
New South Wales Auditor-General's Report
Financial Audit

Volume Nine 2014

Focusing on Family and Community Services



The role of the Auditor-General

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

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

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

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

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

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

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GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

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

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

Grant Hehir
Auditor-General
26 November 2014

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Section One

Family and Community Services



Executive Summary

Introduction

This report sets out the results of the financial statement audits of the Family and Community Services (FACS) cluster for the year ended 30 June 2014. Unqualified audit opinions were issued on all ten financial statements.

Entities within the FACS Cluster

FACS: supports vulnerable people and families to participate in social and economic life and build stronger communities. It directly supports people across New South Wales through its own services and through funding non-government organisations (NGOs) to deliver specialist support services. It assists people with disability to realise their potential, and protects children and young people from abuse and neglect.

Home Care Service of New South Wales (HCS): provides support to older people, younger people with disability and their carers to live independently at home and be part of the community. Personnel services are provided by its controlled entity Home Care Service Staff Agency.

NSW Land and Housing Corporation (LAHC): owns and manages residential properties within the social housing portfolio which comprises some 129,000 dwellings.

Aboriginal Housing Office (AHO): ensures Aboriginal and Torres Strait Islander people have access to quality and affordable housing. Currently owns 5,555 dwellings.

Home Purchase Assistance Fund (HPAF): provides funding for home purchase assistance programs for low-to-moderate income earners.

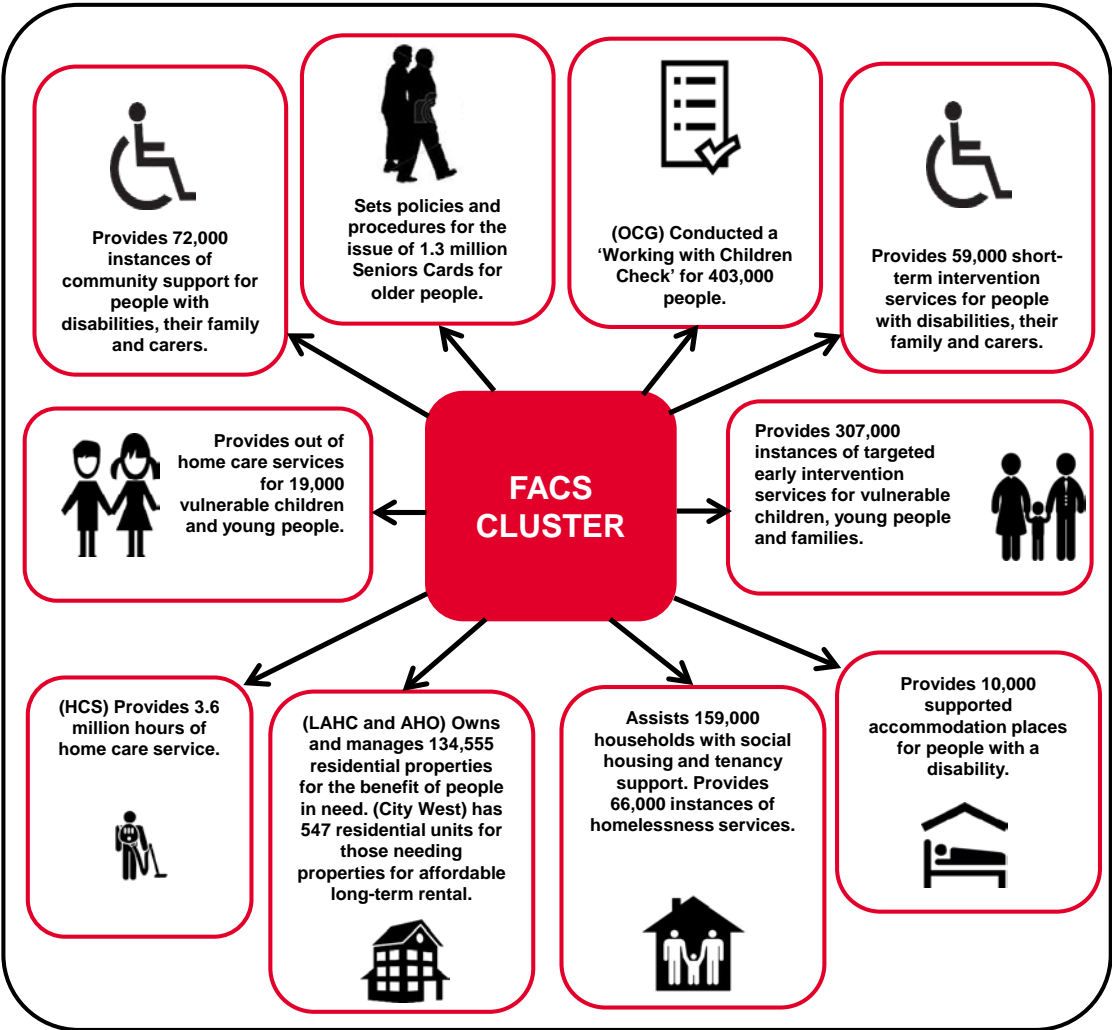
John Williams Memorial Charitable Trust: provides properties for accommodation and respite care for children with disabilities.

City West Housing Pty Ltd (City West): provides affordable rental housing to very low and moderate income households.

The Office of the Children's Guardian of New South Wales (OCG): protects children in New South Wales by helping organizations, employers and individuals understand the meaning, importance and benefits of being child-safe.

NSW Businesslink Pty Ltd: primarily provided a broad range of core, transactional and value-added services to FACS.

2013-14 FACS Cluster activities are illustrated below:



Snapshot of the Cluster

A snapshot of the FACS Cluster for the year ended 30 June 2014 is shown below.

Consolidated results of the Department of Family and Community Services	Accumulated results of all other cluster related entities
Surplus \$67.7 million	Deficit \$504 million
Grants - 57% of total expenditure	Grants - 28% of total expenditure
<ul style="list-style-type: none"> \$2.4 billion cash grants to NGOs \$581 million cash grants to other government agencies 	<ul style="list-style-type: none"> \$39.8 million cash grants to NGOs \$461 million property grants to NGOs
Personnel and Other - 43% of total expenditure	Personnel and Other - 72% of total expenditure
<ul style="list-style-type: none"> \$2.3 billion personnel and other expenditure 	<ul style="list-style-type: none"> \$1.3 billion personnel and other expenditure
PPE - 63% of total assets	PPE - 98% of total assets
<ul style="list-style-type: none"> \$1.1 billion property, plant and equipment (PPE) 	<ul style="list-style-type: none"> \$37.0 billion PPE
Other assets - 37% of total assets	Other assets - 2% of total assets
<ul style="list-style-type: none"> \$663 million other assets 	<ul style="list-style-type: none"> \$862 million other assets

This report also provides Parliament and other users of the financial statements with an analysis of the FACS cluster's results and key observations in the following areas:

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

Financial and Performance Reporting

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

Unqualified audit opinions were issued on the financial statements of all cluster agencies for the year ended 30 June 2014 and financial statements were submitted earlier than the previous year. Compared to past years, there has also been a significant reduction in the number of misstatements identified during the audit.

The early close procedures mandated by Treasury facilitated the earlier resolution of accounting issues. Early close financial statements were received within mandated deadlines for all agencies.

Five agencies had variances of more than five per cent between actual and budget for net assets. Two agencies did not prepare a budget.

Four of the cluster agencies had medium risk over financial sustainability.

The net result of the FACS cluster for 2013-14 is a deficit of \$436 million, which is a significant decline from the \$62.3 million surplus in 2012-13. The overall deficit is mainly due to LAHC's net deficit of \$627 million. This was primarily due to 2,721 properties at a value of \$461 million being granted to community housing providers. For the year ended 30 June 2014, FACS achieved a surplus of \$70.5 million, AHO, \$51.4 million and City West, \$50.0 million.

Total assets held by cluster agencies totalled \$39.7 billion at 30 June 2014, an increase of \$1.6 billion mainly due to a \$1.9 billion property revaluation increment. Total liabilities remained similar to last year at \$1.5 billion. The significant financial movements are attributable to FACS, LAHC, AHO and City West which are explained under Key Financial Information.

LAHC's business plan forecast losses for every reporting period to 2022-23. Reported losses for the current and previous years were in line with the budget.

FACS continues to maintain a gap (ten per cent in 2013-14) between the average actual and funded full-time equivalent (FTE) case workers. FTE caseworker numbers have been around ten per cent less than funded positions for the past five years. The June 2014 Caseworker dashboard as reported on the FACS website shows that the variance for the June quarter has reduced to five per cent. For the last few years, our reports have highlighted the ongoing challenge faced by FACS in filling caseworker vacancies. However, the caseworker to child ratio improved in 2013-14 from 1:25 to 1:21, but remained significantly higher than the ratio recommended by the NSW Ombudsman's 'Keep Them Safe' Report from 2011 of 1:12.

Financial Controls

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

The management of conflict of interests by FACS was assessed by us as an extreme risk due to the inconsistent application of policies across the cluster in an environment with many high dollar value relationships with non-government and other organisations. Management plans to address this issue by 30 June 2015. Generally, the internal controls of cluster agencies appear to be appropriately designed and are operating effectively to produce reliable and timely financial reports.

The audits did identify areas where internal controls could be improved, and these were reported to relevant agencies' management. A total of 26 issues were reported with the management of excess annual leave balances being the most common of the seven repeat issues.

Managing excess annual leave continues to be a challenge for many cluster agencies. Meeting the 30 June 2015 target of all staff having 30 days or less will be difficult as 1,313 cluster staff had over 35 days accumulated at 30 June 2014.

FACS needs systems to determine the value of disability and home care services provided under the NDIS in the trial sites.

During the past three years, \$49.6 million of projects/assets were written off by cluster agencies, the largest being the HOMES system.

FACS has a complex IT environment, with four distinct SAP systems and a number of specialised systems being used by discrete agencies/ divisions. Without the realignment of current relationship and contract management policies and procedures to reflect the recent cluster changes, there is a risk that services may not meet the requirements of users. This will be an area of interest with the introduction of the NDIS, which may impact the service delivery capabilities of FACS.

Governance

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

FACS is working alongside the Ombudsman's Office to develop an Integrated Governance Framework to track and monitor systemic child protection issues and implementation of related recommendations made by the Ombudsman's Office.

During the year, FACS introduced a contract governance framework to improve consistency in NGO service delivery and management.

FACS is currently addressing challenges with localisation of services by improving district budgetary processes and by reviewing the Corporate Service operating model supporting FACS's 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.

