



annual report
2014–15

annual report 2014–15

This annual report summarises the activities and performance of the Audit Office of New South Wales for 2014–15 against the main goals, strategies and targets in its strategic plan. As well as reporting on the financial results for the past year, the report looks to the year ahead. This and earlier annual reports are available on our website.

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Under section 12A of the *Annual Reports (Statutory Bodies) Act 1984*, I have pleasure in submitting for information of members, the reports of the activities of the Audit Office of New South Wales for the year ended 30 June 2015.

A handwritten signature in black ink, appearing to read "A. T. Whitfield".

A T Whitfield PSM
Acting Auditor-General

4 September 2015

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The history of the Auditor-General

1824 William Lithgow appointed Colonial Auditor-General, to compile and examine the colony's accounts and report on government departments to the Governor.

1855 The *UK Constitution Act 1855* formalised government in New South Wales, and the Auditor-General was made a member of the government.

1870 Powers and duties of the Auditor-General first set in legislation, in the *Audit Act 1870*.

1902 *Audit Act 1902* prohibited the Auditor-General from being a member of the Executive Council or of the parliament.

1929 *Audit (Amendment) Act 1929* changed the tenure of office of the Auditor-General from life to ceasing at 65.

1984 *Public Finance and Audit Act 1983* established the Auditor-General's Office (6 January 1984).

1989 Auditor-General's Office declared a statutory body, allowing it to be both more independent and more commercial.

1991 The *Public Finance and Audit Act 1983* expanded the Auditor-General's role to include performance audits, limited tenure to seven years and prevented acceptance of any other post in the NSW public service.

2001 Auditor-General's role expanded to reporting on issues of waste, probity and financial judgement.

2004 Auditor-General given power to employ staff directly, and set wages and conditions.

2013 Tenure of Auditor-General extended to eight years.

Cover: **Liz Ames** Senior Auditor

Client location – Fire and Rescue New South Wales



Our organisation

Built on strategic foundations

Our vision

Making a difference through audit excellence.

Our mission

To help parliament hold government accountable for its use of public resources.

Our values

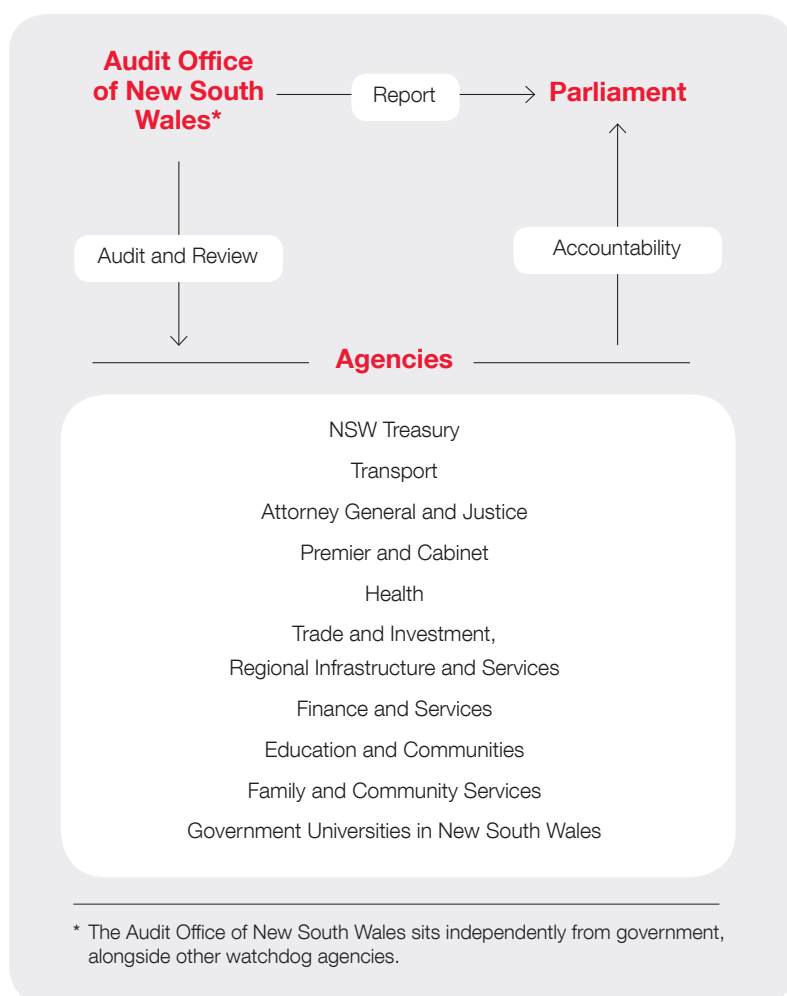
Purpose – we have an impact, are accountable, and work as a team.

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.

Our main clients

- Parliament of New South Wales
- NSW Government agencies
- The people of New South Wales.



Who we are

The Audit Office of New South Wales is a statutory authority, established under the *Public Finance and Audit Act 1983*, that conducts audits for the Auditor-General.

The Auditor-General helps parliament hold government accountable for its use of public resources.

What we do

The Auditor-General is responsible for audits and related services.

The Audit Office conducts financial and performance audits, principally under the *Public Finance and Audit Act 1983* and the *Corporations Act 2001*.

Financial audits provide an independent opinion on NSW Government agencies' financial statements. They identify whether agencies comply with accounting standards and relevant laws, regulations and government directions.

Performance audits build on our financial audits by reviewing whether taxpayers' money is spent efficiently, effectively, economically and in accordance with the law.

Special reports seek to confirm that specific legislation, directions and regulations have been adhered to by government agencies.

The Auditor-General also provides certain assurance services for Commonwealth grants and payments to the State under Commonwealth legislation.

Our resources

249 full-time equivalent staff at the Audit Office at 30 June 2015.

\$36 million revenue from government agencies and universities for audits of their financial statements.

\$7 million from the government for our performance and compliance audits and reports to parliament.

10 external contract audit agents assist with our financial statement audits, representing about 12 per cent of our financial audit work.



2014–15 highlights

Parliament

94% of parliamentarians satisfied with the Audit Office's reports and services

100 per cent agreed we provide valuable information on public sector performance.

100 per cent agreed we perform audits with integrity.

97 per cent believed our financial audit reports assist in monitoring the financial performance of the NSW public sector.

93 per cent believed our performance audit reports are easy to understand.

100 per cent of 30 June financial audits reported to parliament on time.

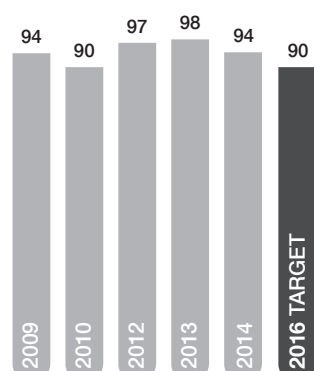
100 per cent of 31 December financial audits reported to parliament on time.

10 performance audits followed up by parliament's Public Accounts Committee.

◦ Refer to page 11

Overall satisfaction

% satisfied or very satisfied
Survey not conducted in 2011 or 2015



Agencies

96% of financial audit and 86% of performance audit recommendations accepted

Performance index for CFO satisfaction remains high at 74.

Performance auditees overall performance index satisfaction decreased to 70 from 74.

436 financial audits completed.

2 new modified audit opinions issued and 6 cleared.

83 per cent of financial audit opinions issued within ten weeks.

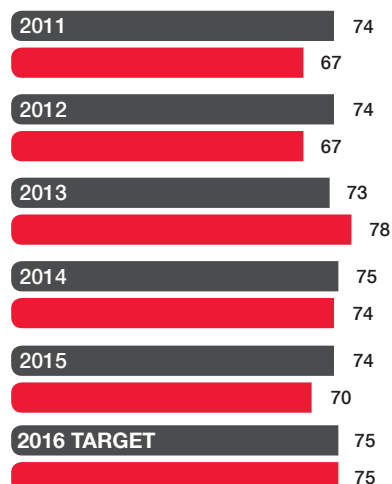
11 performance audits completed.

◦ Refer to page 19

Overall satisfaction %

Aggregate performance indices

Financial audit clients (CFO only)
Performance audit clients



People

24% staff turnover, up from 12% last year

67 per cent staff satisfaction, a drop from 73 per cent last year.

72 per cent of staff describe the Audit Office as 'a great place to work', down from 82 per cent.

68 per cent of staff were moderately to highly engaged, down from 74 per cent.

52 per cent of staff report reasonable to very high morale, down from 64 per cent.

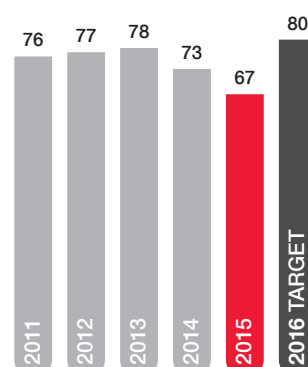
54 per cent of middle management are women, broadly similar to last year.

67 per cent staff productivity, up from 62 per cent.

4.5-star greenhouse building rating maintained.

◦ Refer to page 35

Staff satisfaction %



Profession

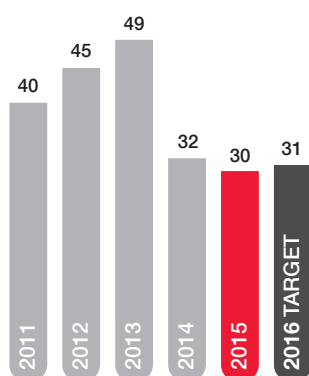
30 presentations made,
two less than last year

Hosted the Australasian Council of Auditors-General (ACAG) Performance Audit Managers Workshop 2015.

5 submissions made on proposed changes to accounting and auditing standards.

◦ Refer to page 43

Presentations delivered



Governance

Our governance framework reflects the 8 core principles of the ASX Corporate Governance Principles and Recommendations

No internal suspected or actual frauds were reported.

The Audit Office received three formal GIPA access applications.

We received and examined eight public interest disclosures.

◦ Refer to page 47

Finances

\$0.5 million loss (excluding superannuation adjustments)

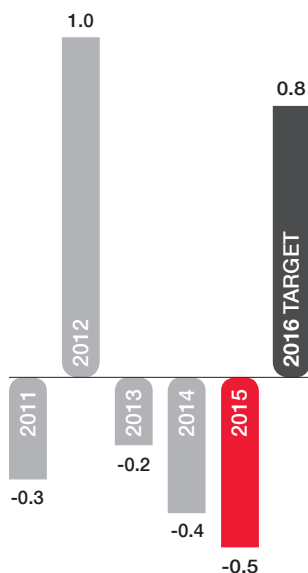
Current ratio (solvency) is healthy.

94 per cent of our creditors were paid on time.

◦ Refer to page 59

Operating results/\$m

Excluding superannuation



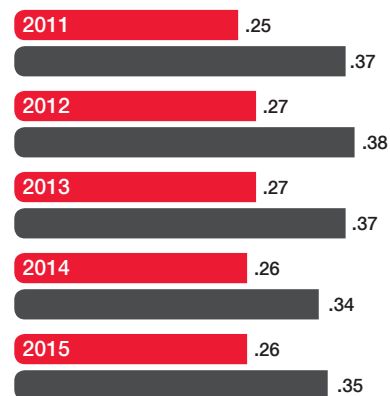
Benchmarks

Our costs compare favourably with other Australian audit offices

We benchmark ourselves against the national average for audit offices.

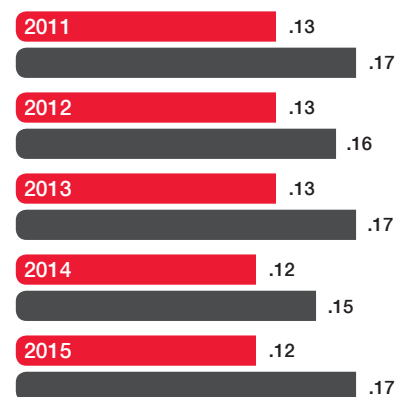
Total audit costs (excluding payroll tax) per \$'000 of public sector transactions \$

Audit Office of New South Wales
Average of all Australian audit offices



Total audit costs (excluding payroll tax) per \$'000 of public sector assets \$

Audit Office of New South Wales
Average of all Australian audit offices



Auditor-General's message

I am pleased to present my first annual report as the Acting Auditor-General for New South Wales

I would like to acknowledge the work and commitment of the previous Auditor-General, Grant Hehir. During his time, he instilled a new vision and set new objectives for the Audit Office of New South Wales. We now have a greater focus on the NSW Parliament and on ensuring our audits are relevant through a stronger understanding of the public sector. We are also now more focused on our own productivity and efficiency.

I am enjoying the opportunity to build on this work.

A year of achievement

We have achieved a lot this year by ensuring our audits are increasingly focused on the issues that are important to government. Understanding government is at the heart of our goal to provide value through our products and interactions with our clients.

Our strategic goals have delivered improvements across the organisation. Our audit methodology, new practice management system and mobile technologies are achieving greater efficiencies and supporting our increasingly mobile workforce. In terms of leadership, the effort made in introducing a more constructive style is improving how we relate to each other and our clients.

We do face challenges, with staff turnover for our audit professionals well above what is sustainable in the medium to long-term and our staff satisfaction and morale well down on previous years. This is partly due to staff unease and uncertainty with our new people strategy (see page 49), which also contributed to staff rejecting a proposed enterprise agreement in May 2015. I believe these areas will improve in the coming year as we proceed with creating a constructive and achievement oriented environment for our people. On the positive side, many of the staff leaving our organisation have moved into more senior roles in the public sector, reflecting how well we develop and grow our staff (see page 38).

Reaffirmed our vision and strategic direction

'Making a difference through audit excellence' continues to be our vision along with our mission to help parliament hold government to account. Our strategic

goals remain unchanged and cover our products, operational excellence, people and constructive leadership.

Producing better outcomes

Ultimately, we are here to produce better outcomes for the State and the people of New South Wales. It is very pleasing that a high percentage of our recommendations are accepted, with 96 per cent of financial audit recommendations and 86 per cent of performance audit recommendations accepted in 2014–15, demonstrating our relevance and capacity to influence (see page 22).

We are also continuing on our journey to demonstrate that we are efficient and productive – something we expect of all the NSW public sector agencies we audit. With this in mind, we have released our new contracting-out framework and pricing approach.

The contracting-out framework benchmarks us with external service providers to ensure we remain cost effective and gives us a chance to learn and adopt better practices.

Our pricing approach gives an undertaking that the growth in our audit fee revenue will be consistent with the government's expenditure constraints placed on agencies and establishes a clear expectation that we manage the impact we have on our clients' finances. Like our clients, we must live within our means.

A more productive multi-year performance audit program

During the latter part of 2014, our Performance Audit team went through a restructure to achieve greater productivity (see page 42). We removed a layer of management and increased the number of auditors in the field. The new structure is now working well and we expect to publish a record number of performance audits in the coming year – with no real increase in total cost.

In April 2015, we released our performance audit program for the coming three years (see page 17). The program is regularly reviewed and updated to reflect significant emerging issues and changes to government priorities. Particular attention is given to ensuring the program reviews how well the NSW Government

is implementing its policy objectives and reform agenda as well as adequately covering the nine clusters that made up the government in 2014–15.

