
New South Wales Auditor-General's Report

Financial Audit

Volume One 2014

Areas of focus from 2013



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 One of my 2014 report.

A handwritten signature in dark ink, appearing to read 'Grant Hehir'.

Grant Hehir
Auditor-General
March 2014

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Areas of Focus from 2013

This overview focuses on key observations from financial and performance audits in 2013. The observations have been reported to Parliament and other stakeholders, including relevant Ministers and those charged with the governance of individual agencies.

The overview highlights themes and trends across the NSW public sector impacting accountability, risk management and performance. Stakeholders, including policy makers, should consider these when formulating effective and efficient responses to the issues and related audit recommendations.

The observations have been broadly classified in the following categories; which will continue to inform and shape the focus of financial and performance audits conducted across the NSW public sector in 2014.

Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Only when people can access information about what their government is doing can they hold them to account. Confidence in public sector decision making and transparency is also enhanced when financial and performance reporting is accurate, timely and clear.

Timely and accurate financial reporting is a significant audit focus and an area where concerns have been previously reported. The 2013 audits reported significant improvement in the accuracy and timeliness of agency financial statements, however, more improvement is required.

The 2013 audits identified that the NSW public sector reporting would improve if:

- **agencies prepare plans detailing their preparedness for impending financial and performance reporting cycles**
- **those charged with agency governance review and monitor agency performance against such plans and assess the outcomes.**

Financial Controls

Sound accounting policies, processes and controls improve the consistency, quality and timeliness of management information. This directly impacts the quality and timeliness of decision making processes within individual agencies and by key central agencies and government.

Poorly designed and ineffective processes and controls increase the risk of error and fraud. The 2013 audits identified that even when there are clear expectations on what outputs services are expected to deliver, poor quality or limited use of management information often impacts the efficiency and effectiveness of services provided. The audits also found that rapid changes in services and in organisational structures often diminishes the amount, quality and use of information available, and the performance achieved.

Typically, employee costs account for 75 per cent of departments' operating expenditures. Effective human resources management is a key driver of financial control and accountability.

The 2013 audits identified that the NSW public sector can take further actions to control its employee costs by improving and carefully managing overtime and excessive leave balances.

Effective asset management helps ensure assets are used efficiently and effectively in public service delivery.

To improve asset management, the 2013 audits identified that the NSW public sector needs to resolve issues surrounding the control of significant assets; have the ability to adjust their asset portfolios quickly and efficiently to meet changes in demand and/or costs; and ensure consistent and comprehensive maintenance plans are in place to allocate scarce maintenance resources effectively.

Agencies are becoming increasingly reliant on information technology to help them improve service delivery outcomes.

The 2013 audits found:

- **sixty three per cent of IT issues identified related to flaws in information security**
- **improvement in the extent of agency testing of disaster recovery plans**
- **instances where the benefits of automated controls were not realised due to poor implementation.**

Governance

Good governance in the public sector is evidenced by the quality of management, policies, guidance, processes and decision-rights for given areas of responsibility, and proper oversight and accountability. It contributes to sound management of public finances and public employment, supports public sector accountability and helps track public sector improvements. It is critical to the economic, efficient and effective delivery of government services.

To achieve these outcomes, the 2013 audits identified that the NSW public sector needs to improve:

- **governance frameworks so they clearly articulate the accountability of individuals and agencies in fulfilling their responsibilities and delivering outcomes**
- **the consistency of data and establishment of key performance indicators to support those charged with governance**
- **risk management practices to ensure they are responsive to a changing environment.**

Service Delivery

The quality of public sector service delivery depends on how well agencies oversight and manage internal and external service providers.

The 2013 audits identified that NSW public sector needs to:

- **finalise and implement agreements with service providers that coordinate services effectively**
- **focus on customer/client needs**
- **improve mechanisms to monitor service delivery and quality**
- **improve the effectiveness of contract and project management to realise intended benefits.**

Looking Forward

The observations included in this report are designed to inform readers of common findings from the 2013 financial and performance audits so agencies and audit committees can use them to identify issues that may be relevant to their organisations. Going forward, our financial and performance audits will focus on financial and performance reporting, financial controls, governance and service delivery.

In an approach consistent with these four focus areas, The Treasury's Financial Management Transformation Program aims to raise the quality of financial management and financial reporting across the NSW public sector. The program aims to increase transparency, improve the robustness of forward estimates, take a more strategic whole-of-lifecycle view of programs and assets, and establishing clearer accountabilities.

More information about the Financial Management Transformation Program is at http://www.treasury.nsw.gov.au/financial_management_transformation.

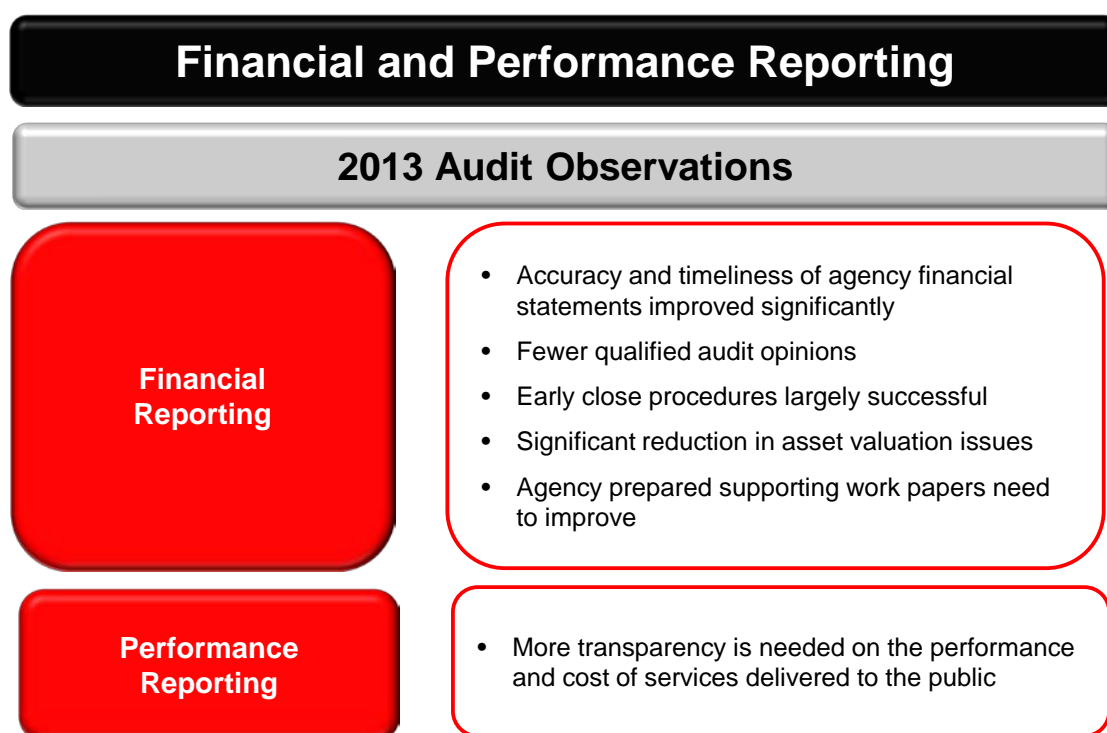
Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. It is only when people have access to accurate and timely information about what their government is doing can they hold it to account. Confidence in public sector decision making and transparency is enhanced when financial and performance reporting is accurate, timely and clear.

Government requires accurate and timely financial and performance information from agencies to enable effective decision making.

The 2013 audits identified that NSW public sector reporting would improve (e.g. [Volume Five 2013](#), page 54) if:

- agencies prepared plans which show their preparedness for financial and performance reporting cycles
- those charged with agency governance review and monitor agency performance against such plans and assess the outcomes.



Financial Reporting

Timely and accurate financial reporting is a key element in the transparency of government agencies. This is a significant focus for financial audits and an area of previously reported concerns. While there is more to do, the following commentary summarises the success achieved in 2013 in significantly improving the accuracy and timeliness of agency financial statements.

Financial Statements

Treasury set the deadlines for agencies to submit their 30 June 2013 (or equivalent) financial statements for audit. There was no change from 2012 in the number of agencies that did not meet the deadline, which remained at 20.

| Group | Statutory deadline* | Met deadline | Did not meet deadline | Total | % of agencies met deadline |
|--------------|------------------------------|--------------|-----------------------|------------|----------------------------|
| One | 25 July 2013 | 27 | -- | 27 | 100 |
| Two | 26 July 2013 | 33 | -- | 33 | 100 |
| Three | 29 July 2013 | 61 | 8 | 69 | 88 |
| Other | 12 August 2013 or other date | 200 | 12 | 212 | 94 |
| Total | | 321 | 20 | 341 | 94 |

Note: Includes The Legislature.

Group 1, 2 and 3 agencies, which are significant to the Total State Sector Accounts, are listed in Appendix D of Treasury Circular TC 13/01 'Mandatory early close procedures for 2013'.

Group 1 and 2 agencies complied with Treasury's financial reporting timeframe to lodge financial statements with the Audit Office.

Supporting Work Papers

The 2013 audits identified that further improvement to agency prepared work papers is required.

Good quality work papers help reduce the number of errors in financial statements and the duration and cost of the audit.

Measuring the quality of agency prepared work papers is subjective. An assessment of quality cannot be made until the audit starts.

Analysis of Independent Auditor Reports

During 2012-13, there were three qualified audit opinions issued. This is a significant improvement on the previous two years.

| Year ended 30 June | 2013** | 2012** | 2011** |
|--------------------|------------|------------|------------|
| Qualified | 3 | 9 | 10 |
| Unqualified* | 308 | 297 | 325 |
| Total | 311 | 306 | 335 |

Note: Includes The Legislature in all years.

* Unqualified opinions: where, in all material respects, the financial statements were in accordance with the applicable financial reporting framework and relevant accounting standards. The audits obtained sufficient assurance the financial statements, as a whole, were free from material misstatement.

** At 31 December.

The three qualified audit opinions were issued because:

- the audit was not able to conclude on the completeness of income from fund raising, voluntary contributions and donations for the ANZAC Health and Medical Research Foundation - Trust Fund
- there was uncertainty over the correctness of opening balances and the possible impact in the current year on the Murray Catchment Management Authority's financial statements
- NSW Self Insurance Corporation values claim liabilities using AASB 137 Provisions, Contingent Liabilities and Contingent Assets instead of AASB 1023 General Insurance Contracts.

Timeliness of Audit Completion

Fifty eight per cent or 194 audit opinions were issued by 30 September in 2013 compared to 18 per cent or 64 in 2011. The focus on agencies performing early close procedures contributed significantly to this outcome. While this is a significant improvement, it still represents unsatisfactory performance. The Audit Office will continue working with agencies and Treasury to improve the timeliness of financial reporting.

| Audit opinions issued Month | 2013 | % | 2012 | % | 2011 | % |
|-----------------------------|------------|------------|------------|------------|------------|------------|
| July/August | 18 | 6 | 22 | 7 | 8 | 2 |
| September | 176 | 52 | 116 | 36 | 56 | 16 |
| October | 105 | 31 | 152 | 47 | 209 | 62 |
| November | 5 | 1 | 15 | 4 | 44 | 13 |
| December | 5 | 1 | -- | -- | 17 | 5 |
| Not yet issued | 30 | 9 | 18 | 6 | 8 | 2 |
| Total | 339 | 100 | 323 | 100 | 342 | 100 |

Note: Includes The Legislature.

The number of audit opinions issued by month and by cluster:

| Audit opinions issued Cluster | July/August 2013 | September 2013 | October 2013 | November 2013 | December 2013 | Not yet issued | Total |
|------------------------------------------------------------|------------------|----------------|--------------|---------------|---------------|----------------|------------|
| Attorney General and Justice | -- | 16 | 1 | -- | -- | 3 | 20 |
| Education and Communities | -- | 5 | 16 | -- | -- | 2 | 23 |
| Family and Community Services | -- | 6 | 2 | 1 | -- | -- | 9 |
| Finance and Services | 5 | 24 | 15 | -- | 1 | 1 | 45 |
| Health | -- | 49 | 25 | 1 | -- | -- | 75 |
| Premier and Cabinet | 7 | 32 | 12 | -- | -- | 6 | 57 |
| Trade and Investment, Regional Infrastructure and Services | 3 | 22 | 25 | 3 | 1 | 14 | 69 |
| Transport | -- | 14 | 6 | -- | -- | -- | 20 |
| Treasury | 3 | 7 | 3 | -- | 3 | 4 | 20 |
| Total | 18 | 175 | 105 | 5 | 5 | 30 | 338 |

Note: Cluster agencies can change from year to year. In any year, agencies are created, others are dissolved and some are moved to another cluster. The number of cluster changes in any one year is low.

Excludes The Legislature. The Legislature is not in any cluster.

Monitoring

The quality and timeliness of financial reporting across the NSW public sector significantly improved in 2013 and resulted in the removal of all Total State Sector Accounts audit qualifications.

When quality control procedures and oversight functions work well, agencies detect and correct errors in financial information before they are released. This helps improve the quality of financial information, upon which decisions are made.

In 2013, Treasury implemented a range of measures, including enhanced early close procedures, to improve public sector financial reporting. In addition, the Treasurer actively engaged with agency Chief Financial Officers and Audit and Risk Committee Chairs to communicate the importance of accurate and timely financial information.

The nature and extent of errors in agencies' financial statements provides valuable insight into the quality of financial reporting.

Agencies' 2012-13 financial statements submitted for audit and used for whole-of-government financial reporting contained 15 errors that individually exceeded \$20.0 million. This is half the number of such errors in the previous year.

| Year ended 30 June | Number of Errors | |
|-----------------------------------------------|------------------|-----------|
| | 2013 | 2012* |
| \$20–\$50 million | 7 | 15 |
| \$50–\$100 million | 3 | 6 |
| \$100 million–\$1.0 billion | 5 | 7 |
| Greater than \$1.0 billion | -- | 2 |
| Total errors greater than \$20 million | 15 | 30 |

* Comparative information updated to align with this year's reporting convention.

Agencies' financial statements as well as the Total State Sector Accounts were amended for these errors, where necessary. This helped ensure the financial statements complied with Australian Accounting Standards and the requirements of the *Public Finance and Audit Act 1983*.

Generally, financial statement users will accept a level of immaterial errors as a trade-off for timely financial information, as long as that level does not affect their ability to make sound decisions based on that information.

2012-13 Early Close Procedures

Agencies were largely successful in performing early close procedures and addressed most of their obligations in 2012-13. While there is room for some agencies to improve early close procedures in some areas, generally agencies are on the right track.

Opportunities for improvement include ([Volume Three 2013](#), page 43):

- compiling adequate working papers to support revaluations of property, plant and equipment to allow for more timely audit
- ensuring management's proposed accounting treatments, judgements and assumptions are adequately documented
- resolving significant accounting issues as part of early close process, or documenting a clear path towards timely resolution
- preparing documented action plans to facilitate resolution of issues.

Agencies will not always be able to fully resolve significant and complex accounting issues as part of early close procedures. Where full resolution is not achievable, it is important agencies document a clear path towards timely resolution and ensure appropriate stakeholders, including Treasury and the Audit Office, are kept informed. This documentation should set out the issue, the current status, the key aspects needing resolution and who is responsible for the expected deliverables. Having this documented helps maintain a focus on achieving timely resolution.

It is important for agencies to be well prepared for future refinements of early close procedures and to plan for the 2014 timetable.

Asset Valuations

In prior years, issues with asset valuations have contributed significantly to errors and qualified opinions on financial statement audits.

In 2013, no Independent Auditor's Reports were qualified for asset valuation issues, due largely to more effective project management, better understanding of asset bases, and improved stakeholder management (e.g. [Volume Five 2013](#), pages 10-11).

Effective project management includes:

- starting the project early - one agency commenced planning for the 2013 audit of physical assets in October 2012
- making the effective valuation date well before the financial year-end - for some agencies this date was 31 December 2012
- having effective oversight of the valuation process
- project team members understanding the requirements of the Accounting Standards and Treasury guidelines for valuing assets.

Better understanding the asset bases involved agencies:

- demonstrating a good understanding of the nature of their asset bases and key cost drivers, including unique characteristics of the asset being valued
- developing appropriate ways to determine replacement costs or market values
- bringing asset registers up to date, and reconciling them to the general ledger.

Improved stakeholder involvement included:

- the engagement of experts (i.e. valuer or quantity surveyor) after determining the skills needed to complete the valuation
- agencies informing the experts on how the valuation information would be used
- agencies providing opportunities for the experts to brief the audit teams on their approach and interim findings
- agencies keeping Audit and Risk Committees up to date on progress with the valuations.

Performance Reporting

The State Plan – NSW 2021 – provides a clear statement of the government's priorities and targets. Annual reporting on achievements against the targets in the Plan provides transparency about progress to Parliament and the public.

The need for transparency has been reinforced in legislation with the *Government Information (Public Access) Act 2009* (GIPA Act) requiring agencies to publish all non-confidential information on their website, including details of contracts entered into and service performance achieved.

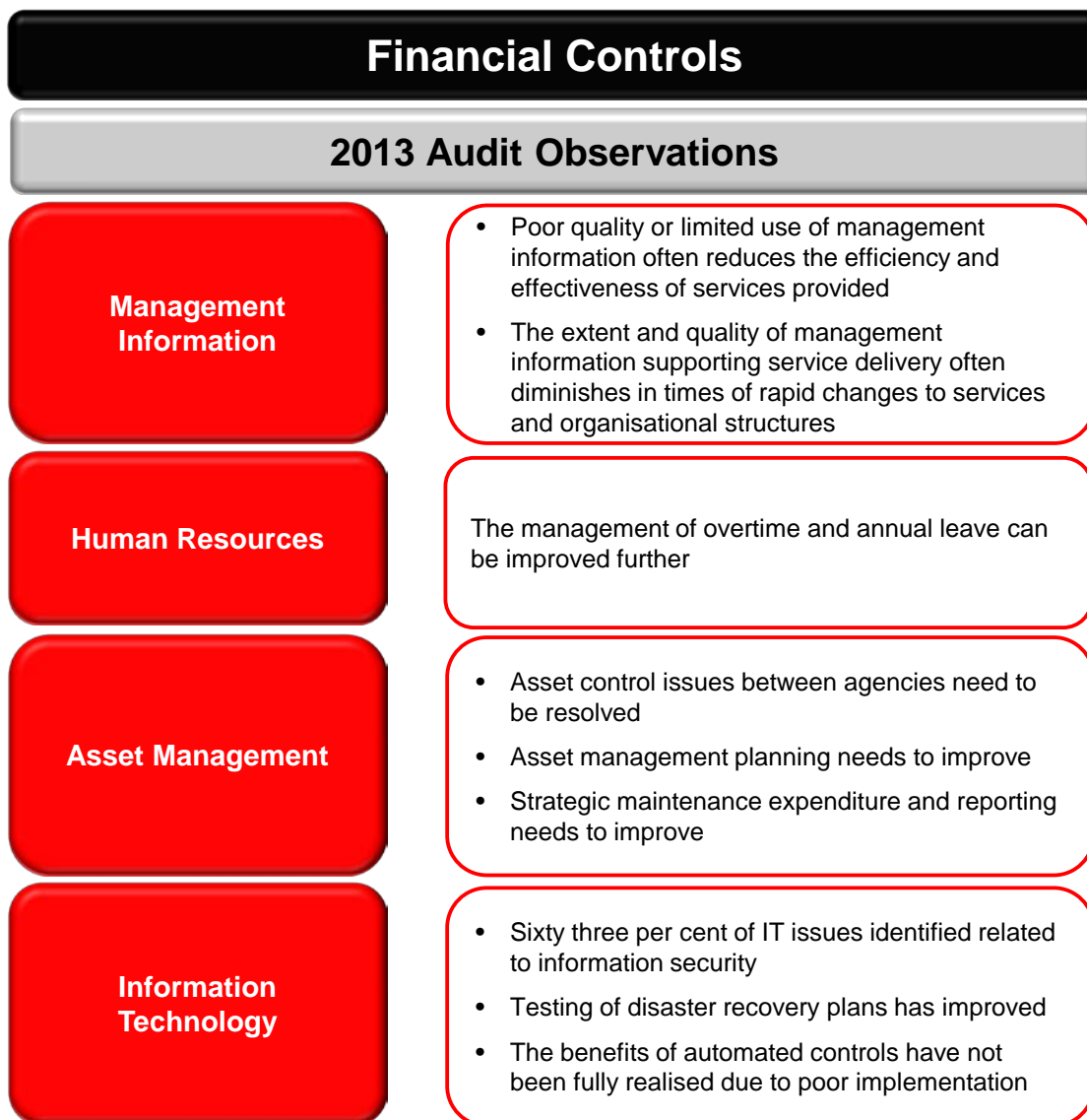
The 2013 audits identified areas where improvement on individual programs was needed to meet these expectations. For example, the 'Management of Club Grants' audit found minimal transparency as to how such grants were spent, either to the public, or to community agencies who participate.

The audit on the 'Cost of Alcohol' found that, although government agencies monitor and report incidents of alcohol-related harm, they do not monitor or report the total cost of alcohol abuse. That information is fragmented at best, and weakens the government's ability to respond in a coordinated and balanced way.

Transparency is also an issue within agencies. In 'Managing Gifts and Benefits' all of the agencies examined had policies to guide staff acceptance of benefits and registers to record them. However, none had ensured there was sufficient information recorded to demonstrate that all gifts were dealt with appropriately.

Financial Controls

Appropriate financial controls help ensure the efficient and effective implementation and administration of government and agency policies in the achievement of agency outcomes.



Management Information

Sound accounting policies, processes and controls improve the consistency, quality and timeliness of management information. This directly impacts the quality and timeliness of decision making processes within individual agencies, by central agencies and by Government.

The 2013 audits identified that even when there is a clear expectation on what outputs services are expected to deliver, poor quality or limited use of management information often reduces the efficiency and effectiveness of services provided.

For example, the audit 'Building Energy Use in Hospitals' brought together, for the first time, comparative information on energy efficiency across hospitals and health districts, identifying significant variations between them. The audit recommended NSW Health use this information to make further improvements in energy efficiency. Public health facilities are the highest users of building energy in the NSW public sector.

Reliable and relevant information is important when managing the performance of government services, whether in or out-sourced. Audits often find that rapid changes in services and organisational structures diminishes the amount, quality and use of information available, and the performance achieved.

With staff costs making up over 75 per cent of expenditure in most departments, good management of staff is central to delivering high quality customer focused service delivery. Building capability, accountability and flexibility into staffing arrangements is increasingly important to meet changing demands, new roles and service delivery models. This is well illustrated by the audit 'Use of Casual Teachers' within the Department of Education and Communities.

The audit found that most schools can find their own casual teachers and only seek the Department's assistance as a last resort. However, finding casual teacher cover in rural and remote communities continues to be a challenge.

While coverage has improved, the performance of casual teachers remains an issue for many school principals when they call for support from the Department's casual teaching pool. When it decides who to send, the Department does not favour teachers with good reports from other schools.

The audit recommended the Department build on its achievement in three areas:

- do more to support rural and remote schools that struggle to attract casual teachers
- collect and use feedback about teacher performance when deciding which casual teachers to assign
- remove inactive teachers from its register, so it can assign casual teachers more efficiently.

Management information can be impaired for decision making purposes if not supported by appropriate policies, and efficient and effective processes that are well controlled. The 2013 financial audits as summarised in Appendix One, highlighted some common themes:

- policies and procedures inconsistent with better practice guidelines
- poor reconciliations and review procedures
- non-compliance with delegations, policies, legislative requirements or Treasurer's Directions
- inadequate segregation of duties, review and approval of transactions.

Human Resources

The 2013 audits identified that the NSW public sector can do more to control its employee costs by improving its management of overtime and excessive leave balances.

Electricity, transport and health entities reduced overtime payments for the 12 months to 30 June 2013. Overtime payments in:

- Electricity fell from \$211 million to \$150 million ([Volume Four 2013](#), page 29)
- Health fell from \$390 million to \$370 million ([Volume Ten 2013](#), page 34)
- Transport fell from \$228 million to \$217 million ([Volume Eight 2013](#), page 55).

A 2012 performance audit reported on how RailCorp and Roads and Maritime Services manage overtime. The report made seven recommendations to RailCorp and ten to Roads and Maritime Services. Both entities are implementing the recommendations and this has contributed to the decrease in overtime paid in 2013. For further information refer to www.audit.nsw.gov.au/Publications/Performance-Audit-Reports/2012-Reports.

Some key learnings in managing overtime include:

- determining the acceptable overtime levels for operational purposes
- setting overtime targets at a divisional level within agencies
- improving management reporting on overtime at the divisional and agency levels
- understanding why individual top overtime earners are working so much overtime.

The Premier has requested all Directors General and Chief Executives reduce excessive annual leave balances. By 30 June 2013, the maximum accrued annual leave days target was 40 days, reducing to 35 days by 30 June 2014 and 30 days by 30 June 2015.

While agencies appear to be making progress with these targets, it remains a significant challenge. For example, at 30 June 2013, 2,204 transport staff (7.4 per cent) had excessive leave balances, down from 2,509 staff in the prior year ([Volume Eight 2013](#), page 49). However, Health entities' ([Volume Ten 2013](#), page 37) excessive leave balances increased from 28,051 to 28,707 staff (23.8 per cent of workers).

Some key learnings in managing excessive annual leave balances include:

- formal leave plans with employees to reduce their leave balances over an acceptable timeframe
- monthly monitoring of current and projected leave balances to the end of the financial year on a monthly basis
- identifying staff who are taking little or no leave each year. Employees taking two weeks of continuous leave each year is a useful anti-fraud measure.

Asset Management

Effective asset management helps ensure assets are used efficiently and effectively in public service delivery. To improve asset management, the 2013 audits identified that the NSW public sector needs to ([Volume Five 2013](#), page 55; [Volume Ten 2013](#), pages 47-49):

- resolve issues surrounding the control of significant assets and improve asset management planning to better support service delivery
- ensure consistent and comprehensive maintenance plans are in place to allocate scarce maintenance resources effectively
- consistently identify and measure backlog maintenance
- establish targets and benchmarks to assess the adequacy of maintenance spends.

Information Technology

The 2013 audits focussing on agency information systems highlighted issues relating to information security, disaster recovery planning and automated controls.

Information Security

Over the last three years, audits have identified many deficiencies in agencies' management of information security controls when compared to better practice. Information security issues make up 63 per cent of all IT issues reported in 2013. Information security requirements are often overlooked during new system implementations and during times of organisational change. The two primary issues reported in relation to information security were:

- user administration (24 per cent of all 2013 IT issues): over half the issues related to the absence of, or weak processes, surrounding user account management and access reviews
- password parameters (14 per cent of all 2013 IT issues): most issues related to weak password configurations or passwords that were not in line with agencies' established password policies.

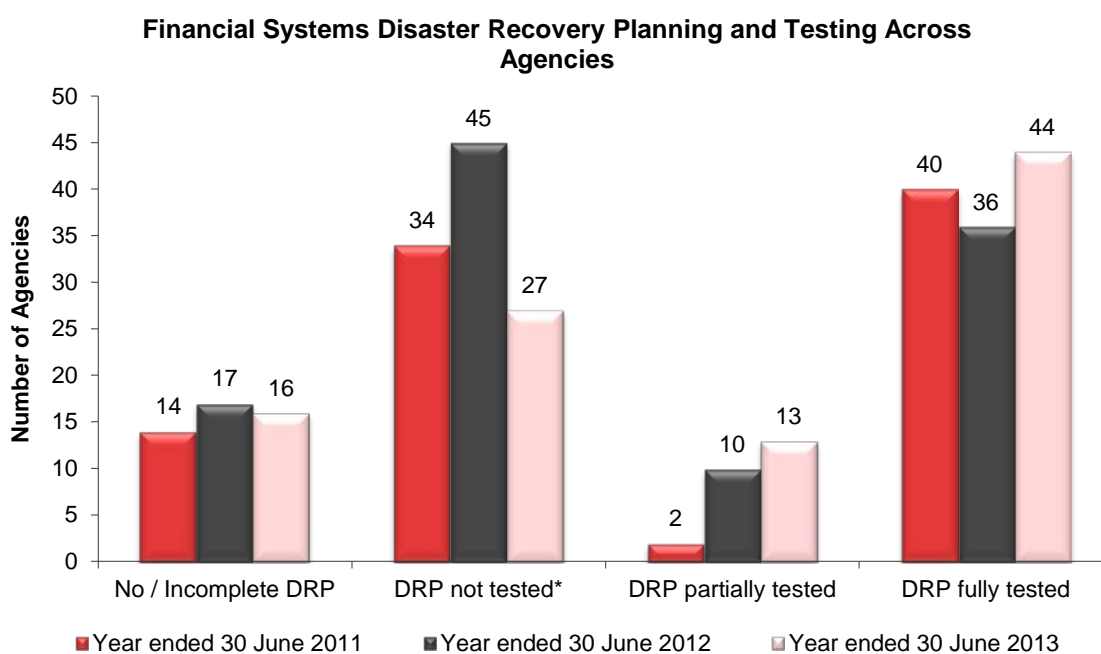
The '2012-15 Digital Information Security Policy' was issued by the NSW Government at the end of 2012. The NSW Government is currently in the initial stages of monitoring agency compliance with the policy. Future audits will monitor whether agency compliance with the policy results in improvements in the management of information security.

A growing number of agencies are adopting cloud computing for their financial systems. As part of their responsibility to comply with the policy, agencies need to understand the complexities of cloud computing and subsequent changes to their information security control environment.

Disaster Recovery Planning for Key Financial Systems

In 2013, the extent of testing of agency disaster recovery plans improved.

Despite these improvements, disaster recovery planning continues to be the area with the second highest number of issues, making up 17 per cent of all IT issues reported in 2013. Experiences in other jurisdictions recovering from natural disasters highlight the importance for NSW agencies to continue improving their disaster recovery management processes.



All agencies reviewed had backup copies of all significant financial system programs and data stored in an off-site location. The audits found 95 per cent of reviewed agencies had an arrangement for restoring computer processing in the event of an emergency.

The NSW Government Data Centre Reform Project will change the way agencies manage disaster recovery processes. The project aims to relocate dispersed data centre infrastructure for 130 agencies into two shared facilities. Agencies should understand the implications of this change on disaster recovery processes and continue to maintain ownership of disaster recovery responsibilities.

Automated Control Environment

Automated controls aim to improve financial accountability, transaction validity and data integrity. However, the design and implementation of these controls is still an area of concern. Some agencies lack an understanding of automated controls, resulting in them being overlooked or not appropriately implemented. Issues with automated controls are more apparent in agencies that use complex in-house developed applications or Enterprise Resource Planning (ERP) applications.

The 2013 audits showed:

Design of Automated Controls

- applications with no in-built functionality to:
 - enforce strong password settings in line with the agency's security policy
 - enforce the agency's business rules
- audit logging not designed to capture an appropriate level of information
- functionality within applications to perform duplicate payment checks not being used, with business operations relying instead on limited manual checks
- business operations not aware of automated controls within applications
- an agency did not specify to the service provider the security requirements to be set in a new ERP implementation.

User Access and Segregation of Duties

- applications without the capability to appropriately segregate access in line with the roles and responsibilities of the users
- applications not configured to segregate between users with transaction data entry and approval capabilities.

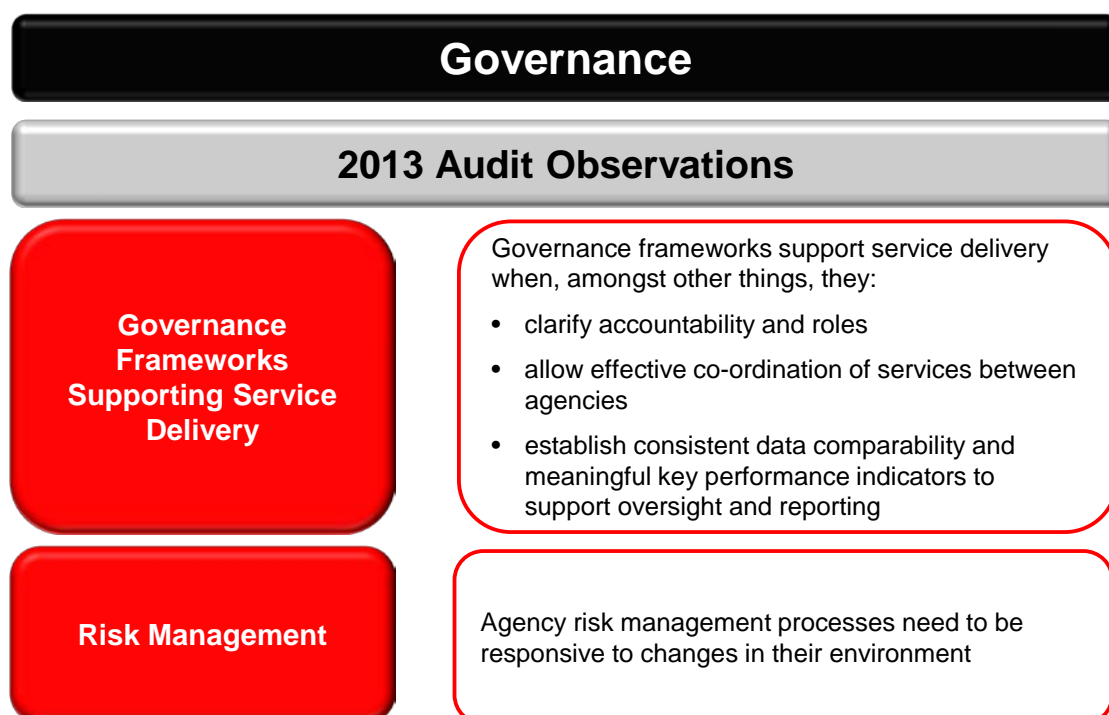
Processes Surrounding Automated Controls

- weak user access management processes resulting in users being granted access incompatible with their roles and responsibilities
- audit logs not reviewed regularly
- application access not reviewed regularly
- passwords to sensitive accounts not regularly changed.

Weaknesses in automated controls result in inefficient manual processes, processing errors, loss of accountability and lack of financial data integrity. In consideration of these implications, the design and implementation of automated controls will continue to be an area of focus in our audits.

Governance

Governance refers to 'the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled in agencies.'¹ It includes the systems public sector agencies, and those charged with governance, use and are held to account by others.



Governance Frameworks supporting Service Delivery

Clear accountabilities in roles, priorities, service objectives and reporting are important determinants of good governance. Frameworks are tools that enable those charged with governance to provide strategic guidance for agencies as well as effective oversight of management. They add to role clarity and responsibilities.

However, half of the 2013 performance audits found weaknesses in this area. Issues included a lack of clear responsibilities, poor coordination of services between agencies, or limited management oversight and reporting.

For example, 'Improving Legal and Safe Driving amongst Aboriginal People' found the absence of an integrated strategy between the agencies involved has resulted in many initiatives but no sustained improvement in the level of safe and legal driving amongst aboriginal people.

As financial constraints on government agencies have increased in recent years, and demands on government services have changed, the 2013 audits found occasions where programs had difficulty in adjusting to new circumstances.

For example the audit 'Making the Best Use of Public Housing' found the current portfolio and funding arrangements do not enable Housing NSW to meet the changing public housing need. Public housing is ageing and much is not fit for purpose (wrong place, wrong size). There is also an increasing shortfall between the supply of, and demand for, public housing.

¹ Adapted from the Corporate Governance Principles and Recommendations with 2010 Amendments 2nd Edition ASX Corporate Governance Council 2010

The audit concluded that the government needs to answer key questions about the direction for public housing for the longer-term, such as who is to be housed, and how funding and asset ownership will achieve a sustainable social housing sector.

Likewise, the audit 'Management of Heritage Assets in National Parks' found that the National Parks and Wildlife Service (NPWS) had inherited or received substantial heritage assets without the means to maintain them. While NPWS has done some good work, overall it is spreading its resources too thinly, running the risk that the heritage significance of important assets will eventually be lost.

The audit recommended that NPWS should concentrate its efforts on significant and representative historic heritage. It needs to establish State-wide priorities for historic heritage management and allocate resources on the basis of these priorities.

Clear accountability in roles and contracts, supported by well documented and transparent decision making, are key to government accountability. The 2013 audits found situations where the existence of a framework would improve governance arrangements. Examples include:

- a framework to measure savings from procurement initiatives to help in data comparability across agencies ([Volume Seven 2013](#), page 69)
- a framework (or instruction) on how data should be collated to improve the consistency and improve decision making processes ([Volume Ten 2013](#), page 20).

Key performance indicators (KPIs) provide those charged with governance the ability to provide timely and accurate information on the achievement of strategies. They enhance performance management and contribute to a clear understanding of corporate goals.

Potential improvements found in the 2013 audits included the following examples:

- the need for KPIs to assess the adequacy of the maintenance spend ([Volume Ten 2013](#), page 48)
- the establishment of KPI's to monitor customer satisfaction in providing more accessible, streamlined and targeted service delivery ([Volume Eight 2013](#), page 67)
- the comparison of benchmarks with other jurisdictions so that those charged with governance can reach a view on the effectiveness and efficiency of programs ([Volume Seven 2013](#), page 21).

Risk Management

Public sector agencies operate in an environment that is constantly changing. Managing the risks that emerge from change is a key role for those responsible for governance.

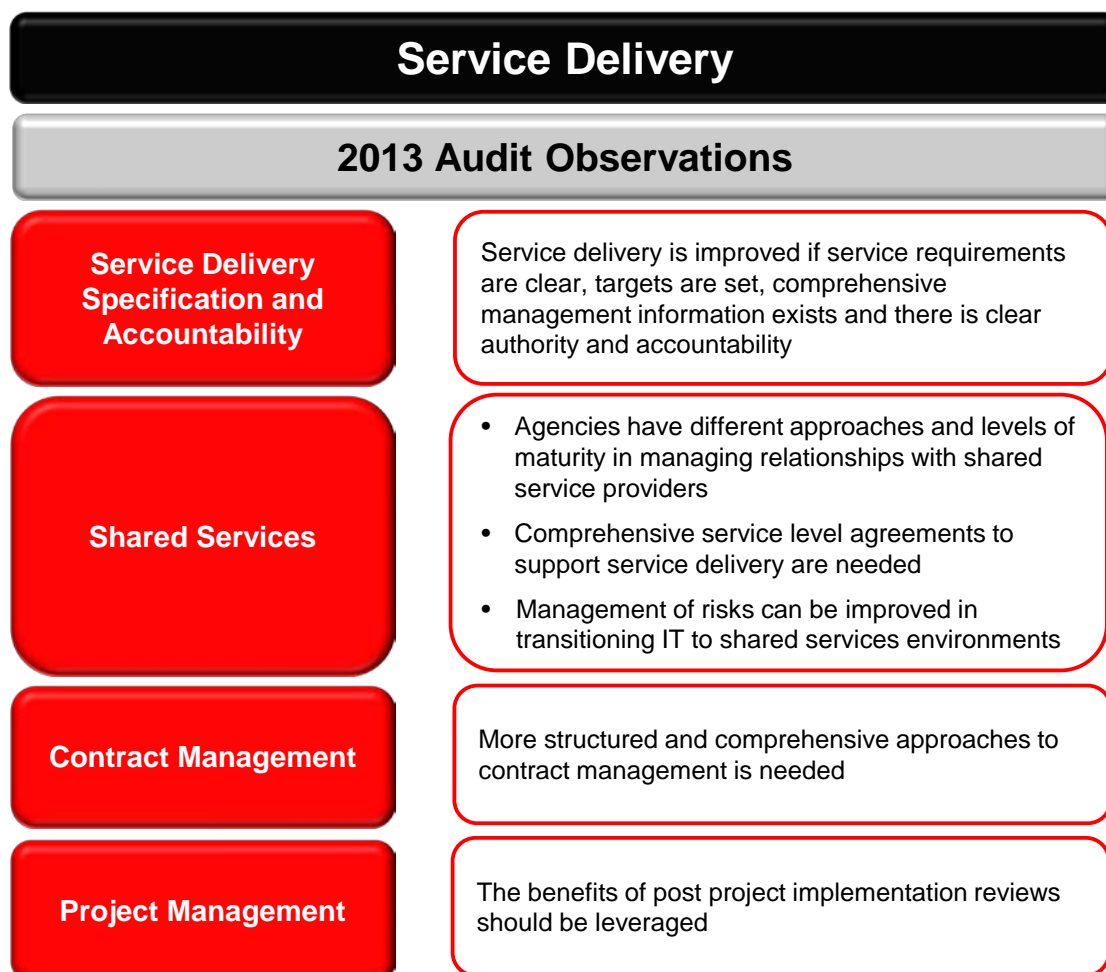
It is essential for agency risk registers to be reviewed and updated regularly. The 2013 audits identified the need for a greater focus on managing the risks of change effectively. In particular, agencies:

- need to review changes to legislation for emerging risks ([Volume Ten 2013](#), page 90)
- regularly update risk registers to address the impact of restructures or changes to agency operations.

Service Delivery

The achievement of Government outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not-for-profit sectors. Commissioning involves the process by which agencies assess their needs, determine priorities, design and source appropriate services, and monitor and evaluate performance.

In an environment of increasing delivery through partnerships, outsourcing, devolution and shared services, audit reports have identified areas where improvement is required.



Service Delivery Specification and Accountability

The delivery of efficient and effective performance on some programs is hampered by the limited specification of service requirements and targets, limited (use of) management information and a lack of clear accountability.

For example, the audit on 'Managing operating theatre efficiency for elective surgery' concluded that more elective surgery could be achieved through better specification and management of how operating theatre resources are used. This means:

- theatre sessions starting on time
- cancellations kept to a minimum
- a close watch on unfilled or under-utilised capacity
- better information on what surgery is expected to cost and what happens in practice.

These elements will become all the more important as health services across New South Wales rely more on 'activity-based' funding.

To improve service delivery, the report concluded that operating theatre managers needed:

- the authority to hold to account the many contributors in each hospital to deliver efficient and effective surgery
- to be backed by active operating theatre committees bringing together surgeons, anaesthetists, nurses and hospital executives
- better information on key aspects of performance: capacity, costs and productivity, to support their oversight.

Shared Services

Annual financial audits review agency shared service arrangements. The 2013 audits found agencies have different approaches and levels of maturity in managing relationships with shared service providers.

Common issues in some shared services arrangements include:

- service level agreements not in place
- service level agreements do not clearly define what services are to be provided, the responsibilities of parties to the arrangement, measurable performance targets, and pricing
- a lack of regular customer satisfaction surveys and strategic responses to low ratings
- unclear auditing and reporting arrangements.

Some common themes and issues were also identified in transitioning IT to shared services. Two areas of concern for agencies using IT shared services are detailed below:

IT Shared Service Level Agreements (SLA)

The 2013 audits found:

- no formal agreements between the service provider and the agency
- expected controls and requirements are not captured in the agreements, including provisions for the right to audit by agencies and their auditors
- responsibilities for executing operational activities and controls not clearly defined
- weak or no processes for:
 - agencies to monitor their shared services to gain assurance the services have been performed in accordance with the agreed SLA terms
 - establishing periodic reviews of the SLAs to ensure they reflect updates and changes of service.

Because agencies are not formalising their service level agreements, they may not be maximising the benefits of shared service arrangements.

Design and execution of controls

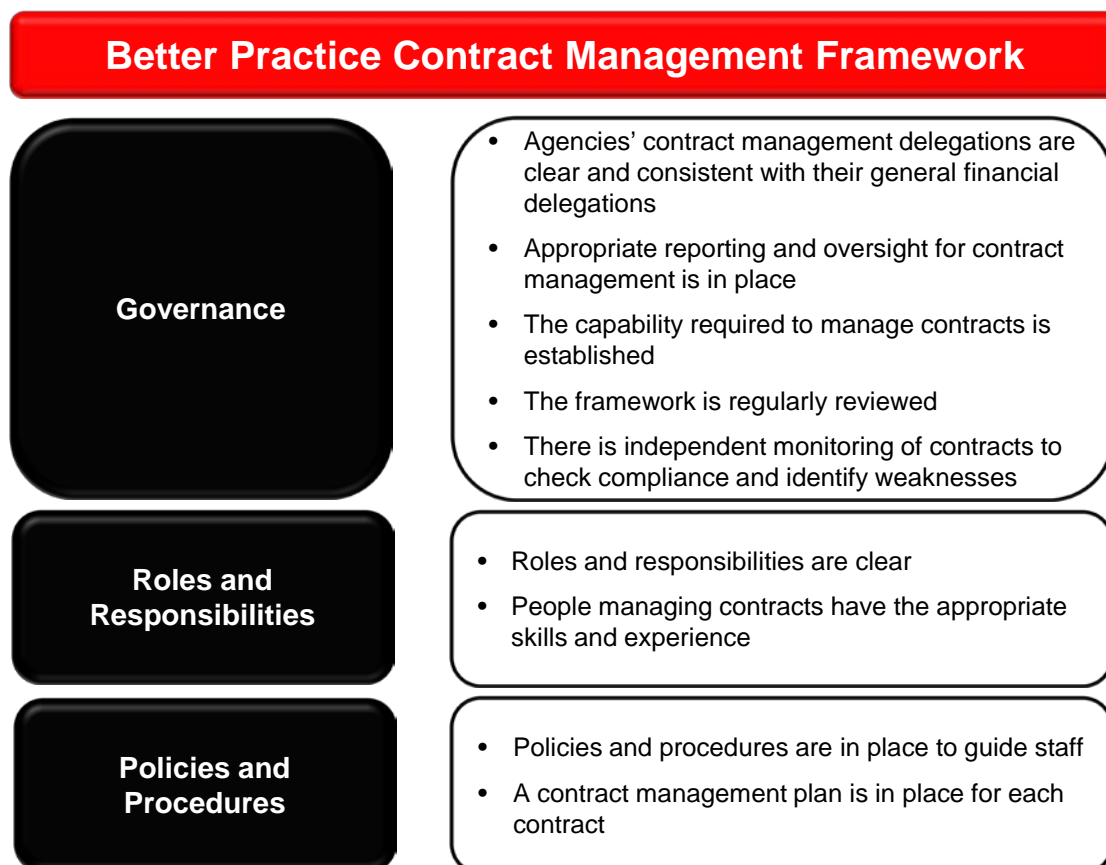
The 2013 audits identified:

- weak or no processes by shared service providers in:
 - granting and removal of user accounts or access
 - verifying the validity of user accounts and appropriateness of access managed by the shared service providers.
- weak or no processes by agencies in:
 - verifying the shared service providers have implemented specified agencies' management controls, commonly in security configurations
 - designing mitigating controls for control gaps at both the agency and shared service provider levels.

Contract Management

Effective contract management for the entire lifecycle of each contract is crucial in obtaining the intended contract benefits and to manage risks. The 2013 audits again highlighted this area needed more attention by agencies. A more structured approach to managing contracts in agencies is needed.

The 2012 performance audit 'Managing IT Services contracts' included the following management framework as a guide:



Source: Audit Office research 2011

Agencies should consider this contract management framework when establishing their own framework.

Project Management

Project management issues continue to be identified in audit reports. Challenges include:

- managing changes in project scope and the impact on project costs
- delivering the planned project benefits.

Major IT projects in particular generate significant project management issues.

A valuable tool in improving project management flows from the knowledge gained in conducting post project implementation reviews. The reviews should be performed as soon as possible after implementation to:

- assess if the project achieved its intended outcomes
- assess whether management practices were effective in keeping the project on track
- determine the lessons learnt from the project for application to future projects.

Looking Forward

A Forward Program that responds to the Government's Major Priorities

Going forward, audit reports to Parliament will include observations and opportunities for agencies to improve the efficiency and effectiveness of service delivery to meet the key priorities in the State Plan NSW 2021. The State Plan's key priorities are building the economy, delivering quality services, renovating infrastructure, strengthening the local environment and communities, and accountability to government.

Financial and performance audits will respond to the major public sector reforms supporting the implementation of the Government's policy objectives, in particular:

- financial and performance reporting
 - public information that is timely, accurate and available
- financial controls
 - management information systems for transparent and evidence-based decisions
 - implementation and operation of government and agency policies
 - workforce capability and flexibility
- governance
 - devolution of decision-making
 - cross-agency and cross-government collaboration
 - assessment and monitoring of risks
 - control frameworks
- service delivery
 - procurement and corporate services reform
 - contestability and franchising of government services
 - partnerships and out-sourcing
 - efficient and effective services to the public
 - program, project and contract management.

The themes of financial and performance reporting, financial controls, governance and service delivery will be given increased focus in the financial audit volumes and in the performance audit program. A complete performance audit program for 2014-15 will soon be published on the Audit Office website, along with indicative areas of audit interest for the following two years.

Appendix One

Financial Audit Reporting

Financial Audit tabled the following reports in Parliament during 2013:

Financial Audit reports tabled in 2013

Volume One 2013 focusing on themes from 2012

Volume Two 2013 focusing on Universities

Volume Three 2013 focusing on NSW State Finances

Volume Four 2013 focusing on Electricity

Volume Five 2013 focusing on Education

Volume Six 2013 focusing on Law, Order and Emergency Services

Volume Seven 2013 focusing on Superannuation and Insurance

Volume Eight 2013 focusing on Transport and Ports

Volume Nine 2013 focusing on Environment, Water and Infrastructure

Volume Ten 2013 focusing on Health

Volumes Three to Ten, 2013 form the basis of the comments below.

Recommendations

This section summarises recommendations contained in our 2013 Financial Audit reports to Parliament and in our management letters issued to those charged with governance of agencies.

Financial Audit Report Recommendations

The 2013 Financial Audit reports to Parliament made 67 (104 in 2012) recommendations to improve the financial management and internal control environment of agencies. Ten (15) of these were repeat recommendations.

Recommendations by cluster were:

| Cluster Year ended 30 June | Number of recommendations | | | Number of repeat recommendations | | |
|------------------------------------------------------------|---------------------------|------------|-----------|----------------------------------|-----------|-----------|
| | 2013 | 2012* | 2011 | 2013 | 2012* | 2011 |
| Attorney General and Justice | 17 | 15 | 14 | 3 | 4 | 7 |
| Education and Communities | 5 | 11 | 3 | 1 | -- | 1 |
| Family and Community Services | 2 | 2 | 1 | -- | -- | -- |
| Finance and Services | 8 | 13 | 11 | -- | 1 | 2 |
| Health | 23 | 16 | 19 | 4 | 5 | 9 |
| Premier and Cabinet | 5 | 14 | 15 | 2 | 2 | 2 |
| Trade and Investment, Regional Infrastructure and Services | 2 | 7 | 7 | -- | 3 | 2 |
| Transport | 3 | 15 | 15 | -- | -- | 6 |
| Treasury | 2 | 11 | 14 | -- | -- | -- |
| Total | 67 | 104 | 99 | 10 | 15 | 29 |

Note: Cluster agencies can change from year to year. In any year, agencies are created, others are dissolved and some are moved to another cluster. The number of cluster changes in any one year is low.

All years exclude non-agency specific recommendations from Volume Three Focusing on NSW State Finances.

* Excludes four recommendations from the 2012 Fraud Survey reported in Volume Seven 2012 Focusing on Law, Order and Emergency Services.

The downward trend in repeat recommendations suggests a greater focus by agencies in addressing them. Refer to 2013 Financial Audit reports to Parliament volumes Five, Seven, Nine and Ten for details on the repeat recommendations. These reports can be viewed at www.audit.nsw.gov.au/Publications/Financial-Audit-Reports/2013-Reports.

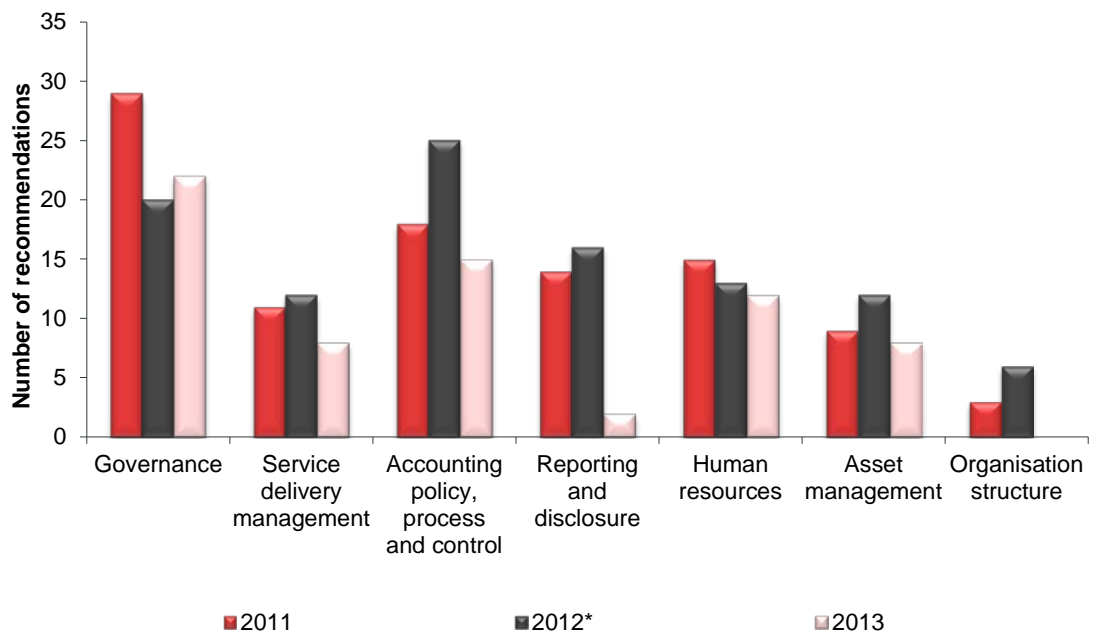
Some recommendations may take substantial time and resources to implement because of the breadth and complexity of the issue and the impact on agency operations. Where the agency does not implement recommendations in a timely manner, agency management are advised, its audit and risk committee and the Public Accounts Committee.

Refer Appendix 3 for the clusters, principal departments and groups one, two and three agencies (as listed in Appendix D of Treasury Circular TC 13/01) forming the cluster.

Analysis of Financial Audit Report Recommendations

The following chart shows the number of recommendations in our Financial Audit report volumes by category.

Recommendations - Financial Audit Volumes



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

All years exclude non-agency specific recommendations from Volume Three Focusing on NSW State Finances.

* Excludes four recommendations from the 2012 Fraud Survey reported in Volume Seven 2012 Focusing on Law, Order and Emergency Services.

Over the last three years, the areas of governance, accounting policy, process and control and human resources received the most recommendations for improvement.

Recommendations from our 2013 financial audits related to:

Governance – 22 recommendations

The issues included:

- the need for better risk management strategies and frameworks for major projects. Comprehensive project and risk management frameworks help projects remain within scope and deliver on the benefits outlined in project business cases
- improving the timeliness of reporting by local government and working with local government to reduce the number of qualified Independent Auditor Reports issued on Council's financial statements.

The recommendations were concentrated in the Attorney General and Justice, Finance and Services, Health and Premier and Cabinet clusters.

Service Delivery Management – eight recommendations

Observations included the need to:

- have service level/partnership agreements. Agreements support service delivery relationships by clarifying key matters like roles, accountabilities, service expectations, pricing, dispute resolution processes, audit and reporting needs
- monitor service delivery from internal and external service providers.

The recommendations were within the Attorney General and Justice, Finance and Services, and Premier and Cabinet clusters.

Accounting Policy, Process and Control – 15 recommendations

The topics identified in 2013 are similar to those identified in 2012. They concerned:

- policies and procedures that were inconsistent with better practice guidelines
- poor reconciliation and review procedures. Effective reconciliation and review procedures help detect and correct errors promptly, reducing time spent later resolving long outstanding issues.

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

The recommendations were made in the Attorney General and Justice, Education and Communities, Health, Premier and Cabinet, and Trade and Investment, Regional Infrastructure and Services clusters.

Reporting and Disclosure – two recommendations

This was a key focus area for agencies in 2012-13 resulting in only two recommendations in the Financial Audit report volumes. They highlighted the need to:

- have a detailed project plan demonstrating preparedness for the 2013-14 financial reporting cycle. Effective planning helps in time management and the resolution of accounting issues
- share the project plan, together with progress in implementing the actions, with the Audit and Risk Committee, service providers and other stakeholders.

The recommendations related to the Education and Communities cluster reported in Volume Five, 2013.

Human Resources – 12 recommendations

Good human resource practices help agencies manage employee related costs and employee welfare.

Observations under this heading related to:

- employees accruing excessive overtime
- the need to improve management of annual leave balances. Internal control is enhanced, and the risk of fraud decreased, when staff take leave and their tasks are rotated to others.

The recommendations were in the Attorney General and Justice, Health, and Transport clusters.

Asset Management – eight recommendations

The recommendations related to:

- inadequate systems and controls to manage assets effectively
- the lack of asset management plans to help agencies manage service delivery and buy/sell decisions
- develop consistent and comprehensive asset maintenance plans.

The recommendations were largely in the Health cluster reported in Volume Ten, 2013.

Organisation Structure

No recommendations on organisation structure were made in 2013.

Management Letter Recommendations

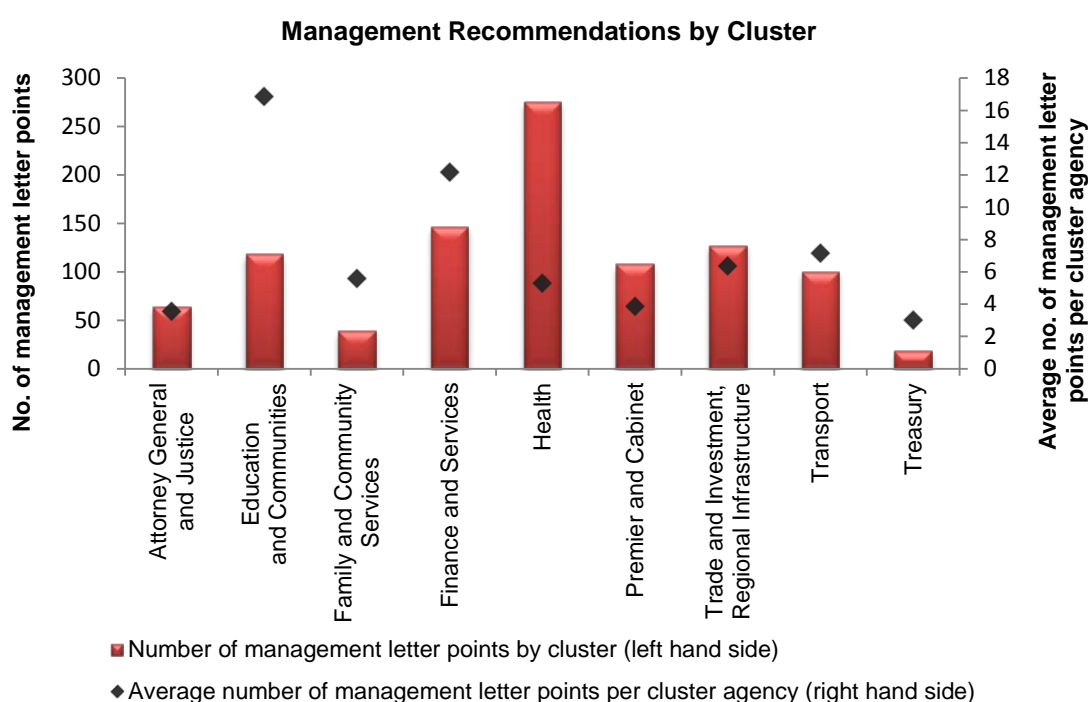
Management letters contain detailed recommendations reported to those charged with agency governance during and after each financial audit. They also include repeat issues identified in previous audits, which have not been satisfactorily actioned by management.

Management letters sent to agencies more significant to the Total State Sector Accounts (groups one, two and three agencies listed in Appendix D of Treasury Circular TC 13/01) and their controlled entities for the year ended 30 June 2013 are analysed below.

Management letter points relating to Information Systems are contained within management letters and included in the analysis below. There is also a separate section analysing the results of Information System audits later in this appendix.

Management Letter Recommendations by Cluster

The following chart shows the number of recommendations by cluster. Details of the clusters are provided in Appendix 3.



Note: Cluster agencies can change from year to year. In any year, agencies are created, others are dissolved and some are moved to another cluster. The number of cluster changes in any one year is low.

The Education and Communities cluster has a small number of agencies and a higher average number of management letters points as management letters for individual school audits are included above but schools are not separate agencies.

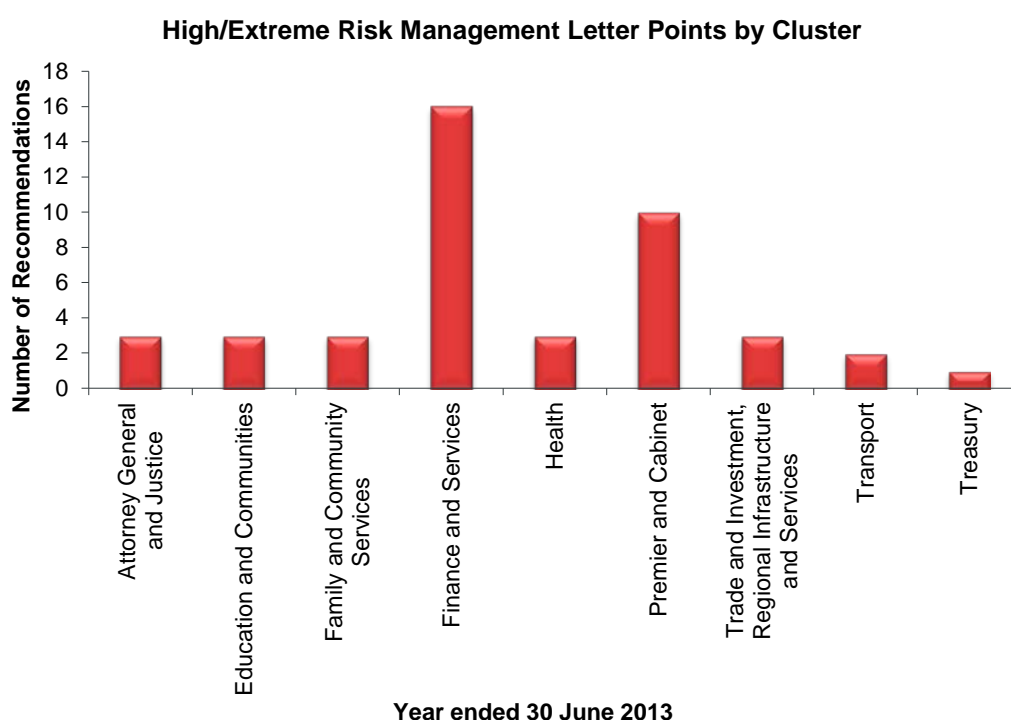
Conversely, the Health cluster has a large number of agencies to whom the Audit Office issues management letters. There are a large number of management letter points but the average number of management letter points per health agency is not high.

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

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

An integral part of the audit process is assessing the adequacy of an entity's internal control environment, systems and processes. Significant internal control weaknesses and recommended improvements are reported to agency management and those charged with governance of the agency.

High/Extreme Risk Management Letter Recommendations



Note: Cluster agencies can change from year to year. In any year, agencies are created, others are dissolved and some are moved to another cluster. The number of cluster changes in any one year is low.

For agencies and their controlled entities within Groups 1, 2 and 3 as listed in Appendix D of Treasury Circular 13/01. Includes management letters that had been either finalised or issued in draft to the agency as at 31 December 2013.

The high/extreme risk issues were varied. Some examples included:

- the need to document key decisions in executive meetings. Accountability can be lost when decisions are not documented
- excessive annual leave balances
- the lack of user access restrictions in an information technology environment.

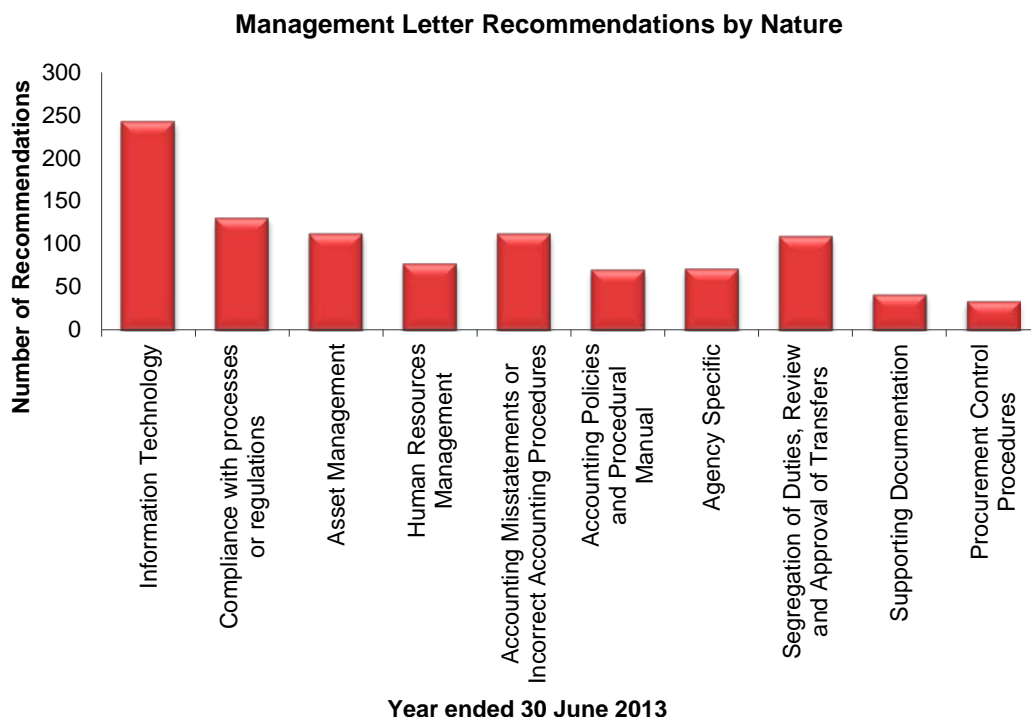
Agencies vary in size and complexity and the risk rating we assign to a recommendation depends on the importance of the issue to the agency. For this reason, an issue may be categorised as high/extreme risk in one agency but low risk in another.

We use the risk assessment matrix provided in Treasury Policy Paper [TPP12-03](#) 'Risk Management Toolkit for the NSW Public Sector' for rating issues in agency management letters.

The risk level for an issue is a combination of the consequence and likelihood. The more frequent the event or transaction, when combined with high consequences, the higher the risk.

Analysis of Management Letter Recommendations

The graph below analyses our management letter recommendations by type.



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

Information Technology – 243 recommendations

Common issues were:

- the need for disaster and data recovery plans (including testing) for financial systems
- security issues including the need for better password security.

Refer later in this appendix for a more detailed analysis of information technology related matters.

Compliance with Processes or Regulations – 131 recommendations

Includes agencies not complying with:

- policies and procedures, for example, not preparing reconciliations
- delegations, legislative requirements or Treasurer's Directions.

Compliance with effective policies and procedures reduce the risk of fraud and error.

Asset Management – 113 recommendations

Issue with asset management mainly related to:

- difficulties with asset valuations
- poor review of asset useful lives and depreciation rates
- non-timely capitalisation of Work in Progress
- incomplete property, plant and equipment registers.

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

Human Resources Management – 78 recommendations

Recommendations dealt with:

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

Accounting Misstatements or Incorrect Accounting Procedures – 113 recommendations

The most common issues included:

- a poor understanding of accounting concepts
- inappropriate estimation processes
- transactions incorrectly classified
- poor review of, and discrepancies in, periodic reconciliations
- failure to accurately assess complex transactions in accordance with accounting standard requirements.

These weaknesses increase the risk of misstatement and fraud. Agencies need to implement effective review processes to help ensure these matters are resolved for the 2013-14 reporting period.

Accounting Policies and Procedures Manual – 71 recommendations

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

Agency Specific – 72 recommendations

The remainder of the recommendations were agency specific. They are diverse in nature and included the need for better:

- version control over documents
- transition plans.

Segregation of Duties, Review and Approval of Transactions – 110 recommendations

Recommendations dealt with inadequate segregation of duties, review and approval of transactions, and maintenance of supporting documentation including:

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

These issues were more common in smaller agencies particularly in the revenue, payments and payroll areas. Poor segregation of duties increases the risk of fraud and error.

Supporting Documentation – 42 recommendations

The recommendations concerned the need for agencies to have supporting documentation for significant balances in their financial statements. Issues included:

- the absence of evidence to support cash flow workings
- inadequate documentation for Service Group Statements
- no documentation to support manual journals.

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

Procurement Control Procedures – 34 recommendations

Issues included:

- poor procurement practices
- weaknesses in managing supplier masterfiles
- poor controls over purchase orders.

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

Information Systems

The information systems of 84 agencies in New South Wales were audited in 2013. These audits focused on IT processes and controls supporting the integrity of financial data.

Agency clusters have undergone structural changes impacting the way they manage their shared services arrangements and automated controls environments. As such, shared services and automated controls environments had increased focus in our information systems audits.

The 2013 audits identified that in order to effectively manage IT control environments agencies should:

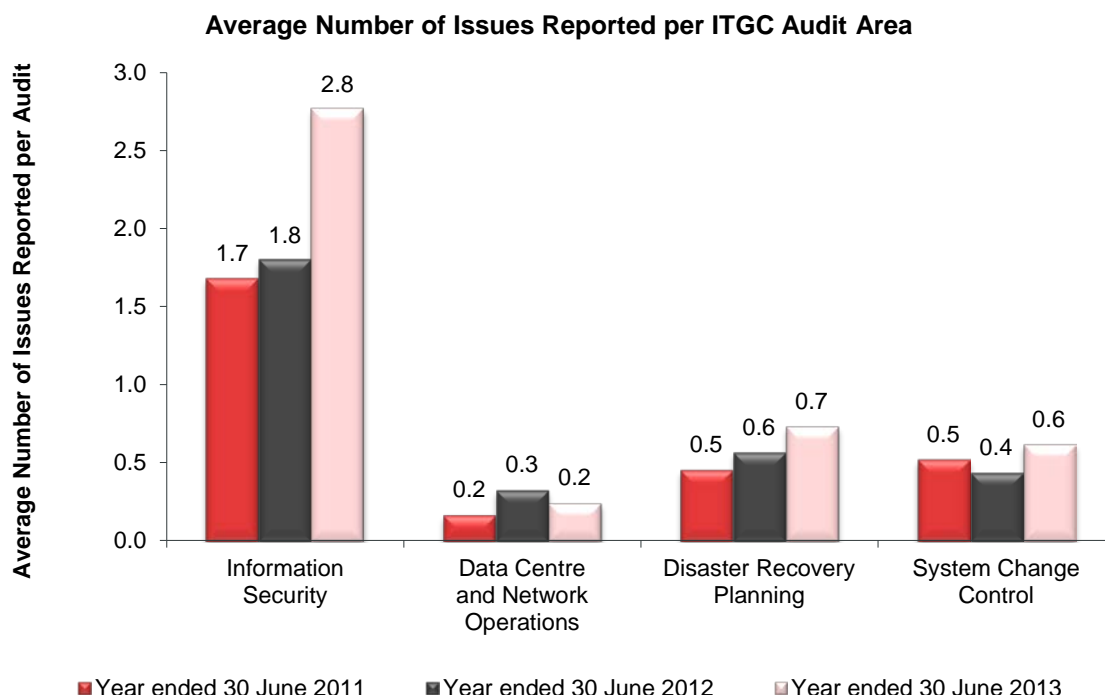
- establish a robust information security management framework
- focus on managing IT security risks during times of change
- ensure financial systems are capable of supporting critical business processes in the event of a disaster
- perform regular reviews of automated controls and associated business processes, especially in a changing environment
- define and monitor the accountabilities and responsibilities in shared service relationships.

Information Technology General Controls

The key focus of our information systems audits is on agencies' Information Technology General Controls (ITGC) environment, with the primary purpose being the attestation of control effectiveness over data integrity, availability and security. Issues were identified in the four ITGC categories:

| ITGC Audit Area | Description | Distribution of 2013 Issues Reported |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| Information Security | Review of controls that prevent or detect unauthorised use of, and changes to, data, systems or programs including establishing system based segregation of duties. | 63% |
| Disaster Recovery Planning (DRP) | Review of controls surrounding establishing and testing plans relating to disaster recovery (including back-up), protecting the capability of critical systems availability and recovery. | 17% |
| System Change Control | Review of change controls over application systems, database management systems, network and communication software, systems software, and hardware, i.e. verifying that they have been effectively acquired, developed, implemented, and maintained. | 14% |
| Data Centre and Network Operations | Review of controls that ensure the integrity of information as it is processed, stored, or communicated. | 6% |

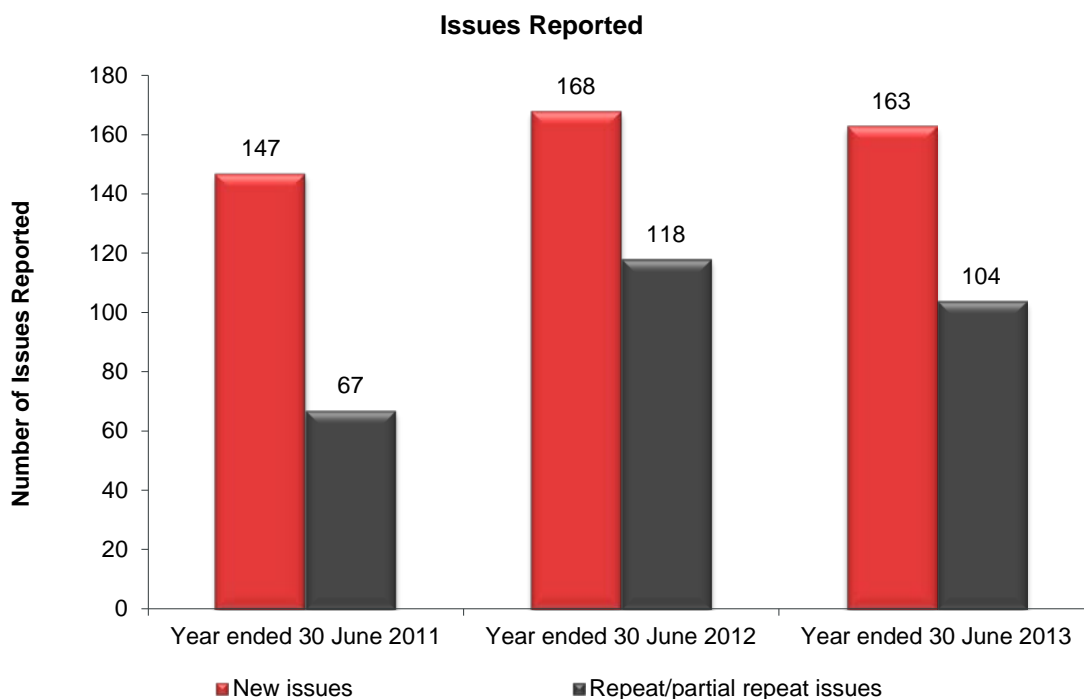
The average number of issues identified per audit has increased since 2011. This increase is largely attributed to a sharp rise in information security issues.



The number of audits performed and the number of issues reported over the last three years is as follows:

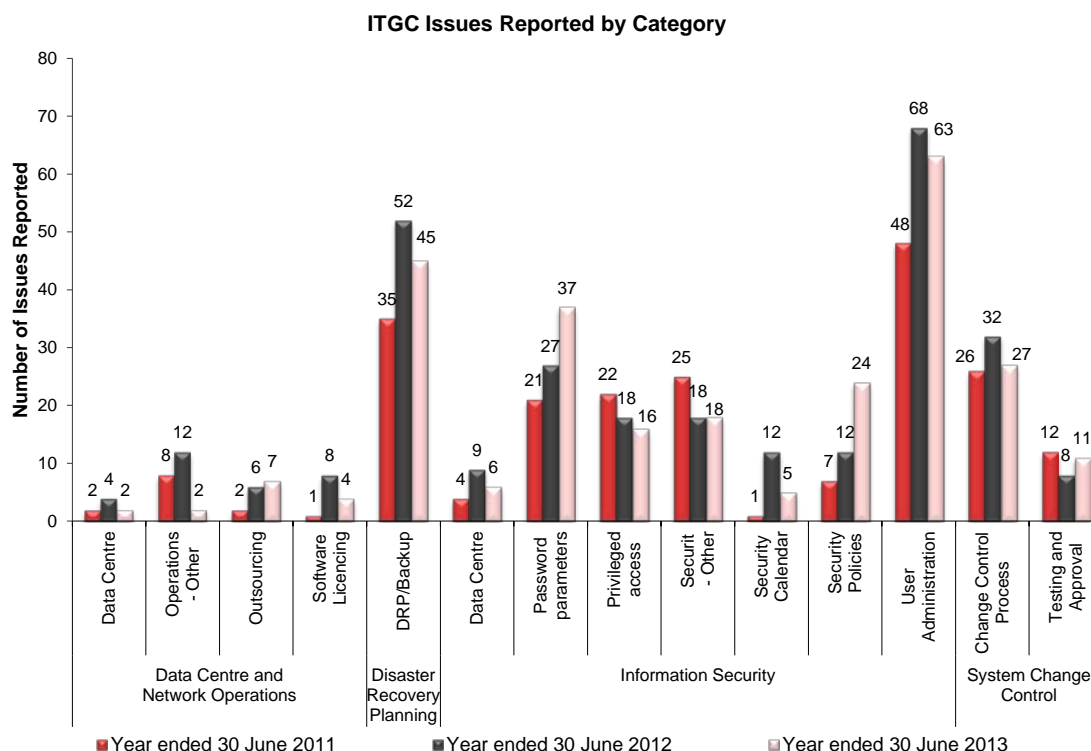
- 2013: 84 audits performed and 267 issues reported
- 2012: 91 audits performed and 286 issues reported
- 2011: 76 audits performed and 214 issues reported.

The audits noted that 36 per cent of the issues reported in 2012 were repeated in 2013. The number of repeat issues in 2013, while 12 per cent less than in 2012, was very high.



Information System Issues

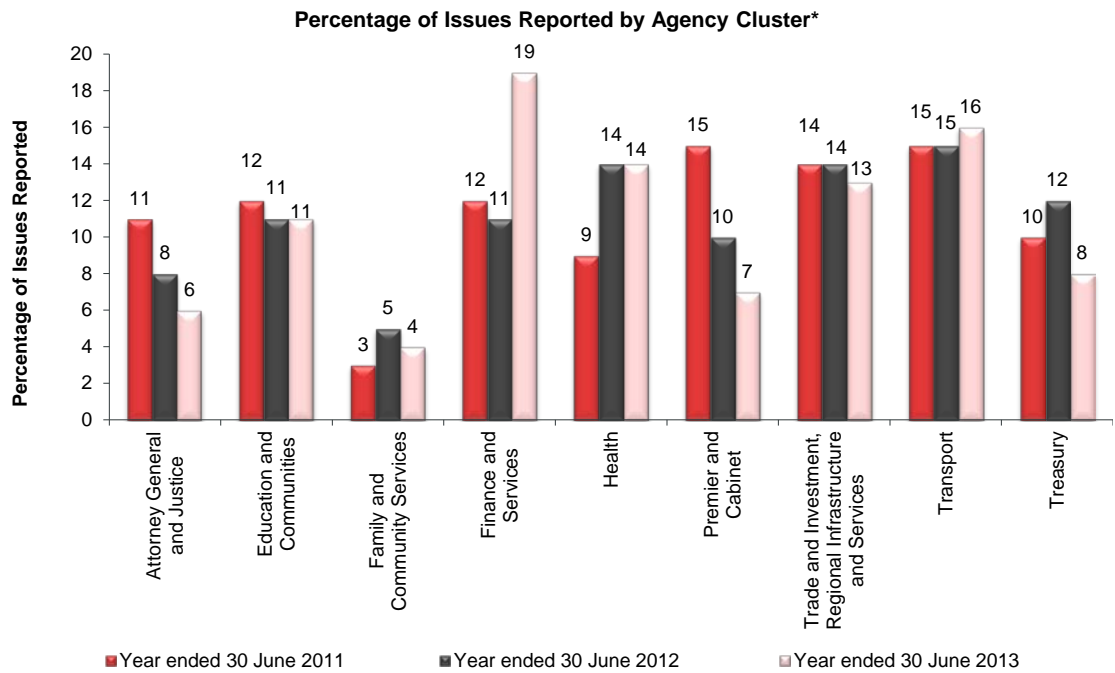
In 2013, comparatively more issues were reported in the categories of password parameters and security policies than in 2012. This was primarily due to the restructuring of agencies. Improvements were noted in the areas of software licensing and security calendars.



Further commentary on the key audit issues of IT Security, Disaster Recovery Planning and Automated Controls appear in the earlier chapter on Financial Controls. Issues noted in transitioning to an IT Shared Services environment appear in the chapter on Service Delivery.

In comparing agency clusters in 2013, there was a large fall in the percentage of issues reported for Treasury. Relatively few issues were identified in the Family and Community Services cluster over the last three years.

In 2013, there was a change in the audit methodology applied to the agencies within the Finance and Services cluster, with a greater focus on IT controls. This changed focus contributed to the increase in the number of issues for this cluster.



* In addition to the issues shown in this graph, 2 issues were reported for one client, not part of any cluster, for the year ended 30 June 2013.

Cluster agencies are not always comparable from year to year. In any year, agencies are created, others are dissolved and some are moved to another cluster.

Appendix Two

Performance Audit Reporting

Performance audits provide independent assurance to Parliament and to the public on the economy, efficiency and effectiveness of government activities. Through their recommendations, performance audits seek to improve government service delivery. The Public Accounts Committee (PAC) of Parliament supports performance audits by following up with agencies the progress they have made in implementing agreed recommendations.

Performance Audit Reports in 2013

In 2013, 12 performance audits were published on topics ranging from the efficiency of operating theatres in hospitals to agencies' management of gifts and benefits. More details of these audits appears later in this appendix.

Performance audits tabled in 2013

Managing drug exhibits and other high profile goods

Managing gifts and benefits

Management of ClubGRANTS scheme

Management of historic heritage in national parks and reserves

Building energy use in NSW Health

Managing operating theatre efficiency for elective surgery

Reducing ambulance turnaround time at hospitals

Making the best use of public housing

Cost of alcohol abuse to the NSW Government

Government advertising 2012-13

Management of casual teachers

Improving legal and safe driving among Aboriginal people

Action Taken on our Recommendations

The PAC follows up with agencies 12 months after tabling the progress they have made in implementing agreed recommendations.

The Committee's examination is designed to test action taken on all performance audits in order to maintain a high level of scrutiny of the agencies under review. Concrete outcomes of this process have demonstrated the value of following up the Auditor-General's report recommendations.

Source: NSW Public Accounts Committee Report 9/55 May 2013 page iii.

In 2013, the PAC followed up action on recommendations from 10 performance audits published in 2011-12, and made further recommendations on most as a result.

| PAC follow-up in 2013 of recommendations from earlier performance audits | Further recommendations from PAC |
|---------------------------------------------------------------------------------|-----------------------------------------|
| Cannabis cautioning | yes |
| Barangaroo | no |
| Two ways together | yes |
| Transporting dangerous goods | no |
| Road safety speed cameras | yes |
| Prequalification scheme for management consultants | yes |
| Improving safe driving - young drivers | yes |
| Domestic violence | yes |
| Managing IT services contracts | yes |
| Visiting medical officers and staff specialists | yes |

The PAC was generally satisfied with the action taken by agencies in responding to the reports. It noted in its first report in May 2013:

With some noted exceptions, the Committee is generally satisfied that agencies are meeting their obligations and implementing the Auditor-General's recommendations. This has been partly due to the work and diligence of the Committee in pursuing the agencies concerned to elicit further responses on issues of concern.

It singled out some agencies for praise:

The Committee was pleased to note the thorough and detailed handling of the recommendations by Transport for NSW (in relation to the performance audit report on Improving Driver Safety - Young Drivers).

and

The Committee is pleased to note that the Barangaroo Delivery Authority, Treasury and Transport for NSW accepted all five of the Auditor-General's recommendations, and makes no further recommendations (in relation to the performance audit report on Government Expenditure and Transport Planning in relation to implementing Barangaroo).

At the same time, it found some room for further action on most reports and some common themes of weakness emerging. In its second report, for example:

The Committee recognised that the Government is developing a new domestic and family violence Framework, which addresses some of the issues highlighted by the Auditor-General's recommendations. However, it fails to provide a clear and detailed structured approach to implementing all of the recommendations.

Our 2013 reports and the PAC follow-ups provide more detailed commentary and identify similar themes as those identified in the Office's financial audits: in financial and performance reporting, financial controls, governance and service delivery.

Summary of Performance Audits Completed in 2013

Financial and Performance Reporting

Management of the ClubGRANTS scheme

The ClubGRANTS scheme gives tax rebates to clubs for supporting services to people in need in their local community. Registered clubs are entitled to a maximum of 2.2 per cent in tax rebates on gaming machine profits over \$1.0 million, in return for their support to services in their community. Since 2002, \$417 million in ClubGRANTS tax rebates have been retained by clubs for this purpose.

This audit examined whether the ClubGRANTS scheme is effectively managed by the Office of Liquor Gaming and Racing (OLGR).

Money from the scheme is distributed in three ways. The greatest amount of money has been distributed through category one. This category supports services that contribute to the welfare of the community with the aim of improving living standards of low income and disadvantaged people. Here there are detailed rules and guidance of who can receive grants and how they are decided. However, the audit found OLGR does not monitor compliance and adherence is variable.

Category two grants are for other community development activities and for supporting the clubs' core activities. This is the fastest growing category. However, the audit found there are few guidelines and little transparency to the public on how such grants are spent.

Category three is the smallest and newest category for large scale statewide projects. One year after the introduction of category three, the audit found the committee legislated to oversee the distribution of funds had not been established.

Our recommendations include establishing the ClubGRANTS fund committee for category three and for OLGR to work with clubs and benefiting organisations to ensure transparency in the funding provided under category one and two.

Managing drug exhibits and other high profile goods

In 2011-12, NSW Police collected over 313,000 exhibits and other goods. The risks associated with handling these goods, such as corruption, theft, health and safety or damage, are significant. Drug exhibits create specific problems because they can deteriorate. Around 58,000 of these items were collected in 2011-12.

This audit examined how NSW Police managed drug exhibits and other high profile goods, such as firearms, ammunition, motor vehicles and vessels.

It found that NSW Police manages the recording, storage and tracking of drug exhibits and other high profile goods well. These items are kept securely in NSW Police storage facilities, are routinely audited and there are few recorded instances where they have gone missing or been damaged. However, there is room for improvement particularly in regard to the effective disposal of drug exhibits and other goods. There is also scope to reduce the need to transport drug exhibits for testing.

The audit endorsed NSW Police's proposals to destroy drug exhibits earlier, bringing it in line with other jurisdictions. The audit also recommended that NSW Police review all high profile goods held for more than two years and dispose of them wherever possible.

Other recommendations sought to streamline the storing, auditing, transporting and sampling of drugs and other goods using a risk-based approach.

The cost of alcohol abuse to the NSW Government

This audit examined whether the Government knows the cost incurred by state agencies as a result of alcohol abuse.

It found that although government agencies monitor and report incidents of alcohol-related harm, they do not monitor or report the total cost of alcohol abuse. This information is fragmented at best.

The audit estimated that alcohol abuse costs Government services over \$1.0 billion per annum, or around \$416 from each household in New South Wales.

It is important for government to have good information on the cost of alcohol abuse to allow it to respond effectively to the problem. If costs were found to be increasing, this could be a trigger for a different policy approach to the issue. The community also has a right to know this information so it can inform public debate on alcohol abuse and the best ways to combat it.

The government should also consider introducing 'abuser pays' schemes to ensure people who abuse alcohol pay for any costs they inflict.

Financial Controls

Management of casual teachers

This audit assessed whether the Department of Education and Communities manages the supply, availability and performance of casual teachers effectively.

The audit found that the supply of casual teachers had significantly improved. Most schools can now find their own casual teachers and only seek the Department's assistance as a last resort. However, finding casual teacher cover in rural and remote communities continues to be a challenge.

While coverage has improved, the quality of casual teachers remains an issue for many school principals. Only a quarter of surveyed principals rated the casual teachers assigned by the Department highly. Its call-centre sends out teachers, who principals refuse to hire, to other schools. When the Department chooses who to send, it does not favour a teacher who has good reports from other schools.

The audit recommended the Department build on its achievement in three areas:

- do more to support rural and remote schools that struggle to attract casual teachers
- collect and use feedback about teacher performance when deciding which casual teachers to assign
- remove inactive teachers from its register, so it can assign casual teachers more efficiently.

Building energy use in NSW public hospitals

Public health facilities are the highest users of building energy in the NSW public sector.

This audit examined how well NSW Health manages its building energy use, focusing on public hospitals; and how well they were supported by Treasury and the Office of Environment and Heritage in doing so.

The audit found that NSW Health has reduced its energy use and greenhouse gas emissions by two per cent over the last four years. However, it did not meet its target of an 11 per cent drop in emissions.

At the same time, its energy cost increased by nearly 50 per cent, to \$120 million per annum, because of higher prices. With price rises for energy expected to continue, the audit recommended that NSW Health focus renewed attention on implementing streamlined investment strategies for energy efficiency, plus better performance information and targets for energy consumption.

The audit report brought together, for the first time, comparative information on energy efficiency across hospitals and health districts. They show significant variations between them. The audit recommended NSW Health use this to build a better understanding of the scope for further improvements in energy efficiency, and good practice.

Governance

Managing gifts and benefits

The audit examined five NSW public sector entities that perform licensing/regulatory functions.

All five had gifts and benefits policies, but each could be improved.

They also had registers in place for recording details regarding each gift and benefit. However, none had sufficient information to demonstrate that all gifts were dealt with appropriately. Some did not ask about the reason for the gift or the relationship between the giver and the recipient. Not all required conflicts of interest to be disclosed. Some did not require staff to declare the gift offers they declined.

The audit recommended that the Public Service Commission, by December 2013, develop a set of minimum standards for agencies to incorporate in their own policies and procedures.

Few people are likely to be concerned at the nurse receiving a bunch of flowers or teacher receiving a Christmas gift from a student. But agencies need to tread carefully if they allow staff to be guests in a corporate box, accept tickets to the theatre or keep expensive whisky or wine.

Government advertising 2012-13

The *Government Advertising Act 2011* (the Act) commenced in October 2012. The Act requires the Auditor-General to conduct an annual performance audit to check agency compliance with the Act.

Performance audits in 2007 and 2009 found that the government advertising guidelines that were applicable at the time were not adequate to prevent the use of public funds for party political purposes. These reports led to progressive improvements in these guidelines, which have been strengthened by the 2011 Act.

This audit concentrated on two campaigns, the Cancer Institute NSW 'Break the Chain' anti-smoking campaign and Rail Corporation NSW 'Fixing the Trains' recruitment campaign. The second campaign was selected by the public via a survey on the Audit Office website.

The two advertising campaigns reviewed complied with the Act, Regulations, other laws and the guidelines.

In 2012-13, Government agencies spent nearly \$62.0 million on media used for government advertising. Government advertising is used to inform the community of government services and programs and any changes to them. It is also used to address social and health issues by influencing behaviours, such as anti-smoking campaigns.

Improving legal and safe driving among Aboriginal people

A driver's licence improves mobility, and also improves access to health care, family, cultural and recreational activities as well as general wellbeing. Well trained drivers make for safer roads, with fewer accidents and injuries. However, less than half the eligible Aboriginal people in New South Wales currently hold a driver licence.

The audit examined how well government responses to improve legal and safe driving among Aboriginal people have worked. It found that Aboriginal people continue to be over-represented in traffic-related offending and imprisonments. The audit also found barriers existed in the licensing and vehicle registration process, fines enforcement process and the justice system. While some driver licensing programs have had success at increasing the number of licensed Aboriginal drivers, they have not been effective overall at reducing imprisonments for 'driver licence' offences and injuries and fatalities from vehicle incidents.

A coherent and coordinated approach is needed to develop strategies, to support Aboriginal people obtain, retain and regain their driver licences, across all the agencies involved: the Department of Attorney General and Justice, Corrective Services NSW, the Department of Finance and Services, the State Debt Recovery Office, Transport for NSW, Roads and Maritime Services, the NSW Police Force, the Department of Education and Communities, and TAFE NSW.

Management of historic heritage in national parks and reserves

This audit examined how well the National Parks and Wildlife Service (NPWS) manages the historic heritage under its care and control.

It found that while NPWS has done some good work, overall it is spreading its resources too thinly running the risk that the heritage significance of important assets will eventually be lost.

NPWS should concentrate its efforts on the significant and representative historic heritage that the NSW community cannot afford to lose. It needs to establish statewide priorities for historic heritage management and allocate resources on the basis of these priorities.

NPWS should also continue to look for creative ways to preserve historic heritage. Sympathetic reuse of historic heritage should be pursued where possible. If heritage places are not used, there is a risk of losing them. It should also expand its efforts to harness opportunities for private sector partnerships, low impact corporate sponsorship and community involvement.

Making the best use of public housing

This audit examined the current and future direction of public housing; and the management of housing particularly when tenants needs and circumstances change.

It found that the current portfolio and funding arrangements do not enable Housing NSW (HNSW) and Land and Housing Corporation (LAHC) to meet the changing public housing need. Public housing is ageing and much is not fit for purpose (wrong place, wrong size). There is also an increasing shortfall between the supply of and demand for public housing.

With constraints on funding, LAHC is balancing its budget by reducing some maintenance and capital programs and selling properties. If this continues the housing portfolio will decline in terms of dwelling numbers and standard.

There is no clear direction to address the challenges for public housing, although HNSW and LAHC are working towards one. The government needs to answer key questions about the direction for public housing such as who is to be housed and how funding and asset ownership will achieve a sustainable social housing sector, for the longer-term.

The audit also found existing public housing could be used better. HNSW and LAHC should assess their current procedures, continue current initiatives and promote proposals that improve the efficient use of public housing.

Service Delivery

Managing operating theatre efficiency for elective surgery

The audit assessed how efficiently public hospital operating theatres are being managed to deliver elective surgery. It concluded that more operations could be achieved for the same money by making sure someone is clearly in charge; operations start on time and stay on time.

More patients are receiving elective surgery and most are treated within national clinical targets. But there is scope for more elective surgery using existing resources in New South Wales if operating theatres ran more efficiently. Operating theatre efficiency targets are not being met. If NSW Health met its own theatre utilisation targets the audit estimated that 20,000 more operations could be achieved.

Hospitals need to:

- set realistic operating theatre schedules
- start operations on time
- stay on time
- minimise cancellations on the day of surgery.

For this to happen there needs to be someone clearly in charge of the operating theatre; with the same authority as the matrons of the past. They should be backed up by strong, active operating theatre committees bringing together surgeons, anaesthetists, nurses and hospital executives. To help operating theatres perform better, hospitals also need better information on costs and productivity. A greater understanding is required of the number of theatre hours and operations funded and the degree of spare capacity.

Elective surgery costs \$1.3 billion per year and the cost of surgery varies considerably between hospitals. Hospitals should also question why over a quarter of theatre cases are non-surgical, such as endoscopies and colonoscopies which could be done in procedure rooms rather than using up valuable operating theatre time.

Reducing ambulance turnaround time

This audit examined whether there are effective strategies in place to reduce the time spent by ambulance crews at emergency departments.

It found that although NSW Health has put in place initiatives to free up ambulances, the average time spent by ambulances at hospital emergency departments has increased over the last seven years. In 2011-12 only 65 per cent of ambulance crews handed over patients within 30 minutes of arriving, well below NSW Health's target of 90 per cent.

Ultimately, hospitals need to move emergency department patients waiting for a hospital bed into their wards faster. One way to do this is to free up beds in the wards. Improved discharge practices to reduce unnecessary waits for drugs or review by inpatient doctors will help. But this requires all parts of a hospital to be responsible for ambulance delays.

The audit also found that there is more scope to limit the number of patients taken by ambulance to hospital. Paramedics should be allowed to say 'no', that is, refuse to transport patients whose clinical assessment indicates that hospital treatment is not warranted.

Appendix Three

Clusters, Principal Departments and Agencies Comprising Groups 1, 2 and 3

At 30 June 2013, the clusters and principal Departments were:

| Cluster | Principal Department(s) | Other Departments/Bodies |
|--------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Attorney General and Justice | Department of Attorney General and Justice | Judicial Commission of New South Wales, Legal Aid Commission of New South Wales, Office of the Director of Public Prosecutions, NSW Trustee and Guardian, Information and Privacy Commission NSW, Fire and Rescue New South Wales, State Emergency Service, New South Wales Rural Fire Service, New South Wales Crime Commission, Ministry for Police and Emergency Services, NSW Police Force |
| Education and Communities | Department of Education and Communities | Board of Studies, Venues NSW, Community Relations Commission for a Multicultural NSW, Sydney Olympic Park Authority, Sydney Cricket and Sports Ground Trust, State Sporting Venues Authority |
| Family and Community Services | Department of Family and Community Services | Home Care Service of New South Wales, NSW Businesslink Pty Ltd, Home Purchase Assistance Fund, Aboriginal Housing Office, City West Housing Pty Limited, Office of the Children's Guardian |
| Finance and Services | Department of Finance and Services | Motor Accidents Authority of New South Wales, WorkCover Authority of New South Wales, Workers' Compensation (Dust Diseases) Board, Lifetime Care and Support Authority of New South Wales, Safety, Return to Work and Support Division, Government Property NSW, NSW Land and Housing Corporation, Superannuation Administration Corporation (trading as Pillar Administration), Hunter Water Corporation Sydney Water Corporation, Waste Assets Management Corporation, State Records Authority of New South Wales, Rental Bond Board, Teacher Housing Authority of New South Wales, New South Wales Government Telecommunications Authority, Fair Trading Administration Corporation |

| Cluster | Principal Department(s) | Other Departments/Bodies |
|-------------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Trade and Investment, Regional Infrastructure and Services | Department of Trade and Investment, Regional Infrastructure and Services | <p>TransGrid, Macquarie Generation, NSW Food Authority, Forestry Corporation of NSW, New South Wales Film and Television Office (Trading as Screen NSW), New South Wales Rural Assistance Authority, Water Administration Ministerial Corporation, Sydney Catchment Authority, Endeavour Energy, Delta Electricity, State Water Corporation, Art Gallery of New South Wales Trust, Australian Museum Trust, Library Council of New South Wales, Trustees of the Museum of Applied Arts and Sciences, Sydney Opera House Trust, Essential Energy, Destination NSW, Ausgrid</p> <p>Independent Liquor and Gaming Authority, Eraring Energy, and thirteen Catchment Management Authorities</p> |
| Health | Ministry of Health | Health Care Complaints Commission, Cancer Institute NSW, Mental Health Commission of New South Wales |
| Premier and Cabinet | Department of Premier and Cabinet | <p>Independent Pricing and Regulatory Tribunal, Hunter Development Corporation, Corporation Sole 'Minister Administering the Environmental Planning and Assessment Act, Luna Park Reserve Trust, Landcom, Police Integrity Commission, Sydney Harbour Foreshore Authority, Department of Planning and Infrastructure, Barangaroo Delivery Authority, UrbanGrowth NSW Development Corporation, New South Wales Electoral Commission, Independent Commission Against Corruption, Ombudsman's Office, Historic Houses Trust of New South Wales, Royal Botanic Gardens and Domain Trust, Centennial Park and Moore Park Trust, Taronga Conservation Society Australia, Environment Protection Authority, Environmental Trust, Natural Resources Commission, Western Sydney Parklands Trust, Infrastructure NSW</p> <p>Public Service Commission, Service NSW</p> |
| Transport | Department of Transport | Roads and Maritime Services, Port Kembla Port Corporation, Sydney Ports Corporation, Rail Corporation New South Wales, Independent Transport Safety Regulator, Sydney Ferries, Chief Investigator of the Office of Transport Safety Investigations, Sydney Metro, MTS Holding Company Pty Limited, State Transit Authority of New South Wales, Transport for NSW, Newcastle Port Corporation |

| Cluster | Principal Department(s) | Other Departments/Bodies |
|-----------------|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Treasury | Treasury | New South Wales Treasury Corporation, Treasury Corporation Division of the Government Service, Long Service Corporation, Residual Business Management Corporation, Crown Entity, NSW Self Insurance Corporation, Building Insurers' Guarantee Corporation, Liability Management Ministerial Corporation, Cobbora Holding Company Pty Limited, Ports Assets Ministerial Holding Corporation |

The above groupings are as per Treasury Circular TC 13/01 'Mandatory early close procedures for 2013'.

The composition of clusters may have changed since 30 June 2013. Also some of the above agencies may have been abolished and others created. Principal Departments may not control all agencies in their cluster.

Our vision

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

Our mission

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

Our values

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

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

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

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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