FACS is responsible for reporting on three goals and seven targets contained in the NSW 2021 Plan in the annual NSW 2021 Performance Report. Some targets are not measurable or set below actuals achieved in the baseline year.

Benchmarking performance against other jurisdictions assists in assessing delivery of outcomes. FACS does not have performance measures identified to compare its performance against other jurisdictions or compare its service providers' performance against each other.

The number of applications waiting for public housing is rising.

Ten of the fifteen recommendations made by the Audit Office of NSW in the 2013 Auditor-General's Report to Parliament on 'Making the Best Use of Public Housing' have not been fully addressed. FACS advised they are being reviewed.

The first stage of the NDIS in NSW commenced on 1 July 2013 for people living in the local government area (LGA) of Newcastle. From July 2016, the NDIS will be progressively rolled out in NSW and by July 2018, all eligible residents will be covered. A 2014 NDIS survey highlighted NSW had good survey results on three of the five service delivery measures.

Recommendations

Family and Community Services (FACS) should:

1. increase its effort to reduce the gap between average actual and funded number of full-time equivalent case workers
2. implement appropriate systems to determine the value of disability and home care services provided under NDIS in the trial sites
3. reassess the useful life of its assets and continued use of equipment by clients.
4. review the IT governance, risk management, change management and IT security frameworks to ensure it supports its new service delivery model
5. meet its statutory requirement of undertaking annual placement reviews by 30 June 2015 for children and young people in out-of-home care

NSW Government should:

6. improve some of the 2021 performance targets for the FACS cluster.

Financial and Performance Reporting

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

Financial and Performance Reporting

2013-14 Audit Observations

Financial Reporting

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

Performance Reporting

- LAHC's Business Plan forecasts financial losses for every period to 2022-23. Reported losses for the past two years were in line with the budget
- Five agencies had variances of more than five per cent for net assets. Two agencies did not prepare a budget.
- Overall the cluster had medium risk over financial sustainability
- Revaluation of residential properties resulted in \$1.9 billion increase in value
- A ten per cent gap between average actual and funded FTE caseworker numbers continues to exist since 2010

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.

Over the past five years, the reported number of misstatements for the cluster has fallen from 47 to four in 2013-14.

Key Financial Issues from Agencies within the Cluster

The table below provides an overview of the audit result and number of significant matters and financial misstatements detected during the audit process.

2014 Audit result			Reported misstatements for the year ended					Trend
Agency	Modified opinion	Number of significant matters	2014	2013	2012	2011	2010	
Cluster lead entity								
Department of Family and Community Services	No	--	--	--	11	12	9	↓
Controlled entities of FACS								
Home Care Service of New South Wales	No	--	1	--	1	2	6	~
Home Care Service Staff Agency	No	--	--	--	1	--	7	↓
John Williams Memorial Charitable Trust	No	--	--	--	--	--	3	~
Other related agencies								
Aboriginal Housing Office	No	--	--	1	6	5	5	↓
NSW Businesslink Pty Ltd	No	--	1	2	2	2	4	↓
The Office of the Children's Guardian of NSW	No	--	1	13	N/A	N/A	N/A	↓
NSW Land and Housing Corporation	No	1	1	--	3	6	6	↓
Home Purchase Assistance Fund	No	1	--	2	4	7	6	↓
City West Housing Pty Ltd	No	--	--	--	--	4	1	~
Total for the cluster		2	4	18	28	38	47	↓

N/A not applicable.

Source: Statutory Audit Reports issued by the Audit Office of New South Wales.

The past three years have shown significant improvements in the quality of financial reporting. Reported misstatements have reduced from 47 in 2010 to four in 2014, which is a reduction of 91.5 per cent in the number of misstatements. Management corrected all material misstatements.

Two significant matters reported in 2014 statutory audit reports to the Minister are detailed below:

Bonnyrigg Public Private Partnership Project

On 2 September 2014, the government commenced negotiations to resolve the non-operational Bonnyrigg Public Private Partnership Project. Negotiations are in progress at the date of this report.

In 2007, the government partnered with the private sector and started the Bonnyrigg project. It was designed to build or redevelop social/private dwellings to increase the existing number of social housing dwellings from 699 to 833. The community had 1,633 private dwellings and 699 social dwellings before this project. When complete, 70 per cent of the housing for the community will be private dwellings and 30 per cent will be social housing dwellings. This is in line with the Government policy of redeveloping social housing within established or new private communities.

By 30 June 2013, stages one to three were completed delivering a total of 363 dwellings, comprising 152 social and 211 private dwellings. As one of the private sector partners went into receivership in 2013, the project stopped and there has been no further construction to date. Attempts to source a replacement developer were unsuccessful.

Home Purchase Assistance Fund

A Trust Deed established the HPAF on 14 February 1989 to support and administer the State's home purchase assistance program. For 20 years the Fund has not issued any new loans to home buyers from this program and has maintained cash deposits of over \$280 million.

Following our recommendation in the Report to Parliament Volume Five 2013, Housing NSW, a division of FACS, commenced a process of reassessing the objectives of the HPAF and its continued operation. It expects to complete its reassessment by January 2015.

Timeliness of Financial Reporting

The table below provides an overview of the timing of early close procedures, submission of financial statements and completion of the audit process.

Agency	Early close procedures		Financial statements		Audit	
	Received by statutory date	Days late	Received by statutory date	Days late	Completed by statutory date	Days late
Cluster lead entity						
Department of Family and Community Services	Yes	--	Yes	--	Yes	--
Controlled entities of FACS						
Home Care Service of New South Wales	Yes	--	Yes	--	Yes	--
Home Care Service Staff Agency	N/A	N/A	Yes	--	Yes	--
John Williams Memorial Charitable Trust	N/A	N/A	Yes	--	Yes	--
Other related agencies						
Aboriginal Housing Office	Yes	--	Yes	--	Yes	--
NSW Businesslink Pty Ltd	Yes	--	Yes	--	Yes	--
The Office of the Children's Guardian of NSW	Yes	--	Yes	--	No	30
NSW Land and Housing Corporation	Yes	--	Yes	--	Yes	--
Home Purchase Assistance Fund	Yes	--	Yes	--	Yes	--
City West Housing Pty Ltd	Yes	--	Yes	--	Yes	--

N/A not applicable.

Source: Statutory Audit Reports issued by the Audit Office of New South Wales.

Agencies in FACS cluster were broadly successful in performing early close procedures, and all of them submitted the financial statements on or before due dates.

All agencies within the cluster demonstrated timely financial reporting. Early close and year end financial statements were received within statutory deadlines for all agencies. Treasury issued TC 14/02 'Mandatory early close procedures for 2014', which aimed to further improve the quality and timeliness of agencies' annual financial statements. FACS cluster was broadly successful in performing early close procedures. With the exception of OCG, all audit opinions were issued within the statutory deadline. The delay in completing the audit of the OCG was no fault of the client.

Outcomes of early close procedures for relevant agencies in the cluster

The early close procedures assisted in ensuring effective resolution of key risk areas in a timely manner, particularly in assessing and resolving accounting issues for the financial reporting implications of:

- new and updated standards on property, plant and equipment valuations, AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- amendments to AASB 119 'Employee Benefits' regarding the revised requirements for post-employment benefits, termination benefits and other changes
- changes to legislation impacting agency restructures, such as the 'Administrative Arrangements Order 2014'.

A common reported outcome from the early close procedures was that improvement was needed with implementing the new disclosure requirements within AASB13. The disclosures were subsequently improved in the year-end financial statements.

Key Financial Information

Appendix one details key financial information for the FACS cluster agencies included in this report.

The net result of the FACS cluster for 2013-14 is a deficit of \$436 million, which is a significant decline from the \$62.3 million surplus in 2012-13. The overall deficit is mainly due to LAHC's net deficit of \$627 million. For the year ended 30 June 2014, FACS achieved a surplus of \$70.5 million, as did City West, \$50.0 million and AHO, \$51.4 million.

The value of assets held by the FACS cluster totalled \$39.7 billion at 30 June 2014, an increase of \$1.6 billion from previous year. Assets were predominantly represented by \$35.8 billion of residential properties. FACS cluster liabilities totalled \$1.5 billion consisting of \$680 million of borrowings, payables of \$485 million and \$163 million of employee provisions.

The significant financial movements attributable to FACS, LAHC, AHO and City West are discussed below.

Family and Community Services

FACS total assets increased by \$275 million to \$1.7 billion at 30 June 2014. This was due to an increase in its cash position of \$151 million and the acquisition of land and buildings of \$121 million. The increase in cash position is from unpaid 2014 liability of \$143 million to the Commonwealth Government (a similar liability was settled last year by 30 June 2013) and the transfer of NSW Businesslink Pty Ltd cash balance of \$11.3 million to FACS.

NSW Land and Housing Corporation

The deficit for the year was \$627 million (\$195 million deficit in 2012-13). This was primarily due to 2,721 properties at a value of \$461 million being granted to community housing providers, in line with the Government's policy. LAHC's business plan forecasts losses for every reporting period to 2022-23. Reported losses for the past two years were in line with the budget.

Total assets at 30 June 2014 increased by \$1.2 billion to \$35.6 billion mainly from property revaluation increments.

Liabilities decreased by \$52.9 million to \$920 million at 30 June 2014. The decrease largely represents the settlement of a FACS debt.

Aboriginal Housing Office

AHO recorded a surplus of \$51.4 million for the year, which is \$15.0 million lower than the prior year largely due to increased expenditure on National Partnership Agreement on Remote Indigenous Housing (NPARIH) with decreased contribution revenue.

Total assets at 30 June 2014 increased by \$195 million to \$1.5 billion as a result of property revaluation increments.

Liabilities increased by \$9.7million to \$45.7 million at 30 June 2014 mainly due to higher level of capital project creditors at the end of the year.

City West Housing Pty Ltd

City West's total assets increased by \$79.8 million to \$449 million at 30 June 2014 mainly due to an increase in developer's contribution of \$33.4 million, acquisition of land and buildings of \$20.1 million and a revaluation increment of \$22.4 million.

Budget Performance for the FACS cluster

Budgetary controls require some improvement. Five agencies had variances of more than five per cent for net assets. Two agencies did not prepare a budget.

Appendix two includes information regarding performance against budget.

Eight of the ten agencies in the cluster prepared a budget. The two agencies that did not prepare a budget were Home Care Service Staff Agency and John Williams Memorial Charitable Trust (the Trust). Home Care Service Staff Agency does not have a budget as only a consolidated one is prepared for HCS. The Trust operations are limited to providing properties for accommodation and respite care for children hence a budget is not prepared.