Staff enterprise agreement rejected

During the year, we embarked on a new people strategy (see page 49). A significant part of the strategy was to implement a staff enterprise agreement covering the working conditions and remuneration for our non-executive members of staff. Despite staff rejecting this agreement, the Office Executive and I are fully committed to creating a modern, competitive, cost effective and flexible workplace that fulfils our mandate, both now and in the future.

Another key part of our strategy was to introduce performance agreements for all staff supported by a new human capital management system, delivered through our MiCareer project (see page 10). Performance agreements are being finalised and will be in place in early 2015–16.

Timeliness of NSW Government agencies' financial reporting behind other jurisdictions

In 2014, the accuracy of NSW Government agencies' financial reporting continued to improve, building on significant improvements of the previous year. While timeliness also continues to improve, it is behind other jurisdictions in Australia. My office, NSW Treasury and NSW Government agencies can do more to achieve earlier reporting timeframes.

The number of audit qualifications of financial statements and errors in financial statements submitted for audit remain low and down on previous years. This is largely due to the continuing success of NSW Treasury's early close procedures allowing accounting and reporting issues to be resolved well in advance of finalising the end of year accounts.

NSW Treasury's Financial Management Transformation Program aims to further raise the quality of financial management and financial reporting across the NSW public sector. I am very supportive of this program and my future reports to parliament will comment on NSW Treasury's progress and on



the increasingly important role of Chief Financial Officers.

I will comment on these areas through the four themes that shape my financial and performance audits:

- financial performance and reporting
- financial controls
- governance
- service delivery.

Financial sustainability reporting by agencies could improve

From 2014, we began including financial sustainability measures in my reports to parliament. These measures highlight NSW Government agencies that are at risk of not meeting present and future spending commitments.

Many agencies do not use financial sustainability indicators, particularly departments. While financial sustainability measures may be less relevant for departments whose operations are funded through annual appropriations, they should not be ignored. Service delivery outcomes can be constrained if a department's financial management is poor.

I will continue to explore which long and short-term indicators are most relevant for the public sector, and assess and report on the financial sustainability of agencies.

A more appropriate audit mandate

In recent times, parliament's Public Accounts Committee and government-sponsored reviews have recommended legislative changes to the scope and nature of my audits to better cover today's government activity.

The Public Accounts Committee in 2013 recommended that I have 'follow the dollar' powers. These powers will allow me to go beyond government agencies and examine the increasing number of non-government organisations and other external service providers that spend public money. The Commonwealth and several other State Auditors-General already have these powers.

In another review, the Independent Local Government Review Panel: Revitalising Local Government recommended that NSW local council audits come under my control. Currently, local government

councils in New South Wales appoint their own auditors. In response, my office has been working closely with the Office of Local Government to prepare for the possible transition of local government audits to the Audit Office. I am confident we will be ready and will perform well, should the change go ahead.

A previous Public Accounts Committee report and the NSW Financial Audit 2011 Report (Lambert Report) recommended that I have explicit powers to undertake compliance audits. This recognised the limitations I have in conducting compliance audits as performance audits or as a request from the Treasurer. A far more efficient way is to allow me to independently initiate such reviews.

The Lambert Report made a number of other recommendations including giving me powers to access cabinet documents; allowing me to choose not to audit dormant entities; reducing the number of days an agency has to respond to a performance audit; and requiring me to include agency comments in my financial audit reports to parliament.

I encourage the NSW Government to act on these recommendations.

A new Public Accounts Committee

The Public Accounts Committee was re-established on 28 May 2015. Since then I have updated the committee on my recent reports.

I am very encouraged by their commitment to follow up government agencies on actions taken in response to recommendations in my Auditor-General's Reports to Parliament. This is particularly important as we both have a key role in assisting parliament hold government accountable for its use of public resources.

I look forward to working with the committee.



The importance of our people

Finally, I'd like to thank everyone at the Audit Office for their dedication and professionalism. I continue to be impressed by the quality of their work and the ongoing satisfaction of parliamentarians and our audit clients. This is achieved through the quality of our staff and their commitment to our vision and mission.

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

A T Whitfield PSM
Acting Auditor-General



Office Executive

Experience and performance

The Office Executive provides the leadership necessary for the Audit Office to achieve its strategic goals. The Office Executive is led by the Deputy Auditor-General and draws on the expertise of other staff when required

Tony Whitfield

Acting Auditor-General
PSM, B.Comm, FCA

Before joining the Audit Office in 1994, Tony Whitfield spent 29 years in the private sector, including 17 years as an audit partner in a 'Big Four' accounting firm. During that time, he was responsible for delivering audit and other services to a portfolio of clients, and for audit technology within the firm. Tony has also worked in the USA, and is a past NSW State Chairman of Chartered Accountants Australia and New Zealand.

Tony was awarded the Public Service Medal (PSM) in 2015 for outstanding public service to public sector financial performance and reporting.

Scott Stanton

**Acting Deputy Auditor-General,
Financial Audit**
B.Comm, FCPA

Scott Stanton joined the Audit Office in 1987, and has significant experience in leading the delivery of audit services to a diverse range of public sector clients including those in the transport, electricity, education and university sectors. He is a previous Chair of CPA Australia's NSW Public Sector Committee and is currently serving on CPA Australia's NSW Divisional Council.

John Viljoen

**Assistant Auditor-General,
Financial Audit**
B.Acc, FCPA

John Viljoen joined the Audit Office in 1996, after 18 years in the private sector. He spent nine years with a 'Big Four' accounting firm, where he was responsible for delivering audit services to clients in Australia and Africa. John is responsible for financial audit quality and methodology, technical audit support, information systems audit and compliance audits.

Louise Mooney

**Assistant Auditor-General,
Corporate Services**
LLB (Hons), FCA, GAICD

Louise Mooney commenced her accounting career with a 'Big Four' accounting firm as a member of the audit staff, before moving on to a wide variety of roles within both public and private sector service industries in Australia and overseas. Prior to joining the Audit Office in 2008, Louise was Finance Director at The Children's Hospital at Westmead and two large Australian law firms.

Kathrina Lo

**Assistant Auditor-General,
Performance Audit**
BEc, LLB, LLM, Grad Dip Leg Prac

Before joining the Audit Office in October 2014, Kathrina Lo held senior policy and legal roles in the NSW public sector, most recently as Director of Justice Policy in the Department of Justice. Kathrina also previously held a number of statutory and chief executive appointments in an acting capacity, including NSW Information Commissioner, NSW Privacy Commissioner and Chief Executive of NSW Juvenile Justice.

Steven Martin

**Assistant Auditor-General,
Financial Audit**
B.Bus, CA

Steven Martin joined the Audit Office in 2008 after 18 years with a 'Big Four' accounting firm where he was responsible for delivering audit and transaction services to clients. This included ten years in Europe where he specialised in advisory on cross-border transactions and acquisitions. He also worked as commercial accountant in the head office of a blue chip multinational logistics company based in Sydney.

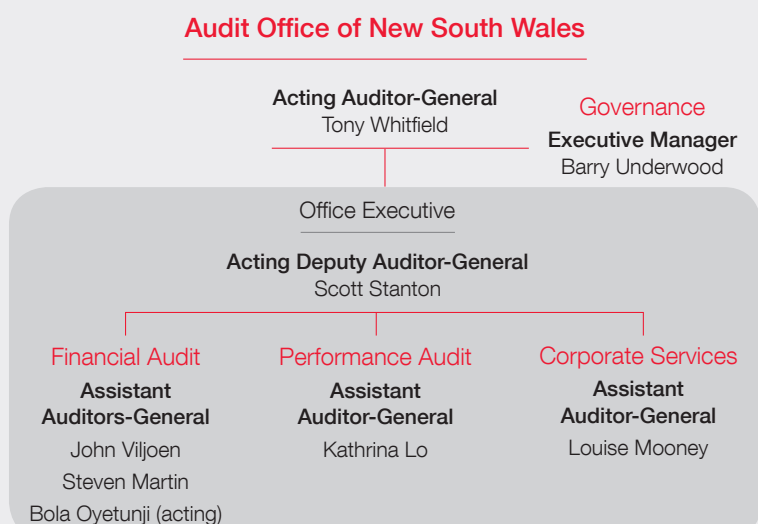
Bola Oyetunji

**Acting Assistant Auditor-General,
Financial Audit**
BSc Economics (Hons), CPA, M Comm (Finance), SA Fin

Bola Oyetunji joined the Audit Office in 2001 after 14 years with two 'Big Four' accounting firms in Australia and Africa, specialising in financial services audits. He also spent time as Financial Controller of an Australian-based manufacturing company. He is responsible for the Audit Office Risk Management Group and leads a business team delivering audit services to a portfolio of clients.

Further details on the role, management and activities of the Office Executive can be found on page 90.

Organisational structure at 30 June 2015





Back: Bola Oyetunji, Steven Martin, Scott Stanton, John Viljoen, Louise Mooney
Front: Kathrina Lo, Tony Whitfield
Client location – Sydney Opera House Trust

The year ahead

Our activity in 2015–16 will be driven by our strategic planning process and our 4 strategic goals

Strategic planning process

The Leadership Team, made up of the Office Executive, Financial and Performance Audit Directors, Corporate Services Executive Managers and 100 Day Leaders (see page 42) work together to develop clear goals, strategies and targets for the office. A lead manager is assigned to a specific strategy to guide activity, monitor progress against targets and report achievement against quarterly deliverables. The Leadership Team meets every 30 days to review progress on the plan and set new quarterly deliverables to achieve the stated strategies.

Vision and mission

Our 2015–16 strategic implementation plan is reflective of our vision of 'Making a difference through audit excellence' and our mission 'To help parliament hold government accountable for its use of public resources'.

Our vision aims to deliver better outcomes for the State and the people of New South Wales through our audits. To achieve our vision, we will support parliament to hold government to account for its use of public resources through the adoption of our recommendations.

Business unit plans

Our four business units – Financial Audit, Performance Audit, Corporate Services and Governance – each have a business plan aligned to the overall strategic focus areas of the Audit Office.

Strategic focus areas

We have retained the four strategic focus areas we established in 2014–15. For each of these focus areas we set strategies for the next 12-month period. The overall goals and supporting strategies are detailed throughout this report and referenced below, together with planned activities to achieve these goals.

Operational Excellence

Goal for 2015–16:

We operate in a business-like manner with competitive models for pricing, resourcing and outsourcing. Our structure and skill mix is regularly reviewed, to deliver excellent products in a transparent manner.

Strategies:

- Develop a workforce plan
- Cut internal red tape to streamline processes
- Demonstrate value for money and transparency through implementation of our pricing approach.

Planned activities for 2015–16 include:

- Agree components of a workforce plan and deliver them
- Identify areas of red tape and remove or refine for efficiency

- Publish the Audit Office's new pricing approach and model.

See pages 15, 21, 23, 36, 39, 49, 52, 54, 55, 57 and 61 for further details.

Product Delivery

Goal for 2015–16:

We have a strong understanding of the public sector to deliver quality products and services that have impact and relevance, and improve client assessment of value for money.

Strategies:

- Ensure audits remain relevant, by focusing on increasing staff knowledge of the public sector, and understanding the NSW Government reform agenda
- Ensure we have maximum impact by continuing a strong focus on stakeholder expectations in our Auditor-General's Report to Parliament.

Planned activities for 2015–16 include:

- Communicate key public sector reform information to staff, by including key speakers at staff forums
- Include measures relating to staff knowledge of public sector reform in performance agreements
- Implement a renewed media strategy.

See pages 13, 15, 21, 23, 39, 40, 45, 49, 54 and 57 for further details.

Constructive Leadership

Goal for 2015–16:

Our leaders are agile and adaptable. They listen and communicate a shared vision and direction, model constructive behaviours and set challenging but realistic goals that are rigorously pursued with enthusiasm.

Strategies:

- Implement regular upward feedback for people managers
- Provide further opportunities for people managers to become constructive and confident leaders.

Planned activities for 2015–16 include:

- Identify key development gaps in people managers and implement solutions to close these gaps
- Develop and distribute a 'toolbox' to all staff to guide them in giving and receiving upward feedback.

See pages 23, 36, 39, 40, 45 and 49 for further details.

People

Goal for 2015–16:

We create a constructive and achievement oriented environment for our people that requires them to take opportunities to achieve their potential. Our people are flexible and receive regular and honest performance feedback.

Strategies:

- Operationalise and support new policies and frameworks delivered by Project Blue (see below)
- Identify and support staff in achieving their career goals
- Develop a plan to address key gaps from our staff opinion survey (see page 36).

Planned activities for 2015–16 include:

- Transition the outputs of Project Blue into business as usual, including ensuring all staff have performance agreements in place with performance measures which directly align to our strategic goals
- Remind staff of the number of career opportunities made available and encourage them to be involved
- Identify and develop solutions for key gaps in our staff opinion survey, with a particular focus on issues related to a constructive culture and work-life balance.

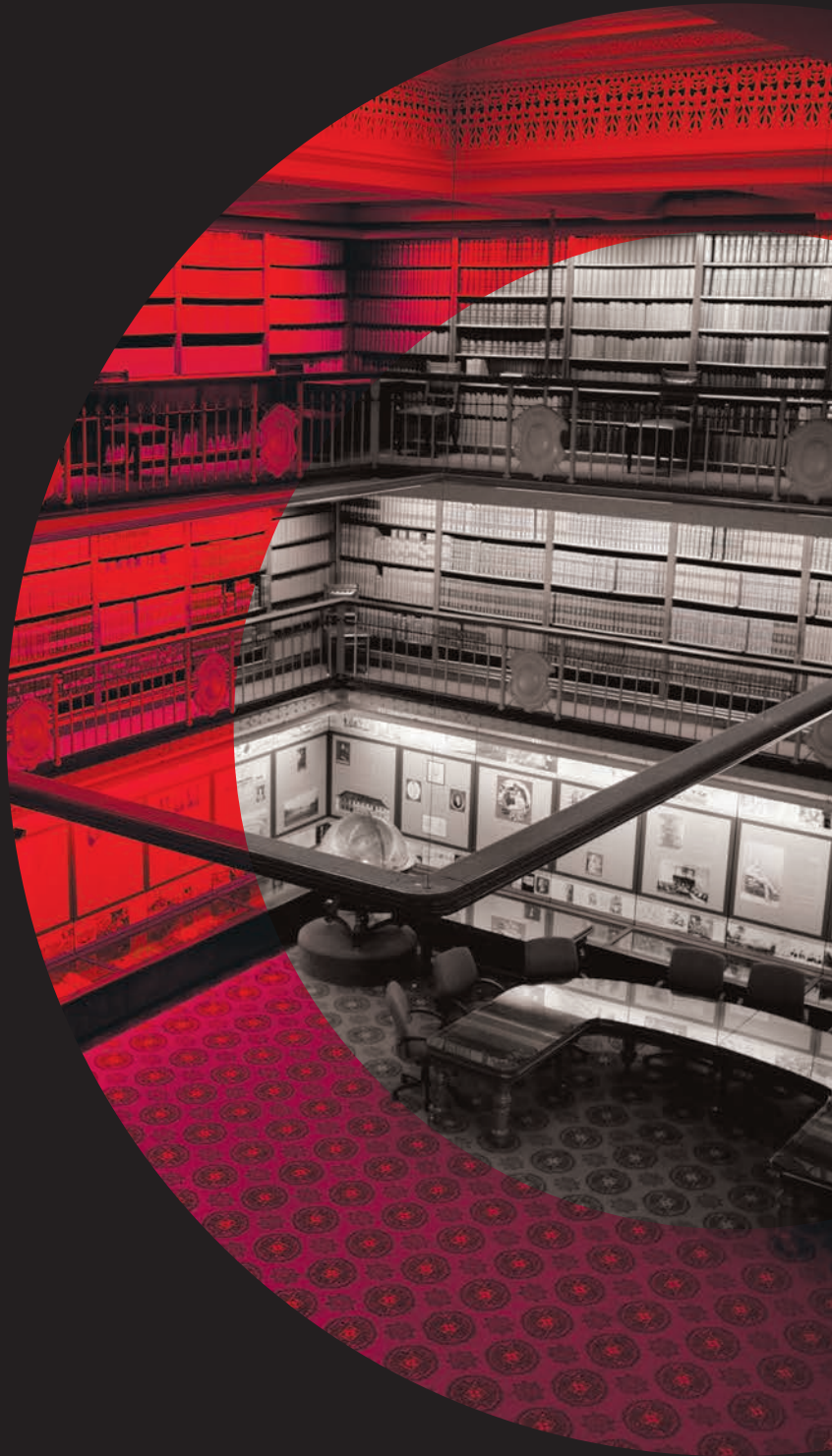
See pages 23, 37, 39, 40, 49 and 52 for further details.

Strategic projects

Our strategic projects are designed to achieve our goals. They encompass multiple streams of cohesive activity and each operates under a clear governance structure. They currently include:

- **Project Blue** – delivering to our 'People' goal, to provide a modern and competitive workplace environment, with flexible and cost effective conditions of employment, the right staff skill mix, a method of measuring staff performance, and appropriate reward and recognition processes (see pages 36 and 53)
- **Elite** – delivering to our 'Operational Excellence' goal, to develop a new practice management system with an end-to-end solution from time entry to debt recovery
- **Retain** – delivering to our 'Operational Excellence' goal, this project will implement a new resource scheduling tool to simplify the management and allocation of our people resources which will allow greater visibility of staff allocation to audit clients, supporting better staff utilisation
- **MiCareer** – delivering to our 'People' goal, to provide the Audit Office with a human capital management system which gives staff clearly defined and consistently communicated performance expectations, which align to personal, team and Audit Office goals, as well as remuneration. We will progressively add modules integrating learning management and social interaction.





Parliament

Regularly seeks and uses our advice

The Auditor-General and the Audit Office of New South Wales assess the performance and accountability of NSW Government agencies by:

- reporting to the NSW Parliament on our audits
 - working closely with parliamentary committees
-

Satisfaction

Parliamentarians satisfied with reports and services

94% satisfied overall with our reports and services

100% believe we provide valuable information on public sector performance

Satisfaction remains high

Our mission is to help parliament hold NSW Government accountable for its use of public resources, and it is critical that we understand parliamentarians' views of our performance through their direct feedback on our reports and services.

We continually strive to ensure parliamentarians value our work and that we meet their expectations. We are committed to enhancing our public sector knowledge to ensure our work is relevant and impactful, as driven by our 'Product Delivery' strategic focus area in 2014–15 (see page 10).

In 2015, our scheduled survey of parliamentarians coincided with the March 2015 State election. We deferred the survey to early 2016 as the participation rate would likely have been low during the caretaker and settling-in period after the election. Our focus at the end of 2014–15 and into 2015–16 is on building an effective relationship with the new Public Accounts Committee (see pages 7 and 18). Fortunately, the 2014 survey results are current enough to give us a reasonable indication of parliament's view of our recent work.

This 2014 survey of parliamentarians was conducted over three months in April, May and June. Twenty-five per cent of

parliamentarians responded, as compared to 33 per cent in both 2012 and 2013.

We are proud of parliamentarians' continued overall satisfaction with the Audit Office's reports and services. Ninety-four per cent were satisfied in 2014, a drop from 98 per cent in 2013. Parliamentarians were particularly positive about:

- the Audit Office performing audits with integrity, with 100 per cent in agreement, up from 94 per cent in 2013
- our financial audit reports assisting parliamentarians to monitor the accountability and financial performance of the NSW public sector, with 97 per cent agreeing, up from 91 per cent in 2013
- the Audit Office providing high quality reports and services, with 97 per cent agreeing, similar to 98 per cent in 2013
- our reports and services providing valuable information on public sector performance, 100 per cent agreeing, consistent with 100 per cent in 2013.

These survey results also provide us with clear areas for improvement. While nine in ten parliamentarians provided very positive ratings on all aspects of our reports and services, there were two clear messages we have since been focusing on. Parliamentarians suggested we improve

the clarity of our reports and provide more advice and information to address their needs.

We have also been working on improving parliamentarians' views that we operate independently from government, which was down from 100 per cent in 2013 to 91 per cent.

Financial audit reports rate highly

Parliamentarians rate the Auditor-General's Reports to Parliament on financial audits highly. Almost all parliamentarians who had referred to financial reports provided a positive rating on all aspects of the reports.

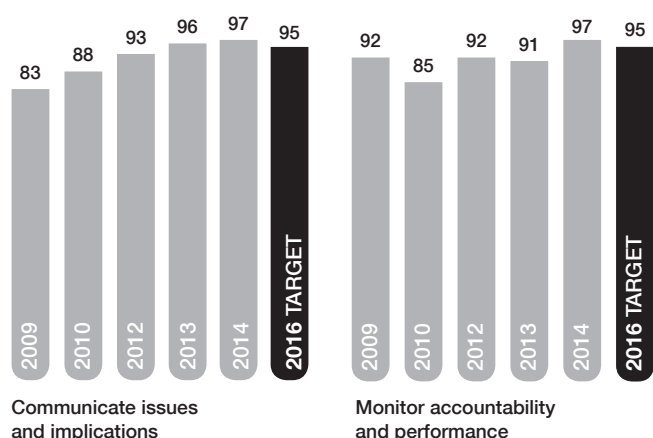
Ninety-seven per cent of parliamentarians who responded agreed the reports clearly communicated the significant issues and their implications, consistent with 96 per cent in 2013.

The results reflect our ongoing work in improving layout and design, with 97 per cent of respondents agreeing our reports were effectively presented, consistent with 98 per cent in 2013.

Ninety-seven per cent found them easy to understand, up from 95 per cent in 2013, maintaining the positive trend in this area.

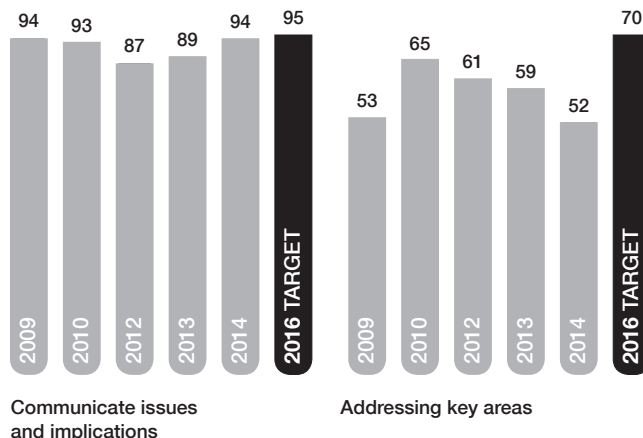
Satisfaction with financial audit reports %

Survey not conducted in 2011 or 2015 due to election years.



Satisfaction with performance audit reports %

Survey not conducted in 2011 or 2015 due to election years.



Performance audit satisfaction improved

Parliamentarians continue to rate the Auditor-General's Reports to Parliament for performance audits highly, with results generally consistent with 2013. Around nine in ten parliamentarians who had referred to the performance audit reports provided positive ratings for all aspects relating to them. Fifty-two per cent of parliamentarians felt the performance audits were addressing their key areas of interest to a high or very high extent, down from 59 per cent in 2013. This is an area we would like to improve next year and we were pleased parliamentarians took the opportunity to suggest topics for future performance audits.

Satisfaction with our performance audit reports' layout and design continues to improve with 93 per cent of parliamentarians agreeing, up from 90 per cent in 2013. Ninety-three per cent agreed that reports were easy to understand, consistent with 92 per cent in 2013. Ninety-four per cent agreed the reports clearly communicated significant issues and implications, an increase from 89 per cent in 2013. Improving our reports was a particular focus in 2014–15, with performance auditors receiving advanced report writing training and coaching.

Our reports and services rate above other audit offices

Since 2005, we have been comparing our parliamentary survey results against results from other participating Australian audit offices. In 2014 (the last survey results available at time of publication), the Australian National Audit Office and the audit offices in Queensland, Tasmania, Victoria and Western Australia participated in the benchmarking survey.

On an overall measure of satisfaction with reports and services, 94 per cent of our parliamentarians were satisfied. This is a drop from 98 per cent in 2013, but well above the 88 per cent average of other participating audit offices.

We rated above or in line with the average of the six audit offices for the other three key areas, 'Provide valuable information on public sector performance', 'Help improve public sector administration', and 'Reports communicate issues clearly'. One hundred per cent of our parliamentarians believed we provide valuable information on public sector performance, compared to the 94 per cent average. Ninety-two per cent believed we communicate issues clearly, in line with the average of 91 per cent. Ninety-one per cent believed we help improve public sector administration, well above the average of 87 per cent.

The year ahead

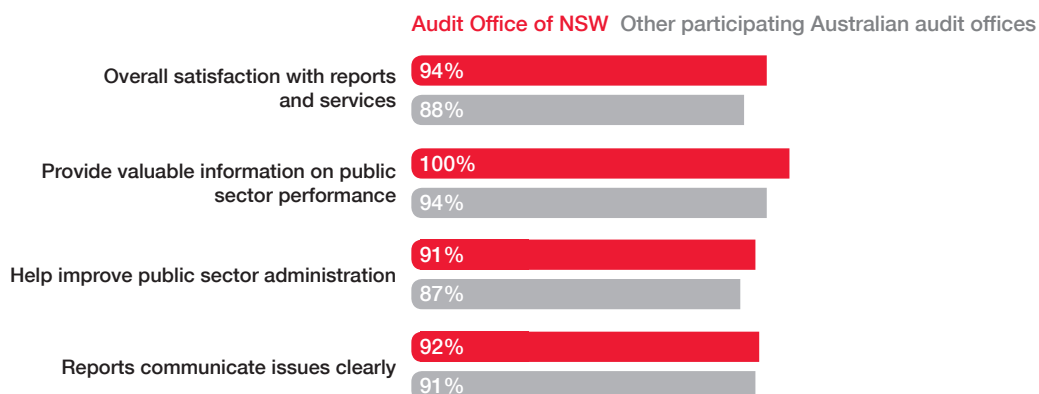
Through our 'Product Delivery' strategic focus area, we will work towards continued satisfaction from parliamentarians, ensuring:

- we build on our knowledge of public sector reforms and government priorities
- we deliver products and services that are relevant and have impact
- we maintain effective stakeholder relationships with parliamentarians and establish a positive relationship with the new Public Accounts Committee (PAC) (see page 18)
- we strengthen government accountability through our collaborative relationship with the PAC
- we live up to stakeholder expectations and fulfil our mandate.

(See page 10 for further details of our strategic focus areas.)

Satisfaction compared with other participating Australian audit offices

Survey data from 2013–14. Survey not conducted in 2014–15 due to election year.



Assurance

Our financial audits provide assurance to parliament

436 financial audits and 70 other assurance audits and reviews completed

2 new modified audit opinions issued and 6 cleared

Providing an independent opinion

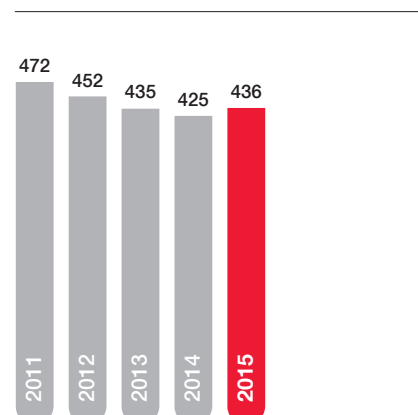
Parliament requires reliable information on the operation of NSW public sector agencies. We provide parliament with independent audit opinions on agencies' financial statements, increasing their reliability and credibility. Our audits comply with professional quality and independence requirements as parliament needs to be assured our audits are independent. A strong demonstration of our independence is that we do not provide non-audit services that other accounting firms provide.

We completed 436 financial audits this year compared to 425 last year.

In addition to audits of individual agencies, we audit the financial statements at the whole-of-government level, the Total State Sector Accounts. These accounts provide financial information to parliament on a Statewide basis, for example total State borrowings.

We also provided 70 other assurance audits and reviews (57 last year) to help agencies attest compliance or acquit their grant revenues. The Treasurer requested we review the mid-year and annual budget process in 2014–15. Our reviews focused on the reasonableness of estimates and forecasts used by NSW Treasury in preparing the 2014–15 Half-Yearly Review and the 2015–16 Budget Papers.

Number of audited entities



Modified auditor's opinions and conclusions

During the year we issued ten modified audit opinions and conclusions – two per cent of the total opinions and conclusions on assurance engagements (see pages 25 and 26). These modified opinions and conclusions included:

- 4 qualified opinions on agency financial statements
- 1 disclaimed opinion on an agency's financial statements
- 1 qualified conclusion on a compliance audit
- 2 qualified conclusions on a compliance review
- 1 qualified opinion on an Australian Financial Services Licence (AFSL) audit
- 1 qualified opinion on Basic Financial Statements prepared in accordance with US Generally Accepted Accounting Principles (GAAP).

Modifications of audit opinions or review conclusions can be qualified, adverse or disclaimed:

- Qualified opinions and conclusions are issued when financial statements contain material misstatements or sufficient appropriate audit evidence is not available; and the impact is material but not pervasive
- Adverse opinions and conclusions are issued when misstatements in the financial statements are material and pervasive
- Disclaimed opinions and conclusions are issued where sufficient appropriate audit evidence is not available and the effects may be material and pervasive.

Repeat modifications

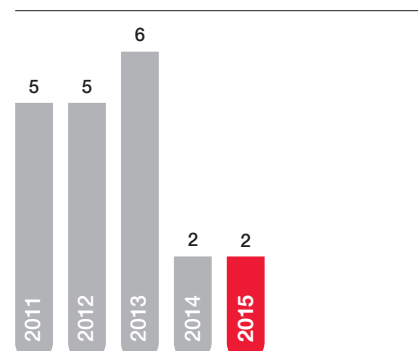
During 2014–15, we issued eight repeat modifications, three fewer than last year. We continue to notify parliament of these

modifications and encourage the agencies concerned to act on our recommendations to address the underlying causes.

New modifications

We issued two new modified opinions in 2014–15. For details of these modifications see page 25.

Modified audit opinions as percentage of total audit opinions

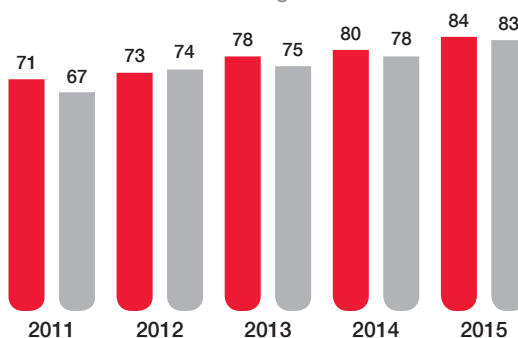


Comparing costs with other audit offices

We compare our financial audit costs with other Australian audit offices. In 2014–15, our cost per financial audit opinion was \$84,024, five per cent more than last year. Consistent with recent years, our cost per financial audit opinion was slightly higher than the average of other Australian audit offices.

Cost per financial audit opinion (\$'000)

Audit Office of NSW Average of all Australian audit offices



Timeliness of reporting to parliament

The results of our 2014 financial statement audits were reported to parliament in 15 volumes of the Financial Audit Auditor-General's Report to Parliament in 2014–15.

One volume focused on major themes from audits in the previous calendar year, while another two focused on members of parliament and their entitlements. The remainder focused on a particular cluster or industry in the current year. All volumes included significant issues and activities broadly classified into financial reporting, financial controls, governance and service delivery.

Volumes published covered:

- Education and Communities
- Electricity and Water
- Family and Community Services
- Health
- New South Wales State Finances
- Parliamentary Entitlements
- Planning and Environment
- Police and Justice
- Premier and Cabinet
- Trade and Investment
- Transport
- NSW Treasury and Finance (including Superannuation and Insurance)
- Universities.

Reports to parliament



30 June audits reported by end of December %

We recognise parliament and other stakeholders need timely reports to help prompt scrutiny of agencies' financial position and performance. For the first time all our financial audit Auditor-General Reports to parliament were on time. For agencies with a 30 June balance date (most of our clients) our internal benchmark is to report to parliament before the end of the calendar year. Our other financial audits (mainly universities) have a 31 December balance date and our reporting to parliament benchmark is by the end of May each year.



31 December audits reported by end of May %

The year ahead

In 2015–16, we will continue to provide assurance to parliament by focusing on the following initiatives in our 'Product Delivery' strategic focus area.

Product Delivery

- We will ensure audits remain relevant, by focusing on increasing staff knowledge of the public sector, and understanding the NSW Government reform agenda
- We will have maximum impact by continuing a strong focus on stakeholder expectations in our Auditor-General's Reports to Parliament.

(See page 10 for further details of our strategic focus areas.)



Effectiveness, efficiency and economy

Our performance and financial audits help parliament assess agency performance

11 performance audits completed

Helping to improve public administration

Performance audits aim to inform parliament and the public about how well government programs are delivered and to ultimately improve public administration. They examine whether taxpayers' money is spent efficiently, effectively, economically and in accordance with the law. These audits may review all or part of an agency's operations. Some audits consider particular issues across a number of agencies. Where we find performance gaps, we make practical recommendations to improve service delivery and efficiency.

We reported on 11 performance audits in 2014–15. In those 11 reports, we made 99 recommendations to improve public administration. Eighty-six per cent were unequivocally accepted.

In 2014–15, our Performance Audit team was restructured to remove a layer of management, devolve responsibility and increase efficiency (see page 42). The new structure will position us to meet our target in 2015–16 of delivering 16 performance audit Auditor-General's Reports to Parliament.

The extracts in the box below from published agency responses to our reports indicate the value they attach to our recommendations in improving public administration.

Adding value to parliament

Parliament is our primary stakeholder and our work supports its role in holding the government to account. Our reports are frequently referred to in parliamentary debates and in budget estimates hearings.

Parliament is an important source of suggestions for performance audit topics and audits required by specific legislation. We conducted one such 'statutory audit' during the year – our review of government advertising (see page 32).

The value we add to the parliamentary process is illustrated by the comments made by parliamentarians in our most recent 2013–14 survey:

'The Audit Office does a very good job with useful advice for government administration.'

'The Audit Office demonstrates good performance and a healthy relationship with the parliament's Public Accounts Committee.'

'I have been very happy with the Audit Office's work, please keep it up!'

See page 12 for more information on the parliamentary survey.

Department of Health:

The performance audit was helpful and gave the department the opportunity to reflect and note its achievements.

Your report highlights elements of good practice and the Audit Office's Better Practice Checklist for Monitoring and Reporting on Performance Audit Recommendations is a valuable resource for agencies.

I am pleased to inform you that the department accepts the report's recommendations and is actively improving current processes. The department is committed to strengthening accountability through continuous monitoring and reporting on performance audit recommendations.

Department of Industry, Skills and Regional Development:

I agree with all ten recommendations of your report, which will improve documentation, transparency, data management systems, program management and include publication of an annual report disclosing the program's effectiveness, efficiency, achievements and outcomes.

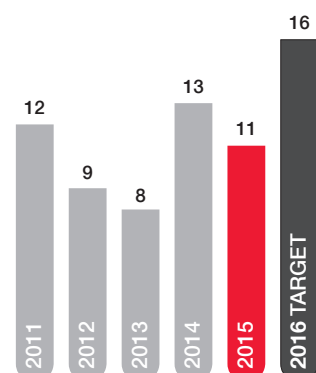
I have therefore approved an implementation plan of your recommendations with timelines which will be regularly monitored through the audit committee of the department.

Department of Education:

The performance audit has provided the department with the opportunity to reflect on the achievements of the Learning Management and Business Reform program and to focus on lessons learnt and areas for improvement. This has proven to be useful as the program closes Stage 2, and undertakes detailed planning for Stage 3.

I would like to thank the Audit Office review team for their work on this audit and their willingness to liaise with the department prior to finalising the report.

Number of performance audits completed



Cost of performance audits

The average cost of performance audits published in 2014–15 was \$307,857. The cost increase over the previous year was due to extra time spent on audits. A major factor in this was the restructure in Performance Audit (see page 42), where departing staff handed over their audits to remaining or new staff thereby creating additional work. The cost also reflects the complex subject matter and wider coverage, including multiple agency audits, for example:

- WestConnex: Assurance to the Government
- Large Construction Projects: Independent Assurance
- Implementing Performance Audit Recommendations.

We also conducted audits on complex and difficult issues, including our audit Security of Critical IT Infrastructure (see page 28 for details of our performance audits).

Our three-year audit program

We published our latest three-year performance audit program in July 2014. This program focuses on the NSW Government's State Plan NSW 2021 and key public sector reforms. Our audits will examine such reforms as government sector employment, the transition of out-of-home care services from the government to non-government sector and major projects such as the South East Sydney Light Rail Project and the Service NSW initiative.

In more complex audits, Performance Audit draws on support from senior management and from expertise and disciplines across the office. This provides industry knowledge, agency liaison and data analysis. Performance audits also use specialist advisers for cultural advice, survey design, industry expertise, research and analysis. In 2014–15, three external advisors were used.

Alongside this program, we continue to work with the new government and Public Accounts Committee (see page 18), to continue to focus on issues of importance. Our program is sufficiently flexible to allow us to respond to any emerging priority issues, and is regularly reviewed and updated (see page 27 for more details).

To view our three-year program visit www.audit.nsw.gov.au/audit-program/performance-audit-program.

Reporting on agency performance information

Financial and performance reporting is an important aspect of good governance. Government requires accurate and timely financial and performance information from agencies to enable effective decision-making and to allow efficient and economical delivery of services. During 2014–15, our financial audit Auditor-General's Report to Parliament included comments on agencies' performance indicators, as well as recommendations for financial and operational improvements.

We believe publishing key performance information offers parliament a balanced 'report card' on agencies' performance. Such information helps the people of New South Wales assess whether their tax dollars have been spent efficiently and effectively.

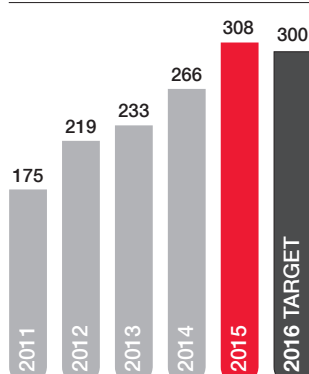
The year ahead

In 2015–16, we will build on our recent efforts to further target areas of government focus and of strong public interest.

The 2015–16 audits will also see a stronger focus on governance across key principles of our revised Governance Lighthouse (see pages 48 and 58). This will include assessing the risk management maturity of a wider number of agencies and updating our previous work on fraud and corruption control.

We are also working closely with the Office of Local Government to prepare for the possible transition of local government audits to the Audit Office. This is an exciting time for the Audit Office and we will be well-prepared if this change should go ahead.

Average cost
of performance audits \$'000



Parliamentary response to our work

Promoting improvements

Supported the Public Accounts Committee in following up 10 earlier performance audits

Parliament follows up on agency progress in implementing our recommendations

The Public Accounts Committee (PAC) holds agencies to account for implementing the actions they agree in response to performance audit and financial audit recommendations. It does so through follow-up inquiries conducted a year after the reports are tabled. The PAC makes further recommendations for action when it considers them necessary. In 2014–15, it completed three inquiries on reports we tabled in 2012–13, following up on ten of our performance audits and repeat recommendations we made in our 2013 financial audit Auditor-General's Reports to Parliament.

In November 2014, the Chair of the PAC said in his foreword to its report *Examination of the Auditor-General's Performance Audit Report May 2013 – July 2013*:

Overall, the committee was satisfied with the response of agencies to these performance audits. It is clear to the committee that agencies have taken the Auditor-General's findings seriously, with most recommendations being accepted. On this note, the Committee was pleased that NSW Ministry of Health has included addressing recommendations made by the Auditor-General in its contracts with chief executives.

This report makes 12 recommendations designed to improve the performance of government agencies. Most of these recommendations go to matters already identified by the Auditor-General. The committee would like to see more timely action in some areas, but we also recognise that agencies may encounter legitimate delays.

The year ahead

In 2015–16, we plan to further strengthen our support to parliament and the PAC by:

- developing a strong relationship with the new Public Accounts Committee
- supporting changes to the *Public Finance and Audit Act 1983* which strengthen our efficiency and independence
- continuing to respond promptly and thoroughly to all requests from parliament for Audit Office support, including all audit suggestions
- producing 16 performance audit reports.

Case study

Public Accounts Committee

The Public Accounts Committee (PAC) plays a key role in public sector accountability. One of the tools the committee has at its disposal is the financial and performance audit reports tabled by the Auditor-General.

In November 2014, the PAC released its *Examination of the Auditor-General's Performance Audit Reports May 2013 – July 2013*. The purpose of the performance audit reviews is to follow up on action taken by agencies in response to recommendations made by the Auditor-General.

As part of the review process, the PAC seeks details from agencies about their response to the Auditor-General's recommendations and may, if required, hold public hearings. The Auditor-General also has the opportunity to provide comments on agencies' submissions.

The PAC was satisfied that the agencies in question had taken the Auditor-General's recommendations seriously, and that most had been accepted. However, the committee did make 12 further recommendations, mostly on matters already raised in our performance audit reports and commented that it would like to see more timely action from agencies, while acknowledging legitimate delays.

Also in November, the PAC released its *Follow-up of Repeat Recommendations from the Auditor-General's 2013 Financial Audit Reports*. The PAC asked agencies to provide details of their responses to the Auditor-General's repeat recommendations.

The committee noted its pleasure that agencies had taken the recommendations seriously and had put significant effort towards their implementation. The fact that several of the agencies' responses detailed significant savings made as a result of the recommendations highlights the benefits of the Auditor-General's Reports to Parliament to the people of New South Wales, and the PAC's actions in following up agencies. The report identified five areas where further work or clarification was required to ensure that the full benefit of the Auditor-General's recommendations are realised.

Following the State election, the PAC was reconstituted with a new Chair and new members. Since the election, we have proactively sought opportunities to provide briefings to the committee on our reports. We have also agreed to continue to provide briefings to the committee on each report as it is tabled.





Agencies

Act on our recommendations and regularly seek our advice

- We work collaboratively with our financial audit clients and performance auditees
 - Together with our financial audit clients we identify opportunities to improve financial reporting and management
 - Our performance audits examine agency programs critically in order to identify potential improvements
-

Greg Parkes Audit Leader / **Monique Barns** Acting Executive Manager, Communications and Business Support / **Roopal Rachna** Audit Leader

Client location – Taronga Zoo

Agency response to our work

Our audits continue to be well regarded

Overall performance index for CFO satisfaction remains high at 74

Performance auditees overall performance index satisfaction decreased to 70 from 74

Satisfaction with our services

Surveying our clients

Each year, we measure our audit clients' satisfaction with our services through a survey. The survey results and feedback provide valuable information on our performance and forms part of our stakeholder engagement strategy.

We use an independent research company to conduct the survey for us and clients have the option of responding anonymously.

In 2014–15, for our financial audit clients, we invited 180 agency Chief Financial Officers (CFOs) and 107 Audit and Risk Committee Chairs (ARC Chairs) from top tier agencies, to participate. We achieved similar response rates to last year, with responses from 70 per cent of CFOs, down from 74 per cent, and from 75 per cent of ARC Chairs, an increase from 73 per cent last year.

The overall performance index for CFO satisfaction remained positive at 74, down from 75. ARC Chairs reported the highest level of satisfaction since 2012, with a very positive 83 per cent satisfaction, up from 81 per cent last year.

For our Performance Audit auditees, we invited 30 agency contacts to respond to the survey and received a very strong response rate of 83 per cent.

Our overall performance index for performance auditees was 70 per cent, a decrease from last year's 74 per cent.

Satisfaction with audit process

Financial audit satisfaction highlights areas for improvement

While overall satisfaction with our audit process was in line with last year, with a score of 77 per cent compared to 79 per cent in 2014, there were mixed results from CFOs. A total of 97 per cent agreed that our auditors had the professional skills and knowledge required to conduct the audit, up from 91 per cent. Ninety per cent agreed that senior staff were appropriately involved with the audit, up from 86 per cent.

There was a drop from 93 per cent to 84 per cent, in the number of CFOs who agreed our auditors communicated effectively with them. While a positive result, the 81 per cent of CFOs who believed their organisation was promptly informed of significant issues identified during the audit, was a decrease from 92 per cent last year. There was also a decrease in the rating of our auditors being responsive to client needs, down from 86 per cent to 77 per cent.

There were ratings of 94 per cent or higher across all aspects of our audit process from ARC Chairs. The most significant increase was achieved with 99 per cent of

ARC Chairs agreeing that senior staff were appropriately involved in the audits, up from 93 per cent in 2014.

Satisfaction with the performance audit process dropped

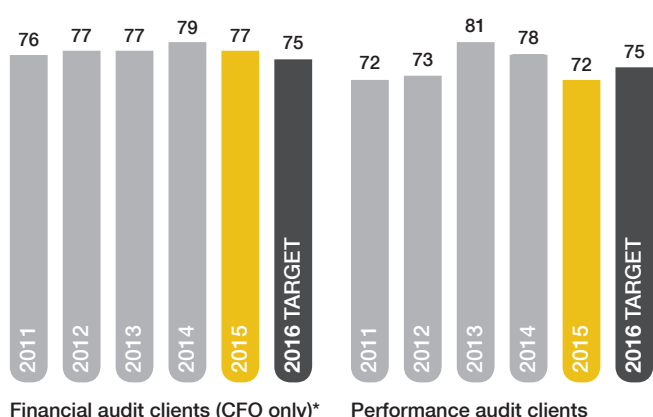
Results for satisfaction with the audit process dropped in 2014–15 to 72 per cent from 78 per cent.

There was a decrease from 100 per cent to 96 per cent, in the number of respondents agreeing our auditors were professional, and a similar decrease, to 92 per cent, in respondents agreeing our auditors communicated with them effectively.

There was a decline from 88 per cent to 75 per cent in the number of respondents who agreed that they were promptly informed of significant issues or findings as they arose during the audit.

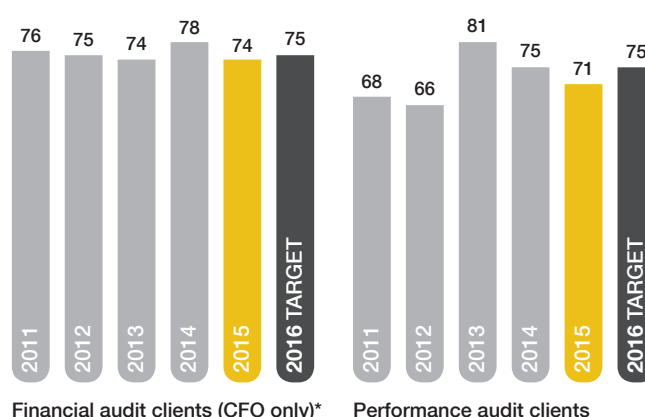
Positively, the percentage of respondents agreeing that our auditors demonstrated the professional skills and knowledge to conduct the audit showed the biggest increase, up from 70 per cent to 83 per cent.

Satisfaction with audit process %



*(for valid comparison, results have been weighted from 2012 onwards)

Satisfaction with audit reporting %



*(for valid comparison, results have been weighted from 2012 onwards)



Satisfaction with audit reporting

Room for improvement with management letters

While CFOs still reported high levels of satisfaction with all aspects of our audit reporting, there were significant decreases in some areas. Ninety-three per cent agreed the Auditor-General's audit opinion was issued in a timely manner, down from 95 per cent. Ninety-one per cent, down from 96 per cent, agreed they had adequate opportunity to comment on the audit findings and issues before the management letters were formally issued.

However, regarding management letters, 80 per cent of CFOs agreed there were 'no surprises' (that is, their organisation was kept informed of likely findings and issues), a decrease from 94 per cent. Similarly, 79 per cent agreed that management letters were issued in a timely manner, down from 90 per cent.

The ARC Chairs were more positive regarding management letters, with 99 per cent agreeing they clearly communicated audit findings and issues, and 91 per cent agreeing they were issued in a timely manner, increases from 97 and 88 per cent respectively.

Our performance audit reports are valued

High scores on the reporting process were counterbalanced by sizeable decreases relating to our media releases. One hundred per cent of respondents agreed that they had adequate opportunity to comment on the audit findings and issues before the final report was tabled in parliament, an increase from 92 per cent. Eighty-four per cent agreed that the tabled audit report communicated the audit findings and issues clearly, up from 71 per cent.

Eighty per cent of respondents agreed the tabled report was factually accurate, up from 67 per cent, and 76 per cent agreed the tabled report was balanced and fair, up from 71 per cent in 2014.

A total of 50 per cent of respondents agreed the media release was balanced and fair, down from 62 per cent, whereas 70 per cent agreed that the media release clearly communicated the key audit findings and issues, down from 73 per cent.

Satisfaction with audit value

Positive contributions to client organisations

CFOs acknowledged both the value of the assurance obtained from the audit of statutory financial statements, up from 89 per cent to 94 per cent, and our recommendations to improve financial management and internal controls, up from 81 per cent to 82 per cent. The percentage of CFOs who agreed our audit services provide value for money increased from 58 per cent to 62 per cent, while 58 per cent agreed that our fees are reasonable relative to the scale, complexity and financial risk of their operations, a rise from 52 per cent.

Almost all ARC Chairs agreed that they value the assurance obtained from the audit, with the score of 99 per cent mirroring 2014. The same number agreed they value our recommendations to improve financial management, an increase of eight per cent. Regarding our audit services, 76 per cent agreed they provide value for money, up from 69 per cent.

Performance audit value improved

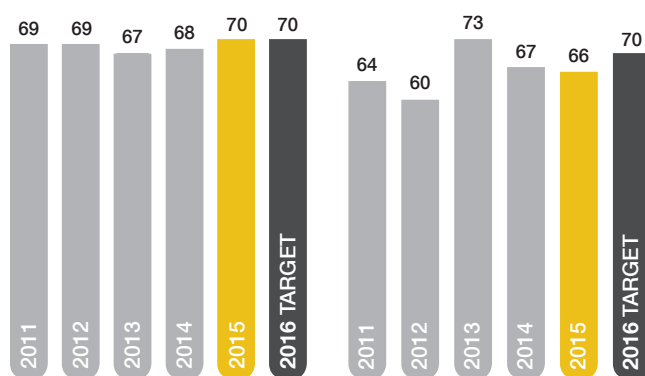
There was an overall improvement in our auditees' rating of our value. The biggest increase related to the audit helping to improve the performance of the audited activity, with 75 per cent of respondents agreeing, up from 65 per cent. Views on timing were positive, with 63 per cent agreeing that it was an appropriate time to undertake the audit, an increase from 59 per cent. Fifty-eight per cent of respondents agreed that the audit provided a balanced assessment of the management of activity, compared to 50 per cent in 2014.

Compare favourably with other audit offices

We have been comparing our client satisfaction with other Australian audit offices since 2005. In 2014 (the latest survey results available at time of publication), our financial and performance audit report results were benchmarked against those of the audit offices in Queensland, Tasmania, Victoria and Western Australia, as well as the Australian National Audit Office.

When compared with these other audit offices, our financial audit clients were mostly satisfied. They agreed our reports to parliament help improve public sector administration (91 per cent, compared to an average of 86 per cent), and our management letters clearly communicated the significant issues and their implications (94 per cent, the same as the average score). Ninety-two per cent of our performance audit clients agreed they were provided with adequate opportunities to comment on the audit findings and issues before the final report was tabled in parliament, equalling the average score. In all other areas, our scores were broadly in line with the average of the other audit offices.

Satisfaction with audit value %



Financial audit clients (CFO only)* Performance audit clients

*(for valid comparison, 2012 results have been weighted from what was reported last year)



The year ahead

We will continue to deliver products, such as the pricing approach and benchmarking model which were implemented this year, to provide clients with more information about our services. Specifically, through two of our strategic focus areas, 'Operational Excellence' and 'Product Delivery', we aim to deliver exceptional and professional services and products to our clients.

(See page 10 for further details of our strategic focus areas.)

Influencing for impact

Our work is topical, relevant and has high impact

96% of our financial audit and 86% of our performance audit recommendations accepted

Improving public sector accountability and performance

Our audits identify opportunities for improving public sector accountability and performance. We develop recommendations in consultation with agencies in response to our audit findings. Our recommendations are reported to the agencies involved and, for the more significant matters, to parliament. Most agencies agree with our recommendations.

Of the 502 recommendations we made to our top 50 financial audit agencies in 2014–15, 480 (96 per cent) were accepted by the agencies, above our target of 95 per cent. Eighty-six per cent of performance audit recommendations were accepted, the same as last year.

The more strategic recommendations take time to implement. However, it is pleasing to see continuing progress in 2014–15 on recommendations made in earlier years, as the following case studies highlight.

Case studies

Management of Historic Heritage in National Parks and Reserves – Office of Environment and Heritage

In May 2013, we published a performance audit report on the management of historical heritage assets in national parks and reserves. In 2014–15, in response to the recommendations in the report, the Office of Environment and Heritage developed a draft heritage strategy to guide public sector agencies in the long-term management of historic heritage assets. This strategy will guide the development of a National Parks and Wildlife Service Historic Heritage Asset Strategy which will:

- set out how the National Parks and Wildlife Service will improve its management of historic heritage assets
- identify priorities for investment, and to also identify assets suited to a lower level of maintenance.

The Office of Environment and Heritage also commenced a review of permissible uses for assets under the *National Parks and Wildlife Act 1974*, to consider better usage, for example, by allowing broader private sector use.

Fitness of Firefighters – Fire and Rescue NSW and NSW Rural Fire Service

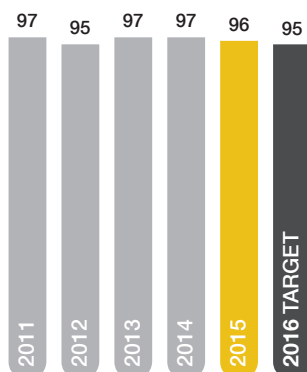
Our 2014 report looked at the physical fitness of firefighters in New South Wales. As a result of the recommendations contained in the audit, Fire and Rescue NSW has taken steps to implement a health and fitness standard, underpinned by a compulsory assessment program for all firefighters. The program has been negotiated, in consultation with the Fire Brigade Employees' Union, into the Crown Employees (Fire and Rescue NSW Firefighting Staff Death and Disability) Award 2015.

Fire and Rescue NSW expects this compulsory assessment program to commence in late 2015.

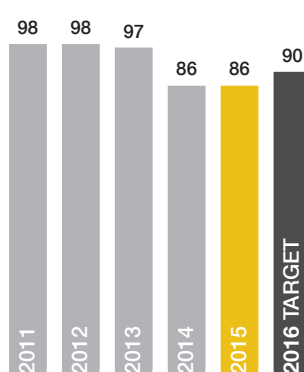
The NSW Rural Fire Service has drafted a Health and Fitness Plan which is currently in the consultative phase with its Work Health and Safety Harmonisation Working Group. This group includes management, staff and volunteer representatives.

It has also taken specific action to include the fitness of fire fighters into its ongoing corporate planning cycle.

Recommendations accepted %



Financial audits



Performance audits



Timeliness

Timeframes for reporting to agencies

83% of financial audit opinions issued within ten weeks

Financial audit timeliness needs to improve

We have a target of issuing all financial audit opinions within ten weeks of receiving agencies' financial statements. Eighty-three per cent of our opinions were issued within ten weeks in 2014–15, an improvement of four percentage points, although still some way off our 100 per cent target. Our goal may seem ambitious, but in the interests of public sector accountability it is necessary. The earlier we give agencies our audit opinions and management letters, the sooner they can make a decision around our recommendations.

The proportion of total opinions issued on or before 30 September for our 30 June clients (that is, all government agencies except for government universities) improved in 2014–15 (from 58 per cent in 2013–14 to 64 per cent in 2014–15). This significant improvement from two years past (43 per cent in 2012–13), still represents unsatisfactory performance.

We aim to issue our management letters within six weeks of issuing our respective audit opinions. In 2014–15, we achieved 56 per cent, an increase from last year's 46 per cent. We are developing strategies to significantly improve the timeliness of our management letters.

We continue to report our concerns about the quality and timeliness of financial reporting across the sector. High quality and timely financial reporting is essential for the government to make informed decisions. We continued with our strategy of following NSW Treasury's program to improve the quality and timeliness of financial reporting in response to our recommendations. Enhanced early close procedures and active engagement with CFOs and Audit and Risk Committee Chairs have promoted the importance of accurate and timely financial information.

A significant strategy for improving quality is NSW Treasury's requirement for agencies to perform early close procedures. We reviewed the outcomes of agency early close procedures and provided feedback before their year-end financial statements were submitted for audit allowing them to correct identified misstatements.

A year of change led to some longer performance audits

The time to complete performance audits depends on the scope and number of agencies involved. In the past year we have made a concerted effort to reduce the length of time to complete audits.

Long elapsed times can also be caused by unplanned factors – delays requested by agencies, revisions of scope, and changes in personnel at agencies and within the audit team. During the year, the Performance Audit restructure (see page 42) and resulting vacancies impeded our efforts to reduce audit duration.

Some audits took longer than planned because they had to be taken over by other staff, who had to come up to speed with the topic and develop new relationships with agency staff. There were also flow-on effects, where more senior staff had to take on additional audit responsibilities while vacancies were filled, reducing the time they could spend on their existing audits. Despite these challenges, we achieved a reduction in elapsed time from an average of ten to nine months.

The publication of a three-year audit program, and earlier consultation with agencies on upcoming audits, has helped to mitigate the increase in elapsed time resulting from the restructure.

The restructure is now largely complete, and the new structure should increase future efficiency and lead to shorter elapsed audit times.

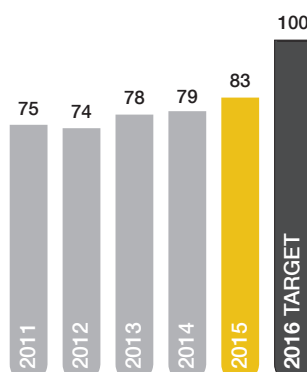
The year ahead

In 2015–16, we will focus on the timeliness of our audit output through innovation and streamlined processes within our 'Operational Excellence', 'Product Delivery', 'Constructive Leadership' and 'People' strategic focus areas by:

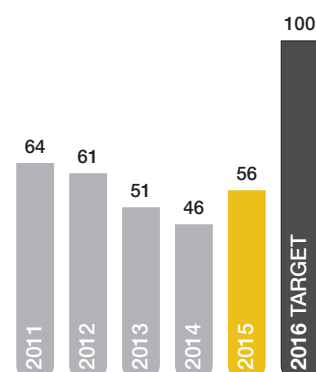
- working with clients and central agencies to achieve improved quality and timeliness of financial and performance audit reports
- using stakeholder feedback to maintain effective relationships
- delivering value through the right skills, resources and structure of audits, resulting in improved timeliness of audit opinions and management letters
- continuing to develop constructive behaviours which foster high-achieving teams, led by a strong Leadership Team.

(See page 10 for further details of our strategic focus areas.)

Audit opinions within 10 weeks %



Management letters to clients within 6 weeks %



Our financial audits

Providing value to our financial audit clients

2 new modified audit opinions issued and 6 cleared

What are financial audits?

Financial audits provide independent opinions on NSW Government agencies' financial statements. They identify whether agencies comply with accounting standards and relevant laws, regulations and government directions. Additional financial audits are undertaken each year on the General Government and Total State Sector Accounts. Financial statement audits also highlight opportunities for agencies to improve their accounting and financial systems.

Our client base

We completed 436 financial audits of NSW Government agencies in 2014–15 (see Appendix Two for the full list of our clients). These agencies collected income of approximately \$97 billion, spent approximately \$87 billion and managed more than \$424 billion in assets. They provide a diverse range of services and vary in size from large government departments, universities, State superannuation entities and utilities, to small boards and trusts.

Financial audit clients per sector %

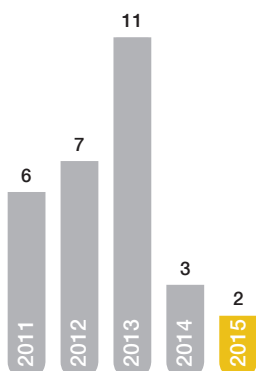


- 26 ● Education and universities
- 15 ● Health
- 11 ● Finance and services
- 11 ● Premier and cabinet
- 10 ● Trade and investment, regional infrastructure and services
- 6 ● Justice
- 6 ● Planning and environment
- 6 ● Transport and ports
- 5 ● Electricity and water
- 3 ● Family and community services
- 1 ● NSW Treasury

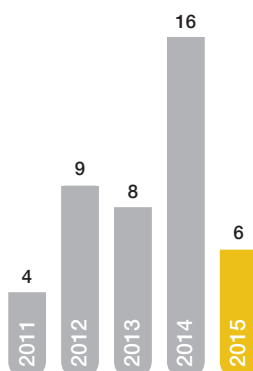
NSW General Government and Total State Sector opinion

For the second consecutive year, the General Government and Total State Sector Accounts received an unqualified auditor's opinion following more than a decade of qualifications. This outcome shows the government's commitment to improve the quality of financial reporting across the NSW public sector. Compared to previous years, there were fewer errors in agencies' 2013–14 financial statements submitted for audit and used for whole-of-government financial reporting.

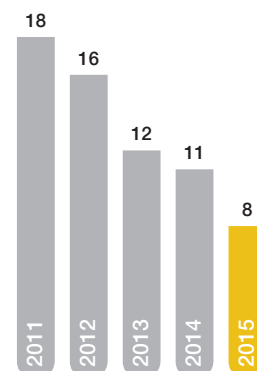
Number of new modifications



Number of modifications cleared



Number of repeat modifications



New modified auditor's opinions and conclusions

We issued ten modified auditor's opinions and conclusions on assurance engagements in 2014–15, including two new modifications.

Agency	Reason for modification
Qualified opinions and conclusions	
Delta Electricity	The corporation used the income approach to measure the fair value of power stations, without reference to observable inputs from the outcomes from the sale process. The use of the income approach was not appropriate. Consequently it was not possible to form an opinion on the carrying value of power stations, the net revaluation increment or assess the impact on the profit/(loss) or total comprehensive income.
Delta Electricity AFSL	The qualified opinion issued on the corporation's statutory financial statements (detailed above), also impacted the corporations Australian Financial Services Licensee Assurance Report, which includes an opinion on the corporation's statutory financial statements.
Modified opinions cleared	
We work closely with agencies to resolve qualification issues. This year we resolved six previous qualifications.	
Ministerial Holding Corporation	The previous qualification arose due to insufficient audit evidence to form an opinion over the completeness of the opening balances presented as comparative information and land asset disclosures in the financial statements. The modification was removed as a review of past legislation and government gazettes did not identify any unaccounted for interests or obligations. An expert valuation of land and building assets was obtained by the agency to support land asset values and disclosures.
UWS Early Learning Limited	The previous qualification arose as it was not possible to form an opinion on whether the company had recorded all fundraising revenue and voluntary donations. The modification was removed because the company did not conduct any fundraising activities in 2014.
University of Western Sydney Foundation Trust	The previous qualification arose as it was not possible to form an opinion on whether the trust had recorded all fundraising revenue and voluntary donations. The modification was removed because the trust did not conduct any fundraising activities in 2014.
Anzac Health and Medical Research Foundation – Trust Fund	The previous qualification arose as it was not possible to form an opinion on whether the trust fund had recorded all fundraising revenue and voluntary donations. The modification was removed because the trust fund demonstrated it had effective internal controls over the completeness of its fundraising activities.
Murray Catchment Management Authority	The previous qualification related to insufficient appropriate audit evidence to support the value of seed inventories. The modification was removed because the authority provided evidence supporting the value of its inventories.
State Emergency Service	The previous qualification related to insufficient appropriate audit evidence to form an opinion on the existence and value of inventory held at the State Emergency Service's (SES) 229 units. The modification was removed because the SES demonstrated it had implemented effective internal control over the existence, recording, and measurement of inventory.



Our financial audits (continued)

Remaining modified opinions

Eight modifications remain unresolved. However, two of these relate to instances where agencies find it impractical to maintain an effective system of internal controls over fundraising revenue and voluntary donations until the initial entry of monies is received into their financial records systems. In these instances, a limitation of scope remains as we are unable to confirm the completeness of such revenue.

Agency	Reason for modification
NSW Ministry of Health Report on compliance with the prudential requirements of Division 57 of the <i>Aged Care Act 1997</i> and Division 3 of Part 4 of the <i>User Rights Principles 1997</i>	The NSW Ministry of Health did not refund three accommodation bonds within the statutory timeframe and did not pay the correct amount of interest for accommodation bonds refunded during the year.
New South Wales Self Insurance Corporation	In accounting for its general insurance contracts, the corporation applied an incorrect accounting standard, resulting in material understatement of its liabilities and failure to disclose some required information about these insurance contracts.
Sport Knowledge Australia Pty Limited	Sufficient and/or appropriate evidence to support material transactions, pervasive to the company's operations was not available. Alternative records were not adequate for the purpose of applying necessary audit procedures.
The Legislature Review of compliance with the annual Determination of the Parliamentary Remuneration Tribunal	Seven members' claims were not submitted to The Legislature for payment within 60 days of receipt or occurrence of the expense. Eight members did not return their unsubstantiated 'Sydney Allowance' amounts to The Legislature by 30 September 2014. Twenty-two members did not complete an annual declaration stating the benefits accrued by way of loyalty/incentive schemes were used for parliamentary duties and not for private purposes. One member was unable to demonstrate their monthly Foxtel subscription claim was for parliamentary purposes.
The Sydney Children's Hospitals Network (Randwick and Westmead) (incorporating the Royal Alexandra Hospital for Children) Review of compliance with specified requirements of the <i>Health Insurance Act 1973</i> , and the Health Insurance (approval of Billing Agents) Guidelines (No.1) 2004	Trust monies were not paid directly into compartmentalised accounts in a timely manner. Patients' statement accounts did not set out the amount payable by the patient for each service.
University of Sydney Basic Financial Statements audit prepared in accordance with US GAAP	United States Generally Accepted Accounting Principles (US GAAP) require plant, property and equipment to be measured at historical cost. The university accounted for certain property, plant and equipment at fair value because historical cost information was unavailable and could not practically be obtained.

Modifications relating to fundraising and voluntary donations revenue

Agency	Reason for modification
Charles Sturt University Foundation Trust	The trust finds it impractical to maintain an effective system of internal control over fundraising revenue and voluntary donations until the initial entry of the receipt of this revenue and donations into their financial records system.
State Emergency Service	The State Emergency Service finds it impractical to maintain an effective system of internal control over fundraising revenue and voluntary donations until the initial entry of the receipt of this revenue and donations into their financial records system.

Our performance audits

Addressing issues of public concern

What is a performance audit?

Performance audits are in-depth assessments of whether government agencies are achieving value for money.

A performance audit may cover:

- the whole of an agency's operations
- one particular agency's activity
- an activity across a number of agencies.

We report the results of these audits to the CEO of each agency, the responsible minister, the Treasurer and parliament.

Choosing a topic

We choose topics that reflect the interests of parliament in holding the government to account. When selecting and scoping topics, we combine our own research with suggestions from parliamentarians, agency CEOs and members of the public.

In 2013–14, we undertook a major exercise to establish a three-year program taking into account the government's priorities, as outlined in the State Plan NSW 2021, and its five priority outcome areas:

- rebuild the economy
- return quality services
- renovate infrastructure
- strengthen our local environment and communities
- restore accountability to government.

In 2014–15, we progressed and developed this program, to extend it for another year and ensure a continual three-year projection (see pages 17 and 34).

The program covered the activities of the nine departmental clusters responsible for delivering the government's priorities.

When examining agency performance, we also refer to some broad themes that are relevant to today's government administration and reform: governance, devolution, partnerships, outsourcing, efficient service delivery, transparency and commissioning. The themes on which we focus depend on the activity being examined and are finalised during the planning stage for each audit.

The program is published on our website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management.

To view our three-year program visit www.audit.nsw.gov.au/audit-program/performance-audit-program.

Are recommendations followed up?

Twelve months after a performance audit is tabled, parliament's Public Accounts Committee (PAC) examines whether agencies have implemented recommendations from performance audits and whether any changes in practice or performance have occurred in response to these audits.

In some cases, the PAC will hold a hearing and invite the agency and the Auditor-General to attend and answer questions. More information on our work with the Public Accounts Committee is on page 18.



Our performance audits (continued)

Addressing issues of public concern

Agencies audited	Performance audit report	Tabled in parliament
<ul style="list-style-type: none"> NSW Environment Protection Authority Department of Trade and Investment, Regional Infrastructure and Services 	Managing Contaminated Sites	10 July 2014
<ul style="list-style-type: none"> Department of Education and Communities 	The Learning Management and Business Reform Program	17 December 2014
<ul style="list-style-type: none"> Roads and Maritime Services WestConnex Delivery Authority Infrastructure NSW Transport for NSW NSW Treasury Department of Premier and Cabinet 	Westconnex: Assurance to the Government	18 December 2014
<ul style="list-style-type: none"> Transport for NSW Roads and Maritime Services Sydney Water Corporation 	Security of Critical IT Infrastructure	21 January 2015
<ul style="list-style-type: none"> Department of Education and Communities 	Vocational Education and Training Reform	29 January 2015
<ul style="list-style-type: none"> NSW Health 	Managing Length of Stay and Unplanned Readmissions in NSW Public Hospitals	23 April 2015
<ul style="list-style-type: none"> Department of Trade and Investment, Regional Infrastructure and Services – NSW Office of Water 	Country Towns Water Supply and Sewerage Program	4 May 2015
<ul style="list-style-type: none"> NSW Treasury Infrastructure NSW Transport for NSW NSW Health Roads and Maritime Services Sydney Trains Venues NSW Department of Primary Industries 	Large Construction Projects: Independent Assurance	7 May 2015
<ul style="list-style-type: none"> Department of Premier and Cabinet Destination NSW Sydney Opera House Department of Trade and Investment, Regional Infrastructure and Services 	Government Advertising	22 June 2015
<ul style="list-style-type: none"> Department of Premier and Cabinet NSW Treasury NSW Ministry of Health Department of Education and Communities Transport for NSW NSW Police Force 	Implementing Performance Audit Recommendations	24 June 2015
<ul style="list-style-type: none"> Office of Finance and Services Office of State Revenue 	Efficiency and Effectiveness in Tax Collection	25 June 2015

This year's performance audits

Addressing issues of public concern

Managing Contaminated Sites

We found NSW Government agencies with large landholdings need to better manage their contaminated sites. Procedures for managing contaminated sites vary widely – some agencies have developed comprehensive procedures while others:

- provide little or no guidance to staff on obligations to notify the NSW Environmental Protection Authority (EPA) of significantly contaminated sites
- do not cover how to deal with contamination issues when leasing, buying or selling land
- only covered hazardous building materials, such as asbestos, but not all contamination.

The largest public landholder, the Department of Trade and Investment, Regional Infrastructure and Services

(DTIRIS), has made recent efforts to identify and manage the risk of potentially contaminated sites on Crown lands. It is developing a program to assess high-risk sites, and commenced remediation work on a number of these. It is yet to develop a long-term strategy for other sites or recognise a liability for contamination in its financial report.

The audit also found long delays in assessing the extent of contamination when sites are reported to the EPA. The EPA lacks management controls to ensure all significantly contaminated sites are actively monitored and remediation milestones are met.

The EPA should recover costs for the preparation, monitoring and compliance action required from owners or polluters, as legislation allows this.

Response

DTIRIS accepted all three key recommendations. One of these was qualified, as it stated the impact of contamination can only be accounted for after being identified, assessed, measured and associated costs of remediation estimated on a case-by-case basis.

The EPA was broadly supportive of the recommendations, stating that they reflect activities in place or underway as part of an ongoing process to improve or adapt its contaminated land program.

📁 Report release date:
10 July 2014

The Learning Management and Business Reform Program

The Learning Management and Business Reform (LMBR) program was established in 2006 to improve service delivery to schools, corporate staff and TAFE NSW.

This audit assessed the Department of Education and Communities' progress in implementing the program, and whether it will achieve expected benefits.

Some parts of the three major components of the program have been delivered. However, complete implementation is behind schedule and over budget, and the department has yet to demonstrate that it will achieve expected benefits.

The audit found that the major causes of the cost increases and delays have been

changes in business requirements and scope, high level of uncertainty in business cases, weaknesses in governance and insufficient program and contract management. It also underestimated the support schools needed to successfully implement it.

The program was expected to be completed by December 2014 at a total cost of \$483 million.

The department expects it will have spent a total of \$573 million on the program by 30 June 2015, and needs to allocate significant additional funding from its budget to implement the program.

Response

All eight recommendations were accepted.

📁 Report release date:
17 December 2014



This year's performance audits (continued)

Addressing issues of public concern

WestConnex: Assurance to the Government

This audit found shortcomings in the governance of the WestConnex project's early stages.

The processes that provided assurance to government did not meet best practice standards. Some good practice arrangements were adopted, but the government would have received greater assurance about the project's risks, costs and benefits if its Major Projects Assurance Framework had been implemented.

Reliance was placed on steering committees and boards, with responsibility for project delivery, to also provide independent assurance to the government – a fundamental conflict.

Only one independent Gateway review was conducted up to the pre-tender

stage for the M4 road widening. It found the preliminary business case fell short of the required standard. If the Major Projects Assurance Framework was fully implemented, there would have been four more Gateway reviews. If all Gateway reviews had occurred, several deficiencies in the business case should have been identified.

The post-business case governance arrangements did not clearly separate board-level responsibilities for commissioning from delivery, or provide mechanisms to effectively manage the conflict between these roles.

The audit made six recommendations on how to better govern the remainder of the project.

Response

The agencies accepted five recommendations, and a sixth recommendation 'in principle'.

📅 Report release date:
18 December 2014

Security of Critical IT Infrastructure

This audit examined whether the systems used to operate and manage critical infrastructure in the Sydney metropolitan water supply system and the NSW traffic signal network are secure and, if systems go down, whether there are sound recovery arrangements in place.

It found Roads and Maritime Services (RMS) and Transport for NSW had deployed many controls to protect traffic management systems, but these would have been only partially effective in detecting and preventing incidents and unlikely to support a timely response. There was potential for unauthorised access to sensitive information and systems that could disrupt traffic.

RMS designed and tested an emergency response capability for the Traffic Management Centre for some disaster scenarios, and recently identified and initiated improvements for responding to IT-related disasters.

Sydney Water Corporation was well-equipped to deal with the impact of security incidents. It had developed and tested procedures for security incidents and major outages and provided relevant training to staff. It had backup for an operations centre, power supplies and systems for key facilities.

While Sydney Water Corporation's response capability was good, it was limited by its inability to detect all security breaches. For example, control level access was possible from selected low security workstations on the corporate network.

Response

Due to the sensitive nature of the systems audited, detailed recommendations were issued to agencies in the form of management letters. Transport for NSW and RMS stated they are committed to enacting the improvements that are detailed in its management responses for each item within the management letter. Sydney Water Corporation supported almost all of the recommendations.

📅 Report release date:
21 January 2015

Vocational Education and Training Reform

This audit assessed the effectiveness of the Department of Education and Communities' framework for Vocational Education and Training (VET) reform and whether it has the potential to achieve the government's objectives.

The audit concluded that the department's framework for VET reform has the potential to effectively achieve the government's immediate objectives to introduce a VET entitlement without spending more, while maintaining the viability of TAFE NSW. However, the government is more likely to maximise public value from its investment in VET if it takes a more balanced approach, by putting more emphasis on increased contestability and student choice.

The department is on track to meet its obligations under the Commonwealth's National Partnership Agreement on Skills Reform to increase the number of people completing post-school qualifications.

However, the VET reform framework does not address the longer-term State Plan NSW 2021 goal for a 50 per cent increase in the proportion of working-aged people with post-school qualifications at Certificate III level and above. The audit found the VET reform's budget neutral objective, its pricing structure and incentives for efficiency are unlikely to generate the funds needed to meet this goal.

Response

All eight recommendations were accepted.

📁 Report release date:
29 January 2015

Managing Length of Stay and Unplanned Readmissions in NSW Public Hospitals

This audit looked at how well NSW Ministry of Health manages length of stay and unplanned readmissions in NSW public hospitals.

NSW Ministry of Health has achieved considerable success over recent years in reducing average length of stay despite increasing pressure on hospital admissions by older and chronically ill patients. This success has been driven by changes in the way health services are delivered, such as the increasing use of same day care for treatments that previously required overnight hospital stays.

There is a good level of length of stay information available, which is actively used to manage the time patients spend in hospital.

Available data suggests the rate of unplanned readmissions has not reduced in New South Wales despite various strategies and initiatives. The impact of some of these initiatives on length of stay and unplanned readmissions is not well understood and quantified.

NSW Ministry of Health is undertaking research to better understand unplanned readmissions, their causes and the best ways to address them.

Response

NSW Ministry of Health accepted four recommendations in full, and partially accepted the remaining two recommendations.

📁 Report release date:
23 April 2015



This year's performance audits (continued)

Addressing issues of public concern

Country Towns Water Supply and Sewerage Program

This audit assessed the effectiveness of the \$1.2 billion Country Towns Water Supply and Sewerage Program, which aims to help local water utilities provide appropriate, affordable, cost-effective and well-managed water supply and sewerage services in the urban areas of country New South Wales.

This audit found the program had effectively supported local authorities by:

- developing a best practice management framework
- providing tools, guidance and support to help utilities adopt better practices
- monitoring utilities' implementation of better practices and their performance.

Utilities' service levels, efficiency, compliance with health and environmental standards and cost recovery have all improved over the last 20 years.

The financial assistance to utilities had helped reduce the water supply and sewerage infrastructure backlog in NSW country towns, but would not achieve the program's objective of eliminating the backlog.

Funding under the program was not well-managed prior to 2004. Following a major review in 2003, funding management improved but shortcomings remain. Information management, monitoring and reporting were poor. Priorities established in 2004 had not been revisited. Procedures were not well documented and funding conditions were not always enforced.

Response

The NSW Office of Water accepted all ten recommendations.

📅 Report release date:
4 May 2015

Large Construction Projects: Independent Assurance

This audit found that the independent assurance given to the NSW Government and sponsor agencies on the viability of large capital projects was inadequate. Government policy was regularly not followed and not properly communicated to those responsible for implementing it.

This audit sought to test the effectiveness of the capital project assurance system – which includes Gateway reviews and reporting – but significant levels of noncompliance in our case studies prevented this. It found low compliance when mandatory Gateway review requirements went beyond the case studies. Only 30 per cent of strategic reviews and 66 per cent of final business

case reviews had been conducted on new construction projects in the 2014–15 Budget.

NSW Treasury had not formally communicated the government's decisions on responsibilities and independent assurance following the establishment of Infrastructure NSW in 2012, which may have contributed to noncompliance.

In December 2014, the government endorsed an improved process for independent assurance over major capital projects. The new process has the potential to address current weaknesses, but must be properly communicated and implemented.

Response

The Department of Premier and Cabinet accepted three recommendations, indicated two would be further investigated and advised the new process would address the sixth.

📅 Report release date:
7 May 2015

Government Advertising

This audit focused on the Department of Premier and Cabinet's role in monitoring government agencies' compliance with government advertising requirements, by examining advertising campaigns run by Destination NSW and Sydney Opera House.

The *Government Advertising Act 2011* prohibits government advertising being used for political purposes. The audit did not find any breaches of this prohibition in these campaigns. However, neither Destination NSW nor Sydney Opera

House complied with all government advertising requirements.

The Department of Premier and Cabinet does not have a monitoring program to systematically follow up agencies who are not complying with government advertising requirements.

There is no established government policy to ensure the increasing use of digital and social media or sponsorship and partnership arrangements is appropriately managed.

Response

Twenty-five recommendations were made to four agencies, and:

- 19 recommendations were accepted, plus three accepted in principle
- 2 recommendations noted
- 1 recommendation not accepted.

📅 Report release date:
22 June 2015



Implementing Performance Audit Recommendations

This audit assessed agency processes for implementing performance audit recommendations. We used key elements of the Audit Office's Better Practice Checklist for Monitoring and Reporting on Performance Audit Recommendations to assess agencies' performance. We also sought to identify good practice within agencies.

The audit found most NSW Government agencies have sound processes for implementing performance audit recommendations in the Auditor-General's Reports to Parliament. There are many cases of good practice, for example, some agencies formed a steering committee and developed a detailed plan to implement recommendations. Another incorporated the implementation

of recommendations into both its business plan and the work plans of individual officers who were managing projects. Most agencies also used their Audit and Risk Committees to monitor recommendations.

Some agencies could improve how they coordinate actions to address recommendations. Most agencies were not revisiting these actions to determine whether they remain appropriate.

The report recommended agencies use the Audit Office's Better Practice Checklist for Monitoring and Reporting on Performance Audit Recommendations.

Response

The agencies we audited supported the report's findings.

📁 Report release date:
24 June 2015

Efficiency and Effectiveness in Tax Collection

This performance audit examined whether the Office of State Revenue (OSR) was effective in collecting as much tax as it should, and at the lowest cost to the government.

The audit found evidence that the OSR does good work. Client satisfaction rates compare well to tax collection bodies in other States, and the cost to collect every \$100 of tax has fallen over the past 15 years.

However, the OSR can enhance its performance measurement framework to better show its effectiveness and efficiency. Without this work, it is difficult to be certain how it is performing.

The OSR has had success with compliance programs that have identified unpaid tax. In some instances, for every additional \$1.00 spent on activities such as audits, the OSR has collected an extra \$10 in unpaid tax.

It is difficult to say how much more, if any, unpaid tax could still be collected. This report recommended the OSR research how to better measure how much unpaid State tax is due to the NSW Government.

This report also recommended that the OSR build a stronger evidence base to understand how much additional revenue could be collected for every additional \$1.00 spent on tax collection activities. OSR also needs better public reporting of its performance.

Response

Three recommendations were accepted in full, and two partially accepted.

📁 Report release date:
25 June 2015



The year ahead for performance audit

Continuing with our three-year program

We refer to the State Plan NSW 2021

The audit topics within the 2015–16 program have been developed taking into account the government's priorities, as outlined in the State Plan NSW 2021 and its five priority outcome areas:

- rebuild the economy
- return quality services
- renovate infrastructure
- strengthen our local environment and communities
- restore accountability to government.

It is worth noting that the State Plan NSW 2021 is currently under review and when reissued we will re-examine our forward program.

When examining agency performance I will refer to some broad themes that are relevant to today's government administration and reform: governance, devolution, partnerships, outsourcing, efficient service delivery and transparency.

A T Whitfield PSM

Acting Auditor-General

Proposed topics for 2014–15	Agency cluster
State Plan NSW 2021 – Rebuild the economy	
Effectiveness of government initiatives to reduce red tape	NSW Treasury / Premier and Cabinet / Finances, Services and Innovation
Government assistance to industry	Industry, Skills and Regional Development
State Plan NSW 2021 – Return quality services	
Contracting for Sydney metropolitan bus services	Transport
Sydney Harbour ferries franchise	Transport
Out-of-home care	Communities
Mental health services – community care following acute psychiatric episodes	Health
Realising the benefits of Service NSW	Premier and Cabinet / NSW Treasury / Transport / Finance, Services and Innovation
Community housing	Communities
Performance frameworks in custodial corrections	Justice
State Plan NSW 2021 – Renovate infrastructure	
South East Sydney Light Rail project	Transport
Managing major urban redevelopment projects – Barangaroo	Premier and Cabinet
Albert 'Tibby' Cotter Walkway	Transport
State Plan NSW 2021 – Strengthen our local environment and communities	
Early childhood education	Education
Food regulation	Industry, Skills and Regional Development
Planning Assessment Commission determinations	Planning and Environment
State Plan NSW 2021 – Restore accountability to government	
Government advertising	Premier and Cabinet
Introduction of activity based funding for hospital services – data quality	Health

For further information on these audits, and for our three-year performance audit program, see

www.audit.nsw.gov.au/audit-program/performance-audit-program.





People

Our people are highly skilled and dedicated to improving the public sector

At the Audit Office of New South Wales, we are building a working environment that:

- is constructive and achievement oriented
 - is founded on respect for staff, clients and stakeholders
 - strives to maintain a balance between work life and personal life
 - attracts and retains highly skilled staff who take opportunities to achieve their potential
-

Kamol Sharma Auditor / **Analyn Vasquez** Senior Auditor

Client location – Sydney Cricket and Sports Ground Trust

Staff satisfaction

Our staff indicated a number of areas for improvement

Staff satisfaction dropped to 67% from 73%
Performance dropped on all key staff opinion survey measures

Staff satisfaction down

The staff opinion survey is an important measure of staff satisfaction. It calculates a weighted satisfaction index for working at the Audit Office, and an overall 'gut feel' measure of staff satisfaction.

Results for the year showed a decline compared to 2013–14, with our staff satisfaction index dropping to 67 per cent from 73 per cent. The 'gut feel' satisfaction measure also fell, with 68 per cent of respondents 'satisfied' to 'extremely satisfied' working at the Audit Office, down from 81 per cent.

Staff sustainability, which effectively measures work-life balance, continues to decline. Thirty-seven per cent of our staff considered themselves to be working in a highly sustainable way, down from 42 per cent in 2013–14. The percentage of staff working in a moderately sustainable way fell from 40 per cent to 35 per cent.

Staff engagement down

Staff engagement correlates measures of staff satisfaction, morale, loyalty and commitment to the Audit Office's success, and whether they feel trusted and valued. Staff engagement fell from 74 per cent to 68 per cent. Seventy-two per cent of staff would recommend the Audit Office as a 'great place to work', down from 82 per cent. Eighty-three per cent of staff are willing to put in extra effort to achieve a professional result, down from 89 per cent in 2013–14.

Morale continued to trend down, with the 2014–15 score of 52 per cent reporting 'reasonable' to 'very high' morale dropping from 64 per cent in 2013–14.

During 2014–15, our 'People' strategic focus area delivered 'Project Blue' (see page 10). A significant part of the project dealt with proposed changes to working conditions and remuneration, which led to a period of change and uncertainty. Staff did not vote to adopt the proposed enterprise agreement, however, we remain committed to implementing Project Blue (see page 10) through our 'People' strategic focus area, and to create a modern, competitive, cost effective and flexible workplace, which will positively impact the morale, engagement and satisfaction of our staff.

Performance gaps

The staff opinion survey tells us what staff consider most important, and the gaps between their expectation of the 'ideal' and how well we are currently performing. The top five issues for our staff remained unchanged from 2014:

- I am able to balance work with my personal life
- I have the information I need to do my job well
- I feel valued
- I feel trusted
- I feel like I am part of a team.

Gaps of more than 20 points between importance and delivery indicate a need to focus on these areas. In the 2014–15 survey, 19 of the 20 performance indicators had a performance gap above 20 points. Of these, five had gaps above 40 points:

- we have a constructive culture at the Audit Office

- good communication exists throughout the office
- the Office Executive communicate a clear direction for the Audit Office
- the Audit Office has sufficient resources to deliver value to clients
- the Leadership Team consistently demonstrates constructive behaviours.

During the year our 'Constructive Leadership' focus area worked together with Project Blue to improve constructive leadership styles, focusing mainly on our Leadership Team (see page 49).

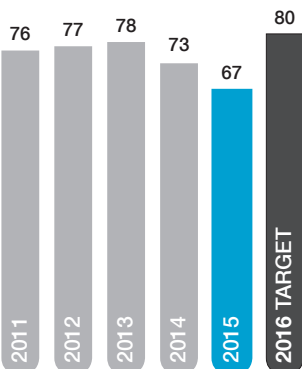
The year ahead

In 2015–16, we will continue to address the issues raised in our staff opinion survey. Through our 'Constructive Leadership' strategic focus area we will develop a framework and guidance for giving and receiving constructive feedback (see page 10).

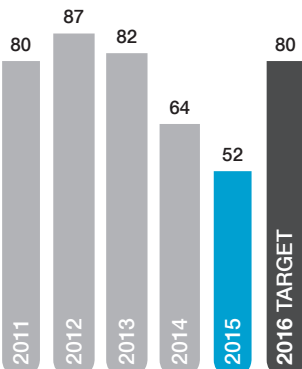
The performance agreements that every staff member will sign will embed shared expectations and positively impact our staff's concerns.

Through our 'Operational Excellence' strategic focus area, the Retain project (see page 10) will improve sustainability and morale issues.

Staff satisfaction %



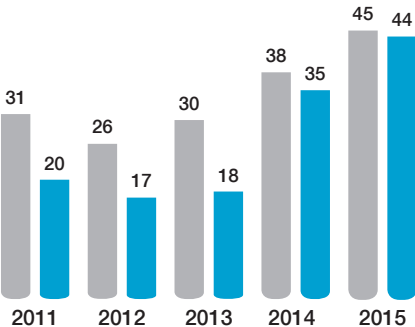
Staff morale %



Significant performance gaps

Good communications exists throughout the office

The Office Executive communicate a clear direction for the Audit Office



Performance

A focus on effective, quality results

67% productivity achieved, up from 62% last year

Productivity

The vision of the Audit Office is 'Making a difference through audit excellence', so the result of our work needs to make a difference to the State's performance.

Professional standards and expectations grow continually, and our staff productivity (the percentage of total staffing hours that we charge to our audit work) remains fairly close to our 65 per cent target, and in 2014–15 increased from 62 per cent to 67 per cent.

Total staffing hours include time worked by all staff, including those responsible for administration and governance.

During 2014–15, we successfully implemented some major technology and infrastructure strategic initiatives which have resulted in greater efficiencies.

Improving our performance management framework

In 2014–15, we consulted widely with staff and integrated the NSW Public Service Commission's Capability Framework (see page 42) into policies and processes covering recruitment, selection, performance and development (see page 42). Our new Performance Management Policy strengthens the alignment between individual performance agreements and Audit Office goals.

The number of positions subject to contract was extended, and senior staff signed new, modernised contracts which focus not only on operational outcomes, but on demonstrating constructive behaviours.

All staff were trained in setting outcomes aligned to our vision, mission and strategic focus areas. To support improvements in managing performance, we began implementation of MiCareer (see page 10).

Enhancing technology infrastructure and systems

We continued with our technology strategy of enhancing audit delivery through improved systems and a continued focus on being mobile by:

- launching the Elite practice management system (see page 10)
- piloting a resource scheduling platform, Retain, to simplify the management and allocation of our people resources (see page 10)
- updating all mobile devices, with improved security and management capabilities
- developing the the MiCareer human capital management system (see page 10)
- enabling a cloud-based 'single sign-on' platform to support access to core services in the cloud
- delivering a cloud-based file-share facility to enable simple, secure transfer of information.

We also continued to meet various compliance requirements and maintained operational stability by:

- implementing systems and processes to comply with the NSW data classification policy
- successful transitioning from ISO27001:2005 security standard to ISO27001:2013, to maintain our ISO27001 certification
- developing a Records and Information Strategy with a more comprehensive approach to managing information across the entire organisation
- upgrading storage systems to support additional information growth and improve resilience of key information technology systems.

Fair and responsible remuneration

In 2014–15, we looked closely at our remuneration framework and conditions of employment. We asked an external provider to review the size of the roles required for effective service delivery. The review also compared our remuneration to the marketplace and confirmed only a small number of inconsistencies. We will use this information to inform our future remuneration decisions.

We also established a new Remuneration Committee (see page 54), chaired by Dianne Hill, an independent member of our Audit and Risk Committee. This, together with new policies which focus on improved consultation around the remuneration process and a more clearly articulated grievance process for staff who disagree with their assessment, significantly improved governance of the remuneration process.

We further simplified our annual staff remuneration review. Our Leadership Team collaborated to ensure the assessment criteria was consistently applied, there was greater equity and transparency and a shared view of what we expect of staff. We will continue to ensure our approach to remuneration is procedurally fair and fiscally responsible.

We continue to work within the NSW Government's labour expense cap and wages policy.

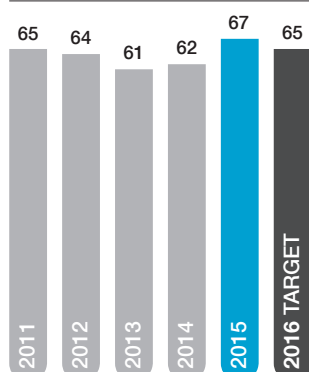
The year ahead

In 2015–16, we will embed improvements to our performance conversations and two-way feedback. Performance agreements will be fully aligned to our strategic focus areas.

MiCareer, which will underpin the performance agreement process, will be extended as the year progresses, with modules integrating learning management, social interaction, recruitment and remuneration processes. Communication, consultation and training will be delivered in support of these enhancements.

(See page 10 for further details of MiCareer and our strategic focus areas.)

Productivity %



Staffing and recruitment

Focus on attracting high quality staff

249 full-time equivalent staff

54% of middle management are women

Staff turnover high but our brand remains strong

Our employee value proposition, strong brand, excellent reputation and opportunities for personal and career development has enabled the Audit Office to continuously attract high quality staff. This has positively impacted our ability to sustain a regular supply of specialist talent and our capacity to meet client demands.

In 2014–15, this need to attract and retain high quality staff was strongly reinforced to us with staff turnover increasing significantly, from 12 per cent to 24 per cent. Key reasons for leaving, gathered from staff in exit surveys, included:

- staff wanted a career change, although the majority of staff indicated they wanted to stay within the public sector
- staff felt promotional opportunities were limited
- staff indicated they felt challenged and enjoyed work but would have liked additional resourcing
- staff would have liked more communication and change management around the strategic initiatives in our 'People' strategic focus area (see page 49) over the last 12 months.

While this is concerning, many of our staff who left the Audit Office moved to more senior roles in NSW and Federal Government agencies, and the exit surveys also showed staff think the Audit Office has a hard-working culture and makes a real difference within the public sector. We see this as a positive reflection of the reputation our staff have established for professional excellence.

The number of full-time staff has remained broadly the same at 249, up from 248 in 2013–14.

We continued to improve our graduate recruitment by contributing to university campus events and publications. We worked to ensure our ongoing alliance with professional accounting bodies by attending career events.

In 2014–15, we conducted two graduate intakes. We offered a four-year fixed-term contract to 17 applicants from the 533 applications received. During the second round we received 288 applications and selected three successful applicants, bringing the total for 2014–15 to 20, an increase of eight places from the previous year.

Working to improve staff relations

In 2014–15, we aimed to improve staff relations by developing a new enterprise agreement between our staff and the Audit Office. This differs from the current arrangement where staff are paid under an Award negotiated directly with the Public Service Association of NSW. We consulted extensively with staff, allowing many opportunities for open discussion. Voting participation rates were very high at 91 per cent of eligible staff, indicating staff were highly engaged in the consultation and assessment process. Unfortunately, a sufficient number of staff did not vote in favour of the agreement. As a result, we will focus on improving the existing Award over the coming year.

We recognise our remuneration framework, which is embedded in our Award, needs to be more flexible and achievement oriented to better support our business needs. A more modern industrial instrument in time, together with our revised policies, will ensure we can continue to attract and retain the talent we need to fulfil our mandate now and into the future.

Equity and diversity

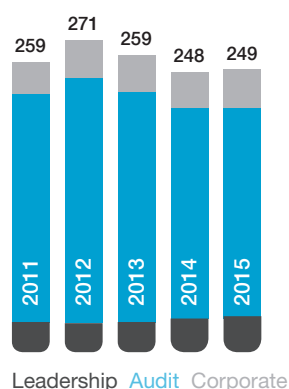
We are committed to a diverse workplace that reflects the constantly changing external workforce and client base. We further expect it is free from all forms of unlawful discrimination, and require all staff to adhere to Audit Office values and related policies and procedures which are reviewed annually.

People are appointed to positions based on merit. To further reinforce this, as part of our 'People' strategic focus area, and after conducting a consultation process with our staff, we reviewed and revised our Recruitment and Selection Policy during the year to ensure this was the case (see pages 10 and 42).

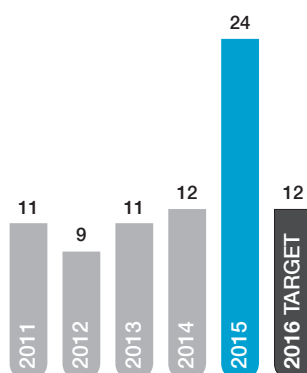
The number of women as a percentage of the total workforce remained constant at 51 per cent. The representation of women in middle management was 54 per cent, consistent with last year's 55 per cent, demonstrating our commitment to

Total staff*

*FTE: Full-time equivalent.



Staff turnover %



promoting women through all layers of the Audit Office. The percentage of women in executive and senior leadership positions has increased from 34 per cent to 45 per cent. We anticipate these figures will continue to rise over the next few years with our strong ongoing commitment to supporting the growth and development of talented women in the organisation.

In 2014–15, we developed a Multicultural Events Calendar and cultural committees. We celebrated four cultural festivals in the workplace – Diwali, Eid-ul-Adh, Lunar New Year and Harmony Day. Staff at the Audit Office come from 39 countries and speak over 26 languages, and these celebrations help us recognise the diversity of our workplace and encourage our staff to learn about other cultures.

Improving the representation of Aboriginal people and Torres Strait Islanders in the Audit Office is important to our ongoing commitment to equity and diversity. We are an equal opportunity employer, and will continue to ensure this is our focus in the coming year.

For more information on equal employment opportunity groups and their distribution, see Appendix Six.

Supporting our staff

We continue our strong commitment to health and well-being practices. In 2014–15, we continued to improve our Work Health and Safety Framework and systems (see 'Workplace and environment' on page 41). Many of our staff have continued to benefit from our Employee Assistance Program, which includes an independent, confidential counselling service for staff and their immediate families.

We continue to provide assorted fruit every day to promote healthier eating and make available a variety of non-caffeinated drink options in our break out area. We also provided free flu vaccinations to all staff.

We continued to provide support to those competing in the Corporate Cup running competition and encouraged work-life balance and exercise. In 2014–15, we maintained our corporate partnership with a local gym, providing low-cost membership to our staff. Staff also competed regularly as teams in sporting events such as the City to Surf and indoor soccer competitions.

Recreation club

The recreation club, known as the ReClub, is a social organisation run by staff, for staff. Approximately 57 per cent of staff are members of the ReClub, a drop from last year's 64 per cent. Reasons for this reduction included recent turnover and some members not feeling they were receiving the benefits of membership. In order to address this reduction in numbers, in 2014–15, the ReClub Committee conducted a survey as well as a staff consultation process. The ideas generated from the survey and consultation process will be implemented in 2015–16 and will hopefully lead to an increase in members.

The club is fully funded by staff and run by a representative committee. Some of the events held in the past year were the Annual Harbour Picnic, the Annual Dinner, the Christmas Party, Australia's Biggest Morning Tea Annual Bake-Off and numerous happy hours.

The club also encourages and supports participation in sporting events, such as the City to Surf and JP Morgan Chase and Co Corporate Challenge Run. The club is an integral part of our culture, with fun activities and a chance for staff to network with colleagues they may not usually see on a daily basis.

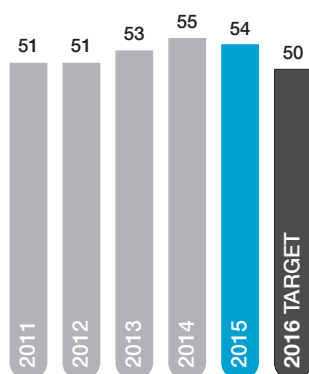
The year ahead

Our strategic focus areas of 'Constructive Leadership', 'People', 'Product Delivery' and 'Operational Excellence' will play an important role in helping us to shape a more constructive and achievement oriented culture. We expect to see improvements in a number of areas by:

- implementing an achievement oriented performance management framework
- continuing to improve on the current Audit Office Award
- continue to improve the remuneration framework
- developing a workforce plan that ensures we deliver value through the right skills, resources and structure.

(See page 10 for further details of our strategic focus areas.)

Women in middle management %



Professional development

Continuing to invest in our talent

An average of 9 training days per staff member

Well-developed skills

Our ability to fulfil our mandate and add value to our clients' business depends on the skills and proficiency of our staff.

In 2014–15, we adopted the '70:20:10' professional development framework, which aims to deliver 70 per cent of a staff member's development through on-the-job coaching, 20 per cent from peer-based learning and ten per cent through formal training. Training days recorded in 2014–15 included online learning, on-the-job coaching and attending face-to-face sessions. This enabled a reduction in the budget for 2015 by utilising more cost effective learning solutions, such as developing the coaching skills of our people managers and developing online modules covering fraud, gifts and benefits policies and work health and safety. For the first time our annual accounting standards update was made available as a webinar (see page 46).

We continued to assist with professional accounting qualifications by reimbursing 100 per cent of fees. Seven staff qualified as chartered accountants in 2014–15, and three as certified practising accountants (CPA).

We continue to support non-audit staff with their further education by paying a percentage of their fees. Study leave is granted for all those completing their studies.

Technical and leadership development

Financial Audit continues to integrate the learning from the 'Big Four' Audit Methodology implemented in 2013–14, including developing managers and staff

to conduct in-house training using public sector examples.

Financial Audit and Information Systems Audit staff were trained further in complex computer systems utilised within NSW Government to ensure they have a deep understanding of their clients' processes and systems, and can provide more quality information as part of the audit.

Corporate Services had further training in our practice management system and other systems implemented in 2014–15, and continued to develop their staff through the business planning process, enabling every staff member to work outside their area of expertise.

Performance Audit staff continued to attend industry conferences, develop their advanced report writing skills through face-to-face training and coaching, and work on better engaging their clients. They also attended and facilitated parts of the Australasian Council of Auditors-General performance audit training.

In 2014–15, we held another successful business simulation for newly promoted and recruited staff and managers at various levels across the business. We asked some of our leaders to revisit the simulation as coaches as part of our ongoing commitment to developing coaching skills.

Following the simulation, team members are provided with one-on-one coaching by external business coaches, with detailed debriefing from the program and support to improve in key development areas.

One-on-one business coaching for our Leadership Team continued to be a key part of our leadership programme.

Staff development

Throughout 2014–15, we continued to offer our staff a variety of work and development opportunities. Due to the number of staff who left us during the year, others were given the opportunity of working in more senior positions.

There were many opportunities for staff to work on strategic initiatives, including the chance to be involved in the 100 Day Leaders program (see page 42). Staff also had the opportunity to participate in public speaking at whole-of-office events. As part of business planning at branch level, staff have the opportunity to facilitate sessions and lead strategic focus areas.

As part of our commitment to staff development experiences in other organisations, we partnered with PricewaterhouseCoopers to offer eight Financial Audit staff a three- to six-month secondment. We also arranged secondments for two staff members with the NSW Parliamentary Budget Office, and continued to second staff to various business units within the office.

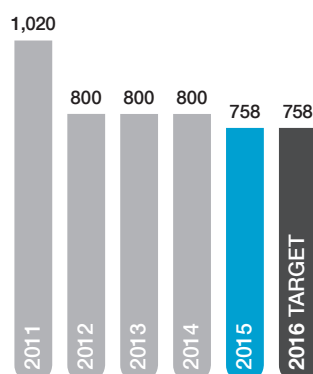
The year ahead

In 2015–16, we will continue work in our strategic focus areas of 'Constructive Leadership', 'People' and 'Product Delivery' to further develop leadership capability, focus on whole-of-government knowledge and further leverage technology. Over the next year we will be focusing on:

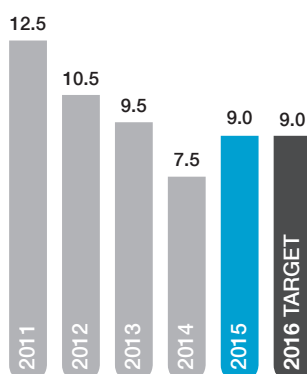
- implementing an upward feedback model for people managers
- implementing the new Learning and Development Strategy
- implementing MiCareer (see page 10)
- focusing on individual development around capability gaps
- reporting on learning and development spend, to be able to more clearly assess return on investment.

(See page 10 for more information on our strategic focus areas.)

Training spending \$'000



Average training days per staff member



Workplace and environment

Keeping our people safe is a high priority

17 reported safety incidents

3 new workers' compensation claims

Work health and safety

We are committed to providing the best possible standard of work health and safety (WHS) for our staff at the office and client premises, and for visitors to our head office.

In 2014–15, we strengthened our consultative approach through the Audit Office WHS Committee, which is focused on supporting the Audit Office to meet WHS requirements. The committee is made up of elected staff and nominated management representatives, who work proactively to identify and resolve concerns. The committee reviews and actions the results of WHS audits and inspections, identifies WHