the cluster have an integrated risk management framework and risk management is not fully integrated into processes and decision making. Refer to the chapter on Governance.</p>
 Sign Service Partnership Agreements (SPAs) with all serviced divisions and agencies. Such SPAs should include relevant KPIs and penalty clauses for not meeting Key Performance Indicators (KPIs).	<p>Not all SPAs have been prepared and signed, and many still lack relevant KPIs. Details are provided in the chapter on Financial Control.</p>
 Continue to improve its shared service financial statement preparation and accounting skills with the aim of reducing errors and audit costs.	<p>The number of misstatements has decreased. However, further improvement is required within the shared service division. Refer to the chapter on Financial Performance and Reporting.</p>
 Take more effective action to reduce the number of unprocessed Aboriginal land claims as well as the number of approved land claims not yet transferred out.	<p>The number of unprocessed Aboriginal land claims increased. However, the number of approved claims not yet transferred has decreased. Details are provided in the chapter on Service Delivery.</p>
 Continue to streamline the number of reporting entities in the cluster in order to gain efficiencies.	<p>A number of agencies were abolished during 2014-15 and the Department has advised it is continuing to review the number of agencies in the cluster. Refer to the chapter on Governance.</p>

Recommendation	Current Status
The Department of Trade and Investment, Regional Infrastructure and Services and the Independent Liquor and Gaming Authority (ILGA) should:	
 Agree in writing by 28 February 2015 the medium term funding arrangements for ILGA.	<p>The Department provided funding to ILGA for 2014-15. ILGA has now transferred to the Justice cluster from 1 July 2015 and future funding arrangements will be determined within that cluster.</p>
Technical and Further Education Commission should:	
 Fully test its disaster recovery plans for key financial systems.	<p>TAFE NSW disaster recovery plans are maintained by the Department of Education in accordance with the Memorandum of Understanding. In 2014-15, weaknesses were identified with the Department of Education's disaster recovery plans. Details are included in Volume Eleven of the Auditor-General's Report to Parliament.</p>
 Ensure Technical Education Trust Funds (TETF) meet the 'core requirements' of TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector' or obtain an exception from the Portfolio Minister.	<p>A request for an exemption from TPP 09-05 is being drafted by TETF.</p>
 Address repeat issues from previous audits in a timely manner.	<p>Repeat management letter issues continue to exist. Details are provided in the chapter on Financial Controls.</p>
 Ensure for future rollouts, more effective training and communications for the Learning Management and Business Reform project staff, including contractors, is required to improve awareness of IT security and change management policies and procedures. Compliance with these policies and procedures should be monitored throughout the project.	<p>TAFE NSW is no longer under the LMBR project. A Project Portfolio and Communications Manager role is being established to manage revenue related projects. TAFE NSW expects this will ensure financial control issues are addressed. Further issues relating to the LMBR project are included in Volume Eleven of the Auditor General's Report to Parliament.</p>
 Smaller agencies within the cluster need to establish and maintain a legal compliance register.	<p>Technical Education Trust Funds is captured in the TAFE NSW legal compliance register.</p>

Recommendation		Current Status
Treasury should:		
	Continue to clarify the legislative and reporting requirements for Special Deposit Accounts so that they both report to the State and are consolidated in the State's financial statements.	An interim solution has been agreed and put in place for Special Deposit Accounts. Details are provided in the chapter on Governance.
NSW Government should:		
	Improve the measures used to determine goal achievement.	NSW 2021 goals have been replaced with the State Priorities. Details are provided in the chapter on Service Delivery.
	Appoint trustees to the Agricultural Scientific Collections Trust as soon as possible to ensure compliance with enabling legislation and good governance.	Trustees have been appointed for a five year term until 31 July 2020. Details are provided in the chapter on Governance.
2014 recommendation status		
	Fully addressed	 Partially addressed  Not addressed

Financial Performance and Reporting

Financial performance and reporting are important elements of good governance. Confidence in public sector decision making and transparency is enhanced when financial reporting is accurate and timely. Effective financial management and reporting by agencies helps key stakeholders, such as the NSW Government, make effective decisions and achieve desired outcomes efficiently.

This chapter outlines audit observations, conclusions and recommendations related to the financial and performance reporting of agencies in the cluster for 2014-15.

Financial reporting

Observation

Qualified opinion: A qualified opinion was issued for TAFE NSW financial statements after significant issues were identified with its student and administration system.

Quality of financial reporting: The number of misstatements remains high at 118 in 2014-15 (122 in 2013-14).

Unqualified audit opinions were issued for all completed audits of financial statements except for TAFE NSW.

Timeliness of financial reporting: With the exception of revaluations of property, plant and equipment, there was substantial compliance with Treasury's early close procedure requirements. 13 agencies financial statements were signed late and three were not signed at the time of preparing this volume.

Key financial issues: There are six significant matters in 2014-15 down from 24 in 2013-14.

Conclusion or recommendation

Recommendation: TAFE NSW should identify and resolve significant issues with its student and administration system.

An improved focus on financial reporting and effective early close procedures will improve financial reporting processes and reduce misstatements.

Recommendation (repeat issue): Revaluations should be performed early enough so the process is completed before the early close deadline for financial statements.

A continued focus on reducing misstatements will assist in improving timeliness of financial reporting.

There has been substantial improvement in the number of significant matters identified.

Recommendation: The Department should continue to improve its systems for recording and accounting for Crown Land.

Performance reporting

Observation

Key financial information: The cluster had a net deficit of \$25.5 million, an improvement from a net deficit of \$40.0 million in 2013-14.

Performance against budget: Actual financial performance varied significantly from budget for the income statement and balance sheet.

Conclusion or recommendation

Despite a net deficit, agencies in the cluster continue to operate on a sustainable basis. Most agencies receive the majority of their revenue from Treasury or the Department.

Recommendation (repeat issue): Most agencies should improve the accuracy of their budgets.

Quality of Financial Reporting

A qualified audit opinion was issued for TAFE NSW, unqualified audit opinions were issued for all other completed audits of agency financial statements

Serious system limitations prevented the Technical and Further Education Commission (TAFE NSW) from providing sufficient and appropriate evidence to support recorded student revenue and related transactions. Further information is included in 'Key Issues' below.

The number of misstatements identified for cluster agencies remains high

Misstatements in cluster agency's financial statements remained high, reducing slightly from 122 in 2013-14 to 118 in 2014-15. However, misstatements identified in the Department's financial statements reduced from 35 to 21. All material misstatements were corrected. A summary of reported misstatements is included in Appendix Two.

Early close procedures are designed to identify and resolve key issues before year end and minimise misstatements. An improved focus on accurate and complete financial reporting by the Department has also contributed to fewer misstatements.

However, the number of misstatements increased for some agencies and the overall level of misstatements is still excessive.

Significant matters reported in 2014-15 reduced by 75 per cent compared to 2013-14

Six significant matters were reported in 2014-15 (24 in 2013-14). The reduction is the result of cluster agencies addressing the matters identified in the prior year, and a number of the issues reported in 2013-14 specific to that year. Only two new significant matters were reported in 2014-15. Significant matters are reported to the portfolio Minister, Treasurer and agency head in a Statutory Audit Report.

Further details are reported under Key Issues from Financial Audits later in this chapter.

Timeliness of Financial Reporting

All financial statements were submitted on time and most audits were completed by statutory deadlines

Agencies submitted their financial statements on time and audit opinions were issued for 18 agencies' financial statements within statutory deadlines.

Audit opinions were issued after the statutory deadline for 13 agencies and a further three audits are still ongoing. Details are included in Appendix Three. The delays are predominately due to:

- changes in the accounting standards requiring the Department and Lands Administration Ministerial Corporation to prepare consolidated financial statements for the first time and the Department needing to change its accounting for joint ventures
- the Department being involved in a number of joint operations and audited financial information relating to these operations not being available until October 2015
- deficiencies and delays in the preparation of documents supporting the financial statements
- the financial statements containing a large number of misstatements and in some cases, requiring a number of revisions during the audit.

The audit is continuing for 10 financial statements which are not subject to a statutory deadline. Details are provided in Appendix Two.

Agencies can still improve their early close procedures

Agencies were given less time to complete early close procedures and proforma financial statements. The deadline for audit teams to report findings from their work was also reduced. Bringing forward the deadlines generally helped ensure a smoother year-end process as it allowed more time to resolve issues.

The table below shows the reduced deadlines for early close procedures over the past three years.

Key audit completion dates			
Year ended 30 June	2015	2014	2013
Agencies provide results of early close procedures to the Audit Office no later than	27 April	27 May	28 May
Audit Office provides feedback on early close procedures by	29 May	30 June	as agreed with agencies

Early close procedures are designed to bring forward year-end activities, such as valuing assets and resolving financial reporting issues, to reduce reporting timeframes and improve quality.

With the exception of revaluations of property, plant and equipment, there was substantial compliance with Treasury's early close procedure requirements. Agencies submitted proforma financial statements on time, and most reconciled key account balances and performed monthly accruals and management reviews as required. Most agencies also addressed issues raised in prior year Audit Office management letters.

Recommendation (repeat issue)

Revaluations should be performed early enough so the process is completed before the early close deadline for financial statements.

Recommendation

Agencies should quality review the revaluation results before including them in financial statements and early close work papers.

Last year's Auditor-General's Report to Parliament recommended cluster agencies arrange revaluations as early as possible. A number of agencies were unable to finalise their revaluations of property, plant and equipment by the deadline or did not conduct an annual impairment review of assets. A number of agencies identified that revaluations could not be completed by the Treasury target of 31 March 2015, and obtained an extension to 30 April 2015.

Due to the nature of the fixed assets within the cluster, revaluations can require extensive timeframes for planning and completion. The revaluation results were not always robustly reviewed by management prior to their inclusion in the financial statements. Agencies should arrange revaluations as early as possible to meet the early close deadline.

Financial reporting processes of the Department

Last year's Auditor-General's Report to Parliament recommended the Department improve its financial reporting processes to reduce audit costs and enable timely reporting. There were structural changes in the Department during the year which increased the resources and skill levels of staff responsible for financial reporting. This has generally improved the quality of financial reporting in the Department and there has been a decrease in overall reported misstatements. The Department should continue to improve the quality of financial reporting.

Key Issues from Financial Audits

Technical and Further Education Commission

Significant issues identified with TAFE NSW's student and administration system

Recommendation

TAFE NSW should identify and resolve significant issues with its student and administration system.

Serious system limitations prevented TAFE NSW from providing sufficient and appropriate evidence to support recorded student revenue of \$477 million, student receivables and accrued income of \$47.6 million and unearned revenue of \$398 million.

The Department of Education (the department) commenced the Learning Management and Business Reform (LMBR) program in 2006. An element of the LMBR program was the replacement of various legacy systems with an integrated system to manage student administration across all ten TAFE NSW Institutes. In October 2014, the department delivered the Student Administration and Learning Management (SALM) solution to TAFE NSW with the implementation of the Educational Business Software (EBS) system.

Significant system implementation issues resulted in:

- institutes experiencing delays in enrolling students
- large volumes of manual processing required by TAFE NSW staff
- inability to fully reconcile cash balances
- difficulties in reconciling student enrolments with revenues recorded in the financial statements.

There were also significant issues with the design of user access and security controls.

These issues were compounded by the introduction of 'Smart and Skilled' reforms on 1 January 2015, which significantly impacted the way TAFE NSW recognised student revenue.

The issues described above meant sufficient and appropriate audit evidence could not be obtained to support the completeness and accuracy of amounts recorded for student revenue and related transactions.

During 2014-15 TAFE NSW put in place a number of strategies to address these issues, including:

- conducting a detailed review of revenue recognition processes to identify issues impacting data quality
- deploying resources to identify and respond to issues both centrally and at institutes
- development of an Interim Revenue Recognition solution to recognise revenue on an accrual basis in accordance with accounting standards.

Further work is required to address data quality, system issues, and business processes both centrally and at Institutes. TAFE NSW has commenced a program of work to address these matters.

The new SALM system was impaired in 2014-15

The SALM system cost approximately \$40.2 million. Due to system limitations discussed above, TAFE NSW wrote down the value of the system by \$12.7 million.

Department of Trade and Investment, Regional Infrastructure Systems

Accounting for Crown Land requires further improvement

Recommendation

The Department should continue to improve its systems for recording and accounting for Crown Land.

Last year's Auditor-General's Report to Parliament reported significant deficiencies in controls over the recording of Crown Land assets in the Crown Land Information Database (CLID) and the general ledger. This included inadequate reconciliation and review processes which resulted in a number of misstatements identified during the 2014 audit.

This year the Department has undertaken extensive work to understand the recording of Crown Land and to improve the accounting processes. It engaged a consultant to identify, document and provide recommendations to improve current processes. Eight key observations were made which highlighted specific weaknesses in the Department's business processes and governance, information technology systems and data integrity.

The consultant's report also included five recommendations to improve the efficiency and reliability of Crown Land records, including simplification of the valuation process and replacement of current data recording systems.

The Department has considered the report and is now seeking to develop a work-program to implement the recommendations and mitigate the identified risks to the business.

Proposed changes in management of Crown Land

In February 2014, the Crown Land Legislation White paper was released which indicated there may be a need to change legislation to provide for evolving community expectations on how Crown Land is managed into the future. A number of changes were proposed to reduce or eliminate the following issues:

- delays and backlogs resulting from duplicated requirements in various acts and complexity of decision-making processes
- clarify issues about which government agency controls particular land
- inconsistent provisions in different legislation for similar land and activities.

In October 2015, the Government summarised community feedback and a response to the White Paper was published with many of the recommendations accepted. A new governance and business model for Crown Lands is being developed. This will include implementation of business systems and key performance indicators as well as a reporting system to ensure land management activities are accountable and transparent. A new management structure is also being developed to improve overall governance of Crown Land reserves.

Local Land Services

Some assets have not been valued since 2006

Local Land Services has not performed a revaluation of its freehold land and buildings or travelling stock route improvements that were due for revaluation in accordance with Treasury policy. Management advised that due to the large number of infrastructure assets and their dispersed locations, it will require time beyond 30 June 2015 to complete this exercise.

Local Land Services was formed on 1 January 2014 and these assets were transferred into the new entity. The recorded value of these assets was \$39.1 million at 30 June 2015.

Reporting obligations are not clear

Local Land Services is seeking clarification of its legislation with the aim of removing ambiguity over local boards and their reporting obligations.

Library Council of NSW

Records supporting the number of items in the Library's collection were inadequate

Recommendation

The Library Council of NSW should improve its records supporting the number of items in the library collection for future valuations. This may require reconsideration of the methodology used in the revaluation process.

The Library Council of NSW revalued its library collection resulting in an increase of \$1.0 billion or 48 per cent from \$2.1 billion to \$3.1 billion. Approximately 75 per cent of the \$1.0 billion valuation increase was attributed to value increases for collection items. The remainder was due to increases in the population of collection items.

There were deficiencies in the Council's records supporting the accuracy and completeness of changes in the population figures since the previous revaluation in 2010. Effective records are maintained for management and accessing items. However, these records are generally organised on a different basis from that used to determine the population figures for the revaluation.

Key Financial Information

DTIRIS cluster agencies recorded a combined net deficit in 2014-15

Cluster agencies recorded a combined net deficit of \$25.5 million in 2014-15 (deficit of \$40.0 million in 2013-14). Significant changes in net result from the prior year occurred at the following agencies:

- The Department's net deficit was \$216 million compared to a net deficit of \$146 million in 2013-14. Revenue decreased by \$93.3 million including a reduction in appropriation funding of \$88.5 million
- Forestry Corporation of New South Wales recorded a net surplus of \$80.8 million in 2014-15 (\$67.2 million) which included revenue from the revaluation of biological assets of \$75.8 million
- TAFE NSW had a net surplus of \$126 million for the year (\$0.6 million surplus in 2013-14). This is mainly attributed to lower employee related expenses. Salary savings related to voluntary redundancies and restructures aligned to Smart and Skilled reforms led to an improved net result in 2014-15.

Total combined assets held by cluster agencies were \$27.5 billion at 30 June 2015, up from \$25.6 billion at 30 June 2014. Total liabilities increased slightly to \$2.4 billion at 30 June 2015 from \$2.2 billion at 30 June 2014.

The increase in net assets was primarily due to revaluations performed for land, heritage, and cultural collection assets.