FACS and City West were within two per cent of its budget for total expenses. HCS and Businesslink had budget variances between two and five per cent on total expenses. LAHC, AHO, OCG and HPAF had variances greater than five per cent of their total expense budgets.

Five agencies had variances of more than five per cent for net assets. Agencies that had significant variance to budget are detailed below:

Family and Community Services

FACS surplus was lower than budget by \$38.6 million mainly due to higher employee expenses of \$89.0 million associated with the transfer in of staff from the Department of Finance, lower appropriations by \$104 million and lower personnel services recovery of \$6.3 million. This is offset by lower grants and subsidies expenses of \$82.3 million, higher recoveries from the Crown Entity of \$18.0 million, higher funding from grants of \$21.1 million and a revaluation increment of \$43.3 million.

Total assets were above budget by \$175 million mainly due to a higher cash position of \$127 million arising from unpaid 2014 liability of \$143 million to Commonwealth Government (a similar liability was settled last year by 30 June 2013) and an increase in land and buildings associated with the net movements of acquisitions and revaluation increments.

Land and Housing Corporation

The deficit for the year was \$627 million, which is favourable compared to the budgeted deficit of \$949 million. The favourable variance was mainly due to lower than budgeted property grants to community housing providers during 2013-14.

Aboriginal Housing Office

The surplus of \$51.0 million had an unfavourable variance of \$7.3 million compared to the budget. This was mainly attributable to increased property related expenditure and losses on disposal of properties.

City West Housing Pty Ltd

Achieved a surplus of \$50.4 million (\$34.1 million higher than its Statement of Business Intent target). The higher surplus was mainly attributable to higher developer contributions of \$33.4 million due to more property developments in the Sydney city area during the current year.

Financial Analysis across the cluster

Appendix Three summarises the performance of agencies against some commonly accepted financial sustainability indicators for the year ended 30 June 2014.

Agencies across the FACS cluster are funded by the State Government, in the form of capital and recurrent appropriation or grants and contributions, with the exception of City West which is self-funded.

The overall assessment of financial sustainability for the FACS cluster is medium risk. Three out of the seven agencies within the cluster have low financial sustainability risk. FACS, HCS and OCG have medium risk. Initial indications are that LAHC has a high short term sustainability risk.

LAHC management confirmed they are funding all expenditure apart from depreciation of dwellings. Additionally, three of the measures of financial sustainability are assessed as low risk. On balance we consider the risk of financial sustainability for LAHC as no more than medium.

The liquidity ratio across the cluster ranges from one to two per cent except for HPAF of 2,483 per cent and City West of 64 per cent. HPAF continues to administer existing loans and maintain cash deposits. City West has substantial cash due to increased developer contributions during the year and minimal liabilities. Only LAHC within the cluster has long term debt. Its debt to equity ratio of only two per cent indicates no concerns over its ability to repay the debts.

Outcomes of Revaluations

Out of the ten agencies in the cluster, three carried out a full revaluation at 30 June 2014. The revaluation resulted in 131,500 properties increasing in value by \$1.9 billion and four properties decreasing in value by \$205,000.

- LAHC revalued its portfolio of about 126,000 owned residential properties at \$34.4 billion at 30 June 2014 (\$33.3 billion at 30 June 2013)
- AHO revalued its 5,555 properties at \$1.4 billion (\$1.2 billion)
- Home Care Service revalued its four properties at \$548,000 (\$753,000).

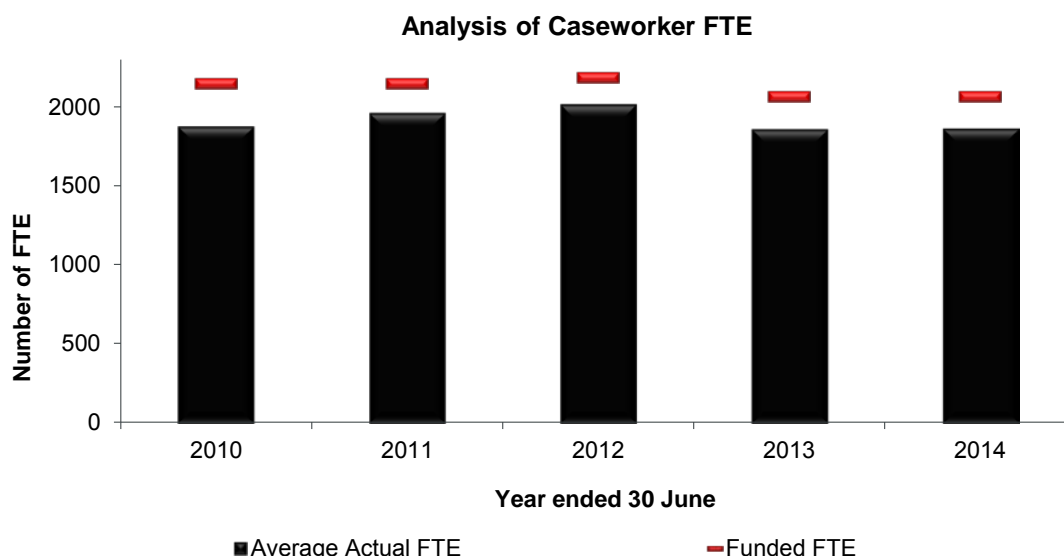
Caseworker Vacancies

Recommendation

FACS should increase its effort to reduce the gap between average actual and funded number of full-time equivalent case workers.

For the last few years, our reports have highlighted the ongoing challenge faced by FACS in filling caseworker vacancies.

The table below highlights that average actual caseworker numbers have been around ten per cent less than funded full-time equivalent (FTE) for five years. FACS is currently increasing its effort to recruit more caseworkers.



Note: The number of funded FTE caseworkers decreased from 2012 due to the transfer of Brighter Future services to NGOs.

Source: FACS (unaudited).

The actual Caseworker FTE is monitored with regular monthly reports provided to business areas in FACS to assist in achieving caseworker staffing at the funded level. Monthly data is compiled quarterly to produce the caseworker dashboard published on the FACS internet site. The published actual FTE data is reviewed by an external service provider prior to publication to ensure that the measure is being correctly captured and reported. A caseload report is available via the FACS Corporate Information Warehouse that produces daily reports on caseloads and workloads.

The Community Services Caseworker Dashboard gives FACS a consistent and meaningful way to report actual caseworker numbers, vacancy rates and the number of children and young people reported at risk of significant harm and the number and share of these children who received a face-to-face child protection assessment. This data directly links caseworker numbers to caseworker funding and actual staff. It is published quarterly on the FACS website.

FACS continues to maintain a gap (ten per cent in 2013-14) between the average actual and FTE case workers. FTE caseworker numbers have been around ten per cent less than funded positions for the past five years. The June 2014 Caseworker dashboard as reported on the FACS website shows that the variance for the June quarter has reduced to five per cent.

The caseworker to child ratio reflects the caseworker ratio to all children in out-of-home care (OOHC), including statutory and supported care. It should be noted that cases under statutory care typically reflect greater work effort compared to cases under supported care. The caseworker to child ratio in OOHC was 1:21 in 2013-14 and 1:25 in 2012-13. Improvement is a result of ongoing transition of OOHC cases to the NGO sector. However, this remained significantly higher than the ratio recommended by the NSW Ombudsman's 'Keep Them Safe' Report from 2011 of 1:12.

Financial Controls

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

Financial Controls

2013-14 Audit Observations

Internal Controls

Improvements should be made to address limitations noted in:

- management of conflict of interests
- reconciliation of key account balances, and
- financial accounting systems capturing costs relating to services provided under NDIS

Human Resources

The management of excess annual leave can be improved

Asset Management

\$272 million fully depreciated assets are still being used by the agencies

Information Technology

- Significant improvement in IT processes and controls achieved over the last three years
- FACS should review the IT governance, risk management, change management and IT security frameworks to ensure it supports service delivery in its new integrated structure

Internal Controls

Audits involve performing procedures to obtain evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial statements. In making those risk assessments, the auditor considers internal controls relevant to the preparation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Breakdown and weaknesses in internal controls significantly increase the risk of fraud and error.

Management Letters

The management letters for the year ended 30 June 2014 identified and included opportunities for improvements in internal controls.

The management of conflict of interests by FACS was assessed as an extreme risk.

Risk level						Follow up on prior year management letter		
Entity	Management letter	Extreme	Moderate	Low	Total	Total number of management letter issues raised in 2013	Total number of management letter issues addressed in 2014	Number of management letter issues reported as repeat issues in 2014
Cluster lead entity								
Department of Family and Community Services	Yes	1	3	5	9	10	7	3
Controlled entities of FACS								
Home Care Service of New South Wales	Yes	--	2	1	3	5	3	2
Home Care Service Staff Agency	No	--	--	--	--	--	--	--
John Williams Memorial Charitable Trust	Yes	--	--	1	1	--	--	--
Other related agencies								
Aboriginal Housing Office	Yes	--	2	1	3	6	6	--
NSW Businesslink Pty Ltd	Yes	--	0	2	2	5	5	--
The Office of the Children's Guardian of NSW	Yes	--	2	1	3	5	5	--
NSW Land and Housing Corporation	Yes	--	1	1	2	4	4	--
Home Purchase Assistance Fund	Yes	--	--	1	1	3	3	--
City West Housing Pty Ltd	Yes	--	2	--	2	11	9	2
Total for the cluster		1	12	13	26	49	42	7

Source: Management letters issued by The Audit Office of New South Wales.

Management of conflict of interests by FACS was assessed by audit as an extreme risk as the potential impact is high due to the dollars involved in contracting out or engagement with the non-government and other organisations. FACS has a decentralised policy to record conflict of interests which appeared to be inconsistently applied or not implemented appropriately. Management agreed to implement appropriate systems by 30 June 2015.

Prior year management letters for agencies in the cluster contained observations relating to information technology, lack of supporting documentation, segregation of duties, maintenance of the fixed asset register, payments for capital projects, process or regulation not followed, accounting policies and procedural manuals, and human resources management.

The management of excessive annual leave balances was a common issue across most of the cluster agencies during current and past years. Six other repeat issues identified included approval of careworkers' timesheets and approval of supplier master file changes.

National Disability Insurance Scheme

Recommendation

FACS should implement appropriate systems to determine the value of disability and home care services provided under NDIS in the trial sites.

The NDIS was launched on 1 July 2013 in the Hunter region as a trial site for the Commonwealth Government. Over a three year period, some 10,000 people with a disability from the Newcastle, Lake Macquarie and Maitland local government areas will transition to the NDIS.

During the launch of the NDIS trial sites, clients are gradually registered with the NDIA, however they will continue to receive services funded by FACS until such time as the funding is transitioned to the NDIA.

