
New South Wales Auditor-General's Report

Financial Audit

Volume Seven 2015

Law and Order

Emergency Services



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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GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*,
I present Volume Seven of my 2015 report.

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

A T Whitfield PSM

Acting Auditor-General
24 November 2015

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Part One

Section One

Law and Order



Executive Summary

This report analyses the results of the financial statement audits of law and order agencies in the Justice cluster for the year ended 30 June 2015.

Financial performance and reporting

Financial reporting

Unqualified audit opinions were issued for all law and order agencies. The quality and timeliness of financial reporting continues to improve, however, asset revaluation procedures could improve further.

Financial performance

The Department of Justice (the Department) should assess whether the increasing cost of supervising and caring for juvenile detainees is reasonable given the sustained fall in numbers.

Financial controls

Disaster recovery plans

The Crown Solicitor's Office should have a documented Disaster Recovery Plan to restore financial systems in the event of a disaster.

Human resources

Agencies need to reduce increasing employee excess annual leave balances and effectively manage sick leave to achieve whole-of-government targets.

Asset management

The Department should continue to improve the accuracy of its fixed asset register and safeguard its assets.

Governance

Governance arrangements

The Department should finalise and implement its governance arrangements and benchmark these against the Audit Office's Lighthouse Checklist and other better practice guides.

Fraud and corruption

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

Information System implementation

The Department's post implementation review of its LifeLink System identified lessons learned which should be considered in future projects.

Service delivery

Adult inmate numbers

Forward planning of prison infrastructure requirements needs to improve to ensure prison capacity is adequate.

NSW District Court case backlog

The backlog of cases in the NSW District Court has almost doubled since 2011. Holding inmates awaiting trial is estimated to cost the State \$60.0 million per year and is adding to prison overcrowding.

Financial performance and reporting

The quality of financial reporting continues to improve

Misstatements in law and order agencies' financial statements have fallen by 50 per cent, from 36 in 2010-11 to 18 in 2014-15. The misstatements were corrected where necessary. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12.

Agencies can improve their early close procedures

The Department did not complete its revaluation of property by the 27 April 2015 early close deadline. The revaluation results were not robustly quality reviewed before their inclusion in the financial statements and audit work papers.

Recommendation

Revaluations should be performed early enough so the process is completed before the early close deadline. Agencies should quality review the revaluation results before including them in financial statements and audit work papers.

The annual cost per juvenile detainee in custody continues to increase

The annual cost of a juvenile detainee in custody increased from \$237,980 to \$355,444 (49.4 per cent) between 2010-11 and 2014-15. This is significantly above the 11.7 per cent increase in the Consumer Price Index over the same period.

Recommendation

The Department should assess whether the increasing cost of supervising and caring for juvenile detainees is reasonable given the sustained fall in numbers.

The cost of NSW Police Force's insurance scheme remains above the statutory target

The cost of the NSW Police Force's (the Force) insurance scheme (the Blue Ribbon scheme) for the year ended 30 June 2015 was eight per cent of total NSW Police Officers' remuneration (8.3 per cent in 2013-14). This remains above the statutory target of 4.6 per cent. The Force is aiming to achieve this target by 2019.

Financial controls

Law and order agencies could be exposed in the event of a disaster

At 30 June 2015, of the three law and order agencies reviewed, one agency did not have a documented Disaster Recovery Plan to restore its financial systems in the event of a disaster.

Recommendation

The Crown Solicitor's Office should have a documented Disaster Recovery Plan to restore financial systems in the event of a disaster.

Annual leave and sick leave balances continue to exceed Government targets

At 30 June 2015, 38.4 per cent of full time equivalent staff had annual leave balances exceeding the whole-of-government target of 30 days.

In 2014-15, sick leave taken in seven of the ten law and order agencies exceeded the 45.06 hour target. This is estimated to have cost \$85.5 million (\$86.0 million in 2013-14) excluding indirect costs, such as the cost of engaging staff to back-fill absent employees and overtime.

Recommendation

Law and order agencies need to reduce increasing employee excess annual leave balances and strengthen efforts to effectively manage sick leave to meet whole-of-government targets.

The Department continues to write off assets

The Department has written off 1,365 assets with a value of \$3.4 million over the last two years.

Recommendation

The Department should continue to improve the accuracy of its fixed asset register and ensure assets are safeguarded and properly recorded.

Governance

The Department is still implementing revised governance arrangements

The Department was formed over six years ago, but is still to finalise and implement governance arrangements over its divisions and offices.

Recommendation

The Department should finalise and implement its governance arrangements. The Department should continue to benchmark its arrangements against the Audit Office's Lighthouse Checklist and other better practice guides.

Incidents of alleged fraud and corruption have occurred in law and order agencies

In 2014-15, 18 alleged fraud and corruption matters were referred to the NSW Independent Commission Against Corruption, and eight matters to the Police Integrity Commission.

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.

The Department has performed a post implementation review of its LifeLink System

The LifeLink System post implementation review, performed by an external consultant, found the System was delivered more than seven months late, cost \$5.9 million more than budget, and lost in excess of \$1.9 million from up to 60,000 free transactions. A further \$3.7 million was spent in 2014-15 fixing system issues and clearing transaction backlogs.

Recommendation

Agencies should consider lessons learned from the LifeLink System post implementation review in future projects.

Service delivery

The NSW prison system is overcrowded

Forward planning of prison infrastructure requirements needs to improve. Forward planning should be supported by robust forecasts of adult inmate populations, and regular review of the methodology and key assumptions used.

Robust and accurate planning is important to ensure prison capacity is adequate. In 2014-15, the NSW prison system housed a daily average of 11,011 adult inmates, while it is only designed to house 9,829 inmates. This represents a 112 per cent occupancy rate. Inmate numbers have continued to increase in 2015-16 reaching 12,161 at the end of October.

Overcrowding of correctional centres can negatively impact all aspects of custodial life, and ultimately result in higher re-offending rates. It may also impact the justice system more broadly, such as operations within the courts.

Recommendations:

Forward planning of prison infrastructure requirements needs to improve.

The rate of adult re-offending has worsened

In the year ended 31 December 2013, the rate of prisoner reconviction within one year of release increased from 34.2 per cent to 35.9 per cent.

In the year ended 30 June 2014, 45.8 per cent of released prisoners had returned to prison and 50.3 per cent to Corrective Services, within two years of release.

The increases are contrary to the Department's state priority of reducing adult re-offending by five per cent by 2019. The Department advises that these rates are susceptible to justice processes, for example tougher sentencing, and not just re-offending.

The backlog of cases in the NSW District Court has almost doubled since 2011

The backlog of cases in the NSW District Court has continued to grow every year since 2011, reaching 1,976 in June 2015.

The Department advises the number of cases older than 12 months has risen by 177.4 per cent from 133 to 369 cases, and the number older than 24 months has more than quadrupled from 14 to 61 cases over the last seven years.

The NSW District Court estimated it had approximately 850 people on remand and awaiting trial in June 2015. This is estimated to cost the State \$60.0 million per year and is contributing to prison overcrowding.

The rate of repeat domestic violence assaults is increasing

Repeat domestic violence assault rates increased from 15.2 per cent in 2012-13 to 15.5 per cent in 2014-15. This measure is contrary to the related (but independent) Premier's priority to reduce domestic violence perpetrators from re-offending within 12 months by five per cent.

For a full list of recommendations, refer to Appendix One.

Introduction

This report sets out the results of the financial statement audits of NSW Government law and order agencies in the Justice cluster 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 commentary covers the following law and order agencies in the Justice cluster:

Justice Cluster	
Law and Order Agencies	
Investigations and Policing	<ul style="list-style-type: none">• NSW Police Force• NSW Crime Commission
Legal and Adjudication	<ul style="list-style-type: none">• Department – Courts and Tribunal Services• Office of the Director of Public Prosecutions• Judicial Commission of NSW• Legal Aid Commission of NSW• Crown Solicitors' Office• Public Defender*
Correctional	<ul style="list-style-type: none">• Department – Corrective Services• Department – Juvenile Justice• State Parole Authority
Trustee and Guardian Services	<ul style="list-style-type: none">• NSW Trustee and Guardian• NSW TG Common Fund – Trustee Services• NSW TG Common Fund – Financial Management
Regulatory and Customer Service Bodies	<ul style="list-style-type: none">• Legal Profession Admission Board• Department – Registry of Births Deaths and Marriages• Department – Victims Services NSW• Anti-Discrimination Board
Other Agencies and Department Divisions	<ul style="list-style-type: none">• Department – Justice Strategy and Policy• Department – NSW Bureau of Crime Statistics and Research• Information and Privacy Commission NSW

* Statutory Office that is administratively within the Justice Strategy and Policy Division of the Department.

Snapshot of Law and Order Agencies

The Department of Justice (the Department) is the lead agency in the Justice cluster. A snapshot of the financial results of NSW Government law and order agencies for the year ended 30 June 2015 is shown below.

Employee related expenses \$4.6 billion

All other expenses \$5.2 billion

Total expenses \$9.8 billion

Net Result \$38.6 million surplus

Assets \$6.7 billion

Liabilities \$1.6 billion

Capital investment \$379 million

Changes to the Law and Order Agencies from 1 July 2015








Law and order agencies in the Justice cluster were impacted by the Administrative Arrangements (Administrative Changes – Public Service Agencies) Order (No 2) 2015, which was effective from 1 July 2015, as follows:








- the Ministry for Police and Emergency Services was abolished and its functions, assets, liabilities and staff were transferred to the Department
- responsibility for the Office of Liquor, Gaming and Racing, and Arts policy, including Screen NSW and Arts NSW, was transferred to the Justice cluster
- the Independent Liquor and Gaming Authority, Art Gallery of New South Wales, Australian Museum, State Library of New South Wales, the Museum of Applied Arts and Sciences, the Sydney Opera House and the Police Integrity Commission transferred to the Justice cluster.

These changes have no impact on the financial information for 2014-15 presented in this report.

Status of 2014 Recommendations

Last year's Auditor-General's Report to Parliament included 14 recommendations for law and order agencies to improve their financial management and internal controls. The current status of each recommendation is shown below.

Recommendation	Current Status
Law and order agencies should:	
 Reinforce efforts to meet the NSW Government's employee annual leave targets.	<p>The number of employees with excess annual leave balances increased in all agencies. At 30 June 2015, 38.4 per cent of full time equivalent staff (29.8 per cent at 30 June 2014) exceeded the whole-of-government target. Details are provided in the chapter on Financial Controls.</p>
 When implementing SAP, design and allocate user access profiles to ensure appropriate segregation of duties, and then regularly review them to ensure appropriate segregation of duties is maintained.	<p>While the overall management of SAP user access has improved, some agencies still have segregation of duties issues. Implementing appropriate segregation of duties in SAP is complex and time-consuming. Details are provided in the chapter on Financial Controls.</p>
 Reinforce efforts to effectively manage sick leave.	<p>The average sick leave taken per employee decreased in some agencies and increased in others. Details are provided in the chapter on Financial Controls.</p>
 Ensure agencies which have experienced incidents of fraud, reassess their fraud controls.	<p>Agencies which experienced fraud reassessed their fraud controls. In 2014-15, internal control systems identified 18 alleged fraud and corruption matters which were referred to the NSW Independent Commission Against Corruption, and eight NSW Police Force (the Force) matters which were referred to the Police Integrity Commission. Details are provided in the chapter on Governance.</p>
The Department of Justice should:	
 Ensure the State's publicly managed correctional centres are subject to the same degree of oversight and performance management and reporting as that applied to the privately managed centres.	<p>The Department has not implemented this recommendation, but advises that a contestability and benchmarking project is establishing benchmarks for the operation of its correctional facilities based on standards and high level performance expectations. Details are provided in the chapter on Service Delivery.</p>
 Use the analysis of costs to identify efficiencies and reassess performance measures used to oversight public and private prisons.	<p>As discussed above. Details are provided in the chapter on Service Delivery.</p>
 Complete the integration of its policies, operations and systems across its divisions as a matter of urgency.	<p>The Department has integrated some policies across its divisions and offices, but more work is required. Details are provided in the chapter on Governance.</p>

Recommendation	Current Status
The Department of Justice should:	
 Finalise and implement an appropriate internal audit and risk management framework as a matter of urgency.	The Department established a single Department-wide Audit and Risk Committee on 1 October 2015, and internal audit plan for 2015-16. However, the Department is still to implement a Department-wide risk management framework. Details are provided in the chapter on Governance.
 Once integration is complete at the Department level, roll out the new policies and systems to other agencies in the cluster, where appropriate.	The Department has started integrating policies and systems across the cluster by developing a corporate policy framework in consultation with cluster agencies. It is also instituting Secretary's Directives and Administrative Circulars across the cluster. Details are provided in the chapter on Governance.
 Ensure information in the Victims Support Scheme's (VSS) Reporting and Quality Assurance Framework is sufficient to monitor and measure the performance and success of the VSS, including the age of claim applications.	The Department has updated the Framework, and expects to fully implement it in 2015-16. The Department's current systems provide information on aspects of VSS performance. Details on the Framework are provided in the chapter on Governance, and VSS performance information in the chapter on Service Delivery.
 Reassess the (VSS) outstanding claims liability each year to determine whether 'Incurred But Not Reported' (IBNR) claims can be reliably measured.	The Department's actuary advises that IBNR claims are still not reliably measurable. Details are provided in the chapter on Financial Performance and Reporting.
The Office of the Director of Public Prosecutions should:	
 Reinforce efforts to implement a strategy to reduce excessive employee flex leave balances.	In May 2015, the Office finalised a new flexible working hours agreement, effective from 8 February 2016. The revised policy limits the maximum carry forward of flexible working hours to 50. Details are provided in the chapter on Governance.
The Treasurer, in consultation with the Minister for Police and the Minister for Justice, should:	
 Determine how funds in the Crown Entity's Confiscated Proceeds Account should be used.	The Treasurer and Minister for Justice and Police have not determined how the confiscated funds should be used. This has been raised as a repeat recommendation in the chapter on Governance.
The NSW Trustee and Guardian should:	
 Identify meaningful and measurable performance indicators and targets for the cost and quality of the services provided to the community.	NSW Trustee and Guardian has not actioned this recommendation, but advises a new client information management system will be implemented from 2015 to 2017. This will enable identification and reporting against new indicators and targets. Details are provided in the chapter on Service Delivery.

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 performance and reporting of law and order agencies in the Justice cluster 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: Most agencies substantially complied with early close procedures and new accounting standards.

The Department did not complete its revaluation of property by the 27 April 2015 deadline, and the revaluation results were not robustly quality reviewed before their inclusion in the financial statements and audit work papers.

Conclusion or recommendation

The Audit Office issued unqualified audit opinions for all law and order agencies in the cluster. Reported misstatements decreased by 50 per cent from 36 in 2010-11 to 18 in 2014-15. The misstatements were corrected where necessary.

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

Recommendation: Revaluations should be performed early enough so the process is completed by the early close deadline. Agencies should quality review revaluation results before including them in the financial statements and early close work papers.

Financial performance

Observation

Cost per juvenile detainee: The annual cost of a juvenile detainee increased from \$237,980 to \$355,444 between 2010-11 and 2014-15.

This was mostly due to a sustained decrease in the average number of detainees and juvenile custodial expenses not decreasing in proportion with the fall in detainee numbers.

Police insurance scheme: The cost of the Force's insurance scheme (the Blue Ribbon scheme) for the year ended 30 June 2015 was eight per cent of total NSW Police Officers' remuneration and remains above the 2011 statutory target of 4.6 per cent.

Conclusion or recommendation

Recommendation: The Department should assess whether the increasing cost of supervising and caring for juvenile detainees is reasonable given the sustained fall in numbers.

The Force has implemented a range of measures designed to help it achieve the statutory target by 2019.

Quality of Financial Reporting

Unqualified audit opinions were issued for all agencies' 30 June 2015 financial statements

Unqualified audit opinions were issued on the 2014-15 financial statements of all law and order agencies. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatements.

A financial audit is designed to identify matters considered important enough to report to those charged with governance of the agencies, the portfolio Minister, Treasurer and agency head. The following matter was reported in the current year:

The NSW Trustee and Guardian is the trustee of the Financial Management Common Fund, and the Trustee Common Fund (the common funds). The preparation of the 2011-12 and subsequent years' financial statements for the common funds and related audits is yet to be finalised.

The NSW Trustee and Guardian engaged an accounting firm in 2014-15, to help finalise the 2011-12 common funds' financial statements. The format of the 2011-12 financial statements will be applied to subsequent financial statements, and updated for changes in reporting requirements. The audit of the 2011-12 financial statements is expected to be complete in late 2015, and other outstanding financial statements in 2016.

The quality of financial reporting continues to improve

Misstatements in law and order agencies' financial statements have fallen by 50 per cent from 36 in 2010-11 to 18 in 2014-15. The misstatements were corrected where necessary. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12.

The table below summarises the past five years' audit results for law and order agencies highlighting financial misstatements detected during the audit process.

Reported misstatements for the year ended 30 June					
Agency	2015	2014	2013	2012	2011
Principal department					
Department of Justice	7	7	3	9	18
Investigations and policing					
NSW Police Force	2	2	3	5	2
NSW Crime Commission	1	--	--	1	1
NSW Crime Commission Staff Agency	1	--	--	--	--
Legal and adjudication					
Office of the Director of Public Prosecutions	--	--	1	1	4
Judicial Commission of NSW	--	1	--	2	2
Legal Aid Commission of NSW	1	3	1	7	2
Legal Aid Commission of NSW Staff Agency	1	--	--	--	--
Crown Solicitor's Office	--	2	N/A	N/A	N/A
Trustee and guardian services					
NSW Trustee and Guardian	3	1	3	4	3
Regulatory and customer service bodies					
Legal Profession Admission Board	1	2	5	3	1
Other agencies					
Information and Privacy Commission NSW	1	2	2	6	3
Total	18	20	18	38	36

N/A Not applicable. The Crown Solicitor's Office was established as a separate reporting entity from 24 February 2014. All reporting prior to this date was as a business unit of the Department.

Eight misstatements individually greater than \$1.0 million were identified in 2014-15 and three of these exceeded \$5.0 million. All material misstatements reported in 2014-15 were corrected in the financial statements.

The total number and the dollar value of corrected and uncorrected misstatements in law and order agencies' financial statements over the past three years are detailed in the table below.

Number of misstatements for the year ended 30 June						
	2015		2014		2013	
	Corrected	Uncorrected	Corrected	Uncorrected	Corrected	Uncorrected
Less than \$50,000	--	1	4	--	--	8
\$50,000 - \$250,000	3	--	2	3	--	3
\$250,001 - \$1,000,000	3	3	1	2	2	2
\$1,000,001 - \$5,000,000	--	5	1	5	1	2
Greater than \$5,000,000	2	1	2	--	--	--
Total number of misstatements	8	10	10	10	3	15

Of the 18 misstatements in 2014-15, eight (44.4 per cent) were corrected compared to ten (50 per cent) in 2013-14. It is important to correct material misstatements so users of financial statements can rely on them as an accurate representation of an agency's financial performance and position.

A material misstatement relates to an incorrect amount, classification, presentation or disclosure in the financial statements that could reasonably be expected to influence the economic decisions of users.

Timeliness of Financial Reporting

Financial statements were submitted on time and audits were completed by statutory deadlines

The Audit Office completed the audits and issued the audit opinions for all law and order agencies' financial statements within statutory deadlines. The success of early close procedures allowed the Audit Office to issue more audit opinions before the end of September.

Early close procedures contributed to improving the timeliness of financial reporting

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			
	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 the Department revaluing its property, there was substantial compliance with Treasury's early close procedure requirements. All 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.

Agencies can still improve their early close procedures

Recommendations

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

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

The Department did not complete its revaluation of property by the 27 April 2015 deadline. The revaluation results were not robustly quality reviewed before inclusion in financial statements and early close audit work papers.

In future, the Department should perform the revaluation earlier so the process can be completed on time. Before including revaluation results in the early close work papers and proforma financial statements, the Department should quality review them on an asset by asset basis, to ensure they are reasonable.

Some other law and order agencies also submitted supporting early close work papers late.

Financial Performance Key Issues

Department of Justice

Victims' liability for claims incurred but not yet reported cannot be reliably measured

The Department's actuary estimates the liability for claims incurred but not reported (IBNR) for victims under Victims Support Services (VSS) at between \$140 million and \$340 million at 30 June 2015. The liability is not included in the Department's 2014-15 financial statements because it cannot be reliably measured. This is because:

- the scheme was recently reformed and the benefits have changed. As a result, previous claims experience can no longer be relied on to estimate the IBNR claims liability
- the range of possible IBNR claims and the degree of uncertainty in the estimated liability is significantly greater than for reported claims
- claims since the reforms have been lower than expected.

The Department will be able to reliably estimate the value of these claims and record the liability on its balance sheet when the VSS matures and more data becomes available.

An IBNR claim occurs when a crime has occurred, but a victim of crime claim has not yet been received, or if received has not yet been assessed and resolved by the Department.

Further information on victim support claims is in the Service Delivery section of this report.

Cost per adult inmate continues to decrease as the number of inmates increase

An increase in the daily average number of adult inmates in 2013-14 has decreased the average annual cost per inmate to \$87,528 (\$91,006).

The total net operating expenditure and capital cost per inmate for all adult inmates in Corrective Services decreased between 2009-10 and 2013-14 as shown below.

Year ended 30 June	2014	2013	2012	2011	2010
Cost per prisoner per annum in all prisons (\$)	87,528	91,006	108,503	104,289	106,826
Daily average inmate number, all prisons	10,447	9,808	9,752	10,094	10,352

Source: Productivity Commission Report on Government Services 2014 (unaudited).

The decrease in the cost in 2013-14 largely reflects fixed prison costs being spread over an increasing number of inmates. The decrease in costs between 2011-12 and 2012-13 is attributed by the Department to the decommissioning of three prisons and 569 fewer staff.

The Department advises that efficiency measures of \$10.0 million in 2013-14 also contributed to the decrease in costs. The total estimated cost of prisoners was over \$900 million in 2013-14.

Costs per inmate in 2013-14 were 18.1 per cent less than in 2009-10, and 3.8 per cent less than in 2012-13, while the average number of inmates increased by 0.9 per cent and 6.5 per cent respectively.

Data for 2014-15 was not available at the date of this report. Refer to the Service Delivery chapter of this report for further details on the capacity of adult prisons and the prison population.

The annual cost per juvenile detainee in custody continues to increase

Recommendation

The Department should assess whether the increasing cost of supervising and caring for juvenile detainees is reasonable given the sustained fall in numbers.

The annual cost of a juvenile detainee in custody increased from \$237,980 to \$355,444 (49.4 per cent) between 2010-11 and 2014-15. This is significantly above the 11.7 per cent increase in the Consumer Price Index over the same period. The increase is mostly due to a sustained decrease in the average number of detainees, which has fallen by 26.9 per cent over the same period, without a proportionate decrease in fixed costs.

Year ended 30 June	2015	2014	2013	2012	2011
Average annual cost per juvenile detainee in custody (\$)	355,444	293,223	283,605	279,225	237,980
No. of juvenile detainees in custody	286	314	324	353	391
Design capacity of detainee centres	412	396	431	501	501

Note: The average annual cost per juvenile detainee in custody includes net operating expenses and capital costs.

Source: The Department (unaudited).

Another factor contributing to the increasing cost of juvenile detainees in custody is that variable Juvenile Custodial expenses, such as the cost of Juvenile Custodial staff, have not decreased in proportion with the decline in detainee numbers. The table below shows employee related costs and other costs for the Juvenile Custodial Service Group, divided by the average number of detainees in custody.

Year ended 30 June	2015	2014	2013	2012	2011
	\$	\$	\$	\$	\$
Employee related costs per detainee for the Juvenile Custodial Service Group	345,797	308,108	297,867	284,028	231,785
Other costs per detainee for the Juvenile Custodial Service Group	115,255	101,701	94,689	95,575	65,760
Total costs per detainee for the Juvenile Custodial Service Group	461,052	409,809	392,556	379,603	297,545

Source: Costs were sourced from the Department's audited financial statements for 2011-12 to 2013-14, and budget estimates (unaudited) for 2010-11, and 2014-15. Detainee numbers were sourced from the Department (unaudited).

Employee related costs per detainee have increased by \$114,012 (49.2 per cent), and other costs per detainee by \$49,495 (75.3 per cent) since 2010-11. Total costs increased by \$163,507 (55 per cent) over the same period.

The increase in employee related costs is partly due to the increasing ratio of staff to detainees. The table below shows the ratio of full time equivalent (FTE) staff to detainees in the Juvenile Custodial area has increased by 0.7 of a FTE position, 23.3 per cent, since 2010-11.

Year ended 30 June	2015	2014	2013	2012	2011
FTEs in Juvenile Custodial Service Group*	1,050	1,028	1,024	1,157	1,183
Average No. of detainees in custody**	286	314	324	353	391
Ratio of FTEs to Average No. of detainees	3.7	3.3	3.2	3.3	3.0

* Source: NSW Government Budget Estimates (unaudited).

** Source: Department (unaudited).

In 2014-15, the total capacity of all juvenile detainee centres fell to 412 beds from 501 in 2010-11. On average there were 126 spare beds or 30.6 per cent of centre capacity available in 2014-15.

Each juvenile detainee cost \$205,695 per year more than an adult inmate in 2013-14

The average annual cost of a juvenile in custody is significantly higher than that of an adult inmate. This is attributed to:

- higher levels of supervision needed to meet duty of care responsibilities and child protection requirements
- more staff to facilitate out of cell activities to re-engage juveniles into education and support individual rehabilitation and re-entry into the community
- the added cost of providing specialist programs to address offending behaviour through assessment, case management consultation, individual and group counselling and psychological services
- fewer juvenile detainees than adult inmates resulting in higher per unit costs for juveniles. A Youth Justice Centre accommodates 25 to 90 juveniles while an adult centre accommodates between 600 to 800 inmates
- out of cell time for juveniles of 16 hours compared to eight hours for most adult inmates
- more frequent night checks, juveniles every 20 minutes, adults every four hours.

Payments to victims of crime exceed recoveries from offenders

Since 1989, \$1.8 billion has been paid to victims of crime, but only \$71.1 million recovered from the convicted offenders.

Victims of violent crime are entitled to financial support, even if the offender is unknown or not convicted. Where offenders are convicted, restitution orders can be levied against them to recover the financial support paid to victims. Levies are paid into the Victims Support scheme.

The table below shows financial support paid to victims and recoveries from offenders over five years.

Year ended 30 June	2015	2014	2013	2012	2011
Payments to victims (\$m)	86.2	65.8	62.8	63.0	63.2
Restitution recovered from convicted offenders (\$m)	4.9	4.7	4.1	4.1	4.1
Restitution recovered from convicted offenders (%)	5.7	7.1	6.5	6.5	6.5
Number of new restitution debts raised	1,220	1,388	1,690	1,367	1,977
Value of new debts raised (\$m)	12.5	15.4	22.2	17.7	25.0
Restitution debts written-off (\$m)*	--	43.1	69.5	--	28.2

* Debt write-offs in 2010-11, 2012-13 and 2013-14 were due to Section 17 of the *Limitation Act 1969*, which limits enforcement of judgement debts to 12 years after the judgement becomes enforceable.

Source: Department (unaudited).

Restitution recovered from convicted offenders increased marginally in 2014-15, but remains low. Of \$258 million in restitution debts at 30 June 2015 (\$251 million at 30 June 2014) only \$21.9 million (\$21.7 million) is likely to be recovered.

The Force

Performance of Police insurance scheme

Cost of insurance continues to remain above the statutory target rate of 4.6 per cent.

The insurance premium for the Police Blue Ribbon Insurance Scheme increased to \$135 million in 2014-15. This represents an 8.1 per cent increase from the previous year (24.8 per cent in 2013-14). The blue ribbon scheme expense has increased mainly due to salary increases and additional police numbers sworn in during the year. The large increase in last year's premium was mainly due to a key policy change, increasing the period of income protection for officers from a maximum of five years to seven years.

The breakdown of the Force's insurance schemes over the past four years is shown below.

Year ended 30 June	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000
Death and Disability net expense/(income) (old scheme)	(25,807)	(19,728)	58,649	220,741
Police Blue Ribbon Insurance Scheme expense (new scheme)*	134,757	124,698	99,927	80,248
Self-managed income protection expense	4,824	5,390	3,482	--
Total death and disability net expense	113,774	110,360	162,058	300,989

* A component of the 2011-12 insurance premium relates to Total and Permanent Disability and death premiums paid under the old scheme.

Source: NSW Police Force (unaudited).

In 2014-15, the old Death and Disability scheme continued to recognise net income because recoveries exceeded scheme payouts for the year. The recoveries were from officers who received Total and Permanent Disability payments and were required to pay back the Partial and Permanent Disability benefits they had received in previous years.

The Force received 69 recoveries from employees in 2014-15 (58 in 2013-14). The average value of each recovery of \$436,000 (\$444,000) was 1.8 per cent lower than in the previous year. NSW Police Officers contribute up to 1.8 per cent of their salary towards the cost of the Blue Ribbon premium and the remainder is funded by the Force. Total contributions by NSW Police Officers in 2014-15 were \$24.0 million (\$22.7 million) and represent 17.8 per cent (18.2 per cent) of the total premium paid during the year.

The Force's self-managed income protection scheme covers NSW Police Officers who did not meet the 'at work' test when the new scheme commenced on 20 January 2012. These costs decreased in 2014-15.

Three insurance schemes cover death and disability for NSW Police Officers in New South Wales:

- Death and Disability Scheme (old scheme)
- Police Blue Ribbon Insurance Scheme (new scheme)
- Self-managed income protection (for officers not covered by the insurer).

Monitoring the performance of these schemes is important to ensure adequate funds are available to meet claims, premiums are kept at a reasonable level and the agency can budget to meet the costs. In 2011, a statutory target was determined which requires the cost of the Blue Ribbon scheme to fall below 4.6 per cent of NSW Police Officers' remuneration. The cost of the Blue Ribbon scheme for the year ended 30 June 2015 was eight per cent of total NSW Police Officers' remuneration (8.3 per cent in 2014).

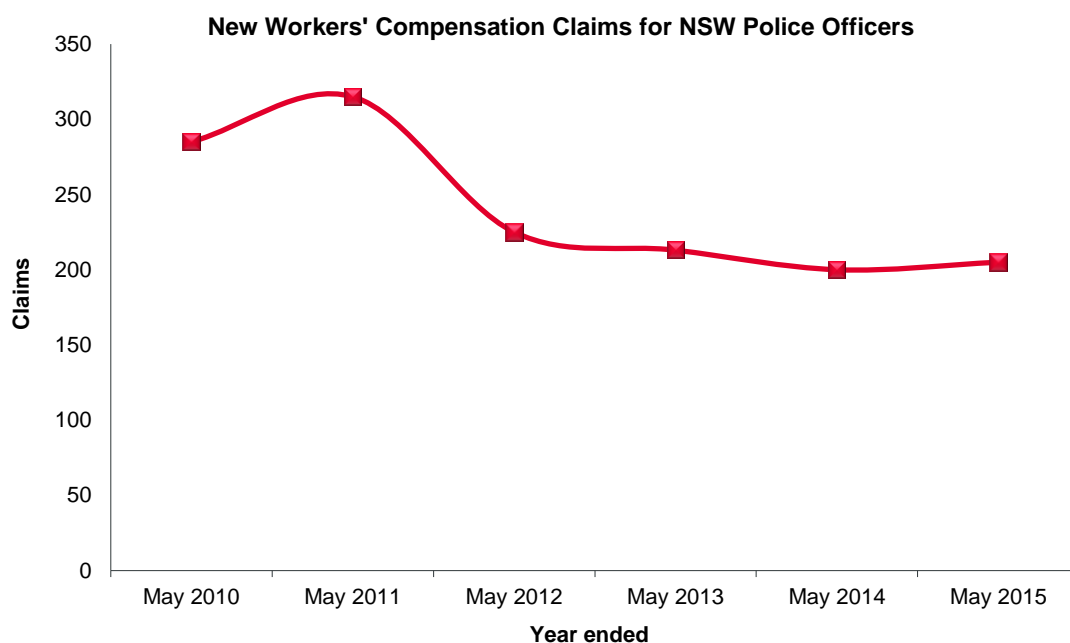
The NSW Police Force has implemented a range of measures in response to the 2014 performance audit on the 'Effectiveness of the New Death and Disability Scheme'. These measures are designed to help it achieve the statutory target by integrating its Workforce Improvement Program initiatives into current work practices. The Workforce Improvement Program supports the health and wellbeing of the Force's employees. It focuses on managing the rehabilitation, retraining and deployment of injured NSW Police Officers. Funding of \$15.1 million has been committed to this area over the next four years.

The Force advises the plan focuses on:

- developing an organisation wide return to work policy
- strengthening resilience of staff through relevant training programs
- reviewing cause of death of retired and former NSW Police Officers to identify whether any new activities should be undertaken by employees prior to leaving the Force
- obtaining a system solution to track incidents relating to non-work readiness
- promoting the use of HR services for assistance
- providing mobile nursing services to provide medical tests
- providing functional movements test kits to every local area command
- introducing in house physiotherapy service to provide timely therapy to injured officers
- establishing a team to address all issues with workers' compensation claims processing
- delivering psychological assessment screening to all employees.

The Force is yet to meet the statutory target but it aims to achieve this by 2019.

The table below shows the trend in new workers' compensation claims for NSW Police Officers over the past seven years. The number of claims lodged has fallen in recent years, which indicates injury levels are stabilising.



Source: NSW Police Force death and disability arrangements data report June 2015 (unaudited).

Payments to injured officers have decreased substantially compared to the previous death and disability scheme. Claims under the new scheme have also stabilised. As the NSW Police Force implements its WorkForce Improvement Program over the next four years, claims performance is expected to improve. If claims fall and other emerging risks are contained, lower premium rates for the new scheme should be realised. The insurer's assessment of the death and disability risks and the extent of competition in the insurance market will also affect future premiums.

Paid Income protection claims continue to grow

During 2014-15, the total number and amount of income protection claims paid by the insurer under the Blue Ribbon scheme amounted to \$9.5 million (\$4.1 million in 2013-14) with an average claim payment of \$26,830 (\$24,692).

Year ended 30 June	2015	2014
Total income protection claim payments (\$)	9,497,643	4,148,279
Number of income protection claims paid	354	168
Average claim paid (\$)	26,830	24,692

Source: NSW Police Force (unaudited).

Total claim payments are expected to grow over the next few years as existing claims continue to be paid and new claims are received and paid during the year. Claims are paid monthly and may extend to a maximum of seven years under this policy.

Claims paid by the Force under the self-managed income protection during 2014-15 amounted to \$4.8 million (\$5.4 million), making the average claim paid \$28,543 (\$31,708).

Year ended 30 June	2015	2014
Total income protection claim payments (\$)	4,823,729	5,390,403
Number of income protection claims paid	169	170
Average claim size paid (\$)	28,543	31,708

Source: NSW Police Force (unaudited).

Key Financial Information

Law and order agencies record an increased surplus in 2014-15

The agencies recorded an overall surplus of \$39.3 million in 2014-15, an increase of \$59.0 million from the prior year. Expenditure increased by \$192 million and revenue by \$251 million.

The improved result is partly due to an increase in revenue from sources other than government contributions, such as the Department's one-off insurance hindsight adjustment of \$7.0 million, the partial reversal of victims' compensation liabilities of \$13.5 million and additional grants from other agencies of \$4.5 million.

The value of assets held by agencies totalled \$6.7 billion at 30 June 2015, up from \$6.4 billion at 30 June 2014. Total liabilities remained constant at \$1.6 billion at 30 June 2015. The increase in net assets was primarily due to a revaluation of the Department's property assets.

Appendix Two of this report summarises key financial information for each agency.

Performance Against Budget

Law and order agencies' combined net result was significantly less than budget

Law and order agencies' combined net result was \$128 million (77 per cent) less than budget.

The 2014-15 statement of comprehensive income and financial position, as summarised in Appendix Three, shows the following performance against budget for law and order agencies in the Justice cluster.

Combined 2015 Statement of Comprehensive Income

Total expenses varied from budget by less than one per cent

In 2014-15, combined actual expenses of law and order agencies varied by less than one per cent compared to budget. While the combined actual to budget variance was small, it included the following offsetting variances:

- Department grants and subsidies were lower than budget by \$160 million due to Treasury's approved grants being rolled-over from 2014-15 to 2015-16 for agencies such as the Force and the Legal Aid Commission.
- Department employee related expenses exceeded budget by \$48.6 million mainly due to the use of casual staff and overtime to accommodate more inmates in corrective facilities
- the Department's other operating expenses exceeded budget by \$80.7 million mainly due to higher computer license fees and variations in outsourced correctional management fees to accommodate increased inmate numbers
- Legal Aid Commission's other expenses were \$13.5 million lower than budget mainly due to the actuarial estimate of work performed, but not yet invoiced by external legal practitioners
- Crown Solicitor's Office other expenses were \$26.0 million lower than budget mainly due to the reclassification of the reimbursement of legal disbursements incurred on behalf of clients
- the Force's total expenses exceeded budget by \$75.4 million mainly due to a net increase in police wages, additional long service leave costs of \$14.0 million, and increases in other operating expenses of \$32.0 million.

Other comprehensive income was largely un-budgeted and mainly reflected a \$242 million revaluation of the Department's property assets.

Combined 2015 Statement of Financial Position

The only balance sheet item that performed close to budget was non-current liabilities. Budget variances for other balances were mainly due to volatilities in estimating actuarially assessed liabilities and the valuations of property.

Analysis of salaries and wages, and other expenditure

Salary and wages, and other expenses increased by more than inflation

Base salaries and wages increased 3.7 per cent and other expenditure 1.8 per cent compared to the prior year, exceeding the 1.5 per cent increase in the Consumer Price Index.

Most of the increase in base salaries and wages related to the Force and was mainly due to increased police numbers and pay increases for non-executive police officers and administrative officers.

The increase in other expenditure mainly related to the Force and was largely due to increases in operating expenses, including property maintenance, property rental, vehicle insurance, legal fees, radio tower license fees and software maintenance.

The table below shows base salaries and wages and other expenditure for law and order agencies in the last two years.

Comparison of base salaries and wages, and other expenditure

Year ended 30 June	Salary and Wages*			Other Expenditure		
	2015 \$'000	2014 \$'000	Movement %	2015 \$'000	2014 \$'000	Movement %
Department of Justice**	1,093,333	1,072,826	1.9	746,378	742,759	0.5
Legal Aid Commission	84,511	81,086	4.2	154,163	146,753	5.0
Office of the Director of Public Prosecutions	74,008	72,408	2.2	25,512	24,594	3.7
Judicial Commission	3,766	3,792	(0.7)	1,878	1,599	17.4
Legal Profession Admission Board	1,001	875	14.4	720	891	(19.2)
Crown Solicitor's Office**	30,327	11,074	173.9	10,639	12,868	(17.3)
Information and Privacy Commission	2,872	2,493	15.2	1,819	2,041	(10.9)
NSW Trustee and Guardian	49,447	50,232	(1.6)	24,664	21,354	15.5
NSW Crime Commission	13,790	14,220	(3.0)	6,821	6,061	12.5
NSW Police Force	1,881,386	1,811,103	3.9	632,353	617,620	2.4
Cluster Total	3,234,441	3,120,109	3.7	1,604,947	1,576,540	1.8

* Excludes superannuation, long service leave, workers' compensation, payroll tax, fringe benefits tax and redundancy payments.

** Crown Solicitor's Office was established as a separate reporting entity from 24 February 2014. All expenditure before this date is included in the Department of Justice.

Source: Agencies' financial statements (audited).

Salaries and wages for the Department increased 1.9 per cent compared to the prior year, mainly due to more custodial offers and higher overtime to accommodate increased inmate numbers. Salaries and wages also increased for Legal Aid Commission, Legal Profession Admissions Board and Information and Privacy Commission mainly due to an increase in full time equivalent employees.

The Legal Aid Commission's expenditure increased \$7.4 million to \$154 million largely due to increased private practitioner costs arising from court delays.

NSW Trustee and Guardian's other expenditure increased mainly due to work by consultants in reviewing the operating model as part of a transformation project - refer to Financial Sustainability below for further details.

Other movements in expenditure included:

- an increase for the Judicial Commission due to additional Conduct Division investigations in 2014-15. The Conduct Division examines and deals with particular complaints referred to it by the Commission
- a decrease for the Legal Profession Admissions Board, because external consultants were engaged in 2013-14 to examine business procedures and restructure the organisation
- a decrease for the Information and Privacy Commission after temporary contractors were replaced with permanent employees
- an increase for the NSW Crime Commission due to increased spending on telecommunications and maintenance agreements.

Financial sustainability

Indications are that self-funded law and order agencies are financially sustainable

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

Year ended 30 June 2015	Net result- surplus/(deficit) \$'000	Net result as a % of Total Revenue	Liquidity	Self-funding %	Expense growth rate %
Self-funded agencies					
Legal Profession Admission Board	428.7	16.6	8.9	100.0	9.2
NSW Trustee and Guardian	(6,691)	(7.5)	2.8	82.9	13.2
Crown Solicitor's Office	2,285	4.6	4.3	100.0	na

na Not available as Crown Solicitor's Office was established as a separate reporting entity from 24 February 2014. All reporting prior to this date was as a business unit of the Department of Justice.

Source: Financial statements (audited).

The only self-funded entity to record a net loss in 2014-15 was NSW Trustee and Guardian. Its net result would have been positive if not for a \$9.4 million actuarial loss on defined benefit superannuation liabilities. NSW Trustee and Guardian's expense growth rate was less than two per cent after adjusting for the actuarial loss.

The liquidity ratios of all three entities were above 1.0, which indicates they have sufficient funds to settle liabilities expected to fall due within the next 12 months.

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

NSW Trustee and Guardian's fees are expected to decrease

NSW Trustee and Guardian's regulated fees are expected to fall by four per cent after the Independent Pricing and Regulatory Tribunal (IPART) recommended a new fee structure in October 2015. The new structure involves the recovery of IPART's estimate of efficient costs, rather than NSW Trustee and Guardian's actual costs. In the absence of expenditure savings or other revenue sources, the reduced fees will impact NSW Trustee and Guardian's future sustainability.

The new fee structure is part of the NSW Government's undertaking to transform NSW Trustee and Guardian. The transformation involves implementing a new operating model, which aims to achieve financial sustainability within the constraints of the new fee structure.

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 law and order agencies in the Justice cluster for 2014-15. The table below summarises key findings, conclusions and recommendations.

Financial controls	
Observation	Conclusion or recommendation
Internal control issues: Sixty six internal control issues, including 12 repeat issues.	Areas were identified where internal controls can be improved and reported to the relevant agency management.
Disaster recovery plan: The Crown Solicitor's Office did not have a Disaster Recovery Plan (DRP) for its financial systems.	Recommendation: The Crown Solicitor's Office should have a documented Disaster Recovery Plan to restore financial systems in the event of a disaster.
Annual leave balances: The number of employees with excessive annual leave has increased by 29.8 per cent to 12,873 in 2014-15.	Recommendation: Law and order agencies need to reduce increasing employees' excess annual leave balances to meet whole-of-government targets.
Sick leave balances: Only three of ten law and order agencies were below the government target of 45.06 sick leave hours per employee in 2014-15.	Recommendation: Law and order agencies should strengthen efforts to effectively manage sick leave.
Asset management: The Department has written off 1,365 assets with a value of \$3.4 million over the last two years.	Recommendation: The Department should continue to improve the accuracy of its fixed asset register and ensure assets are safeguarded and properly recorded.

Internal Controls

No high risk internal control deficiencies identified by the 2014-15 audits

Weaknesses in internal controls increase the risk of fraud and error. The 2014-15 financial statement audits did not identify any high risk control deficiencies, but areas were identified where internal controls could be improved and these were reported to the relevant agencies' management with recommendations.

Generally, law and order agencies' internal controls were designed appropriately and operated effectively to produce reliable and timely financial reports.

Sixty six internal control issues reported to agencies, including 12 repeat issues

Recommendation

Management letter recommendations should be actioned promptly and repeat recommendations avoided.

Sixty six audit findings, including 12 repeat issues, were identified and reported to management. These did not significantly impact the quality or timeliness of financial reporting.

Most control deficiencies related to operational matters. The number and associated risk of the audit findings reported to management for years ended 30 June 2015 and 2014 are analysed below.

Summary of audit recommendations by risk-assessment level

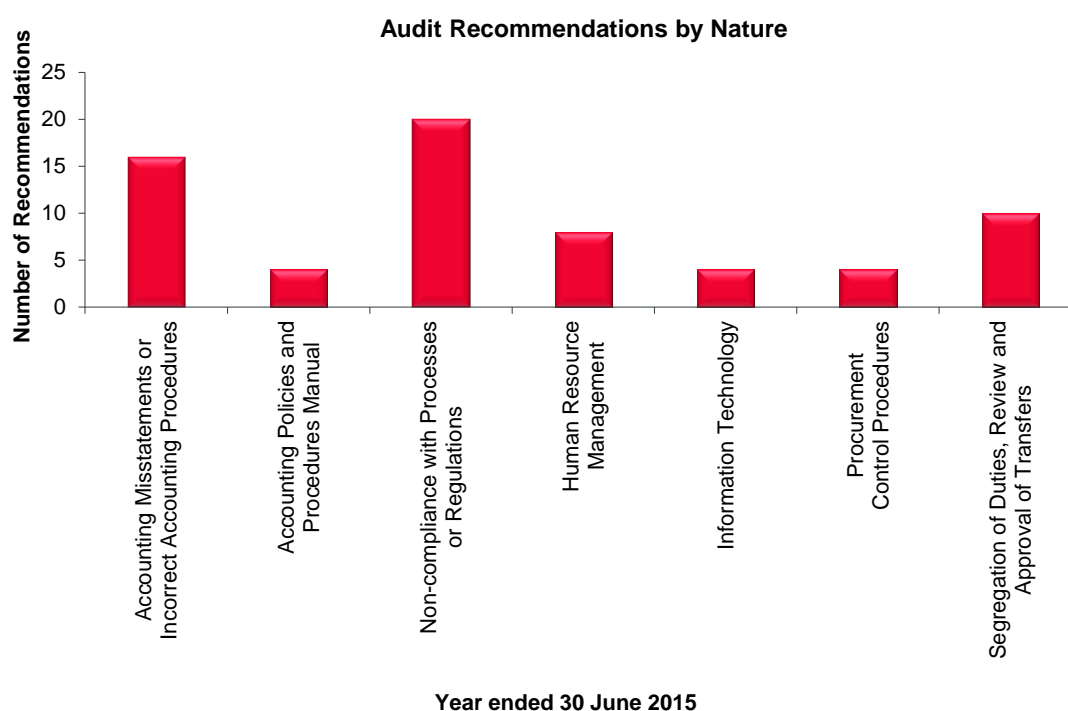
Year ended 30 June	2015			2014		
Risk assessment	New	Repeat	Total	New	Repeat	Total
Extreme	--	--	--	--	--	--
Moderate	24	5	29	14	4	18
Low	30	7	37	29	6	35
Total	54	12	66	43	10	53

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

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

The risk assessment matrix used to rate issues in 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.

The nature of the audit recommendations is illustrated in the graph below.



Note: Allocation of audit findings to categories is on best fit. A finding and associated recommendation might cross over more than one category, but is only counted once.

Non-compliance with processes or regulations – 20 recommendations

These issues include non-compliance with:

- delegations under the *Public Finance and Audit Act 1983*
- Treasury circulars
- NSW Government's Code of Conduct, particularly with respect to managing conflicts of interest and gifts and benefits
- policies and procedures to perform a regular review of master file data for ongoing pertinence and the validity of changes.

Accounting misstatements or incorrect accounting procedures – 16 recommendations

These include issues with:

- the understanding of lease accounting and make good provisioning
- revaluation adjustments disclosures
- inter-entity transaction eliminations
- timely capitalisation of fixed assets
- accounting and financial statement disclosures.

Segregation of duties, review and approval of transfers – 10 recommendations

These issues include:

- inadequate review of master-file exception reports
- insufficient review of JusticeLink system payments
- management override of automated controls over purchase order approvals
- no evidence of independent checks of payroll reports.

Human resource management – 8 recommendations

A common issue across some agencies was the management of excess annual leave balances. Other matters included:

- variances between employee flex-sheet and leave records
- errors in calculating recreation leave liabilities
- leave entitlements not updated in employee records.

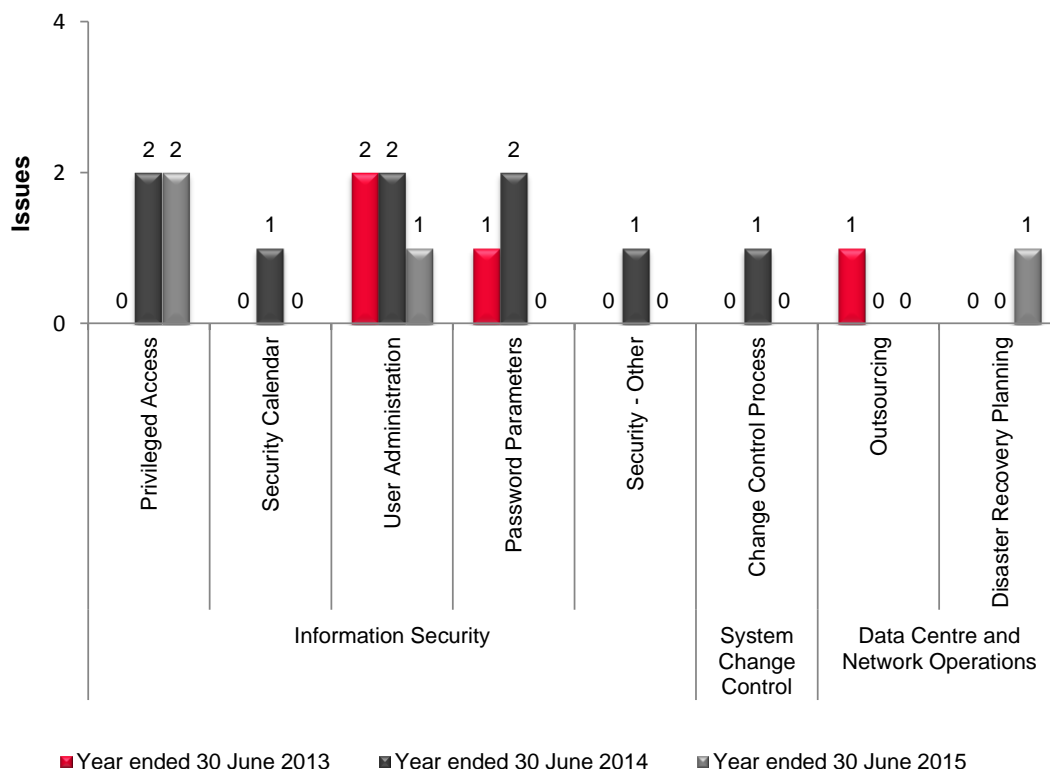
Information Technology

Information security processes are improving across law and order agencies

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

Four IT issues were identified within law and order entities in 2014-15 (nine in 2013-14). Management of information security processes across agencies has improved significantly.

IT Issues Reported by Category



Disaster Recovery Plan not in place

Recommendation

The Crown Solicitor's Office should have a documented Disaster Recovery Plan to restore financial systems in the event of a disaster.

The Crown Solicitor's Office did not have a Disaster Recovery Plan at 30 June 2015 documenting the procedures to be followed to restore financial systems in the event of a disaster.

The Audit Office was engaged to review agency compliance, as at 30 June 2015, with section 744.05 of the NSW Treasurer's Directions and the NSW Government Digital Information Security Policy (DRP requirements).

This compliance review was performed on 30 agencies across all clusters and covered the financial systems most relevant to producing the financial information they use to manage their businesses and produce financial reports. The detailed results of this review were reported in the Auditor-General's Report – Volume Four 'Treasury and State Finances'.

Some agencies still have SAP segregation of duties issues

Recommendation

Agencies should:

- **design and configure SAP user access to achieve appropriate segregation of duties**
- **be proactive and timely in reviewing and resolving segregation of duties violations.**

Last year's Auditor-General's Report to Parliament recommended agencies design and allocate user access profiles to ensure appropriate segregation of duties and to review them regularly. While overall management of SAP user access has improved, implementing appropriate segregation of duties in SAP is complex and time-consuming. As part of the initial system implementation, agencies should design and configure SAP user access to achieve appropriate segregation of duties.

Some agencies are trialling the SAP Governance Risk and Compliance (GRC) solution. This offers real-time monitoring and detection of segregation of duties issues and other compliance violations.

Agencies need to be proactive and timely in identifying and resolving segregation of duties violations, to ensure no one person has sole control over the lifespan of a financial transaction.

Human Resources

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

Recommendation (repeat issue)

Law and order agencies need to reduce increasing employee excess annual leave balances to meet whole-of-government targets.

Law and order agencies need to continue efforts to reduce annual leave balances to meet whole-of-government objectives. The table below shows 38.4 per cent of full time equivalent (FTE) staff exceeded the whole-of-government target of 30 days at 30 June 2015. This is a 29.8 per cent increase on the previous year when 9,914 staff had balances above the target of 35 days.

Year ended 30 June	2015	2014	Movement
Agency	Staff with Annual Leave >30 days	Staff with Annual Leave >35 days	Staff Numbers
Department of Justice	3,376	2,911	465
Legal Aid Commission of NSW	118	87	31
Office of the Director of Public Prosecutions	129	96	33
Judicial Commission of NSW	7	3	4
Legal Profession Admission Board	1	--	1
Crown Solicitor's Office	45	17	28
Information and Privacy Commission NSW	5	--	5
NSW Trustee and Guardian	120	83	37
NSW Crime Commission	5	2	3
NSW Police Force	9,067	6,715	2,352
Total for Cluster	12,873	9,914	2,959

Source: Provided by agencies (unaudited).

The Department advises that its ability to achieve the reduced target was impacted by staffing needs to manage the current record number of inmates. Another key factor is that front line employees within the Force and the Department have annual leave entitlements that exceed the usual four weeks per annum.

There are several implications of excessive leave balances, including:

- possible work 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
- the associated financial liability generally increases over time as salaries increase.

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, within the constraints of relevant industrial instruments and legislation.

Overtime for frontline staff continues to rise

The table below shows the Department and the Force paid \$70.7 million (\$62.9 million) in overtime during the year, 2.4 per cent (2.2 per cent) of their total base salary. Of the \$7.8 million increase from the prior year, \$6.7 million was in the Department. The Department attributes this to the demands of managing a record number of inmates. Refer to the Service Delivery section of this report for further discussion on inmate numbers.

	Base salary \$'000		Number of employees paid overtime		Total overtime paid \$'000		Total overtime as % of base salary	
Year ended 30 June	2015	2014	2015	2014	2015	2014	2015	2014
Department of Justice	1,093,333	1,072,826	5,407	5,100	30,537	23,871	2.8	2.2
NSW Police Force	1,881,386	1,811,103	13,984	13,805	40,167	39,005	2.1	2.2
Total	2,974,719	2,883,929	19,391	18,905	70,704	62,876	2.4	2.2

Source: Base salary obtained from agencies' financial statements (audited). All other data supplied by agencies (unaudited).

The table includes overtime for both frontline and administrative staff. Overtime paid to frontline staff comprised over 88.2 per cent of overtime paid. Frontline staff are NSW Police Officers and custodial staff within correctional and juvenile centres.

Overtime is paid at a premium rate and, if not effectively managed, can result in higher than necessary expenditure and increased work, health and safety issues, particularly when fatigued employees perform high-risk tasks. Associated allowances include expenses for travel, meals and other incidental costs.

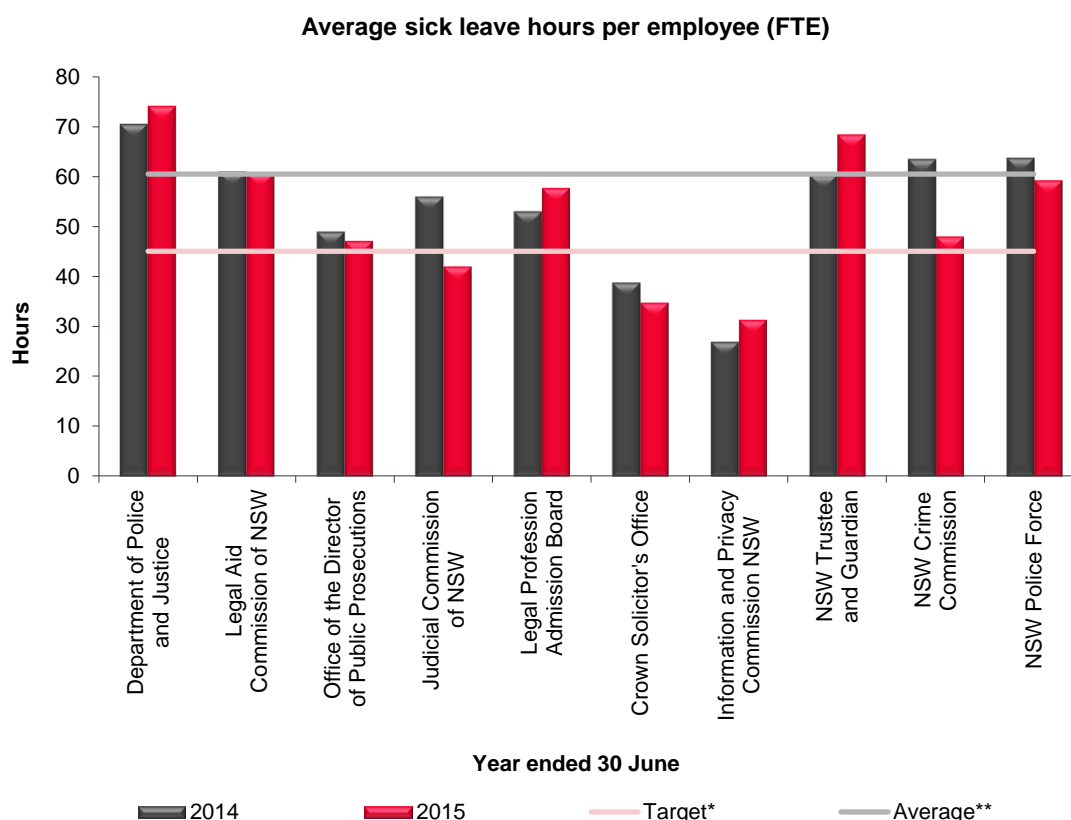
Sick leave taken in seven agencies was above the NSW Government's target

Recommendation (repeat issue)

Law and order agencies should strengthen efforts to effectively manage sick leave.

Sick leave taken in seven of the ten law and order agencies was above the 45.06 hour target, and cost an estimated \$85.5 million (\$86.0 million in 2013-14). This does not include indirect costs of engaging staff to back-fill for absent employees.

The graph below shows average sick leave hours per employee by agency, across both frontline and administrative staff compared to the NSW target and average.



* The sick leave target (45.06 hours per employee) was taken from the Memorandum of Understanding (MOU) signed in settlement of the Crown Employees (Public Sector Salaries – 2008) Award. The target is applicable to administrative staff.

** Average sick leave hours taken per FTE (non-casual) in NSW Government in 2013-14. Source: Public Service Commission

Note: Days are based on a seven hour day for administrative staff and 7.6 hour day for frontline staff. FTE refers to full time equivalent.

Source: Provided by agencies (unaudited).

Average sick leave taken by staff in 2014-15 fell 2.6 per cent to 63.6 hours. Two agencies were above the NSW Government Sector average sick leave hours of 60.5 hours per FTE in 2014-15. The NSW Government Sector average was 56.1 hours in 2010-11, but this has increased consistently since then.

The Force's average sick leave hours fell 6.9 per cent from 63.7 hours in 2013-14 to 59.3 hours in 2014-15. This was partially offset by a 2.3 per cent increase in workplace injury leave for the Force's frontline staff.

Effectively managing sick leave is a continual challenge for the law and order agencies. Sick leave is a significant cost to agencies and employee welfare may be adversely impacted if not properly managed.

The sections below comment separately on frontline and administrative staff sick leave.

Frontline sick leave in the Department increased and remains significantly above target

Sick leave taken by the Department's frontline staff in 2014-15 increased by 4.2 per cent, and was 85.0 per cent above the Corrective Services NSW target of 53.2 hours.

The 2006 Auditor-General's Performance Audit report 'Management of sick leave in NSW Police and Department of Corrective Services, Follow-up of 2002 Performance Audit' referred to a Corrective Services target of seven days sick leave per custodial officer. Based on a 7.6 hour day, this equates to a target of 53.2 hours. The table below shows the 98.4 hours average sick leave taken by Department frontline staff significantly exceeds this target.

Year ended 30 June	Average sick leave hours per FTE				Total sick leave expense		
	2015	2014	Movement	Movement %	2015 \$'000	2014 \$'000	Movement %
Department of Justice	98.4	94.4	4.0	4.2	18,693	16,358	14.3
NSW Police Force*	56.8	60.7	(3.9)	(6.4)	33,632	34,482	(2.5)

* Sick leave expenditure for frontline staff was not provided by the Force. The expense has been estimated using total sick leave hours, total FTE numbers and a 38 hour working week.

Source: Provided by agencies (unaudited)

Sick leave for Department frontline staff mainly relates to custodial officers within the corrective services and juvenile justice divisions.

Sick leave taken by agencies' administrative staff increased in five agencies

Average sick leave taken by the Department's administrative staff increased 3.1 per cent, but fell 9 per cent in the Force. There were also significant falls in the Judicial Commission of NSW, the Crown Solicitor's Office and the NSW Crime Commission.

Average sick leave days taken by the Department's frontline staff is significantly more than administrative staff. The Department advises this partly reflects higher stress levels for frontline staff.

The table below shows average sick leave days per FTE taken by administrative staff.

Agency	Average sick leave hours per FTE				Total sick leave expense		
	2015	2014	Movement	Movement %	2015 \$'000	2014 \$'000	Movement %
Department of Justice	53.4	51.8	1.6	3.1	17,010	18,199	(6.5)
Legal Aid Commission of NSW *	60.8	60.7	0.1	0.2	2,688	2,470	8.8
Office of the Director of Public Prosecutions	47.2	49.1	(1.9)	(3.9)	2,167	2,292	(5.5)
Judicial Commission of NSW	42.0	56.0	(14.0)	(25.0)	96	109	(11.9)
Legal Profession Admission Board	57.8	53.1	4.7	8.9	30	39	(23.1)
Crown Solicitor's Office	34.8	38.8	(4.0)	(10.3)	729	930	(21.6)
Information and Privacy Commission NSW	31.4	27.0	4.4	16.3	45	50	(10.0)
NSW Trustee and Guardian	68.5	60.4	8.1	13.4	1,718	1,766	(2.7)
NSW Crime Commission *	48.1	63.5	(15.4)	(24.3)	354	395	(10.4)
NSW Police Force **	70.0	76.9	(6.9)	(9.0)	8,377	8,902	(5.9)

* Includes staff from the staff agency.

** Sick leave expenditure for admin staff was not provided by the Force. The expense has been estimated using total sick leave hours, total FTE numbers and a 35 hour working week.

Source: Provided by agencies (unaudited).

Sick leave for the Force does not include workplace injury leave. This is separately considered below.

Agencies have previously indicated that key barriers to reducing sick leave include an ageing workforce, an industrial environment which slows workplace reform and an entitlement culture where staff think they must 'use it or lose it'.

TC 14/13 'Managing Sick Leave Policy' specifies agencies can adopt a range of strategies that suit their workplace to help them address genuine illness and sick leave abuse by employees. The strategies include:

- using information management systems to monitor, measure and analyse sick leave data/information
- identifying options, strategies and support available to manage absences when they occur
- developing return to work plans where appropriate and conducting effective return to work interviews.

Lost hours due to work place injury in the Force decreased slightly, but remain significant

The Force recorded average workplace injury leave for frontline staff of 53.7 hours per FTE employee in 2014-15 (52.5 hours in 2013-14).

The Force lost 106 hours per FTE employee in 2014-15 (110 hours in 2013-14) for both sick leave and workplace injury leave, across both frontline and administrative staff.

Workplace injury leave includes workers' compensation leave and any other leave (other than sick leave) for workplace injury.

Flex leave in the Office of the Director of Public Prosecutions is now capped

Managing excessive flex leave under an uncapped flex leave policy has been an ongoing issue for the Office.

At 30 June 2015, 199 employees of the Office had flex leave balances of 50 hours or more (173 employees at 30 June 2014). This partly reflected the Office's uncapped flex leave policy. Last year's report to Parliament noted the Office was negotiating a revised flex leave policy with the Public Service Association. In May 2015, a new Flexible Working Hours Agreement was finalised effective from 8 February 2016. The revised policy limits the maximum carry forward of flexible working hours to 50 and any accrued flex hours above 50 is forfeited.

Large flex leave balances may indicate employees are working excessive hours or work-loads are not effectively allocated to staff. Accumulating large flex balances makes it difficult for organisations to effectively manage annual leave balances within targets.

Asset Management

Capital Projects in the Force

Revised property management arrangements have improved service delivery

The Force spent \$145 million on its capital program in 2014-15 (\$136 million in 2013-14). Over \$720 million in capital expenditure is forecast to occur over the next four years.

The Force has been operating under an outsourced property management model for many years. Revised property management service arrangements, in place since July 2013, have improved service delivery and the visibility of the condition of the property portfolio. Under the new property management model, the contract manager has greater responsibilities and performs more analysis over funding requests and expenditure claims. The model emphasises required compliance with relevant building code legislation and standards.

The Force mainly funds its capital program from state government grants received through the Department. A small portion is funded through operating cash flows and other sources.

The Force's backlog maintenance has reduced

The Force's assessed backlog maintenance at 30 June 2015 was \$60.6 million (\$101 million at December 2014). The significant reduction is due to changes to the way the backlog is assessed, managed and reported.

Capital Projects in the Department

The Department continues to write off assets

Recommendation

The Department should continue to improve the accuracy of its fixed asset register and ensure assets are safeguarded and properly recorded.

The Department has written off 1,365 assets with a value of \$3.4 million over the last two years.

In 2014-15, the Corrective Services division of the Department wrote off 776 mainly IT related assets with a value of \$1.5 million. In the previous year, it wrote off 589 assets with a value of \$1.9 million.

The Department should continue to improve its controls over fixed assets by improving the accuracy of its fixed asset register and ensuring State assets are safeguarded and properly recorded.

Capital projects completed within one per cent of budget

The Department advises that three capital projects above \$10.0 million were completed during the year at a cost of \$2.3 million, or 0.9 per cent more than budget. The Department spent a total of \$220 million on its capital program in 2014-15 (\$133 million in 2013-14) and \$236 million is budgeted for 2015-16.

The table below shows capital projects completed by the Department in 2014-15 with a budgeted project cost above \$10.0 million:

Project description	Revised budgeted cost \$'000	Actual cost \$'000	Original estimated completion year	Year completed
Coffs Harbour Justice Precinct	51,166	51,624	2016	2015
Court Upgrade Program (including Justicelink Project)	178,478	178,522	2014	2015
John Maddison Tower (JMT) and Downing Centre Refurbishment	27,423	29,256	2015	2015

Source: Department of Justice (unaudited).

The original Coffs Harbour Justice Precinct budget was reduced in 2014-15 because it progressed ahead of schedule with minimal issues. The actual final cost was over budget due to a dispute relating to an outstanding final payment towards the cost of construction.

The Court Upgrade Program was initially a 10 year program, but was extended by one year as part of the 2008-09 mini-budget. The original budget was adjusted over the life of the program to include budgets for additional projects and to separate out single court upgrades such as JMT/Downing Centre for \$26.5 million and Armidale for \$15.0 million.

Additional costs were incurred on the JMT and Downing Centre Refurbishment as a result of scope changes over the life of the project. These included \$1.1 million for urgent building refurbishment works arising from long-term under investment in maintenance.

Four capital projects above \$10.0 million are running behind schedule

The Department has four out of nine capital projects above \$10.0 million running behind schedule. The costs to date of the four projects remain within revised budgets. The table below shows the four capital projects with their revised completion dates.

Project description	Revised budgeted cost \$'000	Costs to date at 30 June 2015 \$'000	Original estimated completion year	Revised completion year
Newcastle Justice Precinct	89,685	70,871	2015	2016
Wollongong Courthouse Redevelopment	17,500	8,708	2015	2016
Wagga Wagga Courthouse	19,500	5,562	2015	2016
Crime Reduction Initiatives	39,400	21,128	2015	2016

Source: Department of Justice (unaudited).

The completion date for the Newcastle Justice Precinct project was delayed by one year after mine subsidence and soil contamination issues, and the voluntary liquidation of a key subcontractor. The Department advises that additional costs were not incurred as the construction price is fixed.

Both the Wollongong and Wagga Wagga Courthouse Redevelopment project budgets were revised in 2014 as a result of significant scope changes following extensive consultation with the local community and key stakeholders. Obtaining required approvals delayed the estimated completion date by one year.

The completion date for the Crime Reduction Initiatives project was extended by one year due to the complexity of individual initiatives within the program.

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 law and order agencies in the Justice cluster for 2014-15.

Governance	
Observation	Conclusion or recommendation
<p>Governance arrangements: The Department was formed over six years ago, and while there have been recent improvements, governance arrangements over its divisions and offices are still to be finalised and fully implemented.</p> <p>Recent improvements include the establishment of a new Department-wide Audit and Risk Committee on 1 October 2015, replacing division-specific audit and risk committees.</p>	<p>Recommendation: The Department's governance arrangements should be finalised and implemented. The Department should continue to benchmark its arrangements against the Audit Office's Governance Lighthouse Checklist and other relevant better practice guides.</p>
<p>Fraud and corruption: Incidents of alleged fraud and corruption have occurred in law and order agencies.</p> <p>In 2014-15, 18 alleged fraud and corruption matters were referred to the NSW Independent Commission Against Corruption, and eight Force matters to the Police Integrity Commission.</p>	<p>Recommendation: To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's revised Fraud Control Improvement Kit, released in February 2015.</p>
<p>Risk management: Each law and order agency has its own risk profile and risk management framework. Risk has been managed at an agency level and oversighted by Audit and Risk Committees. Risks may, however, have implications for other law and order entities in the cluster.</p>	<p>Recommendation: The Department should consider preparing an overarching risk assessment and treatment plan covering all law and order agencies.</p>
<p>LifeLink System Implementation: A post implementation review found that the LifeLink System was implemented more than seven months late, and cost the Department \$5.9 million more than budget, and in excess of \$1.9 million from up to 60,000 free transactions. A further \$3.7 million was spent in 2014-15 fixing system issues and clearing transaction backlogs.</p>	<p>Recommendation: Agencies should consider lessons learned from the LifeLink System post implementation review in future projects.</p>

Governance frameworks supporting service delivery

The Department is still to finalise and implement its governance arrangements

Recommendations

The Department's governance arrangements should be finalised and implemented.

The Department should continue to benchmark its arrangements against the Audit Office's Governance Lighthouse Checklist and other relevant better practice guides.

The Department was formed over six years ago, and while there have been some significant recent changes, governance arrangements over its divisions and offices are still to be finalised and implemented.

The Department developed a draft governance framework, and is in the process of implementing it. The Department advises that the framework is built on the key principles and components in the Audit Office's Governance Lighthouse Checklist, which is a strategic early warning system to help agencies identify areas needing improvement.

Significant changes to governance arrangements implemented during the year include:

- establishing a new single Department-wide Audit and Risk Committee (ARC) on 1 October 2015, replacing division-specific audit and risk arrangements
- creating an Audit and Risk Unit to manage and lead these functions across the Department, and provide administrative support to the new ARC. The Unit is responsible for developing and implementing a Fraud Control Framework
- developing a single Department-wide internal audit plan for 2015-16
- implementing a new Department-wide reporting framework to report progress on four Government priorities, nine Department priorities and 18 flagship initiatives
- ensuring continuous disclosure is consistent across all divisions and establishing a baseline policy for the Department.

The most significant changed governance arrangements yet to be implemented include:

- fully establishing the new Audit and Risk Unit referred to above
- reviewing governance arrangements across the Department to accommodate the recent administrative changes to law and order agencies (referred to below)
- progressively consolidating policies and procedures to ensure a unified approach across the Department (referred to below).

The Department advises that the new arrangements comply with the requirements of TPP 15-03 'Internal Audit and Risk Management Policy for the NSW Public Sector'.

The Department was created on 1 July 2009 by merging the former Department of Corrective Services and the former Attorney General Department. The Department has been impacted by a number of administrative restructures since this date.

The governance framework for NSW public sector agencies is set out in legislation, and central agency publications including:

- the *Public Finance and Audit Act 1983*
- the *Government Sector Employment Act 2013*
- Treasurer's Directions
- Treasury Policy and Guidelines
- Department of Premier and Cabinet Memoranda and Circulars.

Policies and frameworks are only effective if implemented. Without clear accountabilities and ongoing monitoring, planned objectives may not be met.

Integration of policies, operations and systems in the Justice Cluster is ongoing

Recommendation

The Department should continue to integrate policies, operations and systems across the Department's divisions and offices, and where appropriate, to other agencies in the cluster.

Previous Auditor-General's Reports to Parliament have recommended the integration of policies and systems across the Department's divisions and offices, and recommended that, once complete, they be rolled out to other agencies in the cluster.

The Department is still integrating policies, operations and systems across its divisions and offices. Progress in 2014-15 included:

- developing an enterprise risk framework, and commencing the review of policies against identified risks
- developing a legislative and policy compliance framework for the Department
- consolidating the Department's Human Resource policies
- consolidating guidance on procurement across the Department
- undertaking an internal audit of the Compliance Framework.

Reforms are also progressing for divisions, including Human Resources, Information and Telecommunications, Legal Services and Asset Management.

To integrate policies and systems across the cluster, the Department has:

- developed a corporate services policy framework in consultation with cluster agencies
- instituted Secretary's Directives and Administrative Circulars to provide a single set of guidance for the Department and, where appropriate, the cluster.

The Department also advise it is working with the NSW State Emergency Services to define some directions and a common approach to improving policy management.

The Department does not have a centralised gifts and benefits register

Recommendation

The Department should:

- **establish a centralised gifts and benefits register as required by the Public Service Commissioner's standards**
- **designate a senior manager to regularly review the register, to ensure compliance with policies and procedures**
- **consider publishing the register on the Department's website.**

The Department does not have a centralised gifts and benefits register. Gifts and benefits are currently managed at a divisional or business unit level.

The Public Service Commissioner (the Commissioner) required a centralised register to be in place by 1 September 2015. The register should be regularly reviewed by a designated senior manager to ensure compliance with policies and procedures. It should be transparent, auditable, straightforward and secure. Consideration should be given to publishing the register on the Department's website.

The Commissioner's publication 'Behaving Ethically: A guide for NSW government sector employees' outlines a range of conduct and ethical issues related to the work of government sector employees. This publication included a direction from the Commissioner for the heads of government agencies to implement minimum standards for managing gifts and benefits by 1 September 2015 and for them to require employees to comply with those standards. The minimum standards include:

- a policy for managing gifts and benefits
- a gifts and benefits register
- training and support for employees.

The Department advises that a gifts and benefits policy and procedure was implemented as of 1 September 2015, and a draft gifts and benefits register has been created. They also advise that the Secretary issued an Administrative Circular to all employees on 3 November 2015 regarding the Department's Ethical Framework, which consists of this policy and procedure as well as the Department's Code of Ethics and Conduct.

Incomplete quality assurance framework over the Victims Support Scheme (VSS)

Recommendation

The Department should fully implement the Victims Support Scheme Reporting and Quality Assurance Framework.

The Department advises a new Reporting and Quality Assurance Framework (the Framework) for the VSS was finalised in 2014-15. It expects the Framework will be fully implemented in 2015-16. The Framework provides a basis for measuring, monitoring and responding to the quality, efficiency and effectiveness of the VSS.

The previous Auditor-General's Report to Parliament recommended the Department ensure it has processes to enable it to regularly monitor and measure the performance and success of the VSS in providing a more accessible, streamlined and targeted service to New South Wales' victims of violent crime. Such processes are needed to ensure the VSS does not experience the same issues as the former Victims Compensation Scheme (VCS), which was financially unsustainable, and victims had to wait on average for more than two and a half years for compensation.

The *Victims' Rights and Support Act 2013* mandates a review of the scheme as soon as possible after three years (after June 2016) and after five years (after June 2018) from the date of its commencement. A report with the review outcome is to be tabled in both Houses of Parliament within 12 months of the review being finalised.

The VSS replaced the VCS from 3 June 2013. The focus of the VSS is to provide a package of practical and financial support, instead of lump sum compensation payments to victims.

Refer to the Service Delivery chapter of this report for information on the performance of the VSS.

The Legal Aid Commission is rolling out a time costing system

The Legal Aid Commission (the Commission) completed its pilot of the ABC time costing system in September 2014. Following positive feedback from its external consultant, the Commission started rolling the system out to its in-house practice. The roll-out is scheduled for completion by 1 July 2016.

Previous Auditor-General's Reports to Parliament reported the Commission does not have a time costing system to record time spent by legal practitioners and other costs incurred on individual cases. The Reports recommended the Commission establish an appropriate time costing system that meets the requirements of section 12 of the *Legal Aid Commission Act 1979*. Without such a system, the Commission was unable to demonstrate it provided legal aid in the most 'effective, efficient and economical manner'.

Risk management

Risk management is currently decentralised

Recommendation

The Department should consider preparing an overarching risk assessment and treatment plan covering all law and order agencies.

Each law and order agency in the cluster has its own risk profile and risk management framework. Risk management is performed at an agency level with oversight by Audit and Risk Committees. Risks may, however, have implications for other law and order entities.

The Department should consider how risks at an agency level are captured and escalated to a cluster level so they can be managed, treated and reported. This may be especially relevant for risks impacting several agencies in the cluster, such as the impact on the Department of NSW Police Force practices on inmate numbers, or more broadly where an entity is impacted by information or services sourced from another entity.

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.

Other governance matters in law and order agencies

Incidents of fraud and corruption have occurred in law and order 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.

During 2014-15, the Department referred 16 instances and the Legal Aid Commission two instances of suspected fraud and corruption to the NSW Independent Commission Against Corruption (ICAC). The Force advises eight instances were referred to the Police Integrity Commission (PIC) in 2014-15.

The instances of suspected fraud and corruption reported included:

- personal use of agency owned resources
- inappropriate taking of leave, and invalid flex and timesheet entries
- an invalid claim for workers compensation, and possible rostering and overtime anomalies
- corrupt conduct in procurement of goods and services
- misuse of cab-charges
- inappropriate use of petty cash.

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 and flick' exercise.

The Fraud Control Improvement Kit provides guidance on the key elements of an effective fraud control framework and contains practical resources to help organisations implement, review and monitor a framework's effectiveness.

ICAC is investigating a procurement fraud within the Department

Last year's Auditor-General's Report to Parliament referred to actual and/or alleged incidents of fraud and other financial irregularities within the Department. The most significant of these is the subject of an ICAC investigation, referred to as Operation Yancey.

Operation Yancey involves allegedly corrupt procurement processes, by the then Department's Asset Management Branch Assistant Director of capital works, in awarding contracts to refurbish NSW courthouses in 2013. The ICAC is expected to complete its investigation and report later in 2015.

The Department has responded to the alleged corruption by implementing a 20 point plan to strengthen its controls in the procurement area. A fraud control plan has been drafted and is expected to be implemented across the Department in the near future.

Lessons learned have been identified following the implementation of the LifeLink System

Recommendation

Agencies should consider lessons learned from the LifeLink System post implementation review in future projects.

The Department engaged an external firm to perform a post implementation review of the LifeLink System. The review found the project was more than seven months late, cost \$5.9 million more than budget, and the Department lost in excess of \$1.9 millions as a result of performing up to 60,000 free transactions.

A further \$3.7 million was spent by the Department in 2014-15 to fix system issues and address transaction backlogs.

The review identified the following lessons learned:

- the decision to go live on 23 June 2014 was regarded as non-negotiable, rather than as a true decision point. Greater strategic input should have been sought by the Project Steering Committee, with acknowledgement of the realistic project status and risks
- the project timeframe, cost and resources were under scoped. The Department should use additional strategies to validate time and cost estimates
- the project was not appropriately resourced with personnel with sufficient relevant skills and experience. Skill gaps should have been identified and appropriately addressed at project commencement
- greater independent quality management over the project together with contract and performance management, may have highlighted risks and issues at an earlier point and allowed for greater control and management
- poor procurement processes were applied to aspects of the project. Procurement advice should have been sought to ensure procurement process complied with policy and results optimised
- methodical document management was lacking. The development, use and management of documentation received too little attention
- the Department should ensure change management has sufficient focus and engagement with all affected parties, and the change management function is used to keep the project honest about what it should achieve and for whom.

The LifeLink System project started in 2002-03 to replace the Registry of Births, Deaths and Marriage's paper-based Life Data system. After two failed projects, the Department's third project contract to deliver the LifeLink System was established in December 2010.

The LifeLink System, which had an original budget of \$11.4 million, went live on 23 June 2014. The Department advises the LifeLink System is now performing adequately, with most warranty defects resolved.

Funds in the Confiscated Proceeds Account continue to increase

Recommendation (repeat issue)

The Minister for Justice and Police should engage with the Treasurer to determine how funds in the Crown Entity's Confiscated Proceeds Account should be used.

The Treasurer and Minister for Justice and Police have not determined how the confiscated funds should be used.

The Department only used \$13.5 million of funds held in the Confiscated Proceeds Account (the Account) in 2014-15. The table below shows the Account balance and receipts and payments over the last five years.

Year ended 30 June	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000
Opening balance	113,314	108,865	97,646	88,843	74,481
Receipts	22,849	20,535	23,734	14,345	44,735
Payments	(13,528)	(16,086)	(12,515)	(5,542)	(30,373)
Closing balance	122,635	113,314	108,865	97,646	88,843

Source: Provided by Treasury (unaudited).

Receipts have been consistently greater than payments over the last five years, resulting in the balance increasing by \$33.8 million to \$123 million. It remains unclear how the \$123 million at 30 June 2015, is to be used. The Minister for Justice and Police should engage with the Treasurer to determine how the funds in the Account should be used.

Under section 32 of the *Criminal Assets Recovery Act 1990* (the Act) the funds in the Account can be used to 'aid law enforcement, victims support programs, crime prevention programs, programs supporting safer communities, drug rehabilitation or drug education as directed by the Treasurer in consultation with the Minister'.

Section 32(3)(c) of the Act, requires 50 per cent of proceeds assessment orders and unexplained wealth orders to be paid to the Victims Support Fund. However, confiscation proceeds from asset forfeiture orders are not required to be paid into this fund.

The Department advises that the Account is available for the statutory purposes if the Treasurer and Minister for Justice and Police agree.

Administrative changes to law and order agencies

The Justice cluster was impacted by the following changes to Law and Order agencies with effect from 1 July 2015. The Changes were effected through an Administrative Arrangements Order.

- the Ministry for Police and Emergency Services was abolished and its functions and employees transferred to the Department
- responsibility for the Office of Liquor, Gaming and Racing, and Arts policy, including Screen NSW and Arts NSW, was transferred to the Justice cluster
- the Independent Liquor and Gaming Authority, Art Gallery of New South Wales, Australian Museum, State Library of New South Wales, the Museum of Applied Arts and Sciences, the Sydney Opera House and the Police Integrity Commission transferred to the Justice cluster.

Service Delivery

This chapter outlines key findings, conclusions and recommendations about Service Delivery in law and order agencies in the Justice cluster for 2014-15.

Service Delivery

Observation

Crime category trends: The trend in the number of crime victims is an overall indicator of the cluster's performance in achieving the State's goals.

Most crime categories have trended down between 31 December 2010 and 31 December 2014.

Adult inmate numbers: The NSW prison system is overcrowded.

Overcrowding of correctional centres can negatively impact all aspects of custodial life, and ultimately result in higher re-offending rates.

Rate of adult re-offending: In the year ended 31 December 2013, the rate of prisoner reconviction within one year increased by 1.7 per cent compared to the previous year.

In the year ended 30 June 2014, 45.8 per cent of released prisoners had returned to prison and 50.3 per cent to Corrective Services, within two years of release.

Backlog of cases: The backlog of cases in the NSW District Criminal Court has almost doubled since 2011.

The NSW District Court estimated it had approximately 850 people on remand and awaiting trial in June 2015.

Victims of crime: Since 1 September 2015, victims of crime who were transitioning between the Victims Compensation Scheme (VCS) and the Victims Support Scheme (VSS) can have their claims reassessed.

Domestic violence: The rate of repeat domestic violence assaults is increasing.

Repeat domestic violence assault rates increased from 15.2 per cent in 2012-13 to 15.5 per cent in 2014-15.

Conclusion or recommendation

The downward trend in most crime categories indicates the cluster is effectively achieving the State's priority to prevent and reduce crime.

Recommendation: Forward planning of prison infrastructure requirements needs to improve.

The increases in adult reconviction and return to prison rates are contrary to the State priority of reducing adult re-offending by five per cent by 2019.

Based on the 2013-14 average cost per day, holding inmates on remand while they await trial costs the State an estimated \$60.0 million per year, and is contributing to prison overcrowding.

The Department estimates the reassessment of victims' claims will cost the State an estimated \$124 million over three years.

This increasing trend is contrary to the related (but independent) Premier's priority to reduce domestic violence perpetrators from re-offending within 12 months, by five per cent.

Performance Reporting

A key objective of NSW public sector reform is to improve performance and create a culture of accountability. Performance reporting against benchmarks and targets is an effective means of measuring success of these reforms.

State Priorities

The NSW 2021 state plan to rebuild the economy, provide quality services, renovate infrastructure, restore government accountability and strengthen the local environment and communities was replaced by State Priorities 'NSW Making it Happen', in September 2015. It comprises 30 Priorities - 12 Premier's and 18 State. The Premier's priority for the Justice cluster is to reduce domestic violence perpetrators from re-offending within 12 months, by five per cent.

The following State priorities are directly relevant to law and order agencies:

- Local Government Areas to have stable or falling reported violent crime rates by 2019
- reduce adult re-offending by five per cent by 2019
- reduce road fatalities by at least 30 per cent from 2011 levels by 2021. This is a collaborative priority between the NSW Police Force and partner agencies.

NSW 2021, released in September 2011, was a ten-year plan with the following performance goals for law and order agencies in the Justice cluster:

- prevent and reduce the level of crime
- prevent and reduce the level of re-offending
- improve community confidence in the justice system.

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

Crime category trends in New South Wales

Most crime categories have trended down since 2010

The downward trend in most crime categories since 2010 is better in New South Wales than it is nationally, as shown in the table below.

The trend in the number of crime victims is an overall indicator of the cluster's performance in achieving the State's priorities.

Year ended 31 December	%* inc/(dec) since 2010	2014	2013	2012	2011	2010
Crime Numbers						
NSW						
Murder	2.7	75	85	61	82	73
Attempted murder	(33.3)	30	48	35	59	45
Manslaughter	(100.0)	--	--	9	3	11
Assault	(11.3)	65,576	68,963	68,745	71,165	73,968
Sexual assault	12.7	8,192	8,121	7,628	7,024	7,269
Kidnapping/abduction**	(7.3)	305	305	348	409	329
Robbery	(41.4)	3,850	4,723	5,100	5,327	6,569
Unlawful entry with intent	(22.6)	46,229	49,902	58,228	58,269	59,721
Motor vehicle theft	(27.3)	14,110	15,114	17,198	19,208	19,406
Other theft	(5.0)	138,176	147,627	154,335	151,977	145,399
National						
Murder	2.1	238	245	246	245	233
Attempted murder	(2.6)	151	164	159	185	204
Manslaughter	(1.7)	24	23	46	32	29
Assault*	--	--	--	--	--	--
Sexual assault	9.6	20,677	20,025	19,448	18,616	18,862
Kidnapping/abduction**	(10.0)	550	596	638	676	611
Robbery	(32.4)	9,886	11,711	13,161	13,650	14,634
Unlawful entry with intent	(12.6)	181,879	194,529	215,009	209,146	208,098
Motor vehicle theft	(8.5)	50,186	52,508	58,559	56,074	54,819
Other theft	1.7	485,216	493,540	512,352	501,295	477,265

* National data on assaults is not available

** Kidnapping/abduction statistics for New South Wales include 'deprivation of liberty' offences, which are not included for other jurisdictions. New South Wales encourages reporting of all incidents, even if not investigated. This information is used for intelligence purposes.

Source: Australian Bureau of Statistics (unaudited). The Bureau acknowledges not all crimes are reported or recorded by police in the various jurisdictions. This impacts comparability of recorded crime levels between states.

Department of Justice

Corrective Services NSW Division

The NSW prison system is overcrowded

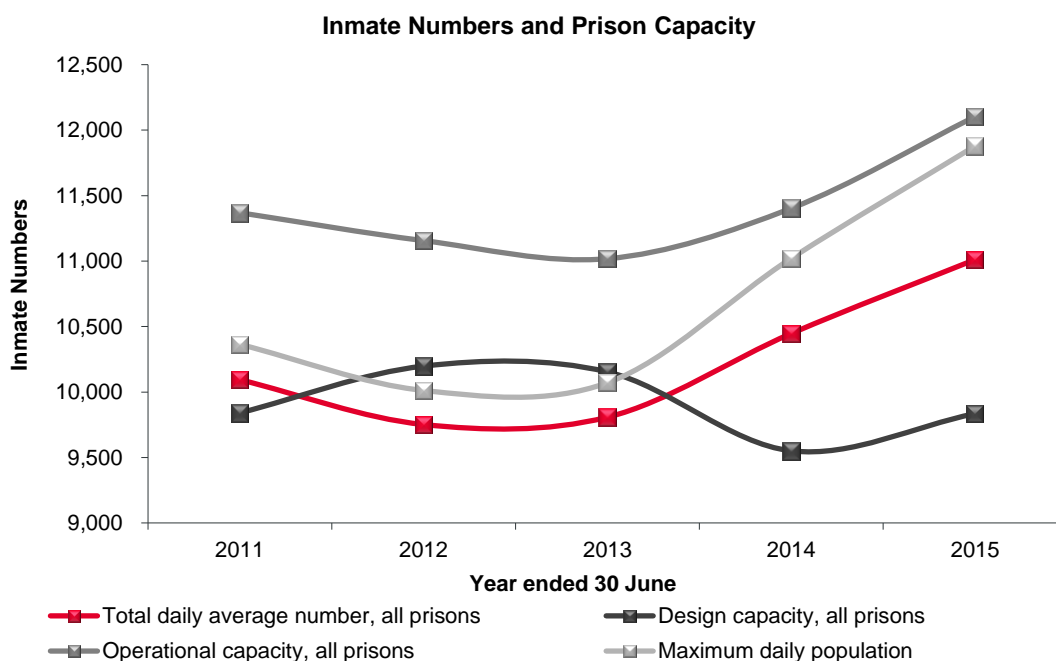
In 2014-15, the average daily number of adult inmates in the NSW prison system was 11,011 while its capacity is only designed to cater for 9,829 inmates. This represents a 112 per cent occupancy rate for the prison system. This compares to the national average design capacity utilisation rate of 104 per cent in 2013-14, per the Productivity Commission.

At 30 June 2015, the operational vacancy rate, as opposed to design capacity rate, of prisons was 4.1 per cent. This is lower than the 5 per cent needed for the efficient and effective management of the inmate population.

The Department advises the operational vacancy rate has decreased further to 1.5 per cent at 30 September 2015, and 0.7 per cent at the end of October after the number of inmates increased to 12,057 and 12,161 respectively.

The current level of overcrowding is impacting more than just Corrective Services NSW. For example, the Department advises that over the weekend of 31 October to 1 November 2015, inmates held in NSW Police Force custody in the metropolitan area could not be brought before the courts for bail determination due to capacity issues. In another example, a District Court Judge referred to the lack of custodial accommodation (later disputed by the Department) in early November 2015 as impacting his bail decision.

The graph below shows the design and operational capacity of all prisons, compared to the daily average number of inmates in the NSW prison system.



Design capacity is the number of beds or inmates that prisons were originally built to hold, while operating capacity is the number of beds that can be accommodated while maintaining programs and services. The Inspector of Custodial Services (the Inspector) refers to design capacity when assessing prisoner crowding, as the 'elasticity of operational capacity allows overcrowding to be made opaque to inquiry'. Bed capacity could be changed by, for example, installing more beds into existing cells without increasing resources and services. The Inspector acknowledges that design capacity also has definitional problems.

Overcrowding increases the risk of justice system objectives not being met

Overcrowding of correctional centres can negatively impact all aspects of custodial life, and could ultimately result in higher re-offending (recidivism) rates. As noted above, it could also impact the justice system more broadly, such as operations within the courts.

The NSW Government's previous State Plan, NSW 2021 included a target to reduce adult and juvenile re-offending by five per cent by 2016. This was replaced in August 2015 by a state priority target to reduce adult re-offending by five per cent by 2019. Overcrowding may undermine the achievement of re-offending objectives.

In an April 2015 report 'Full House: the growth of the inmate population in NSW' (the Full House report), the Inspector made the following observations about the NSW prison system:

- the average number of out-of-cell hours decreased from 11.4 hours per day in 2010-11 to 8.2 in 2013-14. Decreasing out-of-cell hours when inmate numbers are increasing may increase inmate tension and increase the risk of assault or psychological suffering
- the classification and placement of inmates has been compromised by the need to manage bedspace, with 54.5 per cent of inmates classified as minimum security, but only about 36 per cent of beds being minimum security. This means minimum security inmates may be subject to higher classification conditions, such as additional lock-up hours and physical barriers
- the ratio of nursing staff to inmates in correctional centres decreased from 4.5 per 100 in 2011 to 4.0 in 2014, and the average time for an inmate to see a General Practitioner was found to be over one month. The implication is that while extra beds have been installed, corresponding health infrastructure and services have not proportionately increased
- there is a systematic inability of inmates to complete the programs they are required to do to be considered for parole at the earliest possible date. For example, Corrective Services NSW's Drug and Alcohol programs only met 51 per cent, and Aggression and Violence programs 27 per cent of the assessed need in 2013-14. This is resulting in inmates being held for unnecessary lengths of time in the correctional system, making overcrowding worse
- the number of employment opportunities in prisons has not kept pace with the rapid increase in the inmate population. Providing inmates with work while they are in prison is an important part of rehabilitation
- a Corrective Services NSW audit found that of 7,920 cells, 2,381 were non-compliant with their facility standards. Overcrowding in prisons leads to increased repair and maintenance costs.

The Department advises that a new basis was used to measure out-of-cell hours from 2013-14 onwards, which means that the 2010-11 out-of-cell hours are not comparable. The Department did not provide comparable out-of-cell hours for these periods.

While the number of employment opportunities in prisons has not kept pace with the increase in inmates, the Department advises that the actual number of inmates employed has marginally increased over the last three years.

The Inspector's report referred to a peak number of inmates of 11,021 in May 2014, as giving rise to significant overcrowding. As noted above, there were 12,161 inmates at 31 October 2015, which is an increase of 1,140 inmates or 10.3 per cent since this date.

The Full House Report recommendations and the Department's response are published in [Corrective Service NSW Response to Recommendations on Full House Report](#).

Forward infrastructure planning is important to ensure prison capacity is adequate

Forward planning is vital if prison infrastructure investment decisions are to support correctional system objectives. This is especially important when the planning and construction of a new correctional centre can take up to five years.

Forward planning should be informed by robust forecasts of adult inmate populations and key assumptions underlying forward plans should be subject to regular review by the Department.

The Inspector's Full House report concluded existing prison infrastructure and resources are inadequate to support the correctional population, mainly due to inadequate capital asset planning and inappropriate geographic distribution of correctional centres over the past two decades.

The graph 'Inmate numbers and prison capacity at 30 June' shows the result of prison capacity decisions over the last five years. It shows the design capacity of NSW prisons fell significantly in 2012-13 and 2013-14 after closing Berrima, Parramatta and Kirkconnell Correctional Centres in October 2011. The graph also shows inmate numbers increased significantly immediately after the closures. A 2013 report of the NSW Parliament Legislative Council Select Committee 'The closure or downsizing of Corrective Service NSW facilities' refers to possible surplus capacity as a factor underlying the closure decision.

The Department advises that long term infrastructure plans have been based on adult inmate population forecasts since 2012. The Department also state that cost efficiency considerations had an impact on the decision to close the above centres.

Growth in inmate numbers is being strongly influenced by conditions in the criminal justice system

Recommendation

Forward planning of prison infrastructure requirements needs to improve.

While the Department obtains input from those responsible for criminal justice policy, it needs to more accurately estimate the impact of future policy changes, when developing inmate population forecasts.

The April 2014 NSW Bureau of Crime Statistics and Research (BOCSAR) brief 'Why is the NSW prison population growing?' observed the NSW prison population increase over the past decade has occurred against the backdrop of an aging population and dramatic falls in the incidence of most major categories of crime. This implies that, as well as being impacted by external factors, imprisonment rates are affected by conditions within the criminal justice system, such as policing and policy decisions on bail and sentencing.

This is consistent with the findings of the March 2015 BOCSAR brief 'Have New South Wales criminal courts become more lenient in the past 20 years', which noted a marked increase in the proportion of defendants refused bail and the severity of sentencing between 1994 and 2013. The brief was based on finalised criminal cases from the NSW Higher Courts and Local Courts during this period.

BOCSAR's April 2015 brief 'The 2015 NSW prison population forecast' points out that many factors affect the size of the prison population, including levels of crime, the number of arrests, the proportion refused bail, the proportion given a prison sentence, and the average length of prison sentences. While most, if not all of these factors are hard to predict, many are influenced strongly by decisions within the criminal justice system.

The April 2014 BOCSAR report identified two practical implications from this:

- the management of demand for correctional resources requires close liaison between the Force and those responsible for criminal justice policy and correctional administration
- forecasting models need to be supplemented with tools that allow administrators to explore the potential impact of policies likely to affect the demand for prison accommodation.

In addition to taking into account external factors (such as population growth, social trends), prison population forecasts should therefore identify and take into account likely future changes within the criminal justice system. Formal structured processes should be in place to ensure this occurs.

The accuracy of forecasts should be reviewed, analysed and compared with actual population numbers. The underlying assumptions and methodology should be regularly tested and reassessed using learnings from the analysis.

The Department advises that BOCSAR is working on a modelling tool that will enable this to occur. The model's underlying assumptions and methodology should be regularly tested and reassessed. The Department also advises that a prison population forecast accurately took into account changes to bail laws which came into effect in January 2015.

The Department has strategies to manage fluctuations in inmate numbers

The Department advises fluctuations in the adult inmate population are not uncommon and Corrective Services is able to adopt both short and longer term strategies and actions to address them, including:

- reconfiguring the Kariiong Juvenile Correctional Centre to house up to 50 minimum security adult inmates (now complete)
- doubling up of inmates within existing cells, if necessary
- constructing 160 modular cells, which meet all applicable standards
- recommissioning previously mothballed facilities. The Metropolitan Special Programs Centre Area 1 and Kirkconnell Correctional Centres have been recommissioned
- the commissioning of a new 600 bed prison in Grafton in June 2015, together with an expansion of Parklea Correctional Centre to accommodate 400 more inmates. These are expected to be operational by 2019.

The doubling up of inmates in cells would be constrained by the NSW Public Health Regulation 2012 (the Regulation), which stipulates space requirements for shared accommodation, if not for a specific exemption from the Minister for Health. Corrective Services NSW has been given an exemption from compliance with the Regulation until 1 March 2016, while remediation initiatives required by NSW Health are implemented and the suitability of the current Regulation is reviewed.

The rate of adult re-offending in New South Wales increased in 2013

According to the Department, the New South Wales rate of prisoner reconviction within one year increased by 1.7 per cent in the year ended 31 December 2013 compared to the previous year, but remained 1.9 per cent below the 2009 rate.

The table below shows the level of re-offending by adult inmates in New South Wales who exited prison and were convicted for a new proven offence within one year of release.

Year ended 31 December	2013	2012	2011	2010	2009
Percentage of reconviction	35.9	34.2	34.5	34.7	37.8

Note: Results for re-offending are reported in calendar years and are not available for 18 months. The most recent reporting period is the calendar year 31 December 2013.

Source: Department (unaudited).

The Department advises that the percentage of reconviction measure is susceptible to justice processes, for example tougher sentencing by the courts, and not just re-offending.

The rate of return to prisons and Corrective Services increased in 2013-14

According to the Productivity Commission, in 2013-14, 45.8 per cent of released prisoners had returned to prison within two years, while 50.3 per cent had returned to Corrective Services. This exceeded the national average of 42.1 and 48.2 per cent respectively. This increasing trend is contrary to the Department's state priority of reducing adult re-offending by five per cent by 2019.

Year ended 30 June	2014		2013		2012		2011	
Per cent of individuals returning to:	National %	NSW %	National %	NSW %	National %	NSW %	National ** %	NSW %
Prison	42.1	45.8	40.3	42.7	39.3	42.5	39.7	43.1
Corrective Services NSW*	48.2	50.3	46.4	47.9	46.1	46.9	45.6	46.2

* Includes prison sentence or a community corrections order.

** Australian Capital Territory not provided.

Source: Productivity Commission's Report on Government Services 2015 (unaudited).

As above, the Department advises that the return to prison measure is susceptible to justice processes, for example tougher sentencing by the courts, and not just re-offending.

The proportion of prisoners on remand for more than 30 days continues to increase

The number of remand receptions increased by 11.6 per cent since 2010-11. The proportion of prisoners on remand for 30 days or more increased to 53 per cent in 2014-15 (49.6 per cent in 2013-14), a 5.2 per cent increase since 2010-11.

Year ended 30 June	2015	2014	2013	2012	2011
Annual remand receptions					
Remand receptions	12,136	12,488	11,994	11,655	10,876
On remand 30 days or more	6,428	6,188	6,177	5,133	5,200
Percentage on remand 30 days or more	53.0	49.6	51.5	44.0	47.8

Source: Department (unaudited).

Remanded inmates that are subsequently convicted lose opportunities to participate in rehabilitation programs, especially when sentences are backdated. Most intensive custodial programs target only sentenced inmates, which negatively impacts efforts to reduce rates of re-offending.

In 2013-14, the direct cost for a remand inmate was \$194 (\$203 in 2012-13) per day compared to \$182 (\$189) for all inmates across all prisons. Remand inmates are resource intensive because they require screening, significant monitoring, escorts and security surrounding visits.

The Department advises the remand population is a factor of the rate at which remand inmates are received into custody following police and court activity and the time spent on remand, which is impacted by court delays. The Department also advises that it is implementing a remand addiction program to be made available to inmates on remand in 2015-16.

Oversight of the State's publicly managed correctional centres can improve

Recommendations (repeat issue)

The State's publicly managed correctional centres should be subject to the same oversight, performance management and reporting as privately managed centres.

The Department should use the results of the contestability and benchmarking project to identify efficiencies and reassess performance measures used to oversight public and private prisons.

Last year's Auditor-General's Report to Parliament reported that the Department subjects private operators' performance to continuous appraisal, which incorporates monitoring and reporting against operating specifications in the contract, and linking fees to performance. The Report recommended publicly managed correctional centres be subject to similar oversight, performance management and reporting as that applied to privately managed centres.

The Department has not fully implemented the recommendation. It advises that:

- a contestability and benchmarking project has begun to establish benchmarks for the operation of all its correctional facilities based on standards and high level performance expectations
- a quarterly performance report is prepared which contains indicators for public and privately operated correctional centres across a range of operational, governance and administrative areas
- the NSW Government expects Corrective Services NSW to improve service standards against high level performance indicators and achieve better value for money.

Further comment on the performance framework for custodial centre operations will be made in the following performance audit report.

Performance audit report to be released

The Auditor-General expects to release a performance audit report on the performance frameworks for custodial centre operations in December 2015/January 2016.

This audit report will examine and assess the performance framework for custodial centre operations against the following criteria:

- are key performance requirements (such as indicators and standards) specified and targets set?
- are performance requirements monitored and met?
- are actions taken to respond to variations in performance?

Other Department Divisions

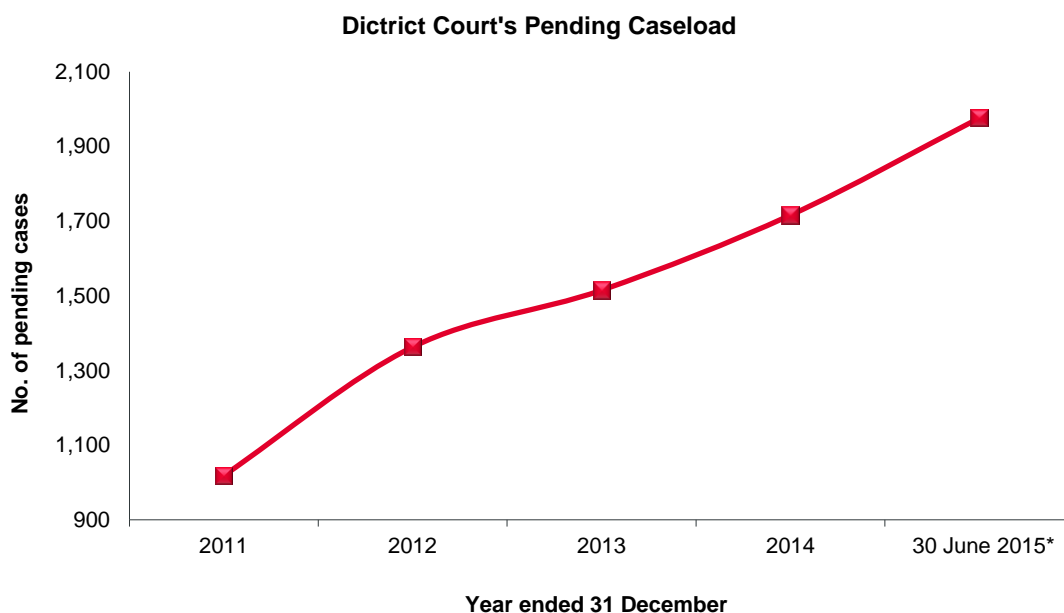
Inmates awaiting trial cost an estimated \$60.0 million per year

The backlog of cases in the NSW District Court has continued to grow every year since 2011, doubling to 1,976 in June 2015.

In June 2015, the District court estimated it had approximately 850 people on remand and awaiting trial. Based on a daily direct cost of \$194 per person, this is estimated to be costing the State \$164,900 per day or \$60.0 million per year and contributing to prison overcrowding.

According to the Department, the delays have unintended consequences such as unnecessary hardship for victims and the accused, undermining confidence in the justice system, increasing case costs and the risk of witnesses forgetting evidence or not being contactable.

The graph below shows the number of cases on hand in the District court over the last five years. Referred to as pending cases, this is the difference between registered trials and finalised trial cases each year.



*For the six months ended

The Department advises the number of cases older than 12 months has risen by 177.4 per cent from 133 to 369 cases, and the number older than 24 months has more than quadrupled from 14 to 61 cases, over the last seven years.

The Department has identified the following factors that have contributed to the increase:

- a rise in charges for strictly indictable offences such as aggravated assault, drug offences and burglary break and enter
- an increase in the average duration of trials because they are more complex, e.g. the number of new sexual assault cases has risen by 34 per cent from 356 cases in 2011-12 to 477 cases in 2014-15
- growth in the number and proportion of cases that proceed to trial.

The Department advises it is working with the Chief Judge of the District Court and his working group of senior officers of prosecution and defence agencies to develop measures to address the issues causing the current backlog.

As an immediate response, the Court has scheduled more than 70 sitting-weeks of additional trials up to June 2016, and special call-overs in Wagga Wagga and Newcastle, where the backlogs are particularly acute. These measures are occurring in conjunction with pre-trial conferences being held by the Office of Director of Public Prosecutions and the NSW Legal Aid Commission, to determine readiness for trial.

The Department, the Court and the working party are also evaluating other systemic remedies to enable the justice system to manage the changing profile and work levels of the District Court on a more permanent basis.

Reassessment of victims' claims will cost an estimated \$124 million over three years

On 2 August 2015, the NSW Attorney General announced that victims of crime, who were transitioning between the Victims Compensation Scheme (VCS) and the new Victims Support Scheme (VSS), could have their claims reassessed from 1 September 2015. The Department estimates the reassessment will result in additional payments to victims of \$124 million over three years.

The VSS replaced the VCS from 3 June 2013. The focus of the VSS is to provide a package of practical and financial support, instead of lump sum compensation payments to victims. The VSS generally involves lower lump sum payments than the former VCS. Applicants must apply before 31 August 2016 to have their claim reassessed.

The Victims' Rights and Support Amendment (Transitional Claims) Regulation 2015 commenced from 1 September 2015. The Regulation amends the Victims' Rights and Support Regulation 2013 to enable reassessment of certain claims for statutory compensation and payment from the Victims Support Fund.

Cost and time taken to determine victims' claims has fallen significantly

In 2014-15, on average a VSS claim cost \$2,176 excluding counselling, and took 89 working days to determine. Previously, a VCS claim cost \$10,434 on average and took 32 months to determine. Both measures are significantly lower under the new VSS.

The Department advises that 21,551 victims of crime applied for various types of VSS support in the period 3 June 2013 to 30 June 2015. The following applications were made, determined or approved in this period:

- 13,425 for recognition payments (7,033 unique claims determined)
- 6,985 for financial assistance (2,832 unique claims determined)
- 16,029 for counselling (15,740 approved).

The Department advises that more performance information will be available after the new VSS Reporting and Quality Assurance Framework is implemented in 2015-16. This is discussed further in the chapter on Governance.

The NSW Police Force

Allocation of NSW Police Officers

Fewer full-time equivalent (FTE) NSW Police Officers than authorised positions

The Force's authorised strength increased by 1.3 per cent in 2014-15 to 16,565 (16,356 in 2013-14). It is operating at 98.5 per cent of its authorised strength, which is similar to the previous year.

	Authorised FTE Strength	Actual FTE	Difference between authorised and actual FTE
NSW Police Officers at 30 June 2015	16,565	16,313	(252)

FTE: Full-time Equivalent.

Source: NSW Police Force (unaudited).

The NSW Police Force ('The Force') monitors police numbers, which fluctuate by several hundred throughout the year due to natural attrition, attestations from the NSW Police Academy, separations, transfers and promotions.

The table below compares authorised and actual FTE NSW Police Officers across the operational areas of the Force. The largest deficits are in the Central Metropolitan and Northern regions.

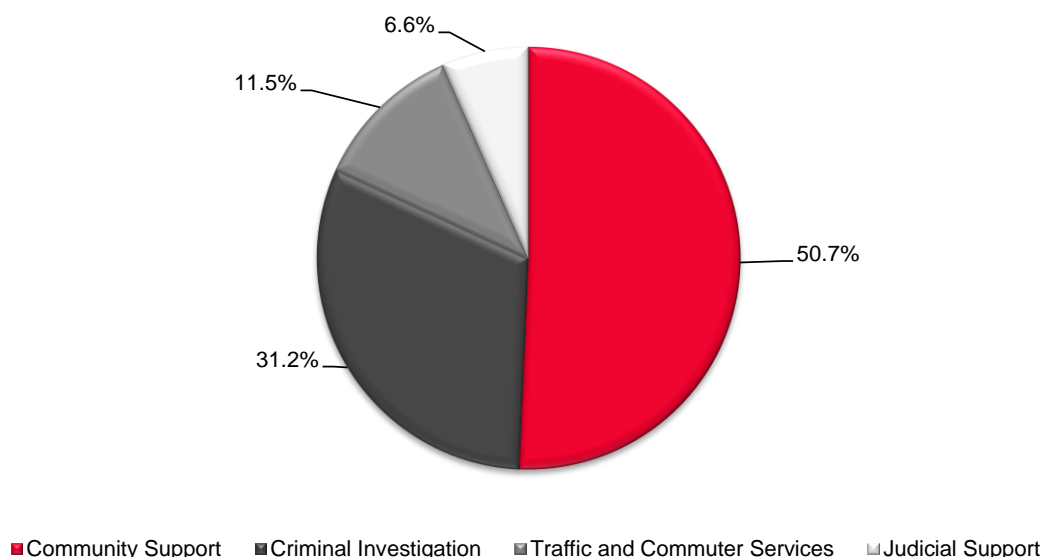
Region/Branch	Authorised FTE Strength	Actual FTE	Difference between authorised and actual FTE
Central Metropolitan	2,339	2,204	(135)
North West Metropolitan	2,132	2,018	(114)
Northern	2,001	1,973	(28)
South West Metropolitan	2,108	2,003	(105)
Southern	1,419	1,414	(5)
Western	1,133	1,117	(16)
Police Transport Command	610	585	(25)
Traffic and Highway Patrol Command	1,345	1,274	(71)
Corporate Services	461	545	84
Specialist Operations	1,727	1,735	8
Other	1,290	1,445	155
NSW Police Officers at 30 June 2015	16,565	16,313	(252)

FTE: Full-time equivalent

Source: NSW Police Force (unaudited).

Most police rostered hours were deployed in providing community support and criminal investigations. Community support services include responding to incidents, emergencies and public events, and reducing incentives and opportunities to commit crime.

Allocation of Police Officers Hours by Service Type



Source: NSW Police Force (unaudited).

NSW crime investigation clearance rates have improved overall

Clearance rates of New South Wales crime investigations for homicide and other theft improved in 2014-15 compared to other States, but New South Wales remains below the national average for all other crime categories.

Police effectiveness in crime investigations is measured by the proportion of investigations finalised within 30 days of the offence becoming known. Analysis of the Force's performance in crime investigations is shown below.

Crime	% of investigations finalised in 30 days				% of investigations finalised in 30 days involving proceedings against offenders			
	NSW	National average	NSW ranking	NSW ranking	NSW	National average	NSW ranking	NSW ranking
Year ended 31 December	2014	2014	2014	2013	2014	2014	2014	2013
Homicide	76.6	73.9	4/7	7/7	97.6	94.5	4/7	1/8
Robbery	32.8	37.7	7/8	7/8	76.5	83.3	8/8	6/8
Unlawful entry with intent	6.7	11.0	7/8	7/8	79.7	84.1	7/8	8/8
Motor vehicle theft	6.4	17.1	7/8	7/8	74.2	74.1	4/8	5/8
Other theft	82.2	36.1	1/8	6/8	16.2	37.5	8/8	5/8

Source: Australian Bureau of Statistics (unaudited).

Crime rejection rates fell for most crime categories

The Force records the status of incidents as either accepted or rejected. An incident is rejected when there is evidence it did not occur. These incidents divert the Force's resources from addressing genuine crimes.

Rejected incidents for stolen vehicles were mostly due to owners forgetting where their cars were parked or not realising a relative had the car. Most rejected incidents for robbery and stealing from persons resulted from improbable or false reports of stolen money, usually where victims attempted to recover ill-spent losses, such as gambling.

The table below shows crime categories where rejection rates are equal to or greater than five per cent for the year.

Year ended 30 June	2015			2014		
Crime Categories	Crimes rejected	Total crimes reported	Percentage rejected %	Crimes rejected	Total crimes reported	Percentage rejected %
Robbery	285	3,496	8.2	346	4,148	8.3
Stolen vehicle	1,209	17,199	7.0	1,238	17,228	7.2
Steal from person	442	6,553	6.7	564	7,340	7.7
Assault – non domestic violence	1,681	33,394	5.0	1,627	35,077	4.6
Sexual Assault	254	5,071	5.0	240	5,183	4.6

Source: NSW Police Force (unaudited).

The Force advises its local area commands actively monitor rejection rates for most categories of crime. Its Performance Improvement and Planning Command regularly reviews rejection rates when they exceed five per cent across the local area commands.

Urgent response call times lower than benchmark

In 2014-15, 77.9 per cent of urgent response calls were attended within the target timeframe of 12 minutes. This was lower than the Force's benchmark of 80 per cent, but generally consistent with other years.

Urgent response calls are those indicating there is an imminent threat to life or property. They can include Triple Zero (000) calls, calls to police stations or radio calls from police in the field. The Force received 116,916 urgent response calls in 2014-15 (116,685 in 2013-14).

Year ended 30 June	2015	2014	2013	2012	2011
Urgent response calls					
Number of urgent response calls	116,916	116,685	120,783	119,254	113,749
Target time (min)	12	12	12	12	12
Calls attended to within target time (%)	77.9	80.0	78.1	78.0	80.0

Source: NSW Police Force (unaudited).

NSW Police Force Corporate Plan 2012-2016

The Force continues to monitor its key target measures and indicators of success in its four year Corporate Plan. Progress against some of the Force's key measures is reported below.

The rate of repeat domestic violence assaults is increasing. The rate of repeat domestic violence assaults remains unfavourable compared to target by 1.9 percentage points for the year ended 30 June 2015. The continuing unfavourable result may be partly due to greater public awareness and reporting of incidents, or it may reflect a real increase in domestic assaults.

Year ended 30 June	Target % 2016*	Actual % 2015	Actual % 2014	Actual % 2013
Repeat domestic violence assault victims	≤ 13.6	15.5	15.3	15.2
Legal actions for domestic violence assaults	≥ 60.0	63.0	61.4	60.6

* Targets sourced from NSW Police Force Corporate Plan 2012-2016 (unaudited).

Source: NSW Police Force (unaudited).

The Force continued its strategy to help victims break the cycle of domestic violence. The NSW Government campaign 'It Stops Here', launched in 2013-14, continues to improve access for victims to support services by opening additional local coordination points which facilitate local responses and provide victims with support.

Non-domestic alcohol-related assaults have decreased

Incidents of non-domestic alcohol-related assaults have decreased by over 22.4 per cent since 2012-13 and are well within target.

Year ended 30 June	Target 2016*	Actual 2015	Actual 2014	Actual 2013
Incidents of assault – alcohol and non-domestic violence (per 100,000 population)	≤ 220.8	147.9	172.1	190.7

* Targets sourced from NSW Police Force Corporate Plan 2012-2016 (unaudited).

Source: NSW Police Force (unaudited).

A high proportion of police work involves alcohol-related incidents. The impact of alcohol misuse on assaults including domestic violence, street offences and property offences are a major concern for the Force. Alcohol misuse leads to serious injuries and deaths through assaults, drink driving and road accidents. The Force is working in partnership with the community, other government departments, non-government agencies and industry to promote a safer community, minimising alcohol-related crime and associated harm.

The Force works closely with the hospitality industry to develop strategies to reduce alcohol-related incidents and associated harm. The strategies include the promotion of responsible serving practices, restriction of extended trading and prevention of sales to underage people.

Personal and property crimes continue to decrease

Personal and property crime has decreased by over 13 per cent since 2013, and results are well within target. These incidents include robbery, assault, break and enter, stolen motor vehicles, and malicious property damage.

The Force aims to prevent and reduce personal and property crime by targeting identified crime trends and hotspots and working with communities to increase vigilance and improve responses to graffiti.

Road fatalities were the lowest in three years

The Force met its road fatality target of ≤ 4.3 per 100,000 population in 2014-15. The Force advises it will continue working collaboratively with partner agencies to enable the free flow of traffic and promote road safety through education, innovation and targeted enforcement, to further reduce road fatalities.

Year ended 30 June	Target 2016*	Actual 2015	Actual 2014	Actual 2013
Road fatalities (per 100,000 population)	≤ 4.3	3.7	4.4	4.3

* Targets sourced from NSW Police Force Corporate Plan 2012-2016 (unaudited).

Source: NSW Police Force (unaudited).

Emergency management and counter terrorism preparedness

During 2014-15, the Force continued its active involvement in testing emergency plans across the State. This recently included testing land search and rescue procedures in a multi-agency setting and testing a multi-agency response to a CBD building collapse.

Less hours lost to workplace injury leave

The Force has experienced a fall in average workplace injury leave hours lost per officer since 2013. The reduction is mainly due to changes in workforce injury management practices, following implementation of the new Police death and disability scheme. The Force advises the increase in the average cost of workplace injury claims is due to increases in common law damages for workers' compensation claims.

Year ended 30 June	Target 2016*	Actual 2015	Actual 2014	Actual 2013
Average workplace injury leave hours lost per officer (hours)	≤ 83	45	44	54
Average cost of workplace injury claims (\$)	$\leq 13,000$	25,004	22,415	20,317

* Targets sourced from NSW Police Force Corporate Plan 2012-2016 (unaudited).

Source: NSW Police Force (unaudited).

Refer to the Financial Performance and Reporting section for an update on the Force's Workforce Improvement Plan.

Workforce diversity remains below half the target

The Force has a target of 20 per cent of its staff coming from culturally, linguistically and religiously diverse backgrounds. In 2014-15 it achieved at 8.7 per cent, less than half its target.

Year ended 30 June	Target % 2016*	Actual % 2015	Actual % 2014	Actual % 2013
Staff from culturally, linguistically and religiously diverse backgrounds	≥ 20.0	8.7	8.4	8.3

* Targets sourced from NSW Police Force Corporate Plan 2012-2016 (unaudited). The Force advises that the actual percentage is likely to be underestimated as information is provided by staff on a voluntary basis.

Source: NSW Police Force (unaudited).

To help it achieve the target, a draft Cultural and Linguistically Diverse Workforce Strategic Plan is being finalised, in consultation with the Force's Corporate Sponsor for Cultural Diversity. This will provide specific strategies to improve recruitment, retention and development opportunities for culturally and linguistically diverse employees.

Local Area Command (LAC) Amalgamations

The Force is reviewing plans to merge LACs

On 10 November 2013, the last two planned LAC amalgamations were completed, reducing the total number of LACs to 76.

A plan to merge a further 12 LACs into six is being reviewed. The Force advises the benefits of the recent amalgamations, include:

- an increase of 38 front-line officers
- resources assessed as more effectively deployed within the amalgamated LACs
- improved service provision, although community satisfaction levels with the impact of the amalgamations were unable to be conclusively measured.

NSW Trustee and Guardian

The 'NSW Trustee and Guardian Common Fund – Financial Management' (the Financial Management Fund) holds the funds of clients whose financial affairs are directly managed by the NSW Trustee and Guardian, or a private manager. The Financial Management Fund comprises an Access Fund, which is an interest bearing working account for client transactions, and seven diversified investment funds. Custodial and investment management services are provided by the private sector.

The managed funds achieved close to benchmark financial returns

NSW Trustee and Guardian invests client funds across a range of funds to spread risk and provide the opportunity for suitable short or long term investment and security. A fund performance report is provided for each investment class. The funds with exposure to domestic listed property securities and international equities performed especially strongly in 2014-15 and over the past five years compared to cash and fixed interest funds. In 2014-15, one year client returns for six of the ten portfolios were either equal to or marginally better than benchmark. The remaining four achieved marginally lower returns.

	One Year Client returns %	One Year Benchmark return %	One Year Difference return %	Five Year Client returns %	Five Year Benchmark return %	Five Year Difference return %
Year ended 30 June	2015	2015	2015	2015	2015	2015
Financial management portfolios						
Access Fund	2.2	2.1	0.1	3.3	3.2	0.1
Australian Cash	2.1	2.1	--	3.3	3.2	0.1
Australian Cash Plus	2.3	2.1	0.2	4.0	3.9	0.1
Australian Fixed Interest	4.9	5.1	(0.2)	5.8	6.0	(0.2)
Australian Shares	5.0	5.1	(0.1)	9.0	9.1	(0.1)
Australian Listed Property Securities	19.5	19.7	(0.2)	13.7	13.8	(0.1)
International Bond	4.9	5.1	(0.2)	6.4	6.6	(0.2)
International Share	14.8	14.3	0.5	13.5	13.2	0.3
Trustee Portfolios						
Primary Portfolio	2.0	1.8	0.2	2.3	2.1	0.2
Growth Portfolio	10.6	10.6	--	N/A	N/A	N/A

N/A Not applicable as the Growth Portfolio has operating for less than five years.

Note: Standard industry benchmarks for the relevant asset class are used for each fund. Benchmark and client returns are net of the NSW Trustee and Guardian's investment management fee of 0.5 per cent.

Source: NSW Trustee and Guardian Annual Reports (unaudited).

The 'NSW Trustee and Guardian Common Fund – Trustee' (the Trustee Fund) operates two portfolios of investments for client funds received by the NSW Trustee and Guardian as executor, trustee or attorney. The primary portfolio invests in high quality cash deposits and short term money market securities, while the growth portfolio aims for 70 per cent investment in the Indexed Australian Shares Sector Trust, and 30 per cent in the Indexed International Shares Sector Trust. The growth portfolio is managed by New South Wales Treasury Corporation.

The NSW Trustee and Guardian maintains separate funds for Financial Management and Trustee clients because they are subject to different taxation requirements.

The NSW Trustee and Guardian only uses and reports a limited number of indicators

Recommendation (repeat issue)

The NSW Trustee and Guardian should identify meaningful performance indicators to measure the cost and quality of the services provided to the community.

This recommendation was made in last year's Auditor-General's Report to Parliament. NSW Trustee and Guardian has not actioned the recommendation, but advises that a new client information management system will be implemented from 2015 to 2017, which will enable identification and reporting against new indicators and targets.

The NSW Trustee and Guardian only uses and reports a limited number of indicators, which measure its activities rather than its performance. It advises that benchmarking against similar entities in other states is not possible as each state has different ways of charging clients and operates under different legislation, service standards and types. While this may be the case, the NSW Trustee and Guardian should identify meaningful and measurable performance indicators and targets for the cost and quality of services provided to the community. These should include measures such as the cost per trust managed, the time taken to identify and secure client assets, and customer satisfaction and complaints.

Meaningful performance indicators and targets are important to drive efficiencies and effectiveness in an organisation's operations, and enable management and those charged with governance to be held to account.

Client complaints significantly decreased

The following table shows that the Customer Satisfaction Index for NSW Trustee and Guardian clients has been fairly stable over the last five years, while the number of client complaints has fallen by 39 per cent.

Year ended 30 June	2015	2014	2013	2012	2011
Customer satisfaction index - Trustee Services	95	96	94	95	94
Customer satisfaction index - Financial Management	65	63	62	60	66
Complaints received – number	230	296	349	386	377

Source: NSW Trustee and Guardian (unaudited).

Over half the complaints related to delays in responses, decisions and the provision of information, and over 65 per cent were in the Financial Management area.

The Trustee and Guardian advises the difference in satisfaction ratings between Trustee Services and Financial Management clients is mainly due to the latter being required, by an order of a court or tribunal, to use the Trustee and Guardian, whereas Trustee Services clients voluntarily choose the Trustee and Guardian.

Trustee Services Performance

The value of net assets managed on behalf of Trustee Services clients increased

The overall increase in net assets of 4.5 per cent is partly due to positive investment returns.

The value of common fund investments increased by 3.9 per cent, while real property decreased by 1.3 per cent in 2014-15.

There were 9,512 Trustee Services clients at 30 June 2015 (9,943 at 30 June 2014), a decrease of 4.3 per cent from the prior year.

Year ended 30 June	2015 \$'000	2014 \$'000
Common Fund investments	1,183,894	1,139,953
Real property	341,522	345,961
Other assets	333,016	291,995*
Total net assets directly managed	1,858,432	1,777,909

* Includes \$149 million (\$138 million in 2013-14) of Trustee client investments held in the Financial Management Common Fund.
Source: NSW Trustee and Guardian (unaudited).

The NSW Trustee and Guardian provides trustee services for people, government and organisations wishing to employ an executor, trustee, agent or attorney.

Financial Management Performance

The value of net assets managed on behalf of Financial Management clients increased

The overall increase in net assets reflects common fund investment returns, and the increase in the number of protected persons.

The values of common fund investments increased by 5.2 per cent, and real property by 11.5 in 2014-15.

There were 14,770 (14,368) protected persons at 30 June 2015, an increase of 2.8 per cent compared to the previous year. The number of directly managed clients increased by 2.1 per cent (2.9 per cent) and the number of privately managed clients increased by 4.8 per cent (4.5 per cent).

Year ended 30 June	2015 \$'000	2014 \$'000
Common Fund investments	1,518,936	1,444,415*
Real property	1,110,609	996,347
Other assets	479,173	555,512
Total net assets directly managed	3,108,718	2,996,274

* Includes \$149 million (\$138 million in 2013-14) of Trustee client investments.
Source: NSW Trustee and Guardian (unaudited).

NSW Trustee and Guardian provides financial management services to people with impaired decision-making abilities, who are unable to manage their own affairs. The *NSW Trustee and Guardian Act 2009* prescribes how the funds must be managed. All moneys must be kept in a trust fund (Common Fund) and invested.

NSW Trustee and Guardian can manage the financial affairs of protected persons or authorise and direct the activities of private managers. Private financial managers can be appointed by the Supreme Court or Guardianship Tribunal. Financial management individuals whose affairs are managed by the NSW Trustee and Guardian are officially 'protected persons' but are referred to as clients in this report.

Part One

Section Two

Appendices



Appendix One – Recommendations

The table below summarises the recommendations from the Auditor-General's Volume Seven Report to Parliament covering law and order agencies in the Justice cluster for the year ended 30 June 2015.

Financial and performance reporting

Asset revaluations

Revaluations should be performed early enough so the process is completed before the early close deadline. Agencies should quality review the revaluation results before including them in financial statements and early close work papers.

Cost per juvenile detainee

The Department should assess whether the increasing cost of supervising and caring for juvenile detainees is reasonable given the sustained fall in numbers.

Financial controls

Internal control issues

Management letter recommendations should be actioned promptly and repeat recommendations avoided.

Disaster recovery plan

The Crown Solicitor's Office should have a documented Disaster Recovery Plan to restore financial systems in the event of a disaster.

SAP Segregation of duties

Agencies should:

- design and configure SAP user access to achieve appropriate segregation of duties, and
- be proactive and timely in reviewing and resolving segregation of duties violations.

Annual leave balances

Law and order agencies need to reduce increasing employee excess annual leave balances to meet whole-of-government targets.

Sick leave balances

Law and order agencies should strengthen efforts to effectively manage sick leave.

Asset management

The Department should continue to improve the accuracy of its fixed asset register and ensure assets are safeguarded and properly recorded.

Governance

Governance arrangements

The Department's governance arrangements should be finalised and implemented. The Department should continue to benchmark its arrangements against the Audit Office's Governance Lighthouse Checklist and other relevant better practice guides.

Integration of policies, operations and systems

The Department should continue to integrate policies, operations and systems across the Department's divisions and offices, and where appropriate, to other agencies in the cluster.

Gifts and benefits register

The Department should:

- establish a centralised gifts and benefits register as required by the Public Service Commissioner's standards
- designate a senior manager to regularly review the register, to ensure compliance with policies and procedures
- consider publishing the register on the Department's website

Victims Support Scheme Framework

The Department should fully implement the Victims Support Scheme Reporting and Quality Assurance Framework.

Risk management assessment and treatment

The Department should consider preparing an overarching risk assessment and treatment plan covering all law and order agencies.

Fraud and corruption incidents

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.

Lifelink system implementation

Agencies should consider lessons learned from the LifeLink System post implementation review in future projects.

Crown Entity's Confiscated Proceeds Account

The Minister for Justice and Police should engage with the Treasurer to determine how funds in the Crown Entity's Confiscated Proceeds Account should be used.

Service delivery

Growth in adult inmate numbers

Forward planning of prison infrastructure requirements needs to improve.

Oversight of publicly managed correctional centres

The State's publicly managed correctional centres should be subject to the same oversight, performance management and reporting as privately managed centres.

The Department should use the results of the contestability and benchmarking project to identify efficiencies and reassess performance measures used to oversight public and private prisons.

NSW Trustee and Guardian performance indicators

The NSW Trustee and Guardian should identify meaningful performance indicators to measure the cost and quality of the services provided to the community.

Appendix Two – 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
Principal department										
Department of Justice	4,506	4,206	596	642	5,874	5,677	5,760	5,680	114	(3)
Other agencies										
Legal Aid Commission of NSW	106	106	82	74	254	248	258	244	(4)	4
Office of the Director of Public Prosecutions	18	24	19	19	115	117	119	115	(4)	2
Judicial Commission of NSW	2	2	1	1	6	6	6	6	--	--
Legal Profession Admission Board	6	5	2	2	3	2	2	2	1	--
Crown Solicitor's Office	49	49	35	34	49	19	47	18	2	1
Information and Privacy Commission NSW	3	3	1	1	6	5	5	5	1	--
NSW Trustee and Guardian	144	137	112	99	89	88	95	84	(6)	4
NSW Crime Commission	10	10	2	3	24	26	24	23	--	3
NSW Police Force	1,881	1,899	751	726	3,429	3,410	3,494	3,441	(65)	(31)

Source: Financial statements (audited).

Appendix Three – Performance Against Budget

	Department of Justice		Legal Aid Commission of NSW (Consolidated)		Office of the Director of Public Prosecutions		Judicial Commission of NSW	
	2015 Actual	2015 Budget	2015 Actual	2015 Budget	2015 Actual	2015 Budget	2015 Actual	2015 Budget
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Abridged statement of comprehensive income - Year ended 30 June								
Employee expenses	● 1,408	1,360	● 103	103	● 93	96	● 4	4
All other expenses and losses	● 4,352	4,442	● 155	168	● 26	22	● 2	2
Total expenses	● 5,760	5,802	● 258	271	● 119	118	● 6	6
Government contributions	● 5,536	5,668	● 244	260	● 114	116	● 5	5
Other revenue	● 338	314	● 10	8	● 1	--	● 1	1
Total revenue	● 5,874	5,982	● 254	268	● 115	116	● 6	6
Net result	● 114	180	● (4)	(3)	● (4)	(2)	--	--
Total other comprehensive income/(expense)*	● 234	--	● (4)	--	● --	--	--	--
Total comprehensive income/(expense)	● 348	180	● (8)	(3)	● (4)	(2)	--	--
Abridged Statement of financial position - at 30 June								
Current assets	● 218	176	● 90	86	● 5	9	● 2	2
Non-current assets	● 4,288	4,088	● 16	14	● 13	10	--	--
Total assets	● 4,506	4,264	● 106	100	● 18	19	● 2	2
Current liabilities	● 387	280	● 76	67	● 16	15	● 1	1
Non-current liabilities	● 209	237	● 6	4	● 3	3	--	--
Total liabilities	● 596	517	● 82	71	● 19	18	● 1	1
Net assets	● 3,910	3,747	● 24	29	● (1)	1	● 1	1
Abridged statement of cash flows - Year ended 30 June								
Purchases of Property, Plant and Equipment	● 225	251	● 4	4	● 1	1	--	--

Source: Financial statements (audited)

	Legal Profession Admission Board		Crown Solicitor's Office		Information and Privacy Commission NSW		NSW Trustee and Guardian	
	2015 Actual	2015 Budget**	2015 Actual	2015 Budget	2015 Actual	2015 Budget	2015 Actual	2015 Budget
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Abridged statement of comprehensive income - Year ended 30 June								
Employee expenses	1	N/A	36	39	4	4	70	65
All other expenses and losses	1	N/A	11	37	1	2	25	25
Total expenses	2	N/A	47	76	5	6	95	90
Government contributions	--	N/A	--	0	6	6	15	13
Other revenue	3	N/A	49	78	--	--	74	75
Total revenue	3	N/A	49	78	6	6	89	88
Net result	1	N/A	2	2	1	--	(6)	(2)
Total other comprehensive income/(expense)*	--	N/A	(1)	--	--	--	2	--
Total comprehensive income/(expense)	1	N/A	1	2	1	--	(4)	(2)
Abridged statement of financial position - at 30 June								
Current assets	3	N/A	43	37	2	2	59	40
Non-current assets	3	N/A	6	11	1	1	85	92
Total assets	6	N/A	49	48	3	3	144	132
Current liabilities	1	N/A	15	14	1	1	32	31
Non-current liabilities	1	N/A	20	7	--	--	80	52
Total liabilities	2	N/A	35	21	1	1	112	83
Net assets	4	N/A	14	27	2	2	32	49
Abridged statement of cash flows - Year ended 30 June								
Purchases of Property, Plant and Equipment	--	--	--	6	--	--	5	8

Source: Financial statements (audited)

	NSW Crime Commission (Consolidated)		NSW Police Force		Total Law and Order Cluster**	
	2015 Actual	2015 Budget	2015 Actual	2015 Budget	2015 Actual	2015 Budget
	\$m	\$m	\$m	\$m	\$m	\$m
Abridged statement of comprehensive income - Year Ended 30 June						
Employee expenses	● 17	17	● 2,858	2,645	● 4,594	4,333
All other expenses and losses	● 7	7	● 636	774	● 5,216	5,479
Total expenses	● 24	24	● 3,494	3,419	● 9,810	9,812
Government contributions	● 24	24	● 3,352	3,342	● 9,296	9,434
Other revenue	--	--	● 77	69	● 553	545
Total revenue	● 24	24	● 3,429	3,411	● 9,849	9,979
Net result	--	--	● (65)	(8)	● 39	167
Total other comprehensive income/(expense)*	--	--	22	-	253	--
Total comprehensive income/(expense)	--	--	● (43)	(8)	● 292	167
Abridged statement of financial position - at 30 June						
Current assets	● 3	3	● 178	149	● 603	504
Non-current assets	● 7	7	● 1,703	1,708	● 6,122	5,931
Total assets	● 10	10	● 1,881	1,857	● 6,725	6,435
Current liabilities	● 2	3	● 555	495	● 1,086	907
Non-current liabilities	● --	--	● 196	216	● 515	519
Total liabilities	● 2	3	● 751	711	● 1,601	1,426
Net assets	● 8	7	● 1,130	1,146	● 5,124	5,009
Abridged statement of cash flows - Year ended 30 June						
Purchases of Property, Plant and Equipment	● 2	2	● 142	178	● 379	450




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

** Crown Solicitor's Office was created on 24 February 2014 as a result of the Government Sector Employment Act 2013 and the Administrative Arrangements Order 2014.

Note: The original 2013-14 budget remained in the Department of Justice.

Source: Financial statements (audited).

Actual v Budget Indicator

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

Appendix Four – 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 / adjusted 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 in 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 Five – Cluster Information

Agency	Website
Principal department	
Department of Justice	http://www.justice.nsw.gov.au/
Other agencies	
Legal Aid Commission of NSW	http://www.legalaid.nsw.gov.au/
Office of the Director of Public Prosecutions	http://www.odpp.nsw.gov.au/
Judicial Commission of NSW	http://www.judcom.nsw.gov.au/
Legal Profession Admission Board	http://www.lpab.justice.nsw.gov.au/
Crown Solicitor's Office	http://www.cso.nsw.gov.au/
Information and Privacy Commission NSW	http://www.ipc.nsw.gov.au/
NSW Trustee and Guardian	http://www.tag.nsw.gov.au/
NSW Crime Commission	http://www.crimecommission.nsw.gov.au/
NSW Police Force	http://www.police.nsw.gov.au/

Part Two

Section One

Emergency Services



Executive Summary

This report analyses the results of the financial statement audits of the NSW Government emergency service agencies and their associated entities for the year ended 30 June 2015.

Financial performance and reporting

Financial reporting

Unqualified audit opinions were issued for all emergency services agencies except the Office of the NSW State Emergency Service.

Timeliness

There were no significant deficiencies in the timeliness of financial reporting by emergency service agencies.

Significant Issues

The Office of the NSW State Emergency Service has three significant matters requiring urgent action. These matters were reported last year.

Liabilities increase

Fire and Rescue NSW's Death and Disability scheme liabilities have increased 14.8 per cent to \$154 million.

Financial controls

Audit recommendations

Five recommendations in the Office of the NSW State Emergency Service were rated as high risk. In all, 36 recommendations were reported to agencies, of which 19 were repeat recommendations.

Governance

Risk assessments

There is no overarching risk assessment and treatment plan for the emergency services agencies.

Risk maturity

Risk maturity at the Office of the NSW State Emergency Service is the least mature of the emergency services agencies. This is a direct consequence of the period of instability experienced in the organisation since 2012.

Restoring governance

The Office of the NSW State Emergency Service is positively acting on ICAC, Public Service Commission and Audit Office recommendations, and is restoring governance relationships at the senior management level.

Investigation

The ICAC is investigating allegations concerning alleged corrupt payments related to the supply of catering and other products to the NSW Rural Fire Service between 2009 and 2015.

Service delivery

Hazard reduction has declined

Hazard reduction across bush fire prone areas has declined over the past three years.

Floodplain risk plans do not comply with guidelines

Less than 10 per cent of the 287 floodplain risk management plans conform to the guidelines.

Financial performance and reporting

Modified audit opinion for the Office of the NSW State Emergency Service

Recommendation

Sufficient effective controls need to be implemented over donation and fundraising activities of the Office of the NSW State Emergency Service to ensure the completeness of recording revenue.

Unqualified audit opinions were issued for all emergency services agencies except the Office of the NSW State Emergency Service, which was qualified because it did not have sufficient effective controls operating over donation and fundraising activities.

No significant deficiencies identified in the timeliness of financial reporting

Effective early close procedures and continual improvements in financial reporting have improved the timeliness of financial reporting and reduced misstatements.

Three significant matters require urgent action by the Office of the NSW State Emergency Service

Recommendation (repeat issue)

The Office of the NSW State Emergency Service should resolve its significant matters urgently.

Significant matters requiring urgent action by Office of the NSW State Emergency Service are:

- control deficiencies around donation revenue, payroll and segregation of duties
- insufficient information to form an opinion on the completeness of recording donation revenue
- breaches of section 12 and 13 of the *Public Finance and Audit Act 1983* requirements for the approval to incur expenditure and make payments to suppliers.

Employee award changes have helped reduce growth of the death and disability liability

Additional injury year of on duty death and total and permanent incapacity pensions and lower discount rates primarily increased Fire and Rescue NSW's death and disability liabilities. Changes in the Crown Employees (Fire and Rescue NSW Firefighter Staff Death and Disability) Award 2015 partially offset these increases and are expected to bring long term stability to the scheme's liabilities.

Financial controls

Thirty six audit recommendations, including five with high risk ratings, were reported to agencies

Recommendation (repeat issue)

The Office of the NSW State Emergency Service should resolve its ongoing financial control deficiencies urgently.

Recommendation

All management letter recommendations should be addressed in a timely manner with a focus on addressing repeat issues.

Thirty six management letter recommendations, most relating to control deficiencies, were reported to emergency services agencies. Of these, 19 were repeat items. Five recommendations were rated as high risk, all within the Office of the NSW State Emergency Service.

Governance

Risk management processes can be improved

Recommendation (repeat issue)

The lead agency for the emergency services agencies should implement an overarching risk assessment and treatment plan.

There is no overarching risk assessment and treatment plan for the emergency services agencies. The lead agency should consider how risk is managed at an agency level, captured and escalated to a cluster level. This is especially relevant for risks impacting several agencies in the cluster.

Governance at the Office of the NSW State Emergency Service (SES) is being re-established

The SES's governance framework is developing in maturity and strength following the appointment of permanent officers to the senior executive group. Work continues to improve policies and procedures across the Service.

ICAC investigations continue

The ICAC is investigating allegations concerning alleged corrupt payments relating to the supply of catering and other products to the NSW Rural Fire Service between 2009 and 2015.

Service Delivery

Property protection has decreased

Hazard reduction across bush fire prone areas has declined over the past three years.

The NSW Rural Fire Service is trialing an online forecasting tool which has the capability to better predict favorable burning conditions to increase the completion of hazard reduction works.

Most floodplain risk management plans do not comply with guidelines

Recommendation

All floodplain risk management plans adopted by agencies should comply with the flood risk management process guidelines.

Less than 10 per cent of the 287 floodplain risk management plans comply with the process guidelines. Complying plans are designed to reduce the impact of flooding on individual owners and occupiers of flood prone property and reduce public and private losses resulting from floods.

Introduction

Introduction

This report sets out the results of the financial statement audits of the NSW Government emergency services agencies 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 and Performance Reporting
- Financial Controls
- Governance
- Service Delivery.

The commentary covers the following key emergency services agencies:

Fire and Rescue NSW

Urban fire and rescue services in cities and towns



Ministry for Police and Emergency Services

Policy development, ministerial support, operational coordination, crisis management, grants administration



NSW Rural Fire Service

Rural and bush fires within rural fire districts



Office of the NSW State Emergency Service

Flood and storm operations and general rescue efforts (rural and metropolitan areas)



Snapshot of the Emergency Services Agencies

A snapshot of the financial results of NSW Government emergency services agencies for the year ended 30 June 2015 is shown below.

Employee related expenses \$671.1 million

All other expenses \$458.7 million

Total expenses \$1.1 billion

Net Result \$46.3 million surplus

Assets \$1.1 billion

Liabilities \$347.7 million

Capital investment \$98.8 million





Changes to Emergency Service Agencies from 1 July 2015



The Ministry for Police and Emergency Services was abolished by Administrative Arrangements (Administrative Changes – Public Service Agencies) Order (No 2) 2015, effective from 1 July 2015. Its functions, assets, liabilities and staff were transferred to the Department of Justice.




This change has no impact of the financial information for the financial year ended 30 June 2015 and commentary in this report.

Status of 2014 Recommendations

The 2014 Auditor-General's Report to Parliament on NSW Government emergency services agencies included six recommendations for agencies to improve financial management internal controls. The current status of each recommendation is shown below.

Recommendation		Current Status
The Cluster lead agency should:		
	Prepare an overarching risk assessment and treatment plan.	This has not been completed. The Ministry for Police and Emergency Services was abolished and this responsibility will fall to the Department of Justice. Details are provided in the Governance chapter.
The Office of the NSW State Emergency Service should:		
	Rectify significant financial control deficiencies urgently.	Significant financial control deficiencies remain unresolved. Details are provided in the chapter on Financial Controls.
	Implement all ICAC and Public Service Commission findings so proper governance can be re-established urgently.	Addressing recommendations is gaining momentum now that governance capability is being re-established. Details are provided in the Governance chapter.
	Fill all acting senior executive positions with permanent officers as a priority.	Senior executive positions have been filled. Details are provided Governance chapter.

Recommendation	Current Status
Emergency services agencies should:	
 Strengthen balance sheet budgeting.	Balance sheet budgeting remains poor. Details are provided in the chapter on Financial Performance and Reporting.
 Reinforce efforts to meet the NSW Government's employee annual leave targets.	No agencies are achieving the NSW Government targets. Details are provided in the chapter on Financial Controls.

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 performance and reporting of NSW Government emergency services agencies for 2014-15.

Financial reporting

Observation

Modified opinion: A modified audit opinion was issued on the Office of the NSW State Emergency Service's financial statements.

Timeliness: There were no significant deficiencies in the timeliness of reporting by emergency services agencies.

Significant issues: The Office of the NSW State Emergency Service has three significant matters requiring action. These matters were reported last year.

Conclusion or recommendation

Recommendation: Sufficient effective controls need to be implemented over donation and fundraising activities of the Office of the NSW State Emergency Service to ensure the completeness of recording revenue.

Effective early close procedures and continual improvements in financial reporting processes have improved the timeliness of financial reporting.

Recommendation (Repeat): The Office of the NSW State Emergency Service should resolve its significant matters urgently.

Financial performance

Observation

Liabilities increase: Fire and Rescue NSW's Death and Disability Scheme liabilities have increased 14.8 per cent to \$154 million.

Poor Budgeting: Balance Sheet budgeting remains poor.

Conclusion or recommendation

Additional injury year of on duty death and total and permanent incapacity pensions and lower discount rates primarily caused the increase in death and disability liabilities. Changes in the Crown Employees (Fire and Rescue NSW Firefighter Staff Death and Disability) Award 2015 partially offset these increases and are expected to bring long term stability to the scheme's liabilities.

Recommendation (Repeat): Emergency Service agencies should strengthen balance sheet budgeting processes.

Quality and Timeliness of Financial Reporting

The Office of the NSW Emergency Service's audit opinion was modified

Recommendation

Sufficient effective controls need to be implemented over donation and fundraising activities of the Office of the NSW State Emergency Service to ensure the completeness of recording revenue.

Unqualified audit opinions were issued for all entities within the emergency services agencies with the exception of the Office of the NSW State Emergency Service. Its audit opinion was modified as follows:

As is common for entities that have donations and fundraising as sources of revenue, it is impracticable to maintain an effective system of internal control over donation and fundraising revenues it receives until its initial entry in the financial records. Accordingly, as the evidence available to me regarding revenue from these sources was limited, my audit procedures with respect to donation and fundraising revenues were restricted to the amounts recorded in the financial records. An opinion was unable to be expressed on whether all donation and fundraising revenues received by the Service during the year ended 30 June 2015 were recorded in its financial records. The 30 June 2014 report was similarly modified.

Financial misstatements become material if they are significant in size and nature and influence the economic decisions users make based on the financial statements. It is important for material misstatements to be corrected so users of financial statements can rely on them as an accurate representation of an agency's performance and financial position.

Effective early close procedures have improved timeliness and reduced misstatements

The agencies' improvement in financial reporting is largely attributable to ongoing and effective early close procedures first introduced by Treasury in 2012. Treasury Circular TC 15/02 'Mandatory early close procedures for 2014-15' aimed to maintain the improvement in quality and timeliness of agencies' annual financial statements. Agencies generally complied with the circular's requirements, which allowed key issues to be resolved before year-end and minimised misstatements.

Three significant repeated matters require urgent action by the Office of the NSW State Emergency Service

Recommendation (repeat issue)

The Office of the New South Wales State Emergency Service should resolve its significant matters urgently.

The following significant matters were reported to the Treasurer, the Minister, the Commissioner and others charged with the governance of the Office of the NSW State Emergency Service:

- significant control deficiencies around donation revenue, payroll and segregation of duties generally
- insufficient information to form an opinion on the completeness of recording donation revenue
- breaches of section 12 and 13 of the *Public Finance and Audit Act 1983* requirements for the approval to incur expenditure and make payments to suppliers.

The matters were reported in last year's Auditor-General's Report, but have not yet been fully addressed. The Office of the NSW State Emergency Service should rectify these deficiencies urgently.

Significant matters are issues encountered during a financial audit, which are considered important enough to report to the Minister, Treasurer, agency head and others charged with governance of an agency.

Financial Performance Key Issues

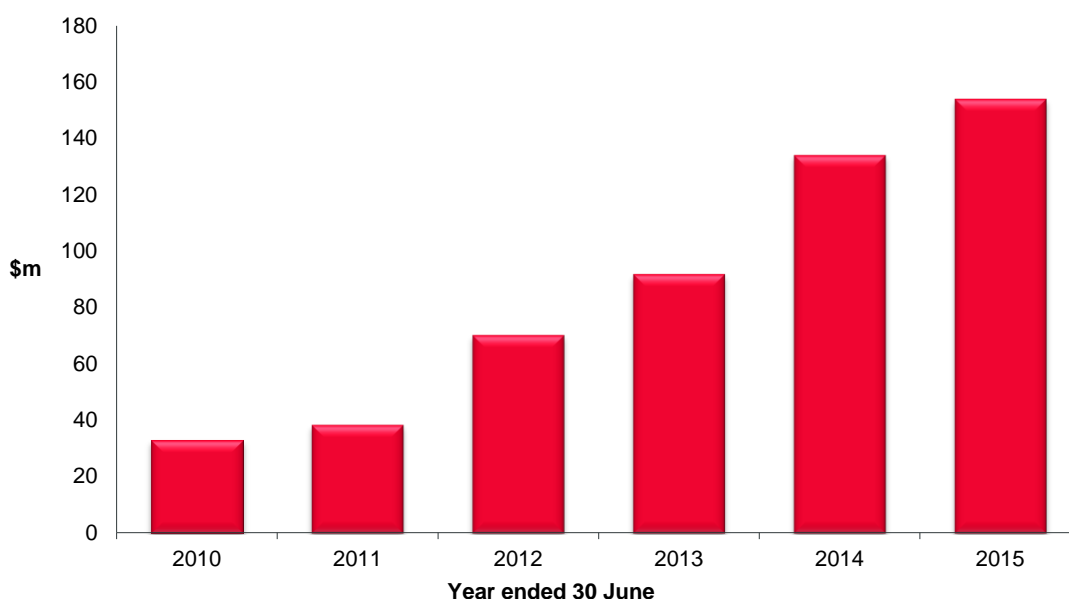
Employee award changes help reduce growth in the death and disability liability

Fire and Rescue NSW Death and Disability Scheme

The Fire and Rescue NSW Death and Disability Scheme's liability increased by 14.8 per cent to \$154 million at 30 June in 2015 (\$134 million at 30 June 2014). The increase was mainly due to an additional injury year of on duty death and total and permanently incapacitated pensions and discount rates used to calculate the liability falling from 3.9 per cent to 2.6 per cent.

Although the death and disability liability continued to increase in 2014-15, it increased at a lower rate than in previous year. In 2013-14, the liability increased by 46 per cent compared to 14.8 per cent in 2014-15. This was mainly due to changes in the Crown Employees (Fire and Rescue NSW Firefighter Staff Death and Disability) Award 2015. The changes are expected to bring long term stability to the scheme's liabilities.

Fire and Rescue NSW Death and Disability Liability



Source: Fire and Rescue NSW Financial Statements (audited).

The Fire and Rescue NSW Death and Disability Scheme came into effect in 2003, to fund death, total and permanent incapacity and partial and permanent incapacity insurance benefits for permanent and retained firefighters. All partial and permanent incapacity payments are made by Fire and Rescue NSW while death and total permanent incapacity payments are paid by the Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund (Crown Fire Fund).

Performance against Budget An analysis of the 2014-15 statements of comprehensive income and financial position, summarised in Appendix Two, shows actual performance against budget for the emergency services agencies.

Combined 2014-15 Statement of Comprehensive Income

In aggregate, total 2014-15 actual expenses varied by less than two percent against budget. This was largely due to the agencies' continuing efforts to manage expenses within the Government's labour expense cap.

Grants and contributions revenue was three per cent or \$33.0 million above budget. This was largely attributed to additional contributions of \$40.2 million agencies received or will receive from the NSW Government to reimburse natural disaster expenses. This was offset by \$9.4 million fall in grants and contributions revenue received by Fire and Rescue NSW.

Other revenue was \$34.0 million or 51 per cent higher than budget. This partially relates to Fire and Rescue NSW receiving a \$1.9 million reimbursement for natural disasters expenses; a \$4.7 million insurance hindsight adjustment; and increases in retained taxes, fees and fines. The agencies also made unbudgeted recoveries of \$8.3 million from other agencies hiring aircraft from the NSW Rural Fire Service during declared bush fire disaster incidents.

Other comprehensive income was largely un-budgeted. It included the increased Death and Disability Scheme liability of \$11.0 million and an \$18.0 million revaluation increase for property, plant and equipment.

Combined Statement of Financial Position at 30 June 2015

Balance sheet budgeting remains poor

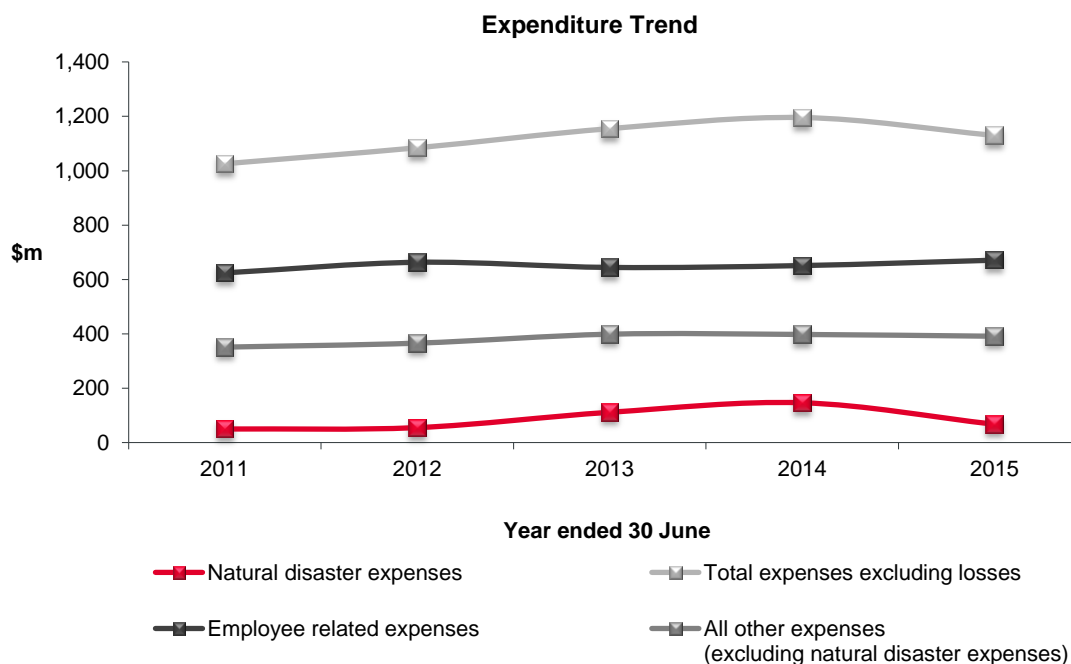
Recommendation (Repeat issue)

Emergency services agencies should strengthen balance sheet budgeting processes.

The previous year's Auditor-General's Report to Parliament recommended emergency services agencies strengthen balance sheet budgeting processes. This has not been actioned.

The only balance sheet item that performed close to budget was non-current assets. Budget performance for other balance sheet items was poor, reflecting poor prediction models to establish budget estimates. It also reflects volatilities in estimating actuarially assessed liabilities. This is highlighted by the variances to the budget in Appendix Two.

Fewer fire emergency declarations resulted in \$89.0 million reduction in disaster expenditure



Source: Audited financial statements of Fire and Rescue NSW, NSW Rural Fire Service, Office of the NSW State Emergency Service, and Ministry for Police and Emergency Services.

Over the last five years to 30 June 2015, total expenses (excluding gains and losses from asset disposals) increased \$104 million. This was in part due to the establishment of the Ministry for Police and Emergency Services, effective April 2011.

Since 2013, the emergency service agencies' employee related expenses and all other expenses have relatively been stable. This is predominately due to the agencies efforts to comply with the Government's Labour Expense cap.

NSW Rural Fire Service had only five emergency declarations in 2014-15 compared to 48 in 2013-14. This has resulted in falls of \$89.0 million and \$88.0 million in natural disaster expenses and revenue respectively, and highlights the difficulties in forecasting revenue and expenditure accurately.

Impact of Events on Financial Information

The impact of natural disasters on the financial information of the agencies is discussed in the 'Service Delivery' section of this volume.

Financial Controls

Appropriate financial controls help ensure the efficient and effective use of emergency service 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 audit observations, conclusions and recommendations related to the financial controls of NSW Government emergency services agencies for 2014-15.

Financial Controls	
Observation	Conclusion or recommendation
Audit recommendations: Thirty six management letter recommendations, 19 of which were repeat recommendations, most relating to control deficiencies, were reported to emergency services agencies.	Recommendation: All management letter recommendations should be addressed in a timely manner with a focus on addressing repeat issues.
Audit recommendations: Five recommendations were rated as high risk, all within the Office of the NSW State Emergency Service.	Recommendation: The Office of the NSW State Emergency Service should resolve its financial control deficiencies urgently.
Annual leave balances: Annual leave targets are not being achieved by all agencies.	Recommendation: Emergency services agencies should take stronger action to meet the whole-of-government objective to reduce annual leave balances.
Sick leave balances: Only the Ministry for Police and Emergency Services' sick leave hours per employee were below the Government's target of 45.06 in 2014-15.	Recommendation: Fire and Rescue NSW, the Office of the NSW State Emergency Service and NSW Rural Fire Service should continue initiatives to reduce sick leave to at least the Government's target.

Internal Controls

Internal controls are processes that help entities achieve their objectives, including operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. Weaknesses in internal controls increase the risk of fraud and error. Those identified through the audit process are reported through management letters to management and those charged with agency governance to with recommendations on how they should be addressed.

Management Letter Recommendations

Thirty six recommendations, five with high risk ratings, reported to agencies

Recommendation

All management letter recommendations should be addressed in a timely manner with a focus on addressing repeat issues.

Thirty six management letter recommendations, most relating to control deficiencies, were reported to emergency services agencies. Of these 19 were repeat recommendations identified during previous audits, which have not yet been satisfactorily actioned by management.

All management letter recommendations should be addressed in a timely manner with a focus on addressing repeat issues.

Recommendation (repeat issue)

The Office of the NSW State Emergency Service should resolve its financial control deficiencies urgently.

Five of the recommendations were rated as high risk, and all of these were identified within the Office of the NSW State Emergency Service.

Although the Office of the NSW State Emergency Service has taken some action to rectify high risk issues, it continues to have deficiencies over:

- controls ensuring completeness of donation revenue
- business process controls
- segregation of duties
- information technology change management.

The Office of the NSW State Emergency Service should resolve its financial control deficiencies urgently.

The management letters recommendation sent to Fire and Rescue NSW, NSW Rural Fire Service, Office of the NSW State Emergency Service and Ministry for Police and Emergency Services for the year ended 30 June 2015 and 2014 are analysed below.

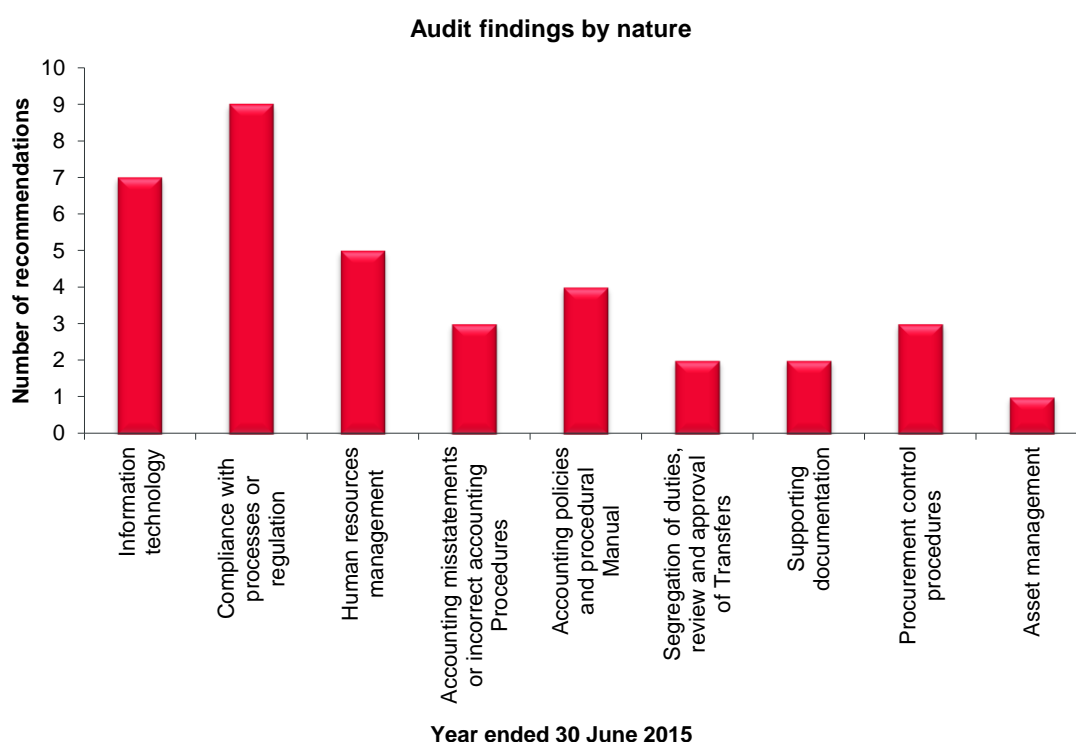
The table below shows audit findings by risk assessment level for all the emergency services agencies for the year ended 30 June.

Risk assessment	2015			2014		
	New	Repeat	Total	New	Repeat	Total
High	1	4	5	--	5	5
Moderate	10	10	20	10	8	18
Low	6	5	11	5	2	7
Total	17	19	36	15	15	30

Source: Audit findings and recommendations identified for Fire and Rescue NSW, NSW Rural Fire Service, Office of the NSW State Emergency Service, Ministry for Police and Emergency Services.

Most of the 19 repeat recommendations relate to the Office of the NSW State Emergency Service.

The nature of the recommendations is illustrated in the graph below.



Note: Allocation of the recommendations to categories is on best fit. A recommendation might cross over more than one category, but is only counted once.

Compliance with processes or regulations – 9 recommendations

These issues include non-compliance with:

- delegations under the *Public Finance and Audit Act 1983*
- policies and procedures, for example lack of review processes
- legislative requirements or Treasurer's Directions.

Information technology – 7 recommendations

These issues include:

- no network penetration testing
- lack of review of windows administrator passwords
- no formal or consistent processes for IT change management.

Human resource management – 5 recommendations

These issues include:

- management of excess annual leave balances
- lack of review of higher duty and overtime payments.

Accounting Policies and Procedural Manuals – 4 recommendations

These issues are mainly related to agencies not having appropriate policies and procedures in human resource, accounts receivable and fixed assets.

Agencies vary in size and complexity and the risk rating assigned to a recommendation depends on the importance of the issue to that particular agency. An issue may be categorised as high or extreme risk in one agency, but low risk in another.

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

Issues identified during the 2014-15 audits with a high risk rating are concentrated in the Office of the NSW State Emergency Service. The table below shows audit recommendations by risk rating in each of the four key emergency services agencies.

Year ended 30 June		2015			
Risk assessment	Fire and Rescue NSW	NSW Rural Fire Service	Office of the NSW State Emergency Service	Ministry for Police and Emergency Services	Total
High	--	--	5	--	5
Moderate	3	6	11	--	20
Low	6	3	2	--	11
Total	9	9	18	--	36

Source: Audit findings and recommendations identified for Fire and Rescue NSW, NSW Rural Fire Service, Office of the NSW State Emergency Service, Ministry for Police and Emergency Services for the year ended 30 June 2015.

High risk issues identified at the Office of the NSW State Emergency Service

Although the Office of the NSW State Emergency Service has taken some action to rectify high risk issues, the following issues still existed at 30 June 2015.

Internal controls over business processes

As reported previously, most control deficiencies were identified in the control environments of donation revenue, payroll and segregation of duties. These deficiencies represent breaches of Section 11 of the *Public Finance and Audit Act, 1983*. They resulted in a higher level of audit testing to gain sufficient assurance about the disclosures in the financial statements.

Insufficient information to form an opinion on the completeness of recording donation revenue

Insufficient information was available for the audit to conclude whether all donation and fundraising revenue received by the Office of the NSW State Emergency Service during 2014-15 was recorded in its financial records. Management should ensure the centralised donations register is used by all units and regions to record the revenue raised by all fundraising activities and continue implementing processes to control and monitor these activities.

Segregation of Duties

As reported previously, officers within the Service approved purchases above their delegation limits. Instances were identified where the same officer performed both the section 12 and 13 approvals for purchases. This breaches the *Public Finance and Audit Act 1983* and increases the risk of inappropriate or unauthorised payments.

Information Technology Change Management

There is no formal or consistent process in place to record, approve and test information technology related changes. Without a formal change management process there is a high risk that changes are not approved or tested before being implemented into the live system and result in break downs in financial systems and supporting infrastructure.

Human Resources

Excessive Annual Leave

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

Recommendation

Emergency services agencies should take stronger action to meet the whole-of-government objective to reduce annual leave balances.

Thirty five per cent of emergency services agencies employees' annual leave balances exceeded the whole-of-government target of 30 days at 30 June 2015.

Excess annual leave at 30 June 2015	Fire and Rescue NSW*	NSW Rural Fire Service	Office of the NSW State Emergency Service	Ministry for Police and Emergency Services
Number of employees with annual leave balance above 30 days	2,855	56	54	10
Employee headcount as at 30 June	7,239	849	336	80
Percentage of workforce with annual leave above 30 days	39.4	6.6	16.1	12.5

* Employee headcount of Fire and Rescue NSW include 3,336 retained part-time firefighters which are generally estimated at 0.15 FTE.

Source: Fire and Rescue NSW, Office of the NSW State and Emergency Service, Ministry for Police and Emergency Services, NSW Rural Fire Service (unaudited).

There are several implications from excessive leave balances, including:

- possible work 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
- the associated financial liability generally increases over time as salaries increase.

Overtime

Natural disasters contributed to total overtime expenditure of \$19.8 million

Total overtime costs incurred by the agencies decreased by 12.8 per cent to \$19.8 million in 2014-15 (\$22.7 million in 2013-14). NSW Rural Fire Service contributed \$3.9 million to the decrease, which was offset by an increase in the Office of the NSW State Emergency Service mainly due to the natural disaster events, which occurred in April 2015. Emergency service agencies are continually improving management of overtime with further tightening of controls around overtime payments and processes during natural disaster events.

The table below shows overtime costs incurred by the emergency services agencies.

Year ended 30 June	Fire and Rescue NSW		NSW Rural Fire Service		Office of the NSW State Emergency Service		Ministry for Police and Emergency Services		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Total overtime costs (\$'000)	16,712	16,636	1,601	5,500	1,470	584	26	8	19,809	22,727
Total salaries and wages (including recreation leave) \$'000	386,273	371,984	78,416	77,546	27,850	26,958	8,864	8,931	501,403	485,419
Overtime costs as percentage of total salaries and wages (including recreation leave)	4.3	4.5	2.0	7.1	5.3	2.2	0.3	0.1	4.0	4.7

Source: Audited Financial Statements.

Overtime costs include those incurred in natural disaster events, some of which may be recoverable from the State and Australian Governments. Overtime above excludes overtime costs incurred by other agencies within the State as part of disaster response services, and reimbursed from the NSW Rural Fire Service. The values of these were \$15.2 million and \$10.0 million for 2014-15 and 2013-14 respectively.

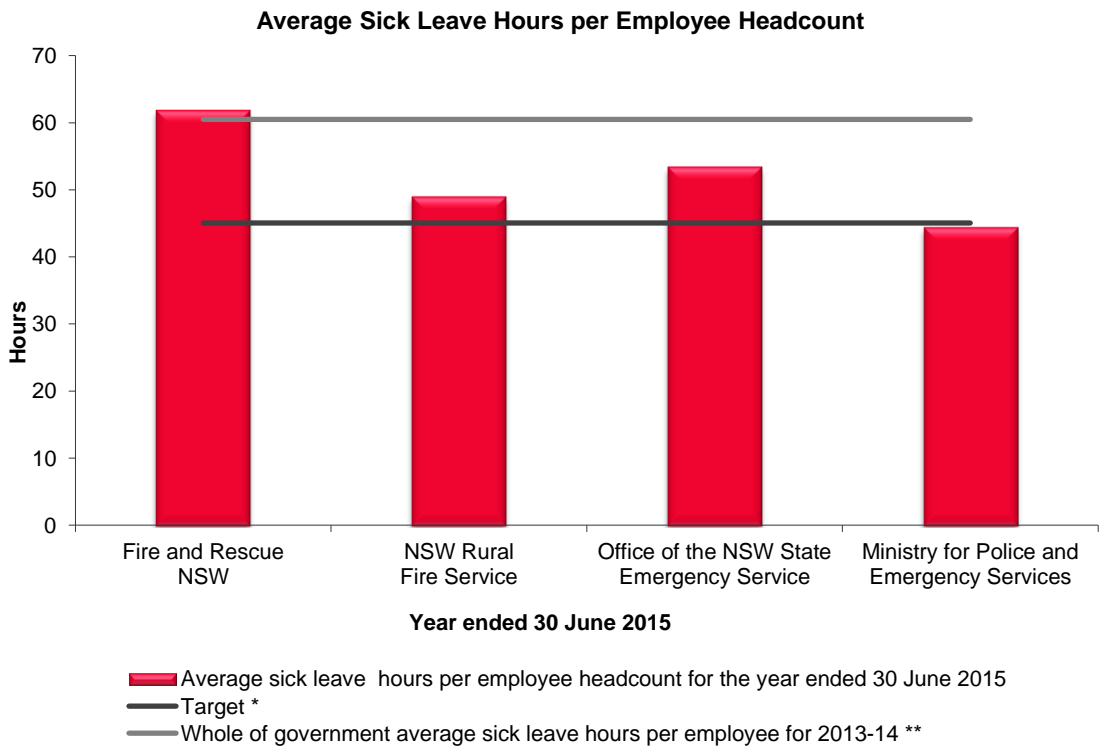
Sick Leave

Sick leave targets are not being achieved by all agencies

Recommendation

Fire and Rescue NSW, the Office of the NSW State Emergency Service and NSW Rural Fire Service should continue initiatives to reduce sick leave to at least the Government's target.

Average sick leave hours per employee headcount for most emergency services agencies for 2014-15 were below the average taken across the public sector in 2013-14, except for Fire and Rescue NSW. Ministry for Police and Emergency Services was below the government target of 45.06 sick leave hours.



* The target of 45.06 hours was referred to in the Memorandum of Understanding signed in settlement of the Crown Employees (Public Sector Salaries – 2008) Award, and the Treasury Circular TC14/13 Managing Sick Leave Policy.

** Average sick leave hours taken per FTE (non-casual) in NSW Government in 2014. Source: Public Service Commission Interactive, Workforce Profile.

Source: Fire and Rescue NSW (unaudited), NSW Rural Fire Service (audited), Office of the NSW State Emergency Service (unaudited), Ministry for Police and Emergency Services (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 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 emergency services agencies in the Justice cluster for 2014-15.

Governance	
Observation	Conclusion or recommendation
Risk assessments: There is no overarching risk assessment and treatment plan for emergency services agencies.	Recommendation: The lead agency for emergency services agencies should implement an overarching risk assessment and treatment plan.
Risk immaturity: Risk maturity at the Office of the NSW State Emergency Service is the least mature of the emergency services agencies. This is a consequence of the period of instability experienced in the organisation since 2012.	The lack of effective senior management group eroded the Services' governance capacity and capability to effectively manage risk.
Restoring Governance: The Office of the NSW State Emergency Service is acting on ICAC, Public Service Commission and Audit Office recommendations and restoring governance relationships at the senior management level.	Acting senior positions have now been replaced by permanently appointed officers charged with re-establishing governance at the Service.
Investigation: The ICAC is investigating allegations concerning alleged corrupt payments related to the supply of catering and other products to the NSW Rural Fire Service between 2009 and 2015.	The ICAC investigation continues.

Restructures within the Emergency Services Portfolio

The Ministry for Police and Emergency Services was abolished on 1 July 2015 under the Administrative Arrangements (Administrative Changes – Public Service Agencies) Order 2015. Its functions, assets, liabilities and staff were transferred to the Department of Justice.

Risk Management

Overarching risk assessment is lacking

Recommendation

The lead agency for the emergency service agencies should implement an overarching risk assessment and treatment plan.

Each emergency services agency in the law and order cluster has its own risk profile and risk management framework. Risk management is performed at an agency level with oversight by Audit and Risk Committees. Risks may, however, have implications for other entities in the cluster.

When reviewing the governance framework, the lead agency should consider how risk is managed at an agency level, captured and escalated to a cluster level. This is especially relevant for risks impacting several agencies in the cluster.

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.

Risk management processes can be improved

Risk maturity across the agencies is more advanced in Fire and Rescue NSW and the NSW Rural Fire Service. The Office of the NSW State Emergency Service's maturity has been significantly impacted by events since 2012 that culminated in the ICAC investigation into the conduct of the former Commissioner of the Service (operation Dewar).

Governance at the Office of the NSW State Emergency Service (SES)

Governance at the Office of the NSW State Emergency Service is being re-established.

As previously reported, from September 2012 the SES did not have appropriate governance arrangements in place to ensure it was operating efficiently and effectively, nor did it have policies and procedures in place to identify and mitigate business risks.

The SES's governance framework is maturing and strengthening following the appointment of permanent officers to the senior executive group. Work is also continuing on improving policies and procedures across the Service.

Fraud Control

ICAC investigations continue

The emergency services agencies made 15 (24 in 2014) referrals to the ICAC under section 11 of *Independent Commission Against Corruption Act 1988* during 2014-15. The ICAC is currently investigating allegations regarding catering supply and other matters at the NSW Rural Fire Service, (operation Vika).

	Fire and Rescue New South Wales	New South Wales Rural Fire Service*	New South Wales State Emergency Service	Police and Emergency Services	Total
For the year ended 30 June 2015					
Number of referrals made to ICAC under section 11 of the <i>Independent Commission Against Corruption Act 1988</i> .	--	15	--	--	15

* NSW Rural Fire Service includes 74,516 volunteers.

Source: Fire and Rescue NSW, NSW Rural Fire Service, Office of the NSW State Emergency Service, Ministry for Police and Emergency Services (unaudited).

Service Delivery

This chapter outlines key findings, conclusions and recommendations about service delivery in the NSW Government emergency service agencies for 2014-15.

Service Delivery

Observation

Hazard reduction has declined: Hazard reduction across bush fire prone areas has declined over the past three years.

Floodplain risk plans do not comply with guidelines: Less than 10 per cent of 287 floodplain risk management plans conform to the process guidelines.

Increased demand: Demand for emergency services has increased.

Bushfire costs are significant: Bushfire disasters have a much greater impact on emergency service agencies budget compared to flood and storm disasters.

Conclusion or recommendation

Unfavourable weather conditions have reduced the opportunity for NSW Rural Fire Service to perform hazard reduction works.

Recommendation: All floodplain risk management plans adopted by agencies should comply with the flood risk management process guidelines.

Incidents requiring emergency services increased in 2014-15 due to major natural disaster events in April/May 2015.

Fewer bushfires in 2014-15 have resulted in a \$79.0 million decrease in natural disaster expenditure.

Hazard Reduction

Property protection has decreased

The number of properties protected by hazard reduction works across all bushfire prone properties in 2014-15 was 27,255 fewer than the five year average of 144,232, and 50,556 fewer than the number protected in 2010-11.

The NSW Rural Fire Service attributes the reduction to unfavourable weather conditions which have reduced the opportunity for hazard reduction works. The NSW Rural Fire Service is trialing an online forecasting tool which has the capability to better predict favorable burning conditions to increase the completion of hazard reduction works.

The results of hazard reduction works are shown below.

Hazard Reduction Works

Year ended 30 June	Five year average	2015	2014	2013	2012	2011
Total hectares of hazard reduction works completed	169,341	152,157	157,222	281,483	138,211	117,634
Number of properties protected by hazard reduction works across all bush fire prone land tenures	144,232	116,977	124,414	146,292	165,945	167,533

Source: NSW Rural Fire Service published figures (unaudited).

The NSW Rural Fire Service is the lead agency for coordinated bush fire-fighting. It is also responsible for fires and related emergency incidents within Rural Fire Districts.

The Service carries out and/or coordinates hazard reduction activities to minimise the threat of damage to life, property, infrastructure and environmental, economic, cultural, agricultural and community assets by reducing or removing bush fire fuel. Hazard reduction does not completely prevent bush fires, but helps the Service and other fire-fighting agencies with containment strategies and property protection. Burning is the most common form of hazard reduction in New South Wales.

The Service monitors the level of hazard reduction activities through two measures: the annual average area treated by hazard reduction (in hectares), and the number of properties protected by hazard reduction works across all bush fire prone land.

Planning Flood Emergency Management

Most floodplain risk management plans do not comply with guidelines

Recommendation

All floodplain risk management plans adopted by agencies should comply with the flood risk management process guidelines.

Less than 10 per cent of the 287 floodplain risk management plans comply with flood risk management process guidelines. Complying plans are designed to reduce the impact of flooding on individual owners and occupiers of flood prone property and reduce public and private losses resulting from floods.

The management of flood emergencies involves local councils, the Department of Planning and Environment (Office of Environment and Heritage), and the Office of the NSW State Emergency Service.

Local councils have lead responsibility for managing flood prone areas and the Department of Planning and Environment plays a key role in helping the councils manage flood threats faced by residents. The Office of the NSW State Emergency Service gives guidance to the councils through its Floodplain Development Manual and standard floodplain risk management documents.

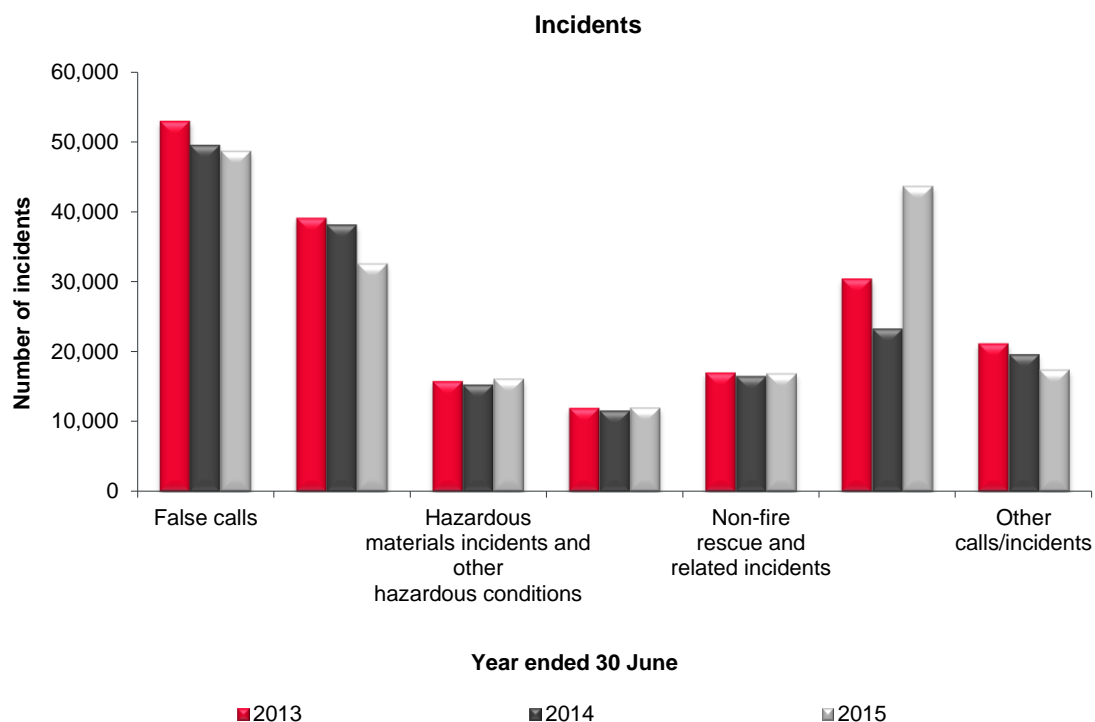
Councils undertake projects to understand flood risks, assess how best to manage these risks and how to implement projects to reduce flood threats to communities.

Incidents

Significant emergency events occurred in April and May 2015

Total demand for emergency services increased by eight per cent to 187,282 incidents, in 2014-15 compared to 173,917 in 2013-14. This is largely attributed to an 87 per cent increase in requests for assistance in storm, flood, and other natural disasters, and for assistance to other agencies. This was offset by an 11 per cent fall in other calls and incidents.

In aggregate, emergency services agencies responded to the following incidents over the last three years.



Source: Fire and Rescue NSW, NSW Rural Fire Service and Office of the NSW State Emergency Service (unaudited).

Response Times

Fire and Rescue NSW

Fire and Rescue NSW's response times have improved slightly

Response times for the first fire engines to arrive at the scene of an incident improved slightly in 2014-15. Fire and Rescue NSW seeks to maintain or improve these times each year.

Response time is the interval between a call being received by the Fire and Rescue NSW dispatch centre and the arrival of a firefighting vehicle at the scene.

The table below shows response times for the first fire engines to arrive at the scene of an incident over the last five years.

Percentage of first responding fire engines arriving at the scene of an incident		Response time in minutes and seconds				
Year ended 30 June	Five year average	2015	2014	2013	2012	2011
50%	7:32	7:14	7:30	7:30	7:46	7:43
90%	11:55	11:30	12:12	12:10	11:55	11:51

Source: Fire and Rescue NSW (unaudited), five year calculated average (unaudited).

The Office of the NSW State Emergency Service

The Office of the NSW State Emergency Service was not able to track response times for major types of incidents in 2013-14. The Service implemented a new system called BEACON that enables it to capture response times for all major incident types. This has enabled it to report incident times for road crash rescues, community first responder incidents and vertical rescue incidents as indicated in the table below. This will enable the Service to analyse and monitor its performance in responding to incidents.

Incidents	Response time in minutes and seconds 2015	
	Fastest response	Slowest response
Year ended 30 June		
Road crash rescue	2:00	81:00
Vertical rescue	10:00	96:00
Community first responder	2:00	75:00

Source: Office of the NSW State Emergency Service (unaudited).

NSW Rural Fire Service

NSW Rural Fire Service continues to exceed fire containment targets

The percentage of bushfires contained to 10 hectares or less increased to 90.4 per cent in 2014-15, 10 per cent above the five year average and 24 per cent higher than in 2010-11. This result has improved year on year over the last five years.

Year ended 30 June	Five year average	2015	2014	2013	2012	2011
Percentage of bush fires contained to ten hectares or less	80.4	90.4	88.1	83.3	74.1	66.1

Source: NSW Rural Fire Service five year calculated averages (unaudited).

In any one year, the size and distribution of bush fires varies according to the coincidence of extreme bush fire weather conditions and ignitions, and to the capacity of response agencies to quickly detect and safely contain such ignitions.

The proportion of bush fires contained to small size fires by preventing them from becoming potentially damaging fires indicates the effectiveness of the agencies' detection and suppression capabilities.

Staffing and Volunteering

Total staff and volunteer numbers are increasingOver the last three years, the total number of staff, including volunteers, has increased across the emergency services agencies from 96,277 at 30 June 2013 to 98,536 in at 30 June 2015.

NSW emergency service agencies use a range of people to achieve their objectives, as shown below.

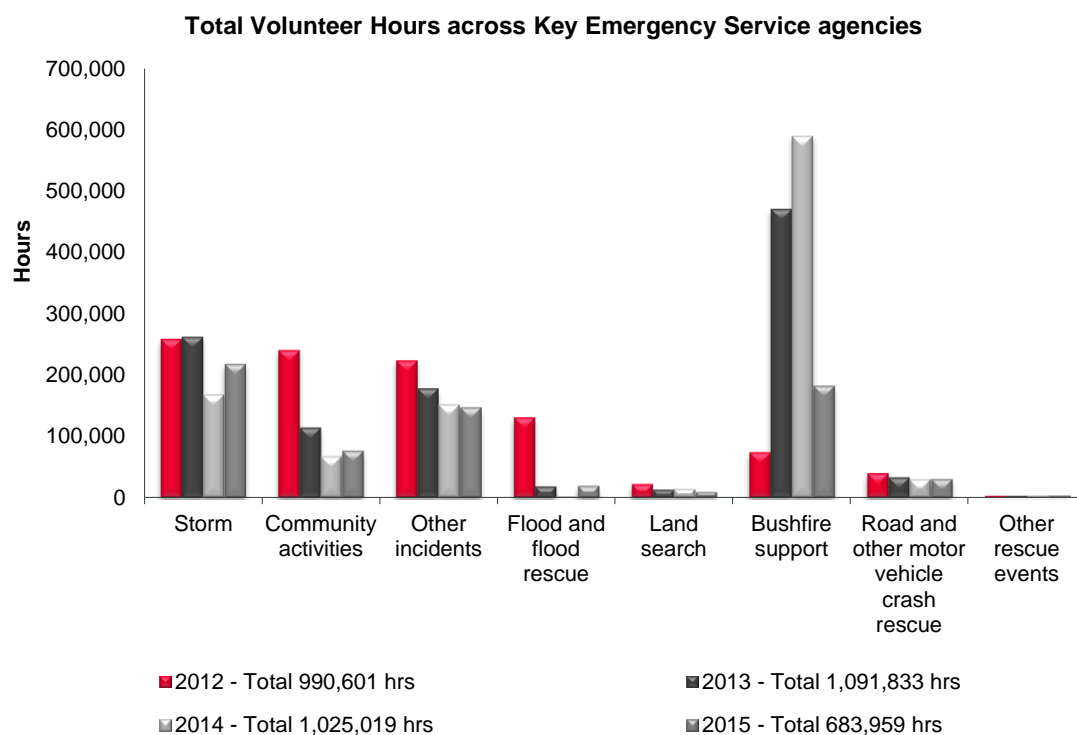
Year ended 30 June	Full-time			Retained (part-time)			Volunteers			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Fire and Rescue NSW	3,903	3,887*	3,869	3,336	3,380	3,368	6,812	7,015	7,200	14,051	14,282	14,437
NSW Rural Fire Service	824	822	846	--	--	--	74,516	73,746	71,976	75,340	74,568	72,822
Office of the State Emergency Service	336	287	251	--	--	--	8,809	8,743	8,767	9,145	9,030	9,018
Total	5,063	4,996	4,966	3,336	3,380	3,368	90,137	89,504	87,943	98,536	97,880	96,277

* Fire and Rescue NSW's revised full-time staff for 2014 to 3,866.

Source: Fire and Rescue NSW, NSW Rural Fire Service and Office of the NSW State Emergency Service, (unaudited).

The increase in volunteers is attributed to the increase in emergency service incidents across New South Wales. The data highlights the importance of volunteers as a key resource in providing emergency services.

The organisation's workforce plans for volunteers help ensure they achieve their objectives. The three key emergency service agencies' total volunteer head count increased by 633 to 90,137 at 30 June 2015 (89,504 at 30 June 2014).



Source: Fire and Rescue NSW, NSW Rural Fire Service and Office of the NSW State Emergency Service (unaudited).

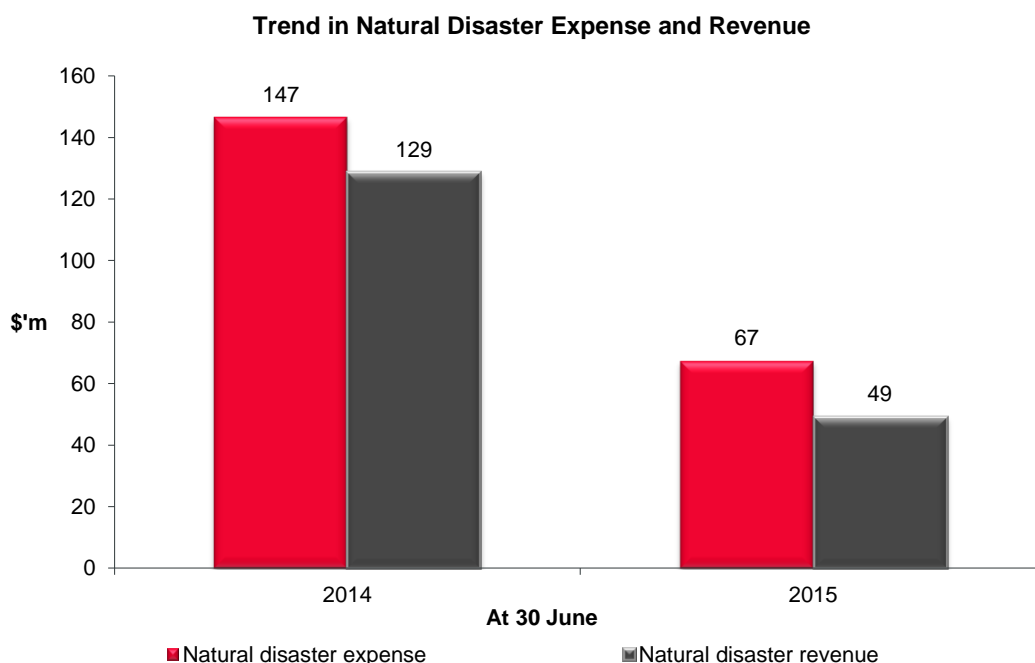
Total volunteer hours fell by 33.3 per cent to 684,000 hours in 2015 reflecting fewer bushfire incidents in 2015. As result, the hours devoted to bushfire support fell by nearly 407,000 hours.

Natural Disasters

Natural disaster expenditure has fallen due to fewer bushfires

Eleven declared disasters occurred in 2015. Most related to flood and storms, which affected the Local Government Areas (LGAs) 73 times with some LGAs impacted multiple times.

In the year ended 30 June 2015, the number of natural disasters declared relating to bushfire fell dramatically compared to 2014. This contributed to a \$79.1 million decrease in natural disaster expenditure when compared to the previous year, as shown in the table below.



Source: Financial statements of Fire and Rescue NSW, NSW Rural Fire Service, Office of the NSW State Emergency Service, and Ministry for Police and Emergency Services (audited).

Natural Disasters are events such as bushfires, floods or storms that cause significant damage or loss of life. They are declared when damage to public assets and associated recovery costs exceed \$240,000. Declaration of natural disasters allows emergency service agencies to recover associated costs from the Crown Entity. The Crown Entity is able to recover some of these costs from the Australian Government if they meet the criteria in the Natural Disaster Relief and Recovery Arrangements Determination.

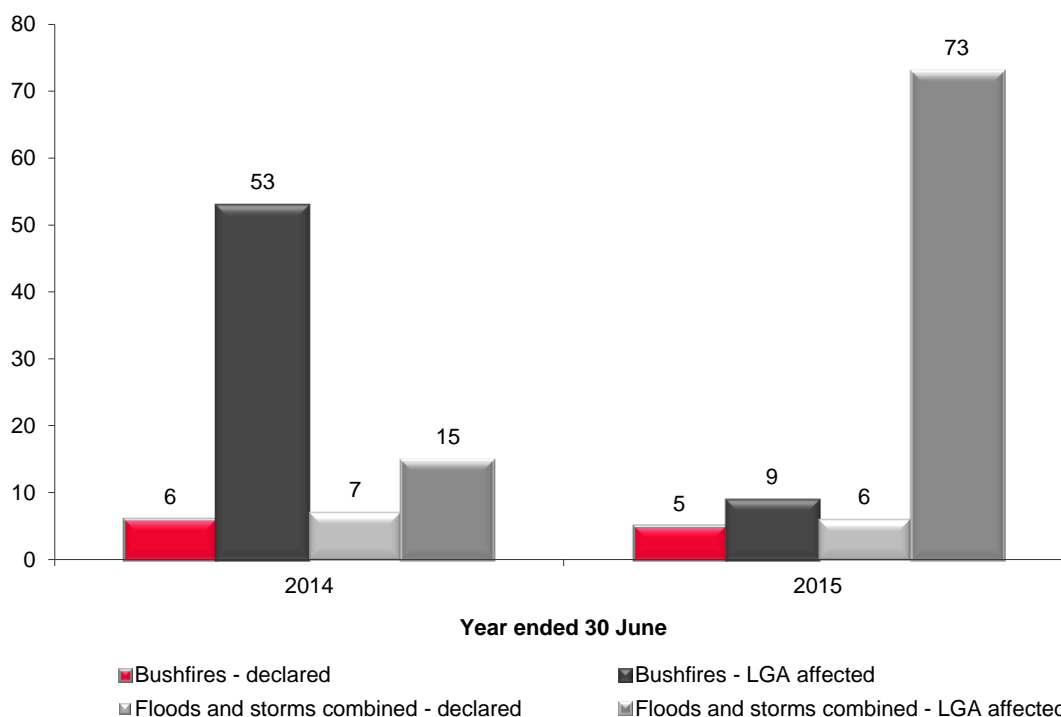
Over the last six years, emergency service agencies have spent \$538 million on natural disaster events and recouped \$440 million from the NSW and Australian Governments.

The table below shows natural disasters declared for the last two years and the number of LGAs affected by each disaster type.

Year ended 30 June	No. of declarations		No. of local government areas affected for each event type	
	2015	2014	2015	2014
Bushfires	5	6	9	53
Floods and storms	2	3	25	--
Floods	2	3	11	--
Storms	2	1	37	15
Dust storm	--	--	--	--

Source: Ministry for Police and Emergency Services website (unaudited). Note: If an LGA was affected more than once during the year by a disaster, the LGA was counted multiple times.

Natural Disasters Declared and Local Government Areas affected



Source: Ministry for Police and Emergency Services website (unaudited). Note: If an LGA was affected more than once during the year then the LGA is counted multiple times.

During 2014-15, the LGAs were affected by natural disasters 79 times. Over the last two years, LGAs were most affected by flood and storm related disasters. This is because river systems flow through many LGAs and the spread of floods are intrinsically difficult to contain. Bushfire related disasters tend to occur in rural areas, and historically have been contained to some degree by emergency services agencies' fire containment strategies.

Part Two

Section Two

Appendices



Appendix One – Recommendations

The table below summarises the recommendations from the Auditor-General's Volume Seven Report to Parliament covering law and order agencies in the Justice cluster for the year ended 30 June 2015.

Financial performance and reporting

Modified opinion

Sufficient effective controls need to be implemented over donation and fundraising activities of Office of the NSW State Emergency Service to ensure the completeness of recording revenue.

Significant issues

The Office of the NSW State Emergency Service should resolve its significant matters urgently.

Poor budgeting

Emergency services agencies should strengthen balance sheet budgeting processes.

Financial controls

Audit recommendations

All management letter recommendations should be addressed in a timely manner with a focus on addressing repeat issues.

The Office of the NSW State Emergency Service should resolve its financial control deficiencies urgently.

Annual leave balances

Emergency services agencies should take stronger action to meet the whole-of-government objective to reduce annual leave balances.

Sick leave balances

Fire and Rescue NSW, the Office of the NSW State Emergency Service and NSW Rural Fire Service should continue initiatives to reduce sick leave to at least the Government's target.

Governance

Risk assessments

The lead agency for emergency services agencies should implement an overarching risk assessment and treatment plan.

Service delivery

Floodplain risk plans do not comply with guidelines

All floodplain risk management plans adopted by agencies should comply with the flood risk management process guidelines.




Appendix Two – Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Net result		Total comprehensive income / (expense)	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fire and Rescue NSW	838	819	273	262	676	675	674	657	1	18	8	(22)
NSW Rural Fire Service	126	103	55	81	340	422	312	412	29	11	29	12
Office of the NSW State Emergency Service	62	50	15	14	106	91	95	85	11	5	11	5
Ministry for Police and Emergency Services	23	15	5	3	54	38	49	42	5	(4)	5	(4)
Total	1,049	987	348	360	1,176	1,226	1,130	1,196	46	30	53	17

Source: Financial statements (audited).

Appendix Three – Performance Against Budget

	Fire and Rescue NSW		NSW Rural Fire Service		Office of the NSW State Emergency Service		Ministry of Police and Emergency Services		Total	
	2015 Actual	2015 Budget	2015 Actual	2015 Budget	2015 Actual	2015 Budget	2015 Actual	2015 Budget	2015 Actual	2015 Budget
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Abridged statement of comprehensive income - year ended 30 June										
Employee expenses	531	531	95	100	33	35	12	11	671	677
All other expenses	143	134	217	233	62	52	37	45	459	464
Total expenses	674	665	312	333	95	87	49	56	1,130	1,141
Grants and contributions	603	613	318	287	104	90	51	53	1,076	1,043
Other revenue	73	54	22	10	2	1	3	1	100	66
Total revenue	676	667	340	297	106	91	54	54	1,176	1,109
Gains/(loss) on disposal	(1)	--	1	--	--	--	--	--	--	--
Other gains/(losses)	--	--	--	--	--	--	--	--	--	--
Net result	1	2	29	(36)	11	4	5	(2)	46	(32)
Total other comprehensive income/(expense)*	7	--	--	--	--	--	--	--	7	--
Total comprehensive income/(expense)	8	2	29	(36)	11	4	5	--	53	(32)
Abridged statement of financial position - at 30 June										
Current assets	169	140	94	10	36	24	19	9	318	183
Non-current assets	669	668	32	26	26	28	4	3	731	725
Total assets	838	808	126	36	62	52	23	12	1,049	908
Current liabilities	139	159	53	54	15	13	3	3	210	229
Non-current liabilities	134	54	2	18	--	--	2	--	138	72
Total liabilities	273	213	55	72	15	13	5	3	348	301
Net assets	565	595	71	(36)	47	39	18	9	701	607
Abridged statement of cash flows - year ended 30 June										
Purchases of Property, Plant and Equipment	77	66	13	10	6	14	3	3	99	93

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 Four – Cluster Information

Agency	Website
Fire and Rescue NSW	www.fire.nsw.gov.au/
The Office of the NSW State and Emergency Service	www.ses.nsw.gov.au/
NSW Rural Fire Service	www.rfs.nsw.gov.au/
Ministry for Police and Emergency Services	www.emergency.nsw.gov.au/
Bush Fire Coordinating Committee	*
State Rescue Board	*

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Level 15, 1 Margaret Street
Sydney NSW 2000 Australia

t +61 2 9275 7100

f +61 2 9275 7200

e mail@audit.nsw.gov.au

office hours 8.30 am–5.00 pm

audit.nsw.gov.au