Appendix Four of this report summarises key financial information.

Performance against Budget

Actual results for most agencies varied significantly from budget

Recommendation (repeat issue)

Most agencies should improve the accuracy of their budgets.

Budget information for 13 large agencies in the cluster was compared to actual results. For most of these agencies actual results varied significantly from budget.

Some large variances from budget occurred when agencies revalued significant parts of their fixed assets. Changes arising from revaluations are very difficult to budget for and generally not included in budget figures. However, other variances indicate that the initial budget was inaccurate.

Appendix Five shows the performance against budget for these agencies' statement of comprehensive income and statement of financial position.

2014-15 Statement of Comprehensive Income

Total combined expenditure for the 13 large agencies was less than one per cent from budget and total revenue was five per cent higher than budget. However, significant differences occurred in individual agencies, and the combined net result varied by 93 per cent from budget.

The largest variances from budget for the net result were at the Trustees of the Museum of Applied Arts and Sciences, TAFE NSW and the Forestry Corporation of New South Wales.

Trustees of the Museum of Applied Arts and Sciences net result was \$86.2 million less than budget. This was primarily due to a \$76.2 million loss on revaluation of assets which was not budgeted.

TAFE NSW had a net surplus of \$126 million for the year compared with a budgeted net deficit of \$60.6 million. This was mainly attributed to lower employee related expenses. Salary savings related to voluntary redundancies and restructures aligned to Smart and Skilled reforms. Revenue was also higher than budget for course fees.

The cluster's sole State owned corporation, the Forestry Corporation of New South Wales advised that its budget forecast in its statement of corporate intent does not factor in the following as they are difficult to predict:

- movement in the valuation of biological assets (\$76.0 million revenue in 2014-15)
- movement in defined benefit superannuation liability (\$4.0 million expense in 2014-15)
- related income tax entries as a result of the above movements.

Once these factors are taken into account the Corporation reported a profit after tax 19 per cent higher than forecast.

2014-15 Statement of Financial Position

Significant budget variances for DTIRIS cluster agencies were mainly due to:

- changes in the administrative arrangements transferring operations and staff
- changes in accounting for joint arrangements due to a new accounting standard
- impacts of revaluations of property plant and equipment.

Financial Sustainability

Indications are that self-funded DTIRIS cluster agencies are financially sustainable

The table below summarises the performance of self-funded DTIRIS agencies against some commonly accepted sustainability indicators for the year ended 30 June 2015.

Cluster agencies	Net result surplus/(deficit) \$m	Net result as a % of total revenue	Letter of support provided	Liquidity	% of self-funding	Expense growth rate %
Art Gallery of New South Wales Trust*	21.2	31.2	No	1.6	50.3	4.4
Forestry Corporation of New South Wales	80.8	20.6	No	1.4	95.9	(5.7)
Local Land Services*	1.5	0.9	No	2.8	76.2	60.6
NSW Food Authority	(1.0)	(4.5)	Yes	4.2	50.1	27.8
Sydney Opera House Trust*	4.3	3.0	No	2.4	60.5	(2.1)

* Consolidated.

Note: Refer to Appendix Six for descriptions of ratios and the risk assessment criteria.

Source: Financial statements (audited).

The only self-funded entity to record a net loss in 2014-15 was NSW Food Authority. This was mainly due to the write down in value of its existing licensing system by \$1.1 million following the change to a new licensing system. Local Land Services was created on 1 January 2014 so the 60.6 per cent increase in expenditure was mainly due to its first full year of operation.

The liquidity ratios of all five entities were above 1.0, which indicates they have sufficient funds to settle liabilities.

An analysis of the financial sustainability of agencies mainly funded through State government grants has not been included as they rely on annual grants through the budget allocation process rather than self-generated revenue.

The Department provides a letter of support to a number of agencies in the cluster in order to guarantee their ability to pay liabilities as they fall due.

Outcomes of Asset Revaluations

Revaluation increments significantly increased the net assets of cluster agencies during the year ended 30 June 2015

The DTIRIS cluster asset portfolio includes Crown Land, heritage and cultural collections, buildings and infrastructure, public forest and other assets. Many agencies in the cluster revalued all or part of their property, plant and equipment assets in 2014-15.

The following table shows the impact of revaluations for agencies with property, plant and equipment exceeding \$100 million.

Cluster entities with fixed assets exceeding \$100 million revalued in 2014-15	Fixed assets at 30 June 2015 \$m	Revaluation increment/ (decrement) \$m	Revaluation effect on net book value %
Agricultural Scientific Collections Trust*	103	8	8.4
Art Gallery of New South Wales Trust	1,544	190	14.1
Department of Trade and Investment, Regional Infrastructure and Services	8,554	295	3.6
Library Council of NSW	3,413	1,009	42.0
Local Land Services	493	1	0.2
Sydney Opera House Trust	2,362	1	0.0
TAFE NSW	4,683	294	6.7
Trustees of the Museum of Applied Arts and Sciences	495	(76)	(13.3)
Totals for the table	21,647	1,722	8.6

* Audit is ongoing.

Source: Financial statements (audited and unaudited).

Cultural and scientific collections and heritage assets can be difficult to value

The nature of the assets held by agencies in the cluster presents challenges when conducting revaluations which must comply with accounting standards and Treasury policies.

Valuing cultural and heritage assets can be difficult, and involves significant estimation uncertainty and professional judgement. Artworks, book, letter and coin collections can usually be valued based on market prices for similar items by expert valuers. Other collections have no active markets and reliable valuation techniques are difficult to establish.

The following issues can impact the accuracy of these valuations:

- mass valuation techniques may be required where collections are stratified into items of a similar nature which can be valued together
- the need to apply complex sampling techniques to value large collections of items
- the need to estimate the number of items held in some collections
- items may be held by an institution but until they have been formally assessed cannot be reliably measured and so may not be included in the collection valuation
- instances where heritage/cultural assets are not capable of reliable measurement due to their uniqueness
- for some items the only possible indicator of fair value is recollection cost (i.e. the cost of mounting an expedition or field trip to collect similar replacement specimens, together with the costs associated with their preparation and documentation)
- alteration to habitat and extinction of species make it impossible to replace some specimens
- there is a limited number of independent experts available to undertake these revaluations.

A number of these issues impacted the revaluation of collection assets of the Library Council of NSW, which was discussed above, and at the Trustees of the Museum of Applied Arts and Sciences.

Land and infrastructure assets held by cluster agencies also present valuation challenges

The following matters were noted in the revaluation of assets in the cluster entities:

- a number of unique assets were identified in the cluster that have no direct market evidence. These include land under water (valued at \$295 million)
- deficiencies in the records for Crown Land resulted in errors in the size of individual land parcels used in the revaluation
- significant professional judgement can be required to determine a fair value based on sale records for comparative assets.

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.

This chapter outlines findings about financial controls of agencies in the cluster for 2014-15. The table below summarises key observations and conclusions or recommendations.

Financial controls	
Observation	Conclusion or recommendation
<p>Internal control issues: A total of 149 internal control issues were identified, including 47 repeat issues.</p> <p>Seven issues were assessed as high risk, the majority relating to the Department.</p> <p>Disaster recovery plan review: Two agencies in the cluster do not have a formal disaster recovery plan in place for their key financial systems.</p> <p>Annual leave balances: Employees with excessive annual leave increased by 29 per cent, to 2,937 at 30 June 2015 (2,277 as at 30 June 2014).</p>	<p>Areas where internal controls could be improved are reported to the relevant cluster agencies' management.</p> <p>There was a significant reduction in the number of internal control issues from the previous year.</p> <p>Recommendation: All agencies should review disaster recovery requirements, plans and testing for key financial systems and ensure they comply with NSW Government policies.</p> <p>Recommendation (repeat issue): Agencies should reduce employees' annual leave balances to meet whole-of-government targets.</p>

Internal Controls

Internal controls have improved but more work is required

Last year's Auditor-General's Report to Parliament recommended cluster agencies should address high risk internal control issues in a timely manner. The 2014-15 financial statement audits identified a significant decrease in high risk control deficiencies, falling from 25 in 2013-14 to seven in 2014-15. This indicates management is actively assessing and addressing high risk issues.

Weaknesses in internal controls identified through the audit process, along with recommendations on how they should be addressed, are reported through letters to management and those charged with agency governance.

149 internal control issues reported included seven high risk and 47 repeat issues

Recommendation (repeat issue)

Internal control issues should be actioned promptly and repeat issues avoided.

The 2014-15 audits identified a total of 149 internal control issues, compared to 237 internal control issues reported for 2013-14 audits. The number of repeat recommendations decreased to 47 in 2014-15 from 65 in the previous year.

The number of internal controls deficiencies reported to management for years ended 30 June 2015 and 2014 are listed below:

Cluster agencies Year ended 30 June	Internal control deficiencies			
	2015		2014	
	New	Repeat	New	Repeat
Department of Trade and Investment, Regional Infrastructure and Services*	16	10	26	18
Destination NSW	5	--	3	--
Forestry Corporation of NSW	1	1	5	1
Independent Liquor and Gaming Authority*	4	3	11	3
Local Land Services	8	8	27	--
New South Wales Rural Assistance Authority	10	4	4	--
NSW Food Authority	6	3	3	6
Art Gallery of New South Wales Trust *	9	--	2	1
Australian Museum Trust*	2	1	2	4
Library Council of NSW *	1	2	4	2
Sciences*	7	1	3	5
Sydney Opera House Trust	1	--	3	2
TAFE NSW*	15	7	32	12
Others Agencies* (7 in 2015 and 13 in 2014)	17	7	47	11
Total	102	47	172	65

* 2015 draft management letter not finalised.

Note: TAFE NSW became part of the Cluster during 2014-15. The results for the year ended 30 June 2014 are included for comparability.

Source: Final and draft management letters issued to agencies by the Audit Office.

Key themes of issues identified are:

Compliance with processes, regulations and matters of governance

These issues include non-compliance with:

- *Public Finance and Audit Act 1983* requirements
- policies and procedures, for example lack of review processes
- Treasury's policies and procedures
- requirements for a centralised contracts register to capture all relevant details of contracts entered into.

Reporting

Some agencies had to make many presentation, disclosure and monetary corrections to their financial statements to accurately reflect their performance and position. These agencies did not have adequate review processes in place in the preparation of the financial statements.

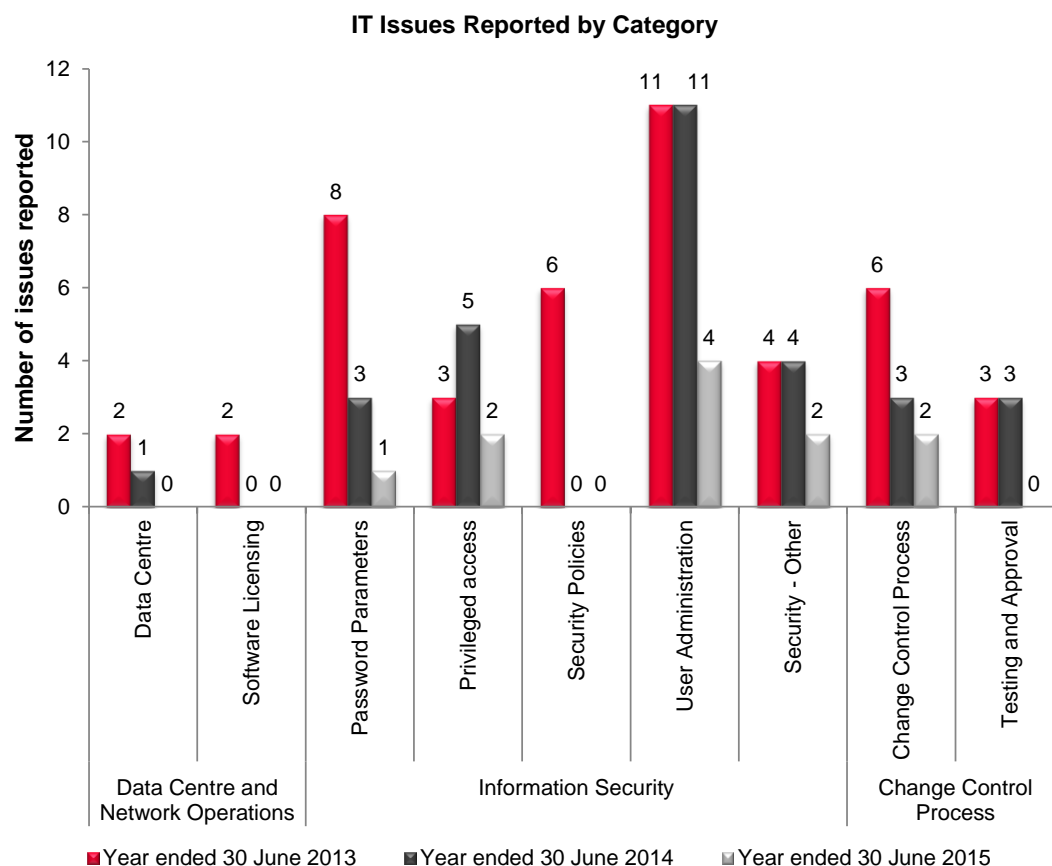
Information Systems Audit

Security of information systems remains an area of concern

The more significant security issues relating to the Department's shared accounting system were addressed in 2015. However, this remains the most common area for information system issues.

Eleven information technology (IT) issues have been identified for agencies within the DTIRIS cluster in 2014-15 (30 in 2013-14). Eight of these issues had been identified in 2013-14.

Information system audits focus on IT processes and controls supporting the integrity of financial data used to prepare agencies' financial statements.



Source: Final and draft management letters issued to agencies by the Audit Office.

Over 80 per cent of issues identified in 2014-15 related to information security processes. Weak user administration processes increase the risk of users having excessive or unauthorised access to critical financial systems. This compromises the integrity and security of financial data residing in these systems.

Disaster Recovery Planning

Disaster recovery planning and testing is inadequate

Recommendations

All agencies should review disaster recovery requirements, plans and testing for financial systems and ensure they comply with NSW Government policies.

The Department should formalise disaster recovery planning and testing requirements with its external service provider for its key financial systems.

The existence and testing of disaster recovery plans remains an area of concern in the cluster. In 2014-15, two agencies within the cluster were selected as part of a disaster recovery planning compliance review of financial systems. Neither agency complied with NSW Government policies on disaster recovery planning and testing. This creates uncertainty over these agencies ability to restore financial processes and systems in the event of a disaster.

There are no explicit requirements for disaster recovery planning and testing agreed between the Department and the client agencies to which it provides information system services. Formalised disaster recovery planning and testing between the Department and the external IT provider of the shared accounting system has not occurred.

IT Service Delivery Management

Monitoring of IT service delivery has improved, however further improvement is required

IT service delivery management sets the IT framework for client agencies, business operations and external vendors. The framework's importance increases in a shared service arrangement as external vendor and central issues impact the performance of cluster agencies. The Department's revised IT service delivery framework, and additional staffing, has improved the operation of the shared accounting system and the relationship with the external IT provider. This has allowed staff to clarify activities, obtain operational transparency with the vendor and manage risks in relation to the system.

The Department continues to monitor the performance of its IT provider against the Service Level Agreement. This has improved the performance of the IT provider, particularly for the responsiveness and resolution of issues. Governance and monitoring of the Department by clients has not been explicitly included in the Service Partnership Agreements but management has plans to revise these processes.

Human Resources

Excess Annual Leave

Annual leave balances continue to exceed whole-of-government targets

Recommendation (repeat issue)

Agencies should reduce employees' annual leave balances to meet whole-of-government targets.

DTIRIS cluster agencies need to continue efforts to reduce annual leave balances to meet whole-of-government objectives. Twenty four per cent of full time equivalent (FTE) staff exceeded the whole-of-government target of 30 days at 30 June 2015. This is a 29 per cent increase on the previous year when 2,277 staff had balances above the target of 35 days.

Cluster agencies Year ended 30 June	Excessive annual leave balances			
	2015		2014	
	Number of employees	Amount \$'000	Number of employees	Amount \$'000
Department of Trade and Investment, Regional Infrastructure and Services	975	2,108	820	2,855
Destination NSW	21	125	22	119
Forestry Corporation of NSW	193	461	115	248
Independent Liquor and Gaming Authority	27	115	12	229
Local Land Services	184	718	205	784
New South Wales Rural Assistance Authority*	7	71	5	7
NSW Food Authority*	23	78	18	49
Art Gallery of New South Wales Trust	47	323	29	35
Australian Museum Trust	56	221	24	48
Library Council of NSW	23	40	21	45
Trustees of the Museum of Applied Arts and Sciences	19	48	44	126
Sydney Opera House Trust	98	363	59	160
TAFE NSW	1,264	2,761	903	2,086
Total	2,937	7,432	2,277	6,791

* Staff are employees of the Department.

Source: Larger agencies in DTIRIS cluster (unaudited).

Implications of excessive leave balances include:

- the liability generally increases over time as salaries increase
- workplace health and safety implications
- disruptions to service delivery if key employees are absent for lengthy periods to reduce leave balances
- employee fraud may remain undetected.

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.

Asset Management

Asset Maintenance backlog remains a key concern for cluster agencies

Recommendation

Cluster agencies need to ensure that appropriate asset management plans, including project management and maintenance plans are in place. Maintenance targets and other key performance indicators should be set in order to monitor performance.

Last year's Auditor-General's Report to Parliament recommended the Department undertake a review of all major assets to determine the extent of backlog maintenance. The Department continues to operate without a detailed asset maintenance plan.

The Department holds a large and varied portfolio of aging assets including, infrastructure assets, buildings, heritage buildings and collections. The full extent of maintenance issues, risk exposure and future liabilities across the cluster are uncertain. There is no single, reliable source of information for informed, strategic decision-making in relation to asset maintenance.

Backlog maintenance can indicate that maintenance tasks to repair or prevent equipment failures have not been completed. Asset maintenance is essential to ensure the optimal management of physical assets to maximise value.

Strategies to address asset maintenance backlog for the cultural institutions and other cluster agencies are at various stages of development.

Cultural Institutions

Cultural Institutions have proposed a Cultural Venues Renewal Fund seeking to run over a period of ten years with a total funding of \$631 million to address backlog maintenance and renewal needs for the arts sector asset portfolio.

Sydney Opera House is not within the scope of the Cultural Venues Renewal Fund; however it has already developed its own asset strategy which includes a detailed asset maintenance plan.

The 'Rebuilding NSW' State Infrastructure Strategy includes discussion of \$600 million allocated to a cultural infrastructure program. Priority will be given to investments in the Sydney Opera House, the Walsh Bay Arts Precinct and the Sydney Modern project at the Art Gallery of New South Wales.

Other cluster agencies

Future development plans have also been proposed for other agencies in the cluster. This includes the development of the Maintenance Optimisation Model by the Department to explore options to optimise the value of its maintenance spend.

Cluster agencies need to ensure that appropriate asset management plans, including project management and maintenance plans are in place. Maintenance targets and other key performance indicators should be set in order to monitor performance.

Certifying the effectiveness of internal controls over financial information

Not all cluster agencies obtain certification of the effectiveness of internal controls

Recommendation

As a best practice initiative, all cluster agencies should require the Chief Financial Officer of the agency and of the service provider, to attest to the effectiveness of internal controls as part of the financial statement preparation process.

The 2014-15 audits noted all but one agency covered by TPP 14-05 completed the CFO Certification. The agency CFOs are also required to consider certifications provided by outsourced service providers. Seven of nine applicable agencies receiving outsourced services, received the CFO Certification from their service providers.

As best practice, CFOs of those agencies not mandated under TPP14-05 should also complete the certification to the agency head.

In November 2014, Treasury released Treasury Policy Paper 14-05 'Certifying the Effectiveness of Internal Controls over Financial Information' (TPP14-05), which aimed to improve the reliability and timeliness of agencies' financial information. It requires CFOs to provide the agency head with a certification as the effectiveness of internal controls over financial information.

TPP14-05 is mandatory for all material entities, other than State owned corporations, identified in the NSW Government Budget Papers (Budget Paper 2) as a 'material entity controlled by the NSW Government', and includes departments, statutory bodies, and other entities. The certification of internal controls by the CFO provides the agency head with assurance that financial controls are adequate for financial reporting purposes. The agency head should have this assurance before being required to sign the annual financial statements.

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 agencies, and those charged with governance, use and are held to account by others.

This chapter outlines audit observations, conclusions and recommendations related to the governance of DTIRIS cluster agencies for 2014-15.

Governance	
Observation	Conclusion or recommendation
<p>Service provider arrangements: The Department has developed some Service Partnership Agreements, however, 18 are not yet finalised.</p> <p>TAFE NSW continues to receive corporate services from the Department of Education based on a draft document from 2011 which is out of date.</p>	<p>Recommendation (repeat issue): The Department should sign Service Partnership Agreements with all serviced divisions and agencies.</p> <p>Recommendation: TAFE NSW should update, finalise and sign a Service Level Agreement with the Department of Education.</p>
<p>Governance arrangements: There have been significant changes in the composition of the Department and its priorities.</p>	<p>Recommendation: The Department should benchmark its governance arrangements against relevant better practice guides such as the Audit Office's Governance Lighthouse Checklist.</p>
<p>Inadequate governance: The Agricultural Scientific Collections Trust operated for four years without a trustees meeting. The trustees were appointed in October 2015.</p>	<p>The Agricultural Scientific Collections Trust operated for four years without adequate governance.</p>
<p>Special Deposit Accounts: Interim reporting arrangements have improved oversight and transparency of Special Deposit Accounts.</p>	<p>The Department prepared special purpose financial statements for a number of Special Deposit Accounts. A longer term solution is being developed as part of Treasury's Financial Management Transformation project.</p>
<p>Risk management: Agencies within the cluster are at different levels of maturity for risk management</p>	<p>Not all agencies in the cluster have an integrated risk management framework and risk management is not fully integrated into processes and decision making.</p>
<p>Fraud and corruption: In 2014-15, alleged fraud and corruption matters were referred to the NSW Independent Commission Against Corruption by at least six agencies, and two current ICAC investigations are in progress.</p> <p>Some agencies need to improve their fraud prevention policies.</p>	<p>Recommendation: To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015</p>

Cluster composition and governance

A number of reporting entities in the cluster have been dissolved

Last year's Auditor-General's Report to Parliament recommended the Department continue to streamline the number of reporting entities in the cluster to gain efficiencies.

The *Trade and Investment Cluster Governance (Amendment and Repeal) Act 2014* dissolved six agencies from 1 July 2014 and transferred any continuing operations to the Department. The Marine Parks Authority and Milk Marketing (NSW) Pty Limited were also dissolved during the year.

Despite these changes the DTIRIS cluster still has a large number of agencies. The Department advised it is continuing to review the need for a number of entities in the cluster.

Significant changes to agencies in the DTIRIS cluster

The 'Administrative Arrangements (Administrative Changes – Public Service Agencies) Order 2015' resulted in changes to the cluster effective from 1 July 2015.

The Department of Trade and Investment, Regional Infrastructure and Services was abolished and the Department of Industry, Skills and Regional Development was established.

The Order transferred a number of agencies to other clusters and transferred agencies and staff responsible for skills training into the cluster. The Order transferred:

- staff and agencies relating to trade and tourism and major events to the Department of Premier and Cabinet
- responsibility for the Office of Liquor, Gaming and Racing, and Arts policy, to the Justice cluster
- the Independent Liquor and Gaming Authority, Art Gallery of New South Wales Trust, Australian Museum Trust, Library Council of NSW, Trustees of the Museum of Applied Arts and Sciences, to the Justice cluster
- the Trade and Investment branch to the Department of Premier and Cabinet, together with Destination NSW
- the remaining parts of the Department of Trade and Investment, Regional Infrastructure and Services were transferred to the Department of Industry, Skills and Regional Development.

TAFE NSW moves into the cluster

Effective 1 July 2014, TAFE NSW separated from the former Department of Education and Communities (now the Department of Education). The Department of Education continued to provide corporate services for TAFE NSW under the terms of a memorandum of understanding during 2014-15.

As part of administrative changes announced by the NSW Government in April 2015, the TAFE NSW transferred to the Industry, Skills and Regional Development cluster.

This new cluster was created to help increase employment opportunities for the citizens of New South Wales, strengthening the links between skills development, industry and communities.

The Department is updating its governance arrangements

Recommendation

The Department should benchmark its governance arrangements against relevant better practice guides such as the Audit Office's Governance Lighthouse Checklist.

There have been significant changes to the Department and to the cluster generally. Governance arrangements will need to be updated to align with these changes.

Sound corporate governance is paramount to service delivery and the economic and efficient use of taxpayers' money. Good governance is those high-level processes and behaviours that ensure an organisation performs by achieving its intended purpose, and conforms by complying with all relevant laws, codes and directions while meeting community expectations of probity, accountability and transparency.

The Audit Office's Governance Lighthouse Checklist is a strategic early warning system to help agencies identify areas needing improvement. This checklist could assist the Department update its governance arrangements.

Service Agreement

Service agreements are unsigned

Recommendation (repeat issue)

The Department should sign Service Partnership Agreements with all serviced divisions and agencies.

Last year's Auditor-General's Report to Parliament recommended the Department should sign Service Partnership Agreements (SPAs) with all serviced divisions and agencies. SPAs operated during 2014-15, however, there continued to be a lack of penalty clauses for not meeting key performance indicators.

While a number of SPAs are in place for 2015-16, 18 agreements have been developed, but not yet finalised. Eight of these relate to divisions within the Department and one related to an agency that was newly established during the year.

The service partnership arrangement aims 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 Department's Finance Strategy and Operations Division provides a range of corporate services to cluster agencies and earns revenue based on a cost recovery basis from some clients. The Department has been delivering services to some of these agencies for a number of years.

TAFE NSW service level agreement outdated and unsigned

Recommendation

TAFE NSW should update, finalise and sign a Service Level Agreement with its shared service provider.

The Department of Education continues to provide corporate services to TAFE NSW. In November 2014, a Memorandum of Understanding (MOU) was signed between the Department of Education and TAFE NSW.

While the MOU outlines overall general responsibilities, a separate Service Level Agreement (SLA) exists between TAFE NSW and the Department of Education's Finance Shared Service Centre. The SLA is dated 10 May 2011 and is in draft. It also includes references to outdated information, for example, student revenue systems which are no longer in use. TAFE NSW could not provide an updated signed SLA.

Services provided by the Department of Education's Finance Shared Service Centre to TAFE NSW include payroll processing and disbursements, procurement, asset management, accounts receivable and accounts payable.

Governance of the Agricultural Scientific Collections Trust

Trustees for the Trust were not in place for a number of years

Last year's Auditor-General's Report to Parliament recommended the Minister should appoint trustees to the Trust as soon as possible to ensure compliance with enabling legislation and ensure good governance.

In October 2015 trustees were appointed. Prior to their appointment the Trust operated without adequate governance arrangements for four years.

The *Agricultural Scientific Collections Trust Act, 1983* requires the Trust to have six trustees appointed by the Minister. However, there were only four trustees from 2011-12 to 2013-14. No meetings were held during this period due to an inability to achieve a quorum. The term of engagement for the four trustees expired in May 2014, resulting in a situation where the Trust had no trustees. The Minister appointed a Trust Director, however, the Director subsequently retired and to-date has not been replaced.

The role of the Trust is primarily to increase and disseminate knowledge in relation to agriculture, fishing activities, forestry and mining which are related to trust property, and with respect to Australian plant pathogens, other micro-organisms, insects and mites.

Special Deposits Accounts

Financial reporting requirements for Special Deposit Accounts are still unclear

Special Deposit Accounts (SDAs) are created by legislation to receive monies and carry out specified activities. Last year's Auditor-General's Report to Parliament recommended Treasury provide clarity over the legislation and reporting requirements for SDAs. Treasury's Financial Management Transformation project is expected to provide this clarity. Refer to Volume Four of the 2015 Auditor-General's Report to Parliament for more details on this project.

In the interim, Treasury has requested the Auditor-General audit any SDA special purpose financial reports submitted for audit.

In 2014-15, the Department submitted special purpose financial reports for eight SDAs for the first time. The Game and Pest Management Trust Fund was created by the *Game and Feral Animal Control Act 2002*. The Recreational Fishing (Freshwater) Trust Fund, Recreational Fishing (Saltwater) Trust Fund, Commercial Fishing Trust Fund, Charter Fishing Trust Fund, Fish Conservation Trust Fund and Aquaculture Trust Fund were all created under the *Fisheries Management Act 1994*. The Public Reserves Management Fund was created under the *Public Reserves Management Fund Act 1987*. The audits of these 30 June 2015 financial statements are currently in progress.

The Responsible Gambling Fund and the Coal Innovation NSW Fund are SDAs which previously prepared general purpose financial statements. In 2014-15, they converted to a special purpose financial statement format.

Risk Management

Risk management processes in some agencies can be improved

Last year's Auditor-General's Report to Parliament recommended the Department should ensure all cluster agencies have risk management frameworks and registers.

Twelve out of thirteen agencies advised they have an integrated risk management framework. One of these twelve agencies had adopted the Department's risk management framework and was in the process of development of its own specific framework.

The Trustees of the Museum of Applied Arts and Sciences advised its risk is managed at a project level. Risk assessments and mitigation planning form a key step in the early stages of project development, with ongoing reporting an oversight delivered by the senior management team. An integrated risk management framework will be developed in the 2015-16 financial year.

Effective risk management can improve decision making and lead to significant efficiencies and cost savings. By embedding risk management directly into processes, agencies can derive additional value from their risk management programs. The more mature an agency's risk management, the stronger its culture in balancing the tension between value creation and protection.

Treasury Policy Paper TPP 15-03: Internal Audit and Risk Management Policy for the NSW Public Sector requires an agency to establish and maintain an appropriate risk management framework and related processes.

A mature risk management process should:

- foster an embedded risk aware culture
- align strategic and business decision making processes with risk management activities
- improve resilience in dealing with adversity
- increase agility in pursuing new opportunities.

Agencies will need to evaluate the costs and benefits of risk management capability if they are to achieve a desirable balance between risk and reward. Some agencies may need more sophisticated risk management processes than others to suit the size and complexity of their activities.

Fraud Control

Incidents of fraud and corruption have been referred to ICAC by cluster agencies

Recommendation

To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015.

Seven agencies advised they have referred instances of possible corrupt conduct to the NSW Independent Commission Against Corruption (ICAC). The ICAC performs an assessment of each referral and determines whether a formal investigation is required.

The ICAC is currently conducting two investigations relating to agencies in the cluster:

- TAFE South West Sydney Institute – allegations that an Acting Information and Communication Technology officer dishonestly obtained over \$1.7 million from the Department of Education and Communities TAFE South West Sydney Institute.
- Mine Subsidence Board – allegations a former district manager received, or may have received, corrupt payments or other benefits as an inducement or reward for showing favourable treatment to a building contractor. The Commission is also investigating allegations the former manager revealed confidential tender information, and breached Board financial delegations, policies and/or procedures relating to the awarding of contracts and the making of payments to a company.

A number of cluster agencies do not yet have fraud and prevention policies and procedures in place

Last year's Auditor-General's Report to Parliament recommended the Australian Museum Trust and other agencies in a similar position should have a fraud prevention policy and procedures.

Two agencies have advised they do not have fraud prevention policy and procedures in place. These were the Australian Museum Trust and the Trustees of the Museum of Applied Arts and Sciences. The Australian Museum Trust has a code of conduct that covers fraud but is yet to develop a separate fraud prevention policy and procedures.

We requested information from the larger cluster agencies on fraud prevention policies and procedures. Ten out of thirteen agencies confirmed they have appropriate mechanisms to manage the risk of fraud supported by an entity level Fraud Prevention and Management framework. Local Land Services, NSW Food Authority and Independent Liquor and Gaming Authority did not have their own fraud prevention policy and applied the Department's policy.

The Audit Office's Fraud Control Improvement Kit, released in February 2015, recognises the importance of the cultural elements to fraud control and how leaders play an important role in ensuring the right culture is present in organisations. The approach to fraud control should be positive and proactive, not a 'tick the box' exercise.

The Fraud Control Improvement Kit is designed to help organisations meet the challenge of implementing an effective fraud control framework. It provides guidance on the key elements of the framework and contains practical resources to help organisations implement, review and monitor the framework's effectiveness. Agencies in the cluster should reassess their fraud controls against the Fraud Control Improvement Kit.

Compliance Management

Some cluster agencies do not have a compliance management framework

Recommendation

All agencies should maintain a compliance register, monitor compliance and report breaches to the audit and risk committee.

Opportunities exist for agencies to leverage off good practice compliance management processes established in other agencies in the cluster.

Effective compliance management requires agencies to:

- identify all applicable laws, regulations and government directions
- maintain a centralised up-to-date compliance register
- assign responsibility for each requirement
- monitor and report on compliance.

Effective compliance management helps prevent agencies from breaching laws and regulations. The 2014-15 audits identified that some cluster agencies do not maintain compliance registers or identified instances where non-compliance has occurred with relevant legislative frameworks and central agency requirements.

Most of the larger agencies in the cluster advised they have a centralised up-to-date compliance register and processes in place to ensure they comply with relevant legislative frameworks and requirements.

The Trustees of the Museum of Applied Arts and Sciences advised compliance is managed at a project level rather than an entity level. Compliance with applicable laws, regulations and government directions is monitored by senior management, with guidance from the Governance, Planning and Reporting team. At the operation level, individual units are responsible for the application of processes to ensure compliance.

Service Delivery

This chapter outlines key findings, conclusions and recommendations about Service Delivery for agencies in the DTIRIS cluster for 2014-15. The key findings, conclusions and recommendations are summarised in the following table.

Service Delivery	
Observation	Conclusion or recommendation
<p>State Priorities: The NSW Government released its new State Priorities 'NSW: Making it Happen' in September 2015. This replaced the NSW Government's previous ten year plan, 'NSW 2021'. The Department has developed its corporate plan around the new priorities.</p>	<p>Certain key targets and measures in the Department's corporate plan, lack clarity.</p> <p>Recommendation (repeat Issue): The Department should clarify the measures it uses to determine goal achievement.</p>
<p>Aboriginal land claims: The number of unprocessed claims has increased by 2,330 or nine per cent to 28,054.</p> <p>The number of claims approved but not yet transferred reduced significantly from 287 last year, to 220 as at 30 June 2015.</p>	<p>Recommendation (repeat Issue): The Department should implement measures to reduce the number of unprocessed Aboriginal land claims.</p>

Performance Reporting

State Priorities

The NSW Government has announced a new set of priorities

Recommendation (repeat issue)

The Department should clarify the measures it uses to determine goal achievement.

The NSW Government released new State Priorities 'NSW: Making it Happen' in September 2015. This replaced the previous ten-year State Plan, NSW 2021 which was released in September 2011 and contained 32 goals and 186 targets.

There are 30 State Priorities including 12 Premier Priorities. The Department integrated the relevant Premier's Priorities in its' 2015-2019 corporate plan. The goals specified in the Corporate Plan are to:

- facilitate the creation of at least 150,000 new jobs, including 30,000 in regional New South Wales by 2019
- maximise the return from investment in skills, focusing on efficiency of delivery and alignment to labour demand
- support government decision making for infrastructure regulation and priorities with information about economic opportunities and challenges
- reach out to industry, the community, and other parts of government to deepen understanding and strengthen collaboration
- be a responsive and engaged Department, driven by a culture of innovation and collaboration.

The Department plans to report against the new priorities from 2015-16 onwards.

Last year's Auditor-General's Report to Parliament recommended the NSW Government improve the measures used to determine goal achievement as NSW 2021 lacked clarity. The Department's new corporate plan for 2015-2019 contains certain targets and measures where it is difficult to assess the impact the Department has had on the actual results achieved, such as:

- increased business confidence
- increased customer satisfaction.

A performance audit report will be tabled in Parliament shortly which assesses whether the former Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS) could demonstrate that its assistance to industry is effective. The audit is restricted to direct industry assistance and will not cover tax concessions or regulatory assistance

TAFE NSW Performance

TAFE NSW provides technical and further education services to meet the skill needs of individuals and the workforce, in ways that recognise the changing nature of workplaces and the need for new skills and re-training.

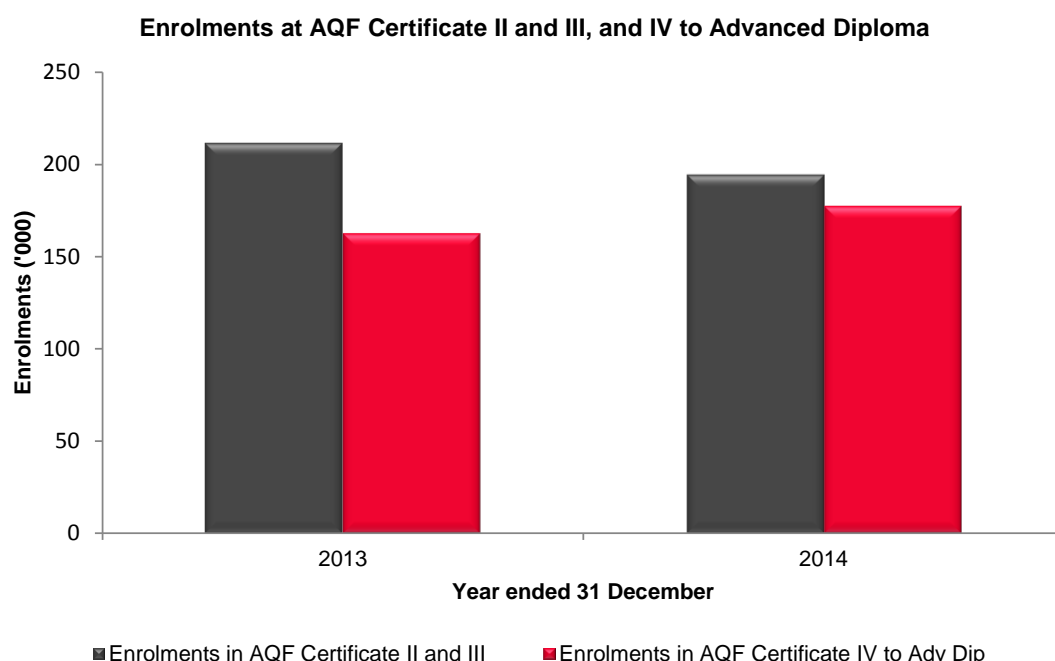
TAFE NSW's Strategic Plan 2014-16 was aligned to the State's economic goals and targets set out in the former State Plan NSW 2021.

Performance against key performance indicators

TAFE NSW has mixed trends in enrolments in 2014

Enrolments in Australian Qualifications Framework (AQF) Certificate II and III levels declined by 8.1 per cent in 2014. The graph below shows decline from 211,672 enrolments in 2013 to 194,426 enrolments in 2014. This trend reflects a shift towards higher level qualifications.

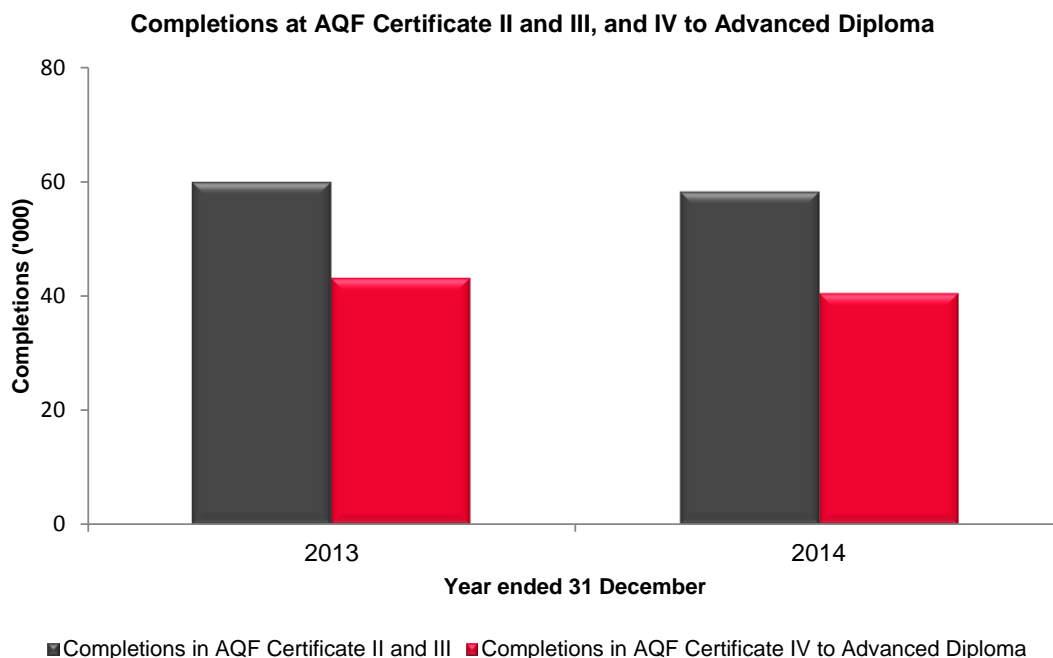
In contrast, enrolments in AQF Certificate IV to Advanced Diploma level increased by nine per cent, from 162,412 enrolments in 2013 to 176,975 enrolments in 2014.



Source: TAFE NSW Annual Report 2015 (unaudited).

TAFE NSW had a deteriorating trend in course completions in 2014

Completions in AQF Certificate II and III levels dropped by 2.8 per cent in 2014. The graph below shows decline from 59,787 completions in 2013 to 58,124 completions in 2014. Completions in AQF Certificate IV to Advanced Diploma level also decreased, from 43,076 completions in 2013 to 40,373 completions in 2014, a decline of 6.3 per cent.



Note: TAFE NSW sourced 2013 data from NCVER. 2014 data was compiled by TAFE NSW using slightly different business rules for counting student numbers. This may result in variances between the NCVER data and the internally sourced data for 2014.

Source: TAFE NSW (unaudited).

There are no significant changes in TAFE NSW's customer satisfaction

Eighty nine per cent of TAFE NSW graduates were satisfied with the overall quality of training in 2014. This is an increase of 0.2 per cent from 2013. In addition, 85.7 per cent of TAFE NSW module completers were satisfied with the overall quality of training in 2014, a decrease of one per cent from 2013.

Aboriginal land Claims

On current trends, it will take approximately 80 years to clear unprocessed Aboriginal land claims

Recommendation (repeat issue)

The Department should implement measures to reduce the number of unprocessed Aboriginal land claims.

Last year's Auditor-General's Report to Parliament recommended the Department take more effective action to reduce the number of unprocessed claims. The results below highlight the number of unprocessed claims have further increased in 2014-15.

At 30 June 2015 there were:

- 28,054 (25,724 at 30 June 2014) unprocessed claims
- 754 (504) unprocessed claims that are ten or more years old
- 220 (287) approved claims worth approximately \$742 million (\$719 million) where the land has not yet been transferred out of the Department.

It will take approximately 80 years to clear the current backlog of claims, based on the five year average speed of 357 claims per year, not accounting for any future claims.

The Department is developing a framework to apply the recent legislative changes to the *Aboriginal Land Rights Act 1983* which allows for Aboriginal Land Agreements. It expects this will improve the rate of processed claims by allowing for the resolution of multiple land claims in one negotiation process.

Total Claims

During 2014-15, 204 claims were determined, with 15 successful and 189 unsuccessful.

At 30 June	Number of unprocessed claims at year end	Number of claims determined during the year	Value of land transferred to Aboriginal Land Councils \$m
2015	28,054	204	22.4
2014	25,724	211	26.3
2013	25,775	493	81.4
2012	25,834	482	23.5
2011	25,549	394	10.3

Source: DTIRIS (unaudited).

Ageing of claims unprocessed at 30 June 2015

Of the current claims awaiting determination 41.3 per cent were lodged in the last five years.

Age of claim application	Number of claims unprocessed	Percentage of total claims	Land Area (hectares)
0-1 years	2,388	8	58,926
1-5 years	9,186	33	249,666
5-10 years	15,726	56	439,636
10+ years	754	3	10,454
Total claims	28,054	100	758,682

Source: DTIRIS (unaudited).

Claims approved but not yet transferred decreased by 23.3 per cent during the year

At 30 June 2015, there were 220 (287 at 30 June 2014) Aboriginal land claims that had been approved by the Minister or a court, but the land had not been transferred out of the Department. These claims relate to land worth approximately \$742 million (\$719 million).

Ageing of claims approved, but not yet transferred at 30 June 2015			
Age of approval	Number of claims not transferred	Percentage of total claims	Land Area (hectares)
0-1 years	12	6	382
1-5 years	82	37	6,715
5-10 years	31	14	28,676
10+ years	95	43	15,143
Total claims	220	100	50,916

Source: DTIRIS (unaudited).

The primary reason for delays in transferring approved claims is that a land survey is required before full land title is transferred. The Department is implementing strategies with the aim to reduce the number of approved claims awaiting survey and transfer to acceptable levels by 2018-19.

Major Projects in the Cluster

Capital projects over \$20.0 million

Projects are on track to meet budget, however two will not meet the initial timetable

Cultural agencies in the DTIRIS cluster are undertaking the following significant projects:

Project greater than \$20.0 million	Original budget amount \$m	Revised budget amount \$m	Amount spent at 30 June 2015 \$m	Original estimated completion year	Revised estimated completion year
Sydney Opera House					
Vehicle access and pedestrian safety project	152	157	153	2014	2015
Theatre machinery project	44	44	1	2018	2018
Library Council of NSW					
Digitisation for regional deliver project	62	62	16	2022	2022
Museum of Applied Arts and Sciences					
Shared storage and access facility	34	34	12	2015	2016

Source: Cluster agencies (unaudited).

These priority projects are currently in various stages of completion. Key highlights include:

- The Vehicle Access and Pedestrian Safety Project as reported last year is nearing completion and is on track to meet its revised budget.
- The Theatre Machinery Project is a new project expected to improve the reliability, functionality and safety of the 1,500 seat Joan Sutherland theatre's equipment and operations.
- The Library Council continues to undertake digitisation of its collection.
- The Shared Storage and Access Facility Project at Castle Hill project aims to construct a new storage facility for the collections of the Museum of Applied Arts and Sciences and the Australian Museum Trust.

Other developing projects include:

- The Art Gallery of New South Wales received an additional \$4.0 million in the 2015-16 Budget Estimates to enable it to conclude a design concept and undertake initial engagement on its expansion, the Sydney Modern Project. The total cost of the project is expected to approximate \$450 million and this funding has not yet been secured
- Relocation of the Power House Museum from Ultimo to Parramatta. Ten million dollars has been allocated to plan the relocation as part of the development of an Arts and Cultural precinct.

Contaminated Land

The Department continues to evaluate its land to identify sites of high contamination risk

In 2014, an Auditor-General's performance audit assessed how well the risks associated with contaminated sites are being managed in the cluster. The Department has currently identified 46 possible sites (38 in 2014) with high contamination risk.

The Department has now completed:

- preliminary assessments of sites ranked as high risk
- established a portfolio risk assessment to identify high risk land use categories
- project plans for three high risk land use categories.

Agency	Number of sites reported to EPA	Provision for restoration costs	Amount spent for restoration \$m	Number of possible sites with 'high' contaminated risk	Contingent liability \$m
DTIRIS	3	--	10.2	46	0.40
Forestry Corporation	1	--	--	--	None quantified

Source: Cluster agencies (unaudited).

Remediating contaminated sites can be expensive and therefore it is important to measure and record the impact of contamination.

The Smart and Skilled Environment

The Smart and Skilled reforms were introduced on 1 January 2015

The Minister for Education announced the Smart and Skilled reform in 2012, which introduced a Vocational Education and Training (VET) entitlement from 1 January 2015. The reform aims to get more people trained while maximising public value for the government's investment.

In 2013–14, the NSW Government spent \$2.2 billion subsidising VET for around 500,000 student enrolments. TAFE NSW accounted for over 85 per cent of the VET spending and 77 per cent of student enrolments. The NSW Government expects VET reform to gradually reduce that proportion but for TAFE NSW to continue to be the major provider.

Smart and Skilled provides eligible students with an entitlement to select foundation courses and full qualifications, up to and including Certificate III qualifications. The NSW Government also subsidises delivery of pre-vocational training, skill sets and qualifications from Certificate IV to Advanced Diploma through TAFE NSW and other training providers.

The NSW Government will provide funding to TAFE NSW through a separate and distinct budget consistent with its role as the State's public VET provider. In addition, the NSW Government expects TAFE NSW to successfully compete for entitlement funding and increase commercial revenue sources. The new 'Smart and Skilled' and VET sector financial arrangements will be undertaken through staged implementation and their progression informed by outcomes of the first year.

TAFE NSW will increasingly compete with private and community training providers for contestable government training funds. During 2014, TAFE NSW began aligning its deliverables with the 2014 NSW Skills List, which prescribed the training subsidised by the NSW Government under Smart and Skilled. From 1 January 2015, TAFE NSW competed in the new 'Smart and Skilled' environment.

Part One

Section Two

Appendices



Appendix One - Recommendations

The table below summarises the recommendations from the Auditor-General's Volume Twelve Report to Parliament covering agencies in the DTIRIS cluster for the year ended 30 June 2015.

Financial and performance reporting

Timeliness of financial reporting

Revaluations should be performed early enough so the process is completed before the early close deadline for financial statements.

Agencies should quality review the revaluation results before including them in financial statements and early close work papers.

Qualified opinion

TAFE NSW should identify and resolve significant issues with its student and administration system.

Accounting for Crown Land

The Department should continue to improve its systems for recording and accounting for Crown Land.

Record keeping for the library collection

The Library Council of NSW should improve its records supporting the number of items in the library collection for future valuations. This may require reconsideration of the methodology used in the revaluation process.

Performance against budget

Most agencies should improve the accuracy of their budgets.

Financial controls

Internal control issues

Internal control issues should be actioned promptly and repeat issues avoided.

Disaster recovery plan review

All agencies should review disaster recovery requirements, plans and testing for financial systems and ensure they comply with NSW Government policies.

The Department should formalise disaster recovery planning and testing requirements with its external service provider for its key financial systems.

Annual leave balances

Agencies should reduce employees' annual leave balances to meet whole-of-government targets.

Asset management

Cluster agencies need to ensure that appropriate asset management plans, including project management and maintenance plans are in place. Maintenance targets and other key performance indicators should be set in order to monitor performance.

Certifying the effectiveness of internal controls over financial information

As a best practice initiative, all cluster agencies should require the Chief Financial Officer of the agency and of any service provider, to attest to the effectiveness of internal controls as part of the financial statement preparation process.

Governance

Service provider arrangements

The Department should sign Service Partnership Agreements with all serviced divisions and agencies. TAFE NSW should update, finalise and sign the Service Level Agreement with its shared service provider.

Governance arrangements

The Department should benchmark its governance arrangements against relevant better practice guides such as the Audit Office's Governance Lighthouse Checklist.

Fraud and corruption

To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015.

Compliance management

All agencies should maintain a compliance register, monitor compliance and report breaches to the audit and risk committee.

Service delivery

State priorities

The Department should clarify the measures it uses to determine goal achievement.

Aboriginal land claims

The Department should implement measures to reduce the number of unprocessed Aboriginal land claims.

Appendix Two – Quality of Financial Reporting

Agency	Audit result		Reported misstatements for the year ended 30 June		
	Modified opinion	Number of significant matters	2015	2014	2013
Department of Trade and Investment, Regional Infrastructure and Services	No	1	21*	35	28
Other agencies					
Agricultural Scientific Collections Trust**	--	--	2	1	1
Belgenny Farm Trust**	--	--	4	3	6
C B Alexander Foundation	No	--	4	3	2
Cemeteries and Crematoria NSW**	--	--	--	N/A	N/A
Dam Safety Committee	No	--	1	3	2
Destination NSW	No	--	--	--	4
Destination NSW Staff Agency	No	--	1	--	1
Forestry Corporation of NSW	No	--	--	1	--
Independent Liquor and Gaming Authority	No	--	5	4	18
Independent Liquor and Gaming Authority Staff Agency	No	--	5	1	N/A
Land Administration Ministerial Corporation**	--	--	5	1	2
Local Land Services	No	2	6	13	N/A
Local Land Services Staff Agency	No	--	3	1	N/A
Marine Parks Authority**	--	--	--	--	--
Milk Marketing (NSW) Pty Limited	No	--	--	4	6
Mine Subsidence Board	No	--	8	4	6
New South Wales Rural Assistance Authority	No	--	7	4	2
NSW Food Authority	No	--	4	3	3
NSW Ovine Johne's Disease Transaction Based Contribution Scheme	No	--	4	2	--
Rice Marketing Board	No	--	--	--	3
Trustees of the Farrer Memorial Research Scholarship Fund	No	--	n/a	1	8
Veterinary Practitioners Board	No	--	3	2	4
Water Administration Ministerial Corporation**	--	--	--	--	--
Wentworth Park Sporting Complex Trust	No	1	2	2	1
Wild Dog Destruction Board	No	--	n/a	--	7
Wine Grapes Marketing Board	No	--	n/a	1	2

Agency	Audit result		Reported misstatements for the year ended 30 June		
	Modified opinion	Number of significant matters	2015	2014	2013
Special deposit accounts					
Aquaculture Trust Fund**	--	--	--	--	--
Charter Fishing Trust Fund**	--	--	--	--	--
Coal Innovation Fund NSW	No	--	2	7	N/A
Commercial Fishing Trust Fund**	--	--	--	--	--
Fish Conservation Trust Fund**	--	--	--	--	--
Game and Pest Management Trust Fund	No	--	5	6	N/A
Public Reserves Management Fund**	--	--	--	--	--
Recreational Fishing (Freshwater) Trust Fund**	--	--	--	--	--
Recreational Fishing (Saltwater) Trust Fund**	--	--	--	--	--
Responsible Gambling Fund	No	--	--	1	2
Cultural institutions					
Art Gallery of New South Wales Foundation	No	--	2	--	2
Art Gallery of New South Wales Trust	No	--	4	1	4
Art Gallery of New South Wales Trust Staff Agency	No	--	1	--	N/A
Australian Museum Trust	No	--	--	--	1
Australian Museum Trust Staff Agency	No	--	--	--	N/A
Library Council of New South Wales	No	1	1	2	4
Library Council of NSW Staff Agency	No	--	1	--	N/A
State Library of New South Wales Foundation	No	--	1	1	--
Sydney Opera House Trust	No	--	3	1	--
Sydney Opera House Trust Staff Agency	No	--	--	--	N/A
The Australian Institute of Asian Culture and Visual Arts Limited	No	--	1	1	--
The Brett Whiteley Foundation	No	--	1	1	1
Trustees of the Museum of Applied Arts and Sciences	No	--	1	1	6
Trustees of the Museum of Applied Arts and Sciences Staff Agency	No	--	--	3	N/A
Skills					
NSW Skills Board	No	--	1	3	N/A
Technical and Further Education Commission	Yes	1	3	5	5
Technical and Further Education Commission Staff Agency	No	--	6	N/A	N/A
Technical Education Trust Funds	No	--	n/a	--	--
Total:		6	118	122	131

* Consolidated entity.

** Audit is on-going.

n/a not available, as agency has 31 December year end.

N/A not applicable, agency did not exist.

Notes:

- Marine Parks Authority audits are ongoing for 2012, 2013, 2014 and 19 December 2014.
- Water Administration Ministerial Corporation audits are ongoing for 2011, 2012, 2013, 2014 and 2015.

Appendix Three – Timeliness of Financial Reporting - Exceptions

This table shows agencies whose financial statements are subject to statutory deadlines where a deadline was not achieved.

	Financial statements	Audit
Agency	Received by statutory date	Completed by statutory date
Cemeteries and Crematoria NSW	Yes	Audit ongoing
Dam Safety Committee	Yes	No
Department of Trade and Investment, Regional Infrastructure and Services	Yes	No
Independent Liquor and Gaming Authority	Yes	No
Independent Liquor and Gaming Authority Staff Agency	Yes	No
Land Administration Ministerial Corporation	Yes	Audit ongoing
Library Council of NSW	Yes	No
Library Council of NSW Staff Agency	Yes	No
Local Land Services	Yes	No
Local Land Services Staff Agency	Yes	No
Mine Subsidence Board	Yes	No
Rice Marketing Board	Yes	No
Trustees of the Museum of Applied Arts and Sciences	Yes	No
Trustees of the Museum of Applied Arts and Sciences Staff Agency	Yes	No
Water Administration Ministerial Corporation	Yes	Audit ongoing
Wine Grapes Marketing Board	Yes	No

Source: Audit Office of NSW

Appendix Four – Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Net result	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cluster lead entity										
Department of Trade and Investment, Regional Infrastructure and Services*	9,492	9,423	376	364	1,515	1,608	1,731	1,754	(216)	(146)
Other agencies										
Agricultural Scientific Collections Trust**	100	95	--	--	--	--	--	--	--	--
Belgenny Farm Trust**	1	2	--	--	2	2	2	2	--	--
C B Alexander Foundation	24	23	2	--	1	1	1	1	--	--
Cemeteries and Crematoria NSW**	2	N/A	--	N/A	--	N/A	--	N/A	--	N/A
Dam Safety Committee	1	--	--	--	2	2	2	2	--	--
Destination NSW*	41	50	25	34	136	135	136	131	--	4
Forestry Corporation of New South Wales	2,053	1,978	816	804	393	398	312	331	81	67
Independent Liquor and Gaming Authority*	10	8	3	3	13	14	11	13	2	1
Local Land Services*	609	612	45	57	169	107	167	104	2	3
Mine Subsidence Board	125	113	50	37	27	33	27	35	--	(2)
New South Wales Rural Assistance Authority	353	217	330	218	51	77	27	90	24	(13)
NSW Food Authority	40	39	26	24	22	23	23	18	(1)	5
NSW Ovine Johne's Disease Transaction Based Contribution Scheme	1	1	--	--	--	--	--	--	--	--
Rice Marketing Board	7	10	6	9	1	1	1	1	--	--
Trustees of the Farrer Memorial Research Scholarship Fund	n/a	1	n/a	--	n/a	--	n/a	--	n/a	--
Veterinary Practitioners Board	3	3	1	1	1	1	1	1	--	--
Wentworth Park Sporting Complex Trust	49	51	7	7	1	1	3	3	(2)	(2)
Wild Dog Destruction Board	n/a	11	n/a	--	n/a	2	n/a	2	n/a	--
Wine Grapes Marketing Board	n/a	3	n/a	--	n/a	1	n/a	1	n/a	--

	Total assets		Total liabilities		Total revenue		Total expense		Net result	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Special deposit accounts										
Aquaculture Trust Fund**	2	2	--	--	1	1	1	2	--	(1)
Charter Fishing Trust Fund**	1	1	--	--	--	--	--	--	--	--
Coal Innovation NSW Fund	86	87	1	1	2	18	3	21	(1)	(3)
Commercial Fishing Trust Fund**	12	9	2	--	6	5	4	6	2	(1)
Fish Conservation Trust Fund**	--	--	--	--	--	--	--	--	--	--
Game and Pest Management Trust Fund	1	--	--	--	1	--	1	--	--	--
Public Reserves Management Fund**	40	62	2	5	13	11	31	15	(18)	(4)
Recreational Fishing (Freshwater) Trust Fund**	1	1	--	--	5	4	4	4	1	--
Recreational Fishing (Saltwater) Trust Fund**	15	14	5	5	11	11	9	7	2	4
Responsible Gambling Fund	30	49	1	23	18	16	16	15	2	1
Cultural institutions										
Art Gallery of New South Wales Foundation	36	33	--	--	5	3	2	1	3	2
Art Gallery of New South Wales Trust*	1,592	1,379	13	12	68	55	47	45	21	10
Australian Museum Trust*	771	767	7	7	46	44	43	45	3	(1)
Library Council of New South Wales*	3,483	2,465	13	10	99	94	93	91	6	3
Sydney Opera House Trust*	2,451	2,449	40	44	144	170	140	143	4	27
The Brett Whiteley Foundation	2	2	--	--	--	1	--	--	--	1
Trustees of the Museum of Applied Arts and Sciences*	507	578	4	13	58	54	126	50	(68)	4
Skills										
NSW Skills Board	3	2	--	--	2	1	1	--	1	1
Technical and Further Education Commission*	5,559	5,024	598	484	1,901	1,907	1,775	1,906	126	1
Technical Education Trust Funds	n/a	--	n/a	--	n/a	--	n/a	--	n/a	--
Cluster total	27,503	25,564	2,373	2,162	4,714	4,801	4,740	4,840	(26)	(39)

* Consolidated.

** Unaudited.

n/a not available, as agency has 31 December year end

N/A not applicable, agency did not exist.

Appendix Five – Performance Against Budget

Not for Profit

	Department of Trade and Investment, Regional Infrastructure and Services		Destination NSW		Independent Liquor and Gaming Authority		Local Land Services	
	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m
Abridged statement of comprehensive Income - year ended 30 June 2015								
Total expenses	1,731	1,686	135	136	11	14	167	124
Total revenue	1,515	1,490	135	131	13	14	169	122
Net result	(216)	(196)	--	(5)	2	--	2	(2)
Total other comprehensive income/(expense)*	270	--	--	--	--	--	--	--
Total comprehensive income/(expense)	54	(196)	--	(5)	2	--	2	(2)
Abridged statement of financial position - at 30 June 2015								
Total assets	9,492	8,738	41	25	10	7	609	198
Total liabilities	376	286	25	16	3	3	45	28
Net assets	9,116	8,452	16	9	7	4	564	170
Abridged statement of cash flows - year ended 30 June 2015								
Purchases of property, plant and equipment	50	54	1	--	--	--	1	--

	New South Wales Rural Assistance Authority		NSW Food Authority		Art Gallery of New South Wales Trust		Australian Museum Trust	
	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m
Abridged statement of comprehensive Income - year ended 30 June 2015								
Total expenses	27	47	23	22	47	47	43	43
Total revenue	51	30	22	22	68	58	46	43
Net result	24	(17)	(1)	--	21	11	3	--
Total other comprehensive income/(expense)*	--	--	--	--	191	--	--	--
Total comprehensive income/(expense)	24	(17)	(1)	--	212	11	3	--
Abridged statement of financial position - at 30 June 2015								
Total assets	353	210	40	31	1,592	1,382	771	764
Total liabilities	330	198	26	18	13	6	7	5
Net assets	23	12	14	13	1,579	1,376	764	759
Abridged statement of cash flows - year ended 30 June 2015								
Purchases of property, plant and equipment	--	--	--	1	21	16	7	5

	Library Council of New South Wales		Trustees of the Museum of Applied Arts and Sciences		Sydney Opera House Trust		New South Wales Technical and Further Education Commission	
	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 SBI \$m	2015 actual \$m	2015 budget \$m
Abridged statement of comprehensive income - year ended 30 June 2015								
Total expenses	93	92	126	44	140	162	1,775	1,862
Total revenue	99	94	58	62	144	150	1,901	1,801
Net result	6	2	(68)	18	4	(12)	126	(61)
Total other comprehensive income/(expense)*	1,010	--	5	--	2	--	295	--
Total comprehensive income/(expense)	1,016	2	(63)	18	6	(12)	421	(61)
Abridged statement of financial position - at 30 June 2015								
Total assets	3,483	2,473	507	597	2,451	2,391	5,559	4,683
Total liabilities	13	13	4	11	40	39	598	351
Net assets	3,470	2,460	503	586	2,411	2,352	4,961	4,332
Abridged statement of cash flows - year ended 30 June 2015								
Purchases of property, plant and equipment	17	21	13	32	36	44	75	77

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

Source: Financial statements (audited and unaudited).

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

For Profit

Forestry Corporation of New South Wales		
	2015 actual \$m	2015 SCI \$m
Abridged statement of comprehensive income - year ended 30 June 2015		
Total revenue	393	332
Profit before tax	116	37
Profit after tax	81	26
Total other comprehensive income/(expense)*	--	--
Total comprehensive income/(expense)	81	26
Abridged statement of financial position - at 30 June 2015		
Total assets	2,053	1,969
Total liabilities	816	787
Net assets	1,237	1,182
Abridged statement of cash flows - year ended 30 June 2015		
Purchases of property, plant and equipment	2	4

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

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 Six – Financial Sustainability

Indicator	Formula	Description
Net result - surplus / (deficit)	Net result from audited financial statements	A positive result means that revenues were greater than expenses (i.e. a surplus), and a negative result that expenses were greater than revenues (i.e. a deficit). Deficits cannot be sustained in the long term. The net result is from the audited Statement of Comprehensive Income.
Net result as a % of total revenue	Net result / total revenue	This measures an agency's net result (defined above) during the year as a proportion of total revenue. A result less than zero indicates that expenses exceeded revenues, and a result greater than zero indicates that revenues exceeded expenses. The larger the percentage, the more significant the net result compared to total revenue. A negative result cannot be sustained in the long term. Net result and total revenue are sourced from the audited Statement of Comprehensive Income.
Liquidity	Current assets / current liabilities	This measures an agency's 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 have been adjusted to exclude long-term employee benefit provisions and revenue in advance. Current assets and current liabilities are from the audited Statement of Financial Position.
Self-funding %	Revenue from non-NSW Government sources / total revenue	Measures the ability of an agency to fund its operations using cash generated by its own operations, rather than cash granted from the NSW Government. The higher the percentage, the lower the agency's reliance on NSW Government funding. Revenue from non-NSW Government sources and total revenue are from the audited Statement of Comprehensive Income.
Expense growth rate %	(Total expenditure 2015 less total expenditure 2014) / total expenditure 2014	This measures the rate of growth in expenditure for an agency in the current year, compared to the prior year. A positive rate indicates that expenses have increased compared to prior year, while a negative rate indicates that expenses have decreased compared to prior year.

Appendix Seven – Cluster Information

Agency	Website
Cluster lead entity	
Department of Trade and Investment, Regional Infrastructure and Services	http://www.industry.nsw.gov.au/
Controlled agency of DTIRIS	
Land Administration Ministerial Corporation	*
Water Administration Ministerial Corporation	*
Other related agencies	
Agricultural Scientific Collections Trust	http://www.dpi.nsw.gov.au/aboutus/about/legislation-acts/agricultural-scientific-collections-trust/
Belgenny Farm Agricultural Heritage Centre	http://www.belgennyfarm.com.au/
C B Alexander Foundation	http://www.tocal.com/tocal-organisations/cb-alexander-foundation
Cemeteries and Crematoria NSW	http://www.dpi.nsw.gov.au/lands/cemeteries-crematoria/
Dams Safety Committee	http://www.damsafety.nsw.gov.au/
Destination NSW	http://www.destinationnsw.com.au/
Destination NSW Staff Agency	*
Forestry Corporation of NSW	http://www.forestrycorporation.com.au/
Independent Liquor and Gaming Authority	http://www.ilga.nsw.gov.au/
Independent Liquor and Gaming Authority Staff Agency	*
Local Land Services	http://www.lls.nsw.gov.au/
Local Land Services Staff Agency	*
Mine Subsidence Board	http://www.minesub.nsw.gov.au/
New South Wales Rural Assistance Authority	http://www.raa.nsw.gov.au/
NSW Food Authority	http://www.foodauthority.nsw.gov.au/
NSW Ovine Johne's Disease Transaction Based Contribution Scheme	http://www.dpi.nsw.gov.au/agriculture/livestock/health/images/information-by-species/sheep/ojd
Rice Marketing Board for the State of New	http://www.rmbnsw.org.au/
Trustees of the Farrer Memorial Research Scholarship Fund	http://www.dpi.nsw.gov.au/aboutus/about/farrer-memorial-trust/
Veterinary Practitioners Board	http://www.vpb.nsw.gov.au
Wentworth Park Sporting Complex Trust	http://www.wentworthparksport.com.au
Wild Dog Destruction Board	*
Wine Grapes Marketing Board	http://www.wgmb.net.au/

* These agencies have no website.

Agency	Website
Special deposit accounts	
Aquaculture Trust Fund	http://www.dpi.nsw.gov.au/fisheries/aquaculture
Charter Fishing Trust Fund	http://www.dpi.nsw.gov.au/fisheries/recreational/info/charter
Coal Innovation Fund NSW	http://www.resourcesandenergy.nsw.gov.au/energy-consumers/energy-sources/coal-innovation-nsw/
Commercial Fishing Trust Fund	http://www.dpi.nsw.gov.au/fisheries/commercial
Fish Conservation Trust Fund	*
Game and Pest Management Trust Fund	*
Public Reserves Management Fund	http://www.lpma.nsw.gov.au/crown_land/crown_reserves/funding/PRMFP
Recreational Fishing (Freshwater) Trust Fund	http://www.dpi.nsw.gov.au/fisheries/recreational/freshwater
Recreational Fishing (Saltwater) Trust Fund	http://www.dpi.nsw.gov.au/fisheries/recreational/saltwater
Responsible Gambling Fund	http://www.olgr.nsw.gov.au/rgf_home.asp
Cultural institutions	
Art Gallery of New South Wales Foundation	http://www.artgallery.nsw.gov.au
Art Gallery of New South Wales Trust	http://www.artgallery.nsw.gov.au
Art Gallery of New South Wales Trust Staff	*
Australian Museum Trust	http://australianmuseum.net.au
Australian Museum Trust Staff Agency	*
Library Council of NSW	http://www.sl.nsw.gov.au/about/council/library_council_index.html
Library Council of NSW Staff Agency	*
State Library of New South Wales Foundation	http://www.sl.nsw.gov.au/about/support/foundation/about_foundation.html
Sydney Opera House Trust	http://www.sydneyoperahouse.com/
Sydney Opera House Trust Staff Agency	*
The Australian Institute of Asian Culture and Visual Arts Limited	http://www.artgallery.nsw.gov.au/support-us/visasia-council
The Brett Whiteley Foundation	http://www.artgallery.nsw.gov.au
Trustees of the Museum of Applied Arts and Sciences	https://maas.museum/
Trustees of the Museum of Applied Arts and Sciences Staff Agency	*
Educational institutions	
NSW Skills Board	https://www.training.nsw.gov.au/vet/major_players/nsw_skills_board.html
TAFE Commission (Senior Executives) Staff	*
Technical and Further Education Commission	https://www.tafensw.edu.au/
Technical Education Trust Funds	*

* These agencies have no website.

Agency	Website
Electricity agencies	
Electricity generator	
Delta Electricity	http://www.de.com.au/
Electricity transmitter	
TransGrid	www.transgrid.com.au
Electricity distributors	
Ausgrid	https://www.ausgrid.com.au
Ausgrid Pty Limited	*
Endeavour Energy	http://www.endeavourenergy.com.au/
Essential Energy	http://www.essentialenergy.com.au/
Networks NSW Pty Limited	*
Water agencies	
Major water utilities	
Sydney Water Corporation	http://www.sydneywater.com.au
Water NSW Corporation	http://www.water.nsw.gov.au/home
Hunter Water Corporation	http://www.hunterwater.com.au/
Other water utilities	
Cobar Water Board	http://www.cobar.nsw.gov.au/engineering/cobar-water-board
Gosford Water Supply Authority	http://www.gosford.nsw.gov.au/environment-and-waste/water-and-sewer/water-supply
Wyong Water Supply Authority	https://www.wyong.nsw.gov.au/my-property/water

* These agencies have no website.

Part Two

Section One

Water



Executive Summary

This report analyses the results of the financial statement audits of water utilities for the year ended 30 June 2015.

Financial performance and reporting

Financial reporting

Unqualified audit opinions were issued for all water utilities except for the Gosford Water Supply Authority, where the audit is ongoing. Reported misstatements decreased from 18 in 2010-11 to seven in 2014-15.

Contaminated land sites

WaterNSW needs to notify the Environment Protection Authority of contaminated sites and consider the potential remediation costs.

Financial performance

Water utilities need to improve the accuracy of budget information included in their Statements of Corporate Intent.

Financial controls

Information technology

Water utilities should strengthen information security processes to reduce the risk of unauthorised access, data integrity issues and data privacy breaches.

Disaster recovery plan

WaterNSW should review its existing Disaster Recovery Plan documentation for significant financial applications and implement additional requirements specified in the NSW Government guidelines.

Governance

Dam safety

The Dam Safety Committee should continue to liaise with dam owners to implement enforcement requirements.

Fraud control

To reduce the risk of fraud, water utilities should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015

Service delivery

Conservation and recycling targets

The Metropolitan Water Directorate (now part of the Department of Primary Industries – Water) did not set specific water conservation and recycling targets for water utilities.

Flood management

The NSW Government, in conjunction with other relevant agencies, is conducting further assessment on appropriate strategies to manage major flooding in the Hawkesbury-Nepean Valley.

Financial performance and reporting

The quality of financial reporting continues to improve

Unqualified audit opinions were issued on the 30 June 2015 financial statements of all water utilities except for the Gosford Water Supply Authority, where the audit is ongoing.

Misstatements in water utilities' financial statements have fallen from 18 in 2010-11 to seven in 2014-15. All material misstatements were corrected. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12.

WaterNSW identified 111 contaminated land sites

WaterNSW identified 111 contaminated land sites in the Sydney Metropolitan area. It notified the Environment Protection Authority (EPA) of two contaminated sites and is assessing the extent of contamination of other sites.

Recommendation

WaterNSW should:

- formally test and notify the Environment Protection Authority of other contaminated sites in accordance with the *Contaminated Land Management Act 1997*
- consider the financial implications of potential remediation costs.

Water utilities can improve the accuracy of budget information

Most water utilities had variances of greater than five per cent from budget for major financial statement line items.

Recommendation

Water utilities need to improve the accuracy of budget information included in their Statements of Corporate Intent.

Water utilities distributed \$1.0 billion to the NSW Government in 2014-15

The distributions to the NSW Government increased from \$690 million in 2013-14 to \$1.0 billion in 2014-15. The increase was largely due to a higher dividend from Sydney Water Corporation.

Liquidity and gearing ratios at face value suggest potential short term sustainability concerns at the water utilities

Major water utilities have current ratios of less than one, indicating low liquidity levels.

However, they have access to regulated revenue streams and assets with long useful lives to generate revenue. Their ability to pay their debts as and when they become due is supported by adequate borrowing facilities from New South Wales Treasury Corporation.

Financial controls

One high risk internal control deficiency identified in 2014-15 audits

Twenty-nine internal control issues were identified and reported to management during the 2014-15 audits, including one high risk issue. The high risk issue related to the completeness and accuracy of WaterNSW's fixed asset register.

Generally, water utilities' internal controls were designed appropriately and operated effectively to produce reliable and timely financial reports.

Information technology controls can improve

Nine information technology issues were identified in 2014-15 (12 in 2013-14). These centred on information security controls for applications, disaster recovery plan and access controls to high-privileged user accounts.

Recommendation

Water utilities should strengthen information security processes to reduce the risk of unauthorised access, data integrity issues and data privacy breaches.

WaterNSW did not fully comply with NSW Government DRP requirements

WaterNSW did not have a Disaster Recovery Plan (DRP) to cover all financial systems. The financial impact for each disaster scenario and related risks were not fully identified or quantified, and only partial DRP testing was conducted.

Recommendation

WaterNSW should review its existing Disaster Recovery Plan documentation for significant financial applications and implement additional requirements specified in the NSW Government guidelines.

Governance

In 2013-14, all water utilities complied with operating licence requirements

The annual 2013-14 audits completed by the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) did not identify significant non-compliance with the operating licence conditions. The 2014-15 audits have not been finalised.

The Dam Safety Committee identified 16 dams with significant safety risks

The number of dams with a high risk rating for safety increased from 14 in 2013-14 to 16 in 2014-15. This includes Warragamba Dam.

Recommendation

The Dam Safety Committee should continue to liaise with dam owners to implement enforcement requirements.

The number of infringement and other non-compliance notices has decreased

The number of EPA infringement and other non-compliance notices issued to water utilities decreased from the previous year.

Two instances of fraud were reported by water utilities

Water utilities reported two instances of fraud in 2014-15. These matters are currently being investigated by the Independent Commission Against Corruption.

Recommendation

To reduce the risk of fraud, water utilities should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015.

Service delivery

Water prices in regional New South Wales are significantly lower than major metropolitan areas

The lower price in regional New South Wales is due to the method of price determination adopted by IPART and the Australian Competition and Consumer Commission (ACCC) for WaterNSW. Water prices are determined below commercial rates of return to exhibit a sense of responsibility towards regional development.

Metropolitan Water Directorate did not set specific water conservation and recycling targets for water utilities

The 2010 Metropolitan Water Plan, developed by the Metropolitan Water Directorate (now part of Department Primary Industries - Water) included an annual conservation target of 145 gigalitres and a recycling target of 70 gigalitres in Sydney by 2014-15.

However, specific targets were not assigned to Sydney Water Corporation and other participating entities. The 2014 Lower Hunter Water Plan also did not include water conservation and recycling targets for Hunter Water Corporation.

Flooding of the Hawkesbury-Nepean Valley may impact 73,000 people

A review by the Office of Water in March 2014 found approximately 73,000 people currently living in the Hawkesbury-Nepean Valley may be impacted by potential flooding from the Hawkesbury-Nepean River. The review, however, noted that such an event is considered extremely rare with a chance of one in 110,000 per year.

It concluded the risk will continue to grow along with urban development in this area and has no simple or single solution addressing the flooding risks.

The NSW Government in conjunction with other relevant agencies are conducting further assessment on appropriate strategies to manage major flooding in the Hawkesbury-Nepean Valley.

Introduction

This report sets out the results of the financial statement audits of NSW Government water utilities for the year ended 30 June 2015. It provides Parliament and other users of the financial statements with an analysis of the results and key observations in the following areas:

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

The water utilities are responsible for water storage, filtration, distribution and treatment of waste water. They also develop and maintain key infrastructure for water supply security and reliability. The commentary in this report covers the following water utilities:

NSW Government Water Utilities	
Major water utilities	<ul style="list-style-type: none">• Sydney Water Corporation• WaterNSW• Hunter Water Corporation
Other water utilities	<ul style="list-style-type: none">• Cobar Water Board• Gosford Water Supply Authority• Wyong Water Supply Authority

Snapshot of Water Utilities

A snapshot of the financial results of water utilities for the year ended 30 June 2015 is shown below.



Revenue \$3.6 billion
Expenses \$2.9 billion
Profit after tax \$552 million
Assets \$25.0 billion
Liabilities \$12.4 billion

Changes to the water utilities from 1 January 2015

The *Water NSW Act 2014* transferred the assets, rights and liabilities of the Sydney Catchment Authority to State Water Corporation. State Water Corporation continues to operate with a new corporate name of WaterNSW. These changes have no impact on the financial information for the 2014-15 presented in this report.

Status of 2014 Recommendations

Last year's Auditor-General's Report to Parliament included two recommendations for water utilities to improve their financial management and internal controls. The current status of each recommendation is shown below.

Recommendation	Current Status
 The water utilities should improve the information technology processes and controls that support the integrity of financial data used to prepare their financial statements by 30 June 2015.	<p>While the overall management of information technology processes and controls has improved in the current year, the water utilities continue to face challenges in reducing the risk of unauthorised access, data integrity issues and data privacy breaches.</p> <p>The water utilities advise they have reviewed and corrected access rights for users. New processes have also been created to address the recommendations.</p>
 State Water Corporation and Sydney Catchment Authority should formulate a structured approach to integrate their existing businesses, functions and processes before WaterNSW is formed on 1 January 2015. Management should oversee the integration process and achievement of planned outcomes.	<p>State Water Corporation and Sydney Catchment Authority staff worked to identify and integrate processes and systems for WaterNSW from July 2014.</p> <p>The implementation of the integrated organisational structure is expected to be completed in December 2015.</p> <p>Management also developed a Strategic Action Plan to support the achievement of WaterNSW's corporate strategic objectives.</p>

2014 recommendation status

 Fully addressed
  Partially addressed
  Not addressed

Financial Performance and Reporting

Financial performance and reporting are important elements of good governance. Confidence in public sector decision making and transparency is enhanced when financial reporting is accurate and timely. Effective financial management and reporting by water utilities helps key stakeholders, such as the NSW Government, make effective decisions and achieve desired outcomes efficiently.

This chapter outlines audit observations, conclusions and recommendations related to the financial performance and reporting of water utilities for 2014-15.

Financial reporting

Observation

Misstatements: Ongoing improvements in the quality and timeliness of financial reporting helped to reduce the number of reported misstatements.

Early close procedures: Water utilities complied with early close procedures and new accounting standards.

Conclusion or recommendation

Unqualified audit opinions were issued for all water utilities except for the Gosford Water Supply Authority, where the audit is ongoing.

Reported misstatements decreased from 18 in 2010-11 to seven in 2014-15.

Early close procedures continued to facilitate the effective resolution of issues and risks early in the audit process, improving timeliness of reporting and reducing misstatements.

Performance reporting

Observation

Land contamination: WaterNSW identified 111 contaminated land sites within the Sydney Metropolitan area.

Performance against budget: Accuracy of budget information in the Statements of Corporate Intent can improve.

Distributions to Government: Distributions to the NSW Government increased from \$690 million in 2013-14 to \$1.0 billion in 2014-15.

Financial sustainability: Liquidity and gearing ratios at face value suggest potential short term sustainability concerns at the water utilities.

Conclusion or recommendation

Recommendation:

WaterNSW should:

- formally test and notify the Environment Protection Authority of other contaminated sites in accordance with the *Contaminated Land Management Act 1997*
- consider the financial implications of potential remediation costs.

Recommendation: Water utilities need to improve the accuracy of budget information included in their Statements of Corporate Intent.

The increase in distributions was largely due to higher dividend from Sydney Water Corporation.

Water utilities have access to regulated revenue streams and assets with long useful lives to generate revenue. Their ability to pay their debts as and when they become due is supported by adequate borrowing facilities from New South Wales Treasury Corporation.

Quality of Financial Reporting

Unqualified audit opinions were issued for all water utilities' 30 June 2015 financial statements except for the Gosford Water Supply Authority, where the audit is ongoing

A financial audit is designed to identify matters considered important enough to report to those charged with governance of the water utilities, the portfolio minister and Treasurer.

Unqualified audit opinions were issued for all water utilities except for the Gosford Water Supply Authority, where the audit is ongoing.

The Authority advised that it was not able to submit its financial statements on time due to resourcing and new system implementation challenges.

Sufficient audit evidence was obtained to conclude the financial statements of the other water utilities were free of material misstatements.

Financial Performance Key Issues

WaterNSW identified 111 contaminated land sites

Recommendation

WaterNSW should:

- **formally test and notify the Environment Protection Authority of other contaminated sites in accordance with the *Contaminated Land Management Act 1997***
- **consider the financial implications of potential remediation costs.**

WaterNSW identified 111 contaminated land sites within the Sydney Metropolitan area and has not yet assessed the financial income of their remediation. It classified 23 of these sites as high risk requiring remedial action or further investigation.

Section 60 of the *Contaminated Land Management Act 1997* (CLM Act) requires the owner of land to notify the NSW Environment Protection Authority (EPA) of certain levels of contamination that has either entered or will foreseeably enter the surrounding environment.

It notified the EPA of two contaminated sites and is assessing the extent of contamination of other sites.

The value of Tillegra Land decreased by 69 per cent from \$90.5 million to \$28.1 million

Market values for Tillegra Land (Hunter Water Corporation) have decreased since the NSW Government's decision not to continue the construction of the Tillegra Dam in 2012. The land, initially valued at \$90.5 million, had cumulative devaluations of \$62.4 million at 30 June 2015.

Hunter Water Australia Pty Limited was sold

Hunter Water Australia Pty Limited (HWA), a controlled entity of Hunter Water Corporation, disposed of its assets and liabilities in December 2014. This resulted in a gain of \$3.5 million after income tax. HWA ceased operations on 31 December 2014.

The quality of financial reporting continues to improve

Misstatements in water utilities' financial statements have fallen from 18 in 2010-11 to seven in 2014-15. Material misstatements were corrected. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12.

The table below summarises the number of misstatements for the past five years for the water utilities and the value of misstatements detected during 2014-15.

			Reported misstatements for the year ended 30 June				
Water utilities	Value of corrected misstatements	Value of uncorrected misstatements	2015	2014	2013	2012	2011
	2015	2015					
	\$'000	\$'000					
Hunter Water Corporation	3,785	1,272	2	7	13	7	1
Sydney Water Corporation	--	285,827	1	1	1	2	4
WaterNSW	12,159	7,988	4	3	4	10	13
Total	15,944	295,087	7	11	18	19	18

Sydney Water Corporation regards its arrangements for three water filtration plants as service agreements and not as finance leases. The Audit Office considers this treatment of these contractual arrangements is inconsistent with the principles in Australian Accounting Standard AASB 117 'Leases'.

The value of the lease assets and liabilities was \$286 million at 30 June 2015 (\$295 million at 30 June 2014). This has been reported as an uncorrected misstatement in the financial statements.

Timeliness of Financial Reporting

Financial statements were submitted on time and audits were completed by statutory deadlines except for Gosford Water Supply Authority

The Audit Office completed the audits and issued the audit opinions for all other water utilities' financial statements within statutory deadlines.

Early close procedures contributed to improving the timeliness of financial reporting

Early close procedures brought forward year-end activities, such as valuing assets and resolving financial reporting issues, and reduced reporting timeframes and improved quality.

The table below shows the reduced deadlines for early close procedures over the past three years.

Key audit completion dates			
Date issued/signed	2015	2014	2013
Water utilities provided results of early close procedures to the Audit Office by	27 April	27 May	28 May
Audit Office provided feedback on early close procedures by	29 May	30 June	as agreed with agencies

There was substantial compliance with Treasury's early close procedure requirements.

Performance Against Budget

Water utilities can improve the accuracy of budget information

Recommendation

Water utilities need to improve the accuracy of budget information included in their Statements of Corporate Intent.

In 2014-15, Sydney Water Corporation, Hunter Water Corporation and WaterNSW prepared Statements of Corporate Intent (SCI) as required by the *State Owned Corporations Act 1989*.

The respective Boards and Shareholder ministers approved the SCIs and tabled them in Parliament.

Inaccuracies in budget information included in the SCI may increase the water utilities' risk of making inappropriate financial decisions and/or incorrect allocation of financial resources.

The water utilities' revenues are significantly impacted by weather.

The table below highlights the variances between the actuals and the SCI targets. The variances ranged from less than one per cent to 269 per cent.

Variance against budget for the year ended 30 June 2015						
Key Financial Statements Line Items	Hunter Water Corporation		Sydney Water Corporation		WaterNSW	
	Variance	Variance	Variance	Variance	Variance	Variance
	\$m	%	\$m	%	\$m	%
Total revenue	1	–	89	3	(14)	(4)
Total expense	13	5	(89)	(4)	124	40
Profit before tax	(12)	(18)	179	32	(137)	(269)
Total assets	(158)	(5)	155	1	(179)	(7)
Total liabilities	(61)	(4)	(113)	(1)	(70)	(6)
Net assets	(97)	(7)	268	4	(109)	(8)

Note: The performance information for WaterNSW includes a combination of State Water Corporation and Sydney Catchment Authority.

The table in Appendix Two compares the actual performance of the water utilities against their SCI targets. It highlights variances of greater than five per cent for major financial statement line items.

Hunter Water Corporation

Hunter Water Corporation recorded a net profit before tax of \$54.3 million, an unfavourable variance of \$11.9 million against budget. This was mainly due to greater than expected fair value decreases of Tillegra land.

Sydney Water Corporation

Sydney Water Corporation recorded a net profit before tax of \$730 million, a \$179 million favourable variance against budget. This was mainly attributed to:

- increase in water consumption due to the dry weather
- higher income from developer contributions due to buoyant property markets.

WaterNSW

WaterNSW recorded a net loss before tax of \$86.5 million, a \$137 million unfavourable variance against budget. This was mainly due to greater than expected fair value decreases of its system assets and redundancy costs.

Key Financial Information

Water utilities' combined profit after tax fell from \$575 million in 2013-14 to \$552 million in 2014-15

Water utilities' combined profit after tax decreased by \$23.0 million largely due to the write down of system assets from fair value assessments. This was partially offset by an increase in total revenue due to large volume of water sales from dry weather.

Appendix One of this report provides a summary of key financial information for each water utility.

Distributions to the NSW Government

Water utilities distributed \$1.0 billion to the NSW Government in 2014-15

The dividend for Sydney Water Corporation for 2014-15 was assessed as net profit after tax and remaining profits from previous two years. This resulted in an increase in the dividend payable of 164 per cent between 2013-14 and 2014-15.

The distributions to the NSW Government include dividends, income tax equivalents and the government guarantee fee. The table below details the total distribution to the NSW Government by the water utilities for the past five years.

Distributions to NSW Government for the year ended 30 June					
Water utilities	2015 \$m	2014 \$m	2013 \$m	2012 \$m	2011 \$m
Hunter Water Corporation					
Dividends	21	36	16	21	17
Income tax equivalents	31	27	16	13	18
Government guarantee fee	15	15	19	16	13
Total distributions to NSW Government	67	78	51	50	48
Sydney Water Corporation					
Dividends	664	252	291	242	230
Income tax equivalents	149	188	181	92	131
Government guarantee fee	98	99	105	105	94
Total distributions to NSW Government	911	539	577	439	455
WaterNSW					
Dividends	--	48	51	29	38
Income tax equivalents	22	16	(1)	18	23
Government guarantee fee	9	9	10	9	8
Total distributions to NSW Government	31	73	60	56	69
Grand total	1,009	690	688	545	572

Note: Dividends for Sydney Water Corporation in 2012-13 excludes special dividend from the gain on sale of Sydney Desalination Plant Pty Limited.

Source: Financial statements (audited).

Financial Sustainability Analysis

Liquidity and gearing ratios at face value suggest potential short term sustainability concerns at the major water utilities

The liquidity (current ratio) and gearing ratios at face value indicate there may be short term sustainability concerns at the major water utilities. However, several mitigating factors enable them to support ongoing operations:

- access to regulated revenue streams
- assets with long useful lives to generate revenue
- debt funding limits approved by the NSW Treasurer under the *Public Authorities (Financial Arrangements) Act 1987*.

The table below shows some performance indicators for the water utilities for the year ended 30 June 2015:

Financial sustainability indicators for the year ended 30 June 2015						
Water Utilities	Underlying result %	Liquidity	Self-financing %	Gearing %	Capital replacement	Indicator
Major water utilities						
Hunter Water Corporation	12	0.4	19	45	2	●
Sydney Water Corporation	19	0.2	25	50	3	●
WaterNSW	(2)	0.3	49	36	1	●
Other water utilities						
Cobar Water Board	(7)	7.7	54	--	--	●
Gosford Water Supply Authority	5	2.2	37	7	1	●
Wyong Water Supply Authority	1	2.3	28	12	1	●

Note: Refer to Appendix Three for descriptions of ratios and the risk assessment criteria.

Source: Financial statements (audited) except for Gosford Water Supply Authority

Liquidity

All of the major water utilities' liquidity ratios were less than one at 30 June 2015. A liquidity ratio of one is generally considered an appropriate level of liquidity to support continuing business operations.

However, in circumstances where businesses have access to regulated revenue streams and assets with long useful lives to generate revenue, businesses can operate at lower levels of liquidity.

Gearing

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) uses a 60 per cent benchmark as the efficient gearing ratio (proportion of debt in total financing) for water utilities to ensure customers do not bear costs associated with inefficient financing structures.

All water utilities are operating below IPART's benchmark.

Capital Replacement

WaterNSW's capital replacement ratio is the lowest of the major water utilities. This is in line with management's plan for low capital expenditure in recent years.

Hunter Water Corporation and Sydney Water Corporation recorded much higher capital replacement ratios, which were driven by demand for increased supply of water to newer properties and upgrades to existing assets.

Financial Controls

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

This chapter outlines findings about the financial controls of water utilities for 2014-15. The table below summarises key findings, conclusions and recommendations.

Financial controls	
Observation	Conclusion or recommendation
Internal control issues: Twenty-nine internal control issues were identified, including one high risk issue.	Areas were identified where internal controls can be improved.
Information technology: Nine information security issues were identified.	Recommendation: Water utilities should strengthen their information security processes to reduce the risk of unauthorised access, data integrity issues and data privacy breaches.
Disaster recovery plan: WaterNSW did not fully comply with Disaster Recovery Plan (DRP) requirements.	Recommendation: WaterNSW should review its existing Disaster Recovery Plan documentation for significant financial applications and implement additional requirements specified in the NSW Government guidelines.

Internal Controls

One high risk internal control deficiency was identified in 2014-15 audits

The 2014-15 financial statement audits identified one high risk control deficiency relating to the completeness and accuracy of WaterNSW fixed asset register. Other identified internal control issues included:

- lack of review and approval of fair value assessment of properties, plant and equipment
- deficiencies in monitoring capital work-in-progress projects
- shortcomings in the income tax equivalents reconciliation processes.

Weaknesses in internal controls increase the risk of fraud and error. These were reported to the relevant water utilities' management with recommendations.

Generally, water utilities' internal controls were designed appropriately and operated effectively to produce reliable and timely financial reports.

Summary of audit recommendations and risk levels

Audit recommendations and risk level						
Entity	Management letter	High	Medium	Low	Total 2015	Total 2014
Hunter Water Corporation	Yes	--	9	1	10	12
Sydney Water Corporation	Yes	--	4	2	6	7
WaterNSW	Yes	1	6	6	13	11
Total		1	19	9	29	30

Entities vary in size and complexity and the risk rating assigned to an audit finding depends on the importance of the issue to the entity. An issue may be categorised as a high risk in one entity, but low risk in another.

The risk assessment matrix used to rate issues in Audit Office management letters is aligned to 'Treasury Policy Paper TPP12-03 'Risk Management Toolkit for the NSW Public Sector'. The risk rating considers consequence and likelihood. The more frequent an event/transaction combined with a high consequence, the higher the risk.

Information Technology

Information technology controls can improve

Recommendation

Water utilities should strengthen information security processes to reduce the risk of unauthorised access, data integrity issues and data privacy breaches.

Nine information technology issues were identified in 2014-15 (12 in 2013-14). Information security issues accounted for just over three quarters of the issues. Weaknesses were identified in:

- user administration processes
- password settings
- use of high-privileged administrator accounts.

These issues increase the risk of unauthorised access to financial systems.

Information system audits focus on the information technology processes and controls supporting the integrity of financial data used to prepare the financial statements.

Disaster Recovery Planning

WaterNSW did not fully comply with NSW Government DRP requirements

Recommendation

WaterNSW should review its existing Disaster Recovery Plan documentation for significant financial applications and implement additional requirements specified in the NSW Government guidelines.

WaterNSW did not have a DRP to cover all financial systems. The financial impact for each disaster scenario and related risks was not fully identified or quantified, and only partial DRP testing was conducted.

Asset Management

Hunter Water Corporation's capital projects delivered late but mostly on budget

Hunter Water Corporation advised the variances to budget and delays in completing some projects were mainly due to scope changes and additional time required for contract negotiations.

Sydney Water Corporation advised all projects in progress will be completed on time and within budget except for the Sirius project which will be delayed by one month.

WaterNSW advised the favourable cost variances were mainly due to reduced scope and the favourable Australian dollar.

The current cost estimates and delivery dates for capital projects with an original cost estimate above \$15.0 million (\$50.0 million for Sydney Water Corporation) are shown below.

Hunter Water Corporation	Original cost estimate \$m	Current cost estimate \$m	Original service delivery date	Achieved / estimated service delivery date
Completed projects during 2014-15				
Kooragang Industrial Water Scheme	68	73	July 2013	November 2014
High Voltage Major Upgrade	56	51	June 2014	March 2015
In progress projects at 30 June 2015				
Morpeth WWTW - Hydraulic Upgrade	18	18	December 2015	April 2016
Burwood Beach WWTW - Disinfection	18	17	June 2016	December 2016
Dungog WWTW - Stage 1	15	15	June 2017	August 2018
Shortland WWTW Sludge Handling	18	17	December 2015	October 2015
Information technology projects in progress at 30 June 2015				
Enterprise Resource Planning Upgrade	15	15	July 2015	December 2015

Source: Hunter Water Corporation (unaudited).

Sydney Water Corporation	Original cost estimate \$m	Current cost estimate \$m	Original service delivery date	Achieved / estimated service delivery date
In progress projects at 30 June 2015				
Green Square Trunk Drainage	53	42	End 2017	End 2017
Malabar Wastewater Treatment Plant Improvement Program	106	105	Mid 2017	Mid 2017
North West Growth Centre Servicing Package 2 and 3A	120	98	Mid 2014	Mid 2015
Information technology projects in progress at 30 June 2015				
Data Centre Project	11	11	June 2017	June 2017
Sirius	19	19	June 2016	July 2016
End User Experience and Site Services	15	14	June 2017	June 2017
Towards 2020 - Stage 1	14	14	April 2016	April 2016

Source: Sydney Water Corporation (unaudited).

WaterNSW	Original cost estimate \$m	Current cost estimate \$m	Original service delivery date	Achieved / estimated service delivery date
Completed projects during 2014-15				
Prospect Improvement Works - Stage 1	32	16	December 2014	December 2014
In progress projects at 30 June 2015				
MDBA Murray Darling Metering Project	29	28	October 2016	October 2016
Keepit Dam Upgrade	33	33	June 2019	June 2019
Chaffey Dam Augmentation and Stage 2 Safety Upgrade	50	50	May 2016	May 2016
Burrendong Dam Upgrade	25	25	June 2016	June 2016
Wyangala Dam Upgrade	55	44	January 2016	January 2016

Source: WaterNSW (unaudited).

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 water utilities, and those charged with governance, use and are held to account by others.

This chapter outlines audit observations, conclusions and recommendations related to the governance of water utilities for 2014-15.

Governance	
Observation	Conclusion or recommendation
<p>Operating licence: The annual 2013-14 audits completed by the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) did not identify significant non-compliance with the operating licence conditions.</p> <p>The 2014-15 audits have not been finalised.</p>	<p>Water utilities complied with the requirements of operating licence requirements for 2013-14.</p>
<p>Dam safety issues: The number of dams with a high risk safety rating increased from 14 in 2013-14 to 16 in 2014-15.</p>	<p>Recommendation: The Dam Safety Committee should continue to liaise with dam owners to implement enforcement requirements.</p>
<p>Infringement notices: The number of EPA infringement and other non-compliance notices issued to water utilities has decreased from 14 in 2013-14 to eight in 2014-15.</p>	<p>Water utilities have improved management of environmental issues.</p>
<p>Fraud control: In 2014-15, two alleged fraud and corruption matters were referred to the NSW Independent Commission Against Corruption.</p>	<p>Recommendation: To reduce the risk of fraud, water utilities should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015.</p>

Operating Licence

In 2013-14, all water utilities complied with operating licence requirements

In 2013-14, all water utilities complied with their operating licence conditions. The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) annually audits the water utilities' compliance with their operating licences. The 2014-15 audits have not been finalised.

An operating licence sets out responsibilities, system standards, service standards and customer rights. It also establishes systems for water quality, environmental and asset management.

Dam Safety Issues

The Dam Safety Committee identified 16 dams with significant safety risks

Recommendation

The Dam Safety Committee should continue to liaise with dam owners to implement enforcement requirements.

At 30 June 2015, 16 out of 378 prescribed dams (14 at 30 June 2014) were assigned a high risk rating with significant safety risks by the Dam Safety Committee (DSC).

This includes major dams such as the Warragamba Dam requiring further detailed seismic assessment and capability studies.

DSC continues to liaise with the dam owners to manage risks. The DSC assigns risks to all prescribed dams in New South Wales, considering both the probability of failure and potential lives lost.

Infringement Notices

The number of infringement and other non-compliance notices has decreased

In 2014-15, Sydney Water Corporation received one infringement notice (four in 2013-14) relating to wastewater overflow and one prosecution notice relating to leakage of treated effluent (one).

Hunter Water Corporation received six notices relating to minor non-compliance issues in 2014-15 (nine).

The EPA is the principal environmental regulator in New South Wales responsible for licensing and regulating wastewater and water quality and has powers to issue infringement notices.

Risk Management

Risk management is currently performed by individual utilities

Each water utility has its own risk profile and risk management framework. Risk management is performed at an entity level with oversight by Audit and Risk Committees.

Effective risk management can improve decision making and lead to significant efficiencies and cost savings. By embedding risk management directly into processes, utilities can derive additional value from their risk management programs.

A mature risk management process should:

- foster embedded risk awareness
- align strategic and business decision making processes with risk management activities
- improve resilience in dealing with adversity
- increase agility in pursuing new opportunities.

Utilities will need to evaluate the costs and benefits of risk management capability if they are to achieve a desirable balance between risk and reward. Some utilities may need more sophisticated risk management processes than others to suit the size and complexity of their activities.

Fraud Control

Two instances of fraud were reported across the water utilities

Recommendation

To reduce the risk of fraud, water utilities should reassess their fraud controls against the Audit Office's Fraud Control Improvement Kit, released in February 2015.

Water utilities reported two instances of fraud during the year. These matters are currently being investigated by the Independent Commission Against Corruption.

Water utilities should refer to the 2015 Audit Office Fraud Control Improvement Kit (released in February 2015) available on the Audit Office's website, which consolidates previously issued Audit Office resources into one document and places additional focus on the cultural elements that need to be present to implement an effective fraud control framework.

The 2015-16 audits will have a stronger focus on governance. This will include reviewing:

- governance against key principles in the Audit Office's revised Governance Lighthouse
- fraud and corruption control process in determining how water utilities are using the 2015 Audit Office Fraud Control Improvement Kit.

Service Delivery

This section outlines our key findings about Service Delivery by the water utilities for 2014-15. The key findings, conclusions and recommendations are summarised in the following table.

Service Delivery	
Observation	Conclusion or recommendation
<p>Water prices: Water prices in regional New South Wales are significantly lower than major metropolitan areas.</p>	<p>The lower price is due to the method of price determination adopted by the Independent Pricing and Regulatory Tribunal (IPART) and the Australian Competition and Consumer Commission (ACCC) for WaterNSW.</p> <p>IPART determines water prices for WaterNSW below commercial rates of return to exhibit a sense of responsibility towards regional development.</p>
<p>Conservation and recycling targets: The Metropolitan Water Directorate (now part of Department of Primary Industries – Water) did not set specific water conservation and recycling targets for water utilities.</p>	<p>Sydney Water Corporation and Hunter Water Corporation continue to implement initiatives to contribute towards water conservation and recycling.</p>
<p>Flood management: Flooding of the Hawkesbury-Nepean Valley may impact 73,000 people.</p>	<p>The NSW Government, in conjunction with other relevant agencies, is conducting further assessment on appropriate strategies to manage major flooding in the Hawkesbury-Nepean Valley.</p>

Water Prices

Water prices in regional New South Wales are significantly lower than major metropolitan areas

IPART and ACCC determine the maximum prices to be charged for services by water utilities as well as the price increases.

Sydney Water Corporation and Hunter Water Corporation supply potable drinking water to consumers. WaterNSW provides bulk (raw) water to other retail utilities.

Water bills comprise a fixed service charge and water usage charge per megalitre. The price of drinking water per megalitre and average increase charged by water utilities over the past five years is shown below.

Average bulk water usage price per megalitre for the year ended 30 June					
Water utility	2015	2014	2013	2012	2011
	\$	\$	\$	\$	\$
WaterNSW Metropolitan	670	650	640	620	590
WaterNSW Regional	21	20	19	18	16

Source: Water Utilities (unaudited).

Average bulk water usage price increase per megalitre for the year ended 30 June					
Water utility	2015 %	2014 %	2013 %	2012 %	2011 %
WaterNSW Metropolitan	3.1	1.6	3.2	5.1	7.3
WaterNSW Regional	3.5	8.3	7.3	8.9	21.9

Source: Water Utilities (unaudited).

The price of bulk water per megalitre and average increase charged by water utilities over the past five years is shown below.

Average drinking water usage price per megalitre for the year ended 30 June					
Water utility	2015 \$	2014 \$	2013 \$	2012 \$	2011 \$
Hunter Water Corporation	2,190	2,130	2,080	1,900	1,710
Sydney Water Corporation	2,231	2,168	2,130	2,103	2,012

Note: A calculation of WaterNSW Regional prices includes average of eleven river valleys.

Source: Water Utilities (unaudited).

Average drinking water usage price increase per megalitre for the year ended 30 June					
Water utility	2015 %	2014 %	2013 %	2012 %	2011 %
Hunter Water Corporation	2.8	2.4	9.5	11.1	8.9
Sydney Water Corporation	2.9	1.8	1.3	4.5	7.6

Note: A calculation of WaterNSW Regional prices includes average of eleven river valleys.

Source: Water Utilities (unaudited).

The lower price in regional New South Wales is due to the method of price determination adopted by IPART and ACCC for WaterNSW. Regional water prices are determined below commercial rates of return to exhibit a sense of responsibility towards regional development. Price increases for 2014-15 appear to be consistent across all water utilities and with inflation. Price variability in past years was caused by:

- costs associated with improving water security
- higher costs of operations across New South Wales regional river valleys.

Performance Information

Water Conservation and Recycling

Metropolitan Water Directorate did not set specific water conservation and recycling targets for water utilities

The 2010 Metropolitan Water Plan developed by the Metropolitan Water Directorate (now part of Department of Primary Industries – Water) included an annual total conservation target of 145 gigalitres and a total recycling target of 70 gigalitres in Sydney by 2014-15.

However, it did not set specific targets assigned to Sydney Water Corporation and other participating entities.

The 2014 Lower Hunter Water Plan also did not include water conservation and recycling targets for Hunter Water Corporation.

Sydney Water Corporation and Hunter Water Corporation continue to implement initiatives to contribute towards water conservation and recycling. These include water efficiency initiatives, reducing leaks, providing recycled water, and promoting water efficiency.

The table below provides the results of recycling for the past five years.

Water recycling results						
Year ended 30 June	Target	2015	2014	2013	2012	2011
Sydney Water Corporation						
Volume of recycled water (gigalitres)	na	43	47	47	46	48
Recycled water as a percentage of total effluent discharged (%)	na	7.9	9.8	9.5	8.0	9.5
Hunter Water Corporation						
Volume of recycled water (gigalitres)	na	4.6	4.3	4.3	4.5	4.7
Recycled water as a percentage of total effluent discharged (%)	na	6.4	7.5	6.3	5.8	7.3

na not available.

Source: Hunter Water Corporation and Sydney Water Corporation (unaudited).

The volume of recycled water by Sydney Water Corporation and Hunter Water Corporation has remained stable in the past five years.

Flood Management

Flooding of the Hawkesbury-Nepean Valley may impact 73,000 people

A review by the Office of Water in March 2014 found approximately 73,000 people currently living in the Hawkesbury-Nepean Valley areas may be impacted by potential flooding from the Hawkesbury-Nepean River. The review, however, noted that such an event is considered extremely rare, with a chance of one in 110,000 per year.

It concluded the risk will continue to grow along with urban development in this area and has no simple or single solution addressing the flooding risks.

It also noted possible solutions for flood prevention could include raising the walls of Warragamba Dam by 15 to 23 metres, constructing levees, creating diversion channels and dredging the river.

The recently completed dam wall raising of WaterNSW's Chaffey Dam (storage capacity of 100 gigalitres) by eight metres cost \$50.0 million. The raising of the dam wall of Warragamba Dam (storage capacity of 2,031 gigalitres) by 15 to 23 metres is expected to cost substantially more.

State Priorities

The NSW Government has announced a new set of priorities

The NSW Government released new State Priorities 'NSW: Making it Happen' in September 2015. These replaced the previous ten-year State Plan, NSW 2021 which was released in September 2011.

The new State Priorities do not include any specific targets for the water utilities.

Part Two

Section Two

Appendices






























Appendix One – Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Net profit/(loss) after tax	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Major water utilities										
Hunter Water Corporation	2,723	2,758	1,421	1,437	334	325	279	259	40	50
Sydney Water Corporation	15,946	15,118	9,479	8,724	2,728	2,615	1,999	1,975	513	464
WaterNSW	2,301	2,401	1,108	1,159	346	381	432	270	(7)	68
Other water utilities										
Cobar Water Board	94	93	1	--	4	4	4	5	--	(1)
Gosford Water Supply Authority	2,132	2,101	155	159	98	93	93	94	5	(1)
Wyong Water Supply Authority	1,757	1,638	218	216	91	84	89	89	1	(5)

Source: Financial statements (audited) except for Gosford Water Supply Authority

Appendix Two – Performance Against Budget




	Hunter Water Corporation		Sydney Water Corporation		WaterNSW	
	2015 actual	2015 SCI	2015 actual	2015 SCI	2015 actual	2015 SCI
	\$m	\$m	\$m	\$m	\$m	\$m
Abridged statement of comprehensive income - year ended 30 June 2015						
Total revenue	 334	333	 2,728	2,639	 346	360
Profit/(loss) before tax	 54	66	 730	551	 (86)	51
Profit/(loss) after tax	 40	47	 513	367	 (7)	36
Total other comprehensive income/(expense)*	 (40)	--	 223	--	 (8)	--
Total comprehensive income/(expense)	 --	47	 736	367	 (15)	36
Abridged statement of financial position - at 30 June 2015						
Total assets	 2,723	2,881	 15,946	15,791	 2,301	2,480
Total liabilities	 1,421	1,482	 9,479	9,592	 1,108	1,178
Net assets	 1,302	1,399	 6,467	6,199	 1,193	1,302
Abridged statement of cash flows - year ended 30 June 2015						
Purchases of property, plant and equipment	 (88)	(93)	 (535)	(677)	 (72)	(131)

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

Source: Financial statements (audited).

SCI: Statement of Corporate Intent

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 Three – Financial Sustainability

Indicator	Formula	Description
Underlying result %	Adjusted net surplus / total underlying revenue	<p>A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.</p> <p>Underlying revenue does not take into account one-off or non-recurring transactions.</p> <p>Net result and total underlying revenue is obtained from the comprehensive operating statement and is adjusted to take into account large one-off (non-recurring) transactions.</p>
Liquidity (ratio)	Current assets / current liabilities	<p>This measures the ability to pay existing liabilities in the next 12 months.</p> <p>A ratio of one or more means there are more cash and liquid assets than short-term liabilities.</p> <p>Current liabilities exclude long-term employee provisions and revenue in advance.</p>
Debt-to-equity (%)	Debt / equity	<p>This is a longer-term measure that compares all current and non-current interest bearing liabilities to equity.</p> <p>It complements the liquidity ratio, which is a short-term measure.</p> <p>A low ratio indicates less reliance on debt to finance the capital structure of an organisation.</p>
Self-financing (%)	Net operating cash flows / underlying revenue	<p>Measures the ability to replace assets using cash generated by the entity's operations.</p> <p>The higher the percentage the more effectively this can be done.</p> <p>Net operating cash flows are obtained from the cash flow statement.</p>
Capital replacement (ratio)	Cash outflows for property, plant and equipment and intangibles / depreciation and amortisation	<p>Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the depreciating rate.</p> <p>This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the comprehensive operating statement.</p>

Risk	Underlying result	Liquidity	Debt to equity	Self-financing	Capital replacement
High	Negative 10% or less Insufficient revenue is being generated to fund operations and assets renewal.	Less than 0.7 Immediate sustainability issues with insufficient current assets to cover liabilities.	More than 60% Potential long-term concern over ability to repay debt levels from own source revenue.	Less than 10% Insufficient cash from operations to fund new assets and asset renewal.	Less than 1.0 Spending on capital works has not kept pace with consumption of assets.
Medium	Negative 10%–0% A risk of long-term run down of cash reserves and inability to fund asset renewals.	0.7–1.0 Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	40-60% Some concern over the ability to repay the debt from own source revenue.	10–20% May not be generating sufficient cash from operations to fund new assets.	1.0–1.5 May indicate spending on asset renewal is insufficient.
Low	More than 0% Generating surpluses consistently.	More than 1.0 No immediate issues with repaying short-term liabilities as they fall due.	Less than 40% No concern over the ability to repay debt from own source revenue.	More than 20% Generating enough cash from operations to fund new assets.	More than 1.5 Low risk of insufficient spending on asset renewal.

Risk rating	Overall assessment
High	High risk of Short-term and immediate sustainability concerns indicated by: red underlying result indicator or red liquidity indicator.
Medium	Medium risk of long-term sustainability concerns indicated by either: red self-financing indicator red debt to equity indicator red capital replacement indicator.
Low	Low risk of financial sustainability concerns. There are no high risk indicators.

Appendix Four – Water Utilities Information

Agency	Website
Major water utilities	
Hunter Water Corporation	www.hunterwater.com.au
Sydney Water Corporation	www.sydneywater.com.au
WaterNSW	www.watnsw.com.au
Other water utilities	
Cobar Water Board	www.cobar.nsw.gov.au
Gosford Water Supply Authority	www.gosford.nsw.gov.au
Wyong Water Supply Authority	www.wyong.nsw.gov.au

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