The value of NDIS services that continue to be funded by FACS are considered as an in-kind contribution to NDIS. However, FACS needs systems to determine the value of disability and Home Care services provided under the NDIS in the trial sites.

Human Resources

Excess Annual Leave

Managing excess annual leave remains a challenge for most FACS cluster agencies.

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

At 30 June 2014, the number of employees in the cluster with balances exceeding 35 days was 1,313 (721 above 40 days at 30 June 2013). FACS being the largest agency in the cluster had the most employees with excess annual leave balances. FACS has advised that initiatives are in place to manage excess annual leave.

Excess leave balances can affect an organisation in the following ways:

- the associated financial liability generally increases over time as salaries increase
- workplace health and safety issues may arise
- employee fraud may remain undetected.

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

Cluster Agencies	30 June 2014 headcount > 35 days	\$ Value of annual leave > 35 days at 30 June 2014	30 June 2013 headcount > 40 days	\$ Value of annual leave > 40 days at 30 June 2013
Cluster lead entity				
Department of Family and Community Services	1, 155	2, 951,878	624	1, 834,659
Controlled entities of FACS				
Home Care Service of New South Wales	N/A	N/A	N/A	N/A
Home Care Service Staff Agency	109	97, 200	50	54, 046
John Williams Memorial Charitable Trust	N/A	N/A	N/A	N/A
Other related agencies				
Aboriginal Housing Office	11	59, 464	9	28, 695
NSW Businesslink Pty Ltd	3	361	--	--
The Office of the Children's Guardian of NSW	2	4, 445	14	51, 386
NSW Land and Housing Corporation	33	68, 918	24	60, 872
Home Purchase Assistance Fund	N/A	N/A	N/A	N/A
City West Housing Pty Ltd	--	--	--	--
Total	1,313	3,182,266	721	2,029,658

N/A Not applicable.

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

Ageing of Staff

Twenty-eight per cent of employees are over 55 years of age.

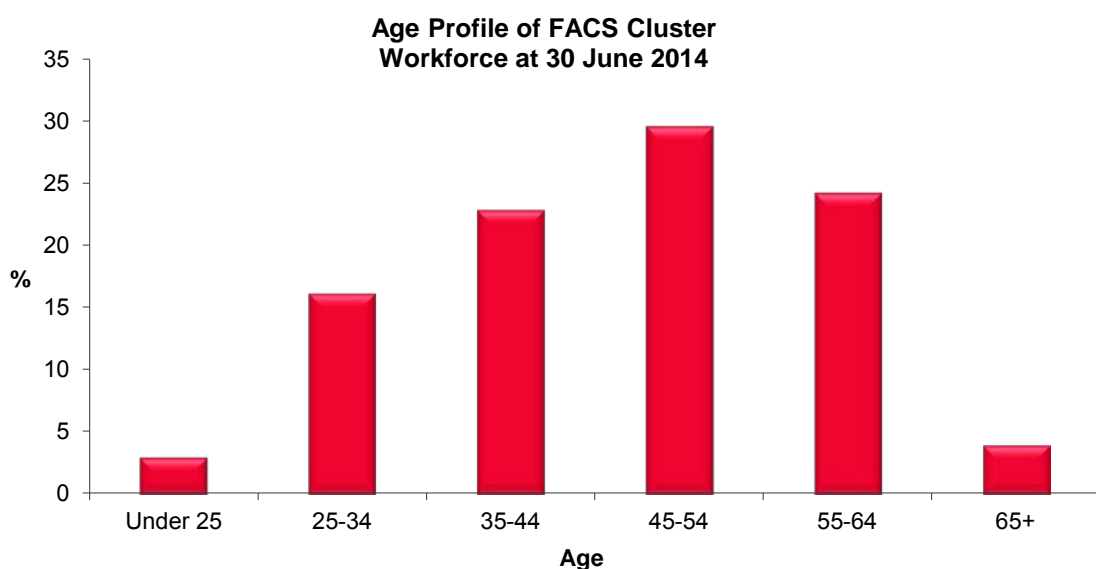
The FACS cluster agencies may face some challenges from the potential loss of large numbers of exiting staff and skills in the future. Twenty-eight per cent of the employees are over 55 years of age. These employees are likely to retire over the next five to ten years, which may result in a significant knowledge and skills shortage if an appropriate plan is not developed to address the risk. The implementation of the NDIS may result in the need for fewer employees across the cluster reducing the impact of high retirement levels in the next few years.

The table below shows agencies' staff by age brackets at 30 June 2014:

Cluster agencies	Under 25	25-34	35-44	45-54	55-64	65+
Cluster lead entity						
Department of Family and Community Services	489	2,880	3,727	4,281	3,439	554
Controlled entities of FACS						
Home Care Service of New South Wales	N/A	N/A	N/A	N/A	N/A	N/A
Home Care Service Staff Agency	106	288	742	1,525	1,349	245
John Williams Memorial Charitable Trust	N/A	N/A	N/A	N/A	N/A	N/A
Other related agencies						
Aboriginal Housing Office	2	14	25	25	21	5
NSW Businesslink Pty Ltd	21	126	150	172	119	9
The Office of the Children's Guardian of NSW	4	33	39	23	13	1
NSW Land and Housing Corporation	6	45	111	171	141	22
Home Purchase Assistance Fund	N/A	N/A	N/A	N/A	N/A	N/A
City West Housing Pty Ltd	--	5	2	5	2	--
Total	628	3,391	4,796	6,202	5,084	836

N/A Not Applicable.

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



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

Workers' Compensation Claims

The number of workers' compensation claims across the cluster decreased from 1,186 in 2012-13 to 1,052 in 2013-14. Management advises this was largely due to legislative changes in 2012 removing journey claims from eligible claim provisions. The main injury types for staff in cluster agencies, according to management, continue to be related to slips/trips/falls, manual handling injuries and psychological injuries.

Cluster agencies	Number of claims		Percentage of claims per headcount
	2013-14	2012-13	2013-14
Cluster lead entity			
Department of Family and Community Services	805	898	5
Controlled entities of FACS			
Home Care Service of New South Wales	N/A	N/A	N/A
Home Care Service Staff Agency	236	261	6
John Williams Memorial Charitable Trust	N/A	N/A	N/A
Other related agencies			
Aboriginal Housing Office	2	3	2
NSW Businesslink Pty Ltd	6	11	1
The Office of the Children's Guardian of NSW	--	--	--
NSW Land and Housing Corporation	3	13	1
Home Purchase Assistance Fund	N/A	N/A	N/A
City West Housing Pty Ltd	--	--	--
Total	1,052	1,186	5

N/A Not applicable.

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

Asset Management

LAHC and AHO backlog maintenance remained stable around \$315 million for the past two years.

\$272 million (at cost) of fully depreciated assets are still being used by the cluster agencies.

Recommendation

FACS and AHO should reassess the useful life of the assets and continued use of equipment by clients.

Maintenance Expenses

The FACS cluster incurred \$241 million on maintenance of property, plant and equipment (PPE) during 2013-14. This is 0.6 per cent of its total PPE book value at 30 June 2014.

The majority of maintenance expenses were incurred by LAHC \$223 million, FACS \$17.2 million and City West \$620,000.

Total backlog maintenance of the FACS cluster is \$340 million at 30 June 2014. LAHC has \$315 million and FACS has \$25.0 million of backlog maintenance. The value of backlog maintenance for LAHC and AHO remained stable for the past two years.

Fully Depreciated Assets

Cluster agencies continue to use \$272 million (at cost) fully depreciated assets at 30 June 2014, consisting \$270 million for FACS assets and \$2.4 million for AHO assets.

We recommended management reassess the useful life of the assets and the continued use of equipment. Fully depreciated assets may pose a risk to clients and/or staff safety if they are being used beyond the manufacturers' design life.

Update on Payments to UrbanGrowth

Last year we recommended that FACS should develop policies to effectively manage and monitor payments to service providers for capital projects.

FACS implemented new procedures to ensure excess funds are not held by external service providers in regards to capital work projects. The \$41.0 million paid in advance to UrbanGrowth during 2012-13 was subsequently reduced to \$3.9 million at 30 June 2014.

Key Information Technology Projects

The following table details the Information Technology (IT) projects for FACS. No other agencies in the cluster had any projects in progress.

Project description	Original budget (\$000)	Project cost to 30 June 2014 (\$000)	Original estimated completion year	Year of completion
Casework Workload Management	645	15	2013	Yet to be determined
Non-Government Organisation Portal	2,931	2,438	2013	Yet to be determined
Electronic Document and Records Management System	1,681	1,681	2013	2014

Source: Data provided by FACS (unaudited).

During the past three years, \$49.6 million of projects/assets was written off by cluster agencies. FACS reviewed the useful life of the \$46.0 million HOMES system and moved it from ten years to three years and seven months due to the changing operational environment. The accelerated depreciation for the HOMES system in 2013-14 was \$25.8 million and \$17.0 million in 2012-13. In light of the expected restructure of FACS operations in the near future, management should evaluate future long term IT projects for viability.

Case Workload Management project was put on hold in 2013-14 pending further design with Districts and managers' case work. This design is now completed and the solution will be implemented as part of the Safe Home for Life Reforms. No additional funding is required for this project but revised completion date has not been determined.

The Non-Government Organisation Portal has been extended as part of the Safe Home for Life Reforms to enable a greater level of NGO to FACS information sharing, including real time synchronisation of placement information with FACS systems. No increase to the original funding is required however; the Safe Home for Life Reform will fund an additional \$400,000 to enable a more streamlined approach to Minimum Data Set reporting to government.

Information Technology

Information Systems Issues

Information systems audits focused on the IT processes and controls supporting the integrity of financial data used in the preparation of agencies' financial statements. There was a significant improvement in the IT processes and controls within the cluster over the last three years, with ten issues reported in 2011-12, two issues for 2012-13 and no issues for 2013-14.

Disaster Recovery Planning

In 2013-14, eight major FACS cluster agencies and divisions reported that they had established formal disaster recovery plans for their key financial systems and had performed adequate testing of their plans. This was a notable improvement from 2012-13, where only three had performed partial testing of their plans.

Cluster Structural Changes

Recommendation

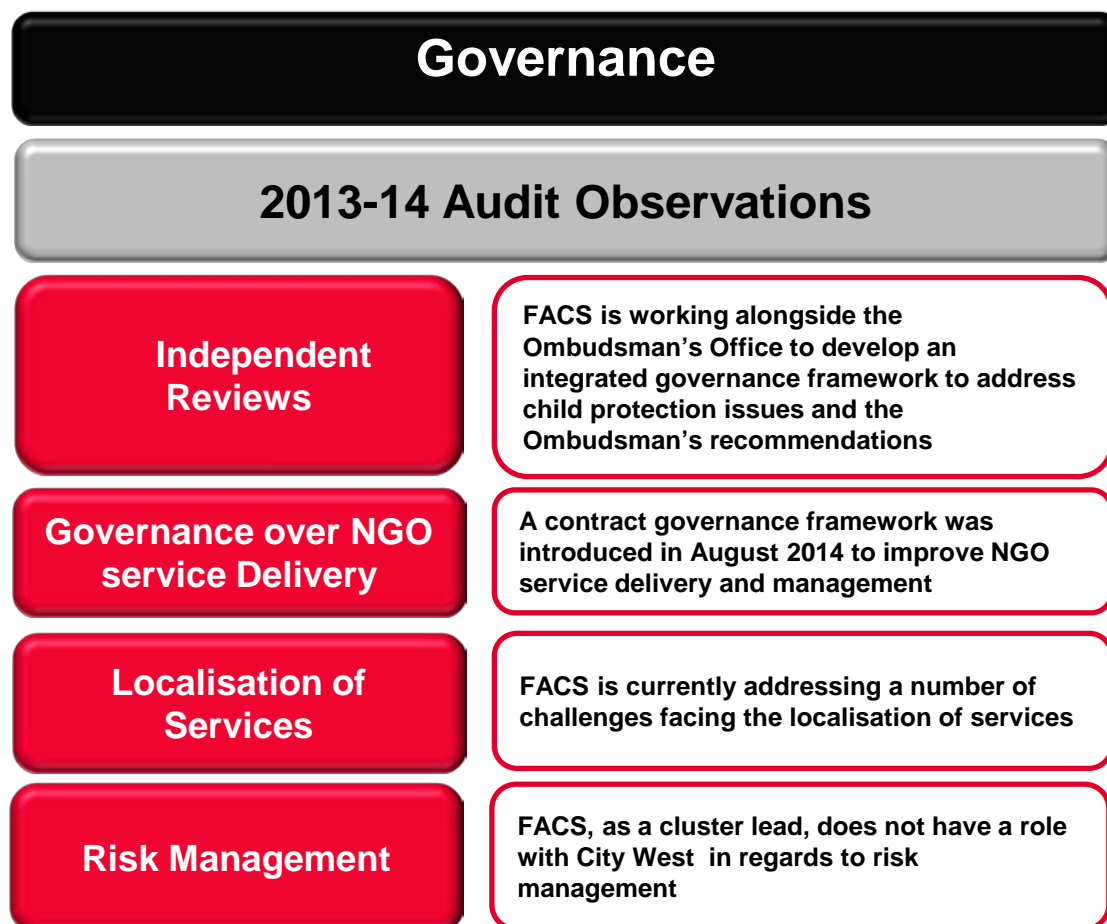
In light of the recent integration between FACS and the Business Services Unit (formerly NSW Businesslink Pty Ltd), the IT governance, risk management, change management and IT security frameworks should be reviewed to ensure it supports the new service delivery model.

In recent months, there have been a series of organisational changes within FACS. On 30 June 2014, due to an administrative restructure, the operations of NSW Businesslink Pty Ltd (Businesslink) were transferred to FACS, which established the Corporate Services, Business Services Unit. The Business Services Unit continues to provide the same IT support services to the same client base as previously provided by Businesslink. FACS has a complex IT environment, with four distinct SAP systems and a number of specialised systems being used by discrete agencies/ divisions. Without the realignment of current relationship and contract management policies and procedures to reflect the recent cluster changes, there is a risk that services may not meet the requirements of users.

This will be an area of interest to FACS management with the introduction of the NDIS, which may impact the service delivery capabilities of FACS.

Governance

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



Independent Reviews

FACS is working alongside the Ombudsman's Office to develop an integrated Governance Framework to track and monitor systemic child protection issues and implementation of related recommendations made by the Ombudsman's Office.

The NSW Ombudsman's report into the Review of the NSW Child Protection System was released in April 2014. In his report, the Ombudsman recommended that the FACS should:

- improve accountability and business performance in output, quality and practice, especially practice improvements in the Western District and Practice First implementation. The Practice First initiative is to improve quality and consistency throughout the Community Services division. So far, Practice First has been rolled out to 38 Community Services Centres and learning from those sites is used to inform practice improvements across the State
- enhance information systems
- lower caseworker vacancy rates
- broaden recording and reporting of service responses to risk of significant harm reports
- target resources and related investment in technology for expanding the collective reach to meet risk of significant harm demand
- develop and implement interagency operational frameworks to address systemic issues (such as strengthening partner agencies capacity, addressing needs of vulnerable adolescents, improving integrated case management, building an intelligence driven approach to child protection and collaborative practice)
- enhance information sharing between FACS and NSW Police Force
- report publicly every twelve months on its progress in implementing recommendations.

The Ombudsman instructed FACS to confirm acceptance of his recommendations within two months of his report. FACS did not meet this timeframe, but management confirms a preliminary response was submitted in July 2014. FACS is currently finalising its responses to the Ombudsman's additional queries. The report requires FACS to publish progress every 12 months. The first update is expected in April 2015. FACS will continue to work with the Ombudsman's Office to progress matters through the Integrated Governance Framework for systemic child protection issues.

FACS advises many of the actions identified in the report are being implemented through ongoing improvements to the child protection sector, and the continued implementation of the *Keep Them Safe* initiatives. Other recommendations and improvements arising from the report will be addressed in the new child protection reform package, *Safe Home for Life*, which incorporates the recent child protection legislative enhancements.

In addition, FACS advises additional funding for *Safe Home for Life* will build information technology systems that facilitate better information sharing and timely decisions. It will increase caseworker capacity and improve practice, allowing for more families to be seen in their homes, and improve referrals and increase direct support services. Targeted funding in out-of-home care will also ensure children and young people in care and those living with their relatives are well supported and have stable, safe and secure homes.

Governance over NGO Service Delivery

FACS introduced a contract governance framework in August 2014 to improve consistency in NGO service delivery and management across FACS.

FACS engages with NGOs to provide major services and programs. More than 50 per cent of FACS budget goes towards funding of programs delivered mainly by NGOs. There was no consistent approach in monitoring and managing NGO service delivery risks. In an effort to address this deficiency, FACS has developed a contract governance framework that was rolled out in August 2014. The framework aims to improve the performance of both service providers and contract managers by providing a consistent approach to contract management and performance monitoring across FACS's program areas.

Localisation of Services

FACS is currently addressing a number of challenges facing the localisation of services.

In September 2013, FACS aligned its geographic service delivery with NSW Health's Local Health District boundaries. Consequently, 15 local districts were established, each headed by a District Director. Districts were created to enable more localised planning and decision making and improve links between senior service delivery management and front line staff. The initiative emphasises increased decentralisation of resources and devolvement of decision making to districts.

Since implementation of the localisation model, the challenges identified by management during the year, are as follows:

- improvement of the budget process for the District level
- unclear functions and responsibilities of the Corporate Services team to the districts
- limited direction from Central Office to the Corporate Services team of the function and services to be delivered to the districts
- slow computer systems. Too many agency specific systems not integrated to support the District operations
- workforce anxiety due to implementing multiple and significant reform agendas by FACS.

FACS advises it is in the process of addressing the above challenges by implementing districts budgetary process and by reviewing the Corporate Service operating model supporting FACS's operations.

Governance frameworks for supporting service delivery

New governance arrangements

There is little clarity of the authority, autonomy and accountability of the cluster Chief Finance Officer's (CFO) role in government guidelines. The Government should clearly support the role of the CFO to allow them to improve financial management and reporting for all agencies in the cluster. Treasury's Financial Management Reform project could also address this matter.

The Executive Board is responsible for the governance of FACS and has established a central corporate service division to support the cluster. It oversees FACS, LAHC and AHO's compliance with its legislative, regulatory and policy requirements.

The FACS cluster includes three agencies that have been established separately for reasons of statutory independence. These are City West, Office of the Children's Guardian and HPAF. There is limited formal oversight of financial risk and reporting matters of these entities by FACS.

During 2014, the Secretary hired new members for FACS's Risk and Audit Committee. The Committee now has only independent members.

Risk Management

The Governance and Assurance Unit of FACS leads the development and maintenance of Strategic and Divisional risk registers, while individual business units are responsible for registers relating to districts, business units, projects and reforms. LAHC and AHO maintain separate risk registers and provide them to their Risk and Audit Committees (RAC), which is attended by the FACS Audit Executive. FACS, as cluster lead, does not have a role with City West in regards to risk management.

FACS advises the Executive Board endorsed a new FACS cluster wide Enterprise Risk Management Framework and Policy (ERMF) in March 2014, which aligns to ISO 31000. Use of a single framework ensures that risks are consistently identified, managed and reported across the Department. FACS maintains a Departmental Strategic Risk Register.

Fraud Control

FACS advises that it has appropriate mechanisms to manage the risk of fraud supported by an overarching Fraud and Corruption Prevention Framework, which operates across the cluster. In addition, the Professional Conduct, Ethics and Performance Group is currently considering revised policy and procedures relating to managing alleged misconduct.

Fraud and corruption matters are regularly considered by cluster RACs.

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	
2013-14 Audit Observations	
NSW 2021 Performance	<ul style="list-style-type: none">• NSW Government should consider improving some of the 2021 performance targets for the FACS cluster• The number of children and young people at risk of significant harm increased by 12.8 per cent from 2012-13 while the goal of the State is to reduce it by 1.5 per cent per year
Measuring NGO Performance	FACS is still to develop performance measures to compare service providers' performance against each other or their performance against other jurisdictions
Social Housing	<ul style="list-style-type: none">• 6,330 new dwellings built at a cost of \$1.9 billion since 2010• As at 30 June 2014, LAHC has granted 5,820 properties worth \$1.4 billion, including 2,721 properties during 2013-14
National Disability Insurance Scheme (NDIS)	NSW achieved good survey results on three of the five NDIS service delivery measures
Out-of-Home Care	<ul style="list-style-type: none">• Transitioning results are good compared to targets set for five-year and ten-year terms• Improvement needed for the rate of annual placement review performed by FACS to fully comply with legislative requirements

NSW 2021 Performance

Recommendation

NSW Government should consider improving some of the 2021 performance targets for the FACS cluster.

NSW 2021, released in September 2011, is the government's ten-year plan to 'rebuild the economy, provide quality services, renovate infrastructure, restore government accountability and strengthen the local environment and communities'.

NSW 2021, includes the following performance goals relevant to the FACS cluster:

- Goal 13: Better protect the most vulnerable members of our community and break the cycle of disadvantage.
- Goal 14: Increase opportunities for people with disability by providing supports that meet their individual needs and realise their potential.
- Goal 25: Increase opportunities for seniors in NSW to fully participate in community life.

A review of the measures for the above goals highlighted the following:

- five of the measures for target 13.1.1 are outside the control of FACS cluster
- some of the targets are unmeasurable due to data not being available for the measurement period, thus performance cannot be evaluated against targets 13.2.1, 13.2.2, 13.2.3 and 14.2.3
- target 14.2.1 is set below the actuals in the baseline year rendering it easily achievable.

Measuring NGO Performance

FACS does not have performance measures to compare its performance against other jurisdictions or to compare its service providers' performance against each other.

FACS recently implemented a new Contract Governance Framework incorporating a set of guidelines, tools and resources aimed at supporting performance improvements in both FACS contract managers and service providers. Service providers are asked to complete an online self-assessment of their performance through the FACS's Computer Online Management System portal, addressing criteria within governance, financial management and service delivery. The self-assessment and financial acquittals process must be completed at the end of October each year, with 2014 being the first year the new Framework has been used.

The annual Self-Assessment is analysed against information gathered by the contract manager throughout the course of the year and a risk assessment is completed for each organisation at this time to enable contract managers to identify and support issues early on.

FACS does not have performance measures identified to compare its performance against other jurisdictions or to compare its service providers' performance against each other. FACS is currently looking at a quality assurance framework for out-of-home-care OOHC indicators for outcomes for children such as education standards and health standards.

Housing

Housing Asset Portfolio Strategy

LAHC is currently implementing its Asset Portfolio Strategy which continues to provide social housing and meet changing public housing needs. It establishes the framework for delivering more housing that better meets the needs of the community, maintaining the number of dwellings in the portfolio and improving the overall standard of dwellings in a financially sustainable way. The Property Assessment Survey completed in 2014 will provide input to the Asset Portfolio Strategy. The strategy will guide asset decisions, align sales, re-developments, maintenance and acquisition programs.

Social Housing Implementation Plan

In 2008-09, the Commonwealth Government's Nation Building Economic Stimulus Plan (NBESP) provided \$1.8 billion and LAHC's goods and services tax rebate provided the remaining funds.

At 30 June 2014, in total LAHC has granted 5,820 properties valued at \$1.4 billion to community housing providers. During 2013-14, LAHC granted 2,721 properties valued at \$461 million and expects to grant another 200 properties over the next year.

Social Housing Spend

NSW Land and Housing Corporation

Year ended 30 June	2014	2013	2012	2011
Actual dwellings acquired / completed (number)	380	374	919	682
Actual spending on acquired / completed dwellings (\$m)	120	96	183	267

Note: The above table does not include NBESP.

Source: LAHC (unaudited).

The funding to support the LAHC capital programs relating to the new supply and capital upgrading of Housing Stock is sourced from cash flows from operations, asset sales, and various grants from FACS. The number of dwellings and spend decreased over the last two years due to the lower funding available to LAHC.

Aboriginal Housing Office

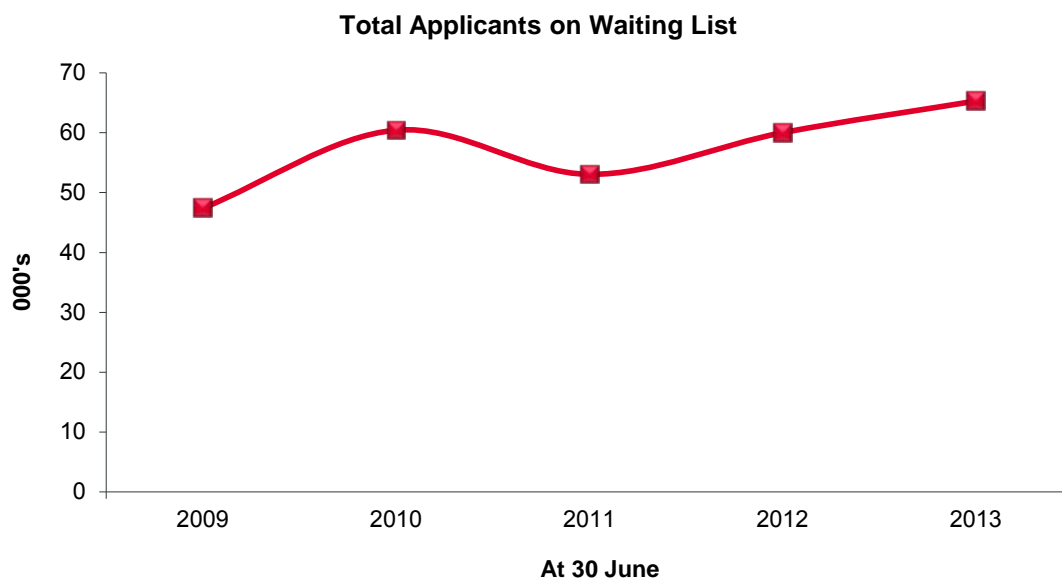
Year ended 30 June	2014	2013	2012	2011
Actual properties acquired/constructed (number)	125	72	76	87
Actual spending on properties acquired/constructed (\$m)	50	32	31	48

Source: AHO (unaudited).

The significant increase in properties acquired during 2014 was due to a supplementary program undertaken in the NPARIH, which when combined with the existing program, delivered 79 new homes in remote and very remote NSW. The NPARIH project is a ten year agreement between the State and Commonwealth Governments investing \$397 million to address significant overcrowding, homelessness, poor housing conditions, and severe housing shortages in remote Aboriginal communities. The Commonwealth Government contributed \$34.7 million in 2013-14 (\$17.1 million in 2012-13) towards this project.

Waiting List for Public Housing

Waiting list of applications for public housing is on the rise.



Source: Productivity Commission Report on Government Services, 2014.

The waiting list for social housing continues to increase since June 2011. The NSW Legislative Council Select Committee on Social, Public and Affordable Housing (Select Committee) commented in September 2014 that the waiting list is anticipated to increase to 86,000 by 30 June 2016.

Market Rent Compared to Actual Rent

Rents paid by public housing tenants are subsidised. Tenants are only required to pay an amount equivalent to a pre-determined percentage of their household income.

In total, subsidies represent about 55 per cent of the market rental for LAHC properties. Subsidies amounts to \$975 million as compared to market rent of \$1.8 billion.

Making the Best Use of Public Housing

Ten of 15 recommendations made in the 2013 Auditor-General's Report to parliament on 'Making the Best Use of Public Housing' have not been fully addressed.

As reported in the 2013 Auditor-General's Report to Parliament on 'Making the Best Use of Public Housing', FACS and LAHC met the timetable for the implementation of five out of 15 recommendations. Management advises implementation is under way for the other ten recommendations. The long term asset portfolio strategy referred to earlier is one of the recommendations LAHC expects to submit to the Select Committee by 1 September 2015.

National Disability Insurance Scheme

NSW has good survey results on three of the five NDIS service delivery measures.

The NDIS represents a significant new area of Commonwealth responsibility and expenditure. The State has a Bilateral Agreement with the Commonwealth to rollout the NDIS across NSW by 2018. It involves moving the State's service system supporting people with disability (direct and funded) and the associated budget to National Disability Insurance Agency (NDIA) by 30 June 2018.

The NDIS is aimed at providing long-term, high quality support for around 410,000 people across Australia who have a permanent disability that significantly affects their communication, mobility, self-care and/or self-management.

The first stage of the scheme in NSW commenced on 1 July 2013 for people living in the local government area (LGA) of Newcastle. People living in the Lake Macquarie LGA will enter the scheme from 2014, and people living in the Maitland LGA will access NDIS from mid-2015. People with permanent and significant disability residing in the Hunter launch site not currently receiving specialist disability services can make an access request to the NDIS at any time. From July 2016, the NDIS will be progressively rolled out in NSW and by July 2018, all eligible residents will be covered.

FACS advises the transition of clients is aligned with the timeframe set out in the Bilateral Agreement, requiring the NDIA (the administering national body), to intake participants at a particular rate based on the target population for each year. The transition of clients from the Newcastle LGA is near completion and the transition of clients in Lake Macquarie LGA commenced in April 2014. The Bilateral Agreement has estimated the intake of 10,111 participants into the trial site from July 2013 to June 2016. As at 31 August 2014, 2,501 clients had transitioned to the NDIS, another 338 clients were in the planning stage of transition, these represent 28 per cent of the estimated intake for the full trial period to 30 June 2016.

The following data is derived from the National Disability Insurance Agency Scheme actuary's report on the COAG Disability Reform Council. It shows a sample of factors considered by the Actuary in determining the experience in trial sites in each of the relevant jurisdictions:

Measure	NSW	SA	TAS	VIC	Average
Participant numbers	2,268	1,355	786	2,907	1,829
Average days from access request to plan approval (Days)	47	60	54	66	58
Average length of time from access request to commencement of services (Days)	80	94	87	105	94
Participant satisfaction*	1.8	1.44	1.9	1.75	1.66
Experience satisfaction*	0.10	0.25	0.37	0.23	0.21
Proportion of participants accessing mainstream services (%)	67	84	75	89	80

* Satisfaction is reported on a scale of - 2 very poor to +2 very good, with 0 = neutral.

Note: FACS advises that the results across each trial site are not directly comparable as each trial site has a different demographic, target and phasing agreement.

Source: NDIA Quarterly Report to COAG Disability Reform Council 30 June 2014.

NSW had the second highest participant numbers, 31.0 per cent of all participants. Despite the large number of participants, NSW has the shortest turnaround time from access request to plan approval and to commencement of services.

Participant's satisfaction in the planning process for NSW is 1.8 which is higher than the average of 1.7. However, NSW trial site was the lowest of the trial sites in the four States for experience satisfaction. Experience satisfaction measures participants overall satisfaction with their current life experience and outcomes.

Out-of-Home Care

Transition Plan

Sixty-five per cent of the five-year target and 56.0 per cent of the ten-year target set by the ministerial advisory group for the transition of children and young people to NGOs were achieved by 30 June 2014.

Children and young people who enter statutory care, and those who are currently in statutory placements provided by Community Services, are being transitioned to non-government organisations (NGOs) from March 2012 over five to ten years.

Target 13.1.3 in the NSW 2021 Performance Report 2014-15, states FACS is to reduce the rate (per 1,000 population) of children and young people in statutory out-of-home care by 1.5 per cent per year. However, Statutory Care rate per 1,000 population increased from 7.5 in June 2013 to 7.8 in June 2014. Conversely, Supported Care rate per 1,000 population decreased marginally from 3.6 to 3.5.

The primary reason for the increase in OOHC population rates for Statutory Care is due to more children coming into the system and less children exiting.

Statistics relating to children and young people in out-of-home care by care arrangement for 2013-14 were:

Care arrangement	2014	2013
Statutory care	13,082	12,349
Supported care	5,818	5,915
Other/not specified	50	36
Total	18,950	18,300
Rate per 1,000 children and young people in statutory care	7.8	7.5
Rate per 1,000 children and young people in supported care	3.5	3.6
Rate per 1,000 children and young people	11.3	11.1

Note: Other/not specified includes Voluntary care and 'Not entered'.

Source: FACS (unaudited).

At 30 June 2014, 53.0 per cent of statutory placements were managed by NGOs. FACS transitioned 4,395 children and young people to NGOs between March 2012 and 30 June 2014, which is below its target of 4,540 set by the Ministerial Advisory Group. The actual cost of this transition over the period was \$60.5 million compared to the budget of \$81.5 million.

About 96.8 per cent of the transition target to 30 June 2014 was achieved. Management advised that the number of carers willing to transfer, level of support needed for the children and availability of placements in the NGO sector impact on the ability to achieve the target.

The favourable 2013-14 budget variance of \$5.0 million is explained by FACS as due to a saving of \$9.2 million from placements not purchased and an additional spend of \$5.2 million on more of the higher cost placements than budgeted.

Five-year and ten-year targets were set for the transition of children and young people to NGOs, 65.0 per cent of the five-year target and 56.0 per cent of the ten-year target were achieved by 30 June 2014. The targets were set for the periods starting from March 2012.

Placement Reviews

Recommendation

FACS should meet its statutory requirement of undertaking annual placement reviews by 30 June 2015.

FACS advises that at 5 July 2014, 46.0 per cent of the 2,070 (59.0 per cent of 3,586 in 2012-13) children and young people case managed by it and who had been in statutory care for more than 12 months had not been subject to a placement review during the preceding 12 months.

Placement reviews for children in out-of-home care are not always performed at appropriate intervals to meet statutory requirements. Section 150 of the *Children and Young Persons (Care and Protection) Act 1998* requires placement of a child or young person to be reviewed at least every 12 months. Placement Reviews are performed to ensure the placement is meeting the child's requirements as per the case plan. Caseworkers assess areas such as health, wellbeing, education and social life of the child during placement reviews. Without a proper placement review, Community Services may not be able to ensure the child's needs are met.

Statutory Child Protection

The average waiting time per call increased by 1:17 (minutes:seconds) to 5:21 in 2013-14. This is significantly higher than the Helpline's target of three minutes. FACS explains that the Helpline's caseworker resources were directed away from answering calls quickly during 2013-14. Instead, FACS increased the number of calls to be resolved by the caseworker who first answers the call (first contact resolution). This consequentially decreased the time taken to finalise and forward reports to Community Service Centres.

The number of risk of significant harm/referred reports increased significantly by 20.2 per cent in 2013-14 compared to 2012-13. Management advised high media interest and people's reporting behaviour in this area have influenced an increase in reporting.

Statistics relating to child protection were:

Year ended 30 June	2014	2013	2012
Total child and young person concern/child protection reports	265,071	246,173	228,821
Rate per 1,000 children and young people 0-17 years who were subject of risk of significant harm/referred report	44	39	38
Number of risk of significant harm/referred reports	125,994	104,817	99,283
Volume of Helpline calls entered	136,567	134,486	145,425
Volume of Helpline calls answered by Caseworker	111,949	111,834	114,020
Average waiting time (minutes:seconds)	5:21	4:04	4:46

Source: FACS (unaudited).

In the NSW 2021 Performance Report 2014-15, the goal of the State is to reduce the rate (per 1,000 population) of children and young people reported at risk of significant harm by 1.5 per cent per year. However, the rate increased by 12.8 per cent in 2013-14.

Real Recurrent Expenditure on Child Protection Services

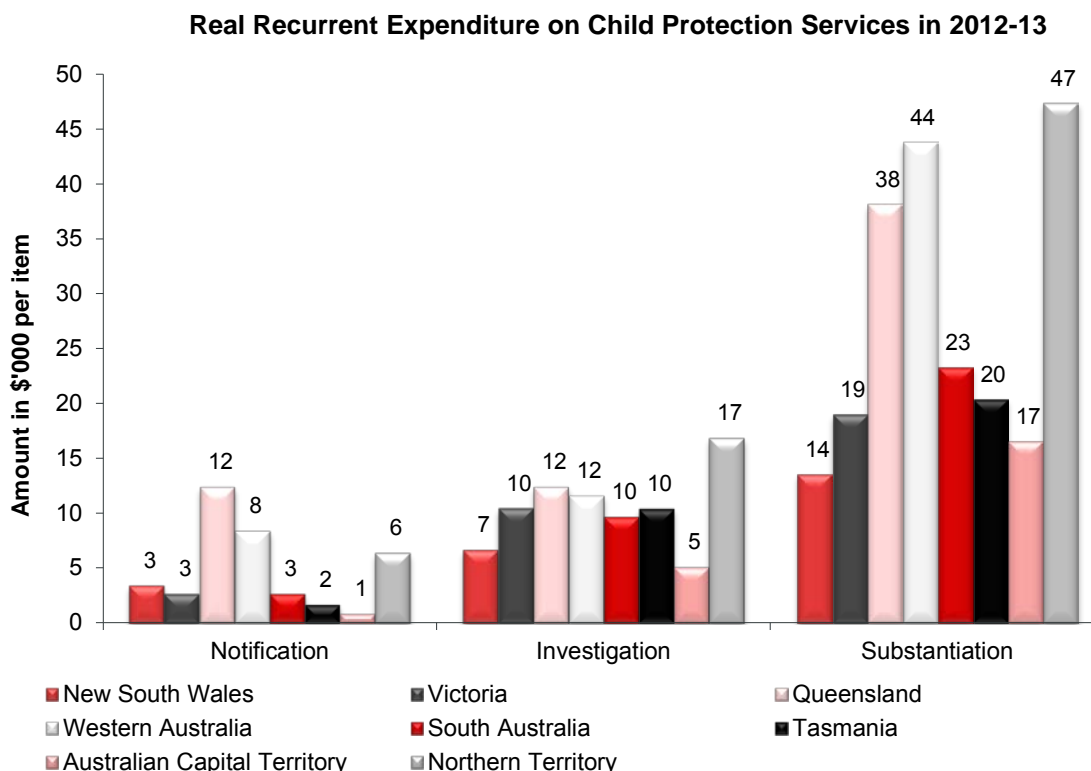
The Productivity Commission's *Report on Government Services 2014* shows expenditure on child protection services 'per notification', 'investigation' and 'substantiation' varies greatly between the States and Territories.

A 'notification' is contact with an authorised department by persons or other bodies making allegations of child abuse, neglect, or harm to a child.

An 'investigation' is looking into child abuse and neglect that involves identifying harm or risk of harm to the child, determining an outcome and assessing protective needs.

A 'substantiation' concludes there is reasonable cause to believe a child has been, is being or is likely to be abused, neglected or otherwise harmed.

The following data compares NSW's expenditure on child protection services in 2012-13 with other jurisdictions:



Note: FACS advises care must be taken when interpreting the data, because no two jurisdictions use the same expenditure criteria. The data cannot be reliably compared across jurisdictions due to differences in legislation, policy and practice. NSW adopted a new methodology for expenditure reporting in 2009-10 and has the widest definition of the term 'notification'. It captures a broader range of child protection issues than in most other states.

Source: Productivity Commission's Report on Government Services 2014

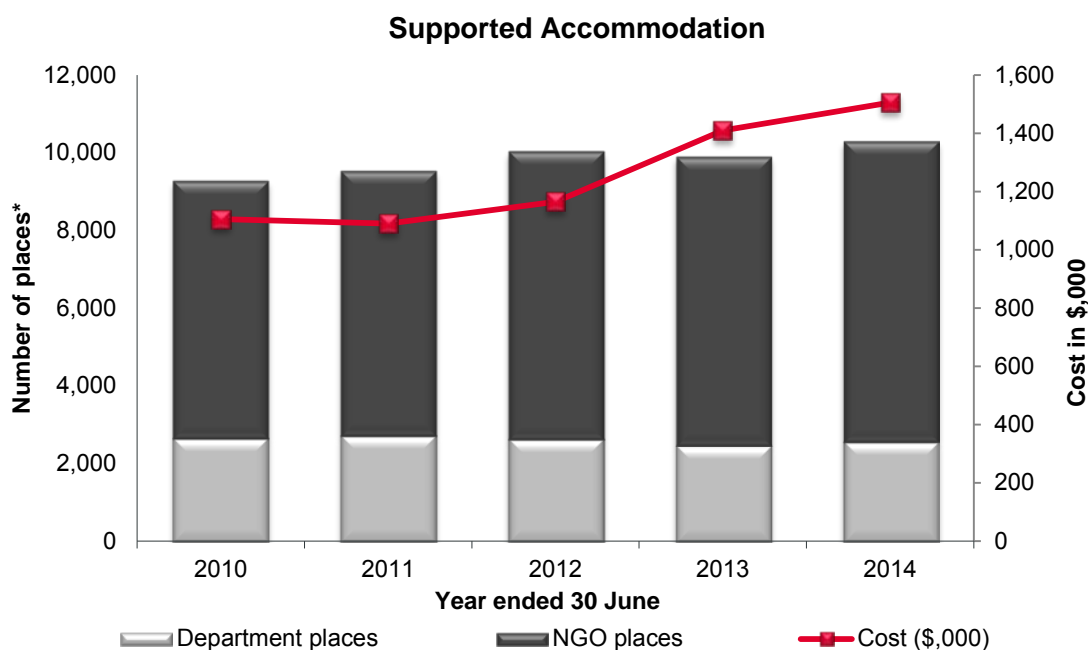
Between 2011-12 and 2012-13, NSW's expenditure on child protection services increased by 11.3 per cent per notification and 13.4 per cent per investigation, while expenditure has only increased by 1.4 per cent per substantiation.

At \$3,470 per notification and \$6,706 per investigation, NSW's expenditure was lower than the national average. NSW also has the lowest expenditure of all States at \$13,540 per substantiation.

Supported Accommodation for People with a Disability

Supported accommodation places increased by 400 in 2013-14. FACS provided 100 places and the NGOs provided the rest. The proportion of places provided by FACS compared to NGOs remained constant at 25.0 per cent and 75.0 per cent respectively. FACS explains the increase in places was primarily due to the impact of the *Ready Together* reforms, which relate to the preparation works for the NDIS. The increase in cost per place of 2.7 per cent is consistent with increase in grants and remuneration payments.

Statistics for the past five years on clients in supported accommodation were:



* rounded to the nearest 100.

Source: Department of Family and Community Services (unaudited).

This program provides suitable accommodation and opportunities for personal growth and development for people with a disability who have ongoing intensive support needs. This includes group home accommodation, individual accommodation support and a range of other accommodation options.

Community Support for People with a Disability, their Family and Carers

There was a reduction in the number of Community Care Support Program services in 2013 and 2014 due to a consolidation in the number of service providers, however the number of clients receiving these services increased.

Information for the past four years relating to Community Support services is:

Year ended 30 June	2014	2013	2012	2011
Number of community care support program services	1, 425	1, 507	1, 840	1, 739
Number of disability services	4, 886	4,316	4, 832	4, 841
Number of people accessing disability and home and community care services	107, 000	105, 000	324, 000	323, 000
Number of people receiving respite services	25, 000	25, 000	67, 000	65, 000
Number of people receiving personal assistance	35, 000	33, 000	204, 000	203, 000
Total expenses incurred on ongoing community support (\$'000)	709, 318	662, 012	1,209,561	978, 618

Source: FACS (unaudited).

Over the past four years all but the number of disability services significantly decreased due to changes in responsibility for the Home and Community Care (HACC) program. Prior to 1 July 2012, community care services for people across all age groups were provided through the HACC Program, which was jointly funded by the State and Commonwealth Governments. From 1 July 2012, the Commonwealth Government assumed full operational responsibility for aged care services for people over 65 years of age (50 for Indigenous Australians) under the HACC program.

There are a range of factors contributing to the increase in number of disability services, particularly the increasing number of individualised service arrangements through the 'Ready Together' reforms.

The number of people accessing Disability and Community Care services has increased, due in part to the expansion of services under 'Ready Together'. Total expenses have increased by 7.1 per cent over the year as a result of the combined effect of the increase in people receiving personal assistance and disability services, and the general price increases.

This program focuses on building skills and strengthening family and carer relationships to enable people to live in their own home and to participate in economic and community life.

Home Care Services

The total hours of service provided by HCS is trending down and actual hours for 2013-14 were less than target. The reduction is mainly due to the implementation of NDIS and increased Commonwealth funding for Home and Community Care program to other service providers, which has resulted in greater competition and less referrals to Home Care Service of NSW.

Year ended 30 June	Target	Trend	Actual				
	2014		2014	2013	2012	2011	2010
Total hours of service provided ('000s)	3,726	↓	3,641	3,677	3,896	3,910	3,853
Total number of clients serviced ('000s)	N/A	~	52	51	50	52	52
Average hours per client per annum	N/A	↓	70	72	78	75	74
Direct average staffing (Full-time equivalent)	N/A	↓	2,812	2,815	2,923	2,968	2,939

N/A Not applicable, as no target was set.

Key: ↓ Trending downwards, ~ No trend.

Source: Home Care (unaudited).

Future of Home Care Service of NSW

On 22 September 2014, the NSW Government announced the commencement of the transfer process of the HCS to the non-government sector. The transfer process is being coordinated by Treasury.

FACS advised that the Government will be calling for expressions of interest to provide home care services in the near future and has indicated that its intention is to transfer HCS by June 2015.

Section Two

Appendices



Appendix One - Summary Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Surplus/(deficit)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cluster lead entity										
Department of Family and Community Services - Parent	1,710	1,435	452	331	5,215	4,900	5,144	4,770	71	130
Controlled entities of FACS										
Home Care Service of New South Wales - Parent	89	86	48	43	235	234	236	220	(1)	14
Home Care Service Staff Agency	42	40	42	40	175	161	177	168	(2)	(7)
John Williams Memorial Charitable Trust	9	9	--	--	--	--	--	--	--	--
Other related agencies										
Aboriginal Housing Office	1,476	1,281	45	36	175	165	124	99	51	66
NSW Businesslink Pty Ltd	--	125	--	109	207	203	198	181	9	22
The Office of the Children's Guardian of NSW	11	3	4	1	30	1	29	1	1	--
NSW Land and Housing Corporation	35,613	34,426	920	973	1,057	1,003	1,684	1,198	(627)	(195)
Home Purchase Assistance Fund	298	308	--	--	12	15	--	--	12	15
City West Housing Pty Ltd	449	370	2	1	59	26	9	8	50	17
Total	39,697	38,083	1,513	1,534	7,165	6,708	7,601	6,645	(436)	62

Source: Financial statements (audited).

Appendix Two - Performance Against Budget

	FACS - Parent		HCS		AHO		OCG		HPAF	
	2014 actual	2014 budget	2014 actual	2014 budget	2014 actual	2014 budget	2014 actual	2014 budget	2014 actual	2014 budget
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Abridged statement of comprehensive income - year ended 30 June										
Employee expenses	1,526	1,426	176	180	14	11	11	12	--	--
All other expenses and losses	3,618	3,705	60	50	110	103	18	10	--	1
Total expenses	5,144	5,131	236	230	124	114	29	22	--	1
Government contributions	4,768	4,851	201	197	97	102	10	--	--	--
Other revenue	447	389	34	35	78	71	20	5	12	14
Total revenue	5,215	5,240	235	232	175	173	30	5	12	14
Surplus/(Deficit)	71	109	(1)	2	51	59	1	(17)	12	13
Total other comprehensive income/(expense)*	2	--	--	--	133	--	--	--	--	--
Total comprehensive income/(expense)	73	109	(1)	2	184	59	1	(17)	12	13
Abridged statement of financial position - at 30 June										
Current assets	497	396	65	60	57	36	9	na	285	285
Non-current assets	1,213	1,139	24	26	1,418	1,325	2	na	13	15
Total assets	1,710	1,535	89	86	1,475	1,361	11	na	298	300
Current liabilities	407	284	39	38	45	25	4	na	--	--
Non-current liabilities	45	79	9	15	--	--	--	na	--	--
Total liabilities	452	363	48	53	45	25	4	na	--	--
Net assets	1,258	1,172	41	33	1,430	1,336	7	na	298	300
Abridged statement of cash flows - year ended 30 June										
Purchases of property, plant and equipment	150	166	--	3	42	49	--	na	--	na

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

na Not available as OCG did not prepare a budget for its financial position as at 30 June 2014.

Source: Financial statements (audited).

	City West		LAHC		Businesslink		
	2014 actual	2014 SBI	2014 actual	2014 SCI	2014 actual	2014 budget	
	\$m	\$m	\$m	\$m	\$m	\$m	
Abridged statement of comprehensive income - year ended 30 June							
Total revenue	59	25	1,057	947	207	214	
Operating expenses	8	8	1,616	1,823	198	191	
Finance costs	--	--	68	73	--	--	
Profit before tax	51	17	(627)	(949)	9	23	
Income tax expense	--	--	--	--	--	--	
Profit after tax	51	17	(627)	(949)	9	23	
Total other comprehensive income/(expense)*	22	--	1,867	--	--	--	
Total comprehensive income/(expense)	73	17	1,240	(949)	9	23	
Abridged statement of financial position - at 30 June							
Current assets	144	89	351	201	N/A	--	36
Non-current assets: Property, Plant and Equipment	305	299	35,251	33,311	N/A	--	104
Non-current assets: Other	--	--	11	28	N/A	--	--
Total assets	449	388	35,613	33,540	N/A	--	140
Current liabilities	2	3	297	286	N/A	--	116
Non-current liabilities	--	--	623	642	N/A	--	--
Total liabilities	2	3	920	928	N/A	--	116
Net assets	447	385	34,693	32,612	N/A	--	24
Abridged statement of cash flows - year ended 30 June							
Purchases of property, plant and equipment	104	100	283	284	--	--	--

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

N/A Not Applicable as Businesslink Pty Ltd's Balance sheet was transferred to FACS on 30 June 2014.

Source: Financial statements (audited) and Budgets presented to Parliament.

Appendix Three - Financial Sustainability

Cluster agencies	Underlying result	Liquidity	Self-financing	Debt to equity	Capital replacement	Overall assessment
Cluster lead entity						
Department of Family and Community Services	1%	1.0	6%	0%	2.0	●
Controlled entities of FACS						
Home Care Service of New South Wales	1%	1.7	1%	0%	0.2	●
Home Care Service Staff Agency***	N/A	N/A	N/A	N/A	N/A	N/A
John Williams Memorial Charitable Trust**	N/A	N/A	N/A	N/A	N/A	N/A
Other related agencies						
Aboriginal Housing Office	29%	1.3	25%	0%	3.3	●
NSW Businesslink Pty Ltd*	N/A	N/A	N/A	N/A	N/A	N/A
The Office of the Children's Guardian of NSW	2%	2.2	5%	0%	0.4	●
NSW Land and Housing Corporation	-15%	1.2	22%	2%	0.9	●
Home Purchase Assistance Fund	98%	2482.8	105%	0%	0.0	●
City West Housing Pty Ltd	85%	63.7	74%	0%	3.1	●

* NSW Businesslink - the ratios are not applicable as the entity was transferred to Department of Family and Community Services at 30 June 2014.

** John Williams Memorial Charitable Trust- the ratios are not applicable as the entity holds properties and some cash assets only. The properties are used to provide respite care and accommodation to children with disability.

*** Home Care Service Staff Agency - is always in neutral position hence ratio analysis is not applicable.

Actual v Budget Indicator

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

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

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

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

Appendix Four - Cluster Information

Agency	Website
Cluster lead entity	
Department of Family and Community Services	http://www.facs.nsw.gov.au
Controlled entities of FACS	
Home Care Service of New South Wales	http://www.adhc.nsw.gov.au/individuals/help_at_home/home_care_service
Home Care Service Staff Agency	*
John Williams Memorial Charitable Trust	*
Other related agencies	
Aboriginal Housing Office	http://www.aho.nsw.gov.au
NSW Businesslink Pty Ltd	http://www.businesslink.nsw.gov.au
The Office of the Children's Guardian of NSW	http://www.kidsguardian.nsw.gov.au
NSW Land and Housing Corporation	http://www.facs.nsw.gov.au/about_us/land_and_housing_corporation
Home Purchase Assistance Fund	*
City West Housing Pty Ltd	http://www.citywesthousing.com.au

* This entity has no website.

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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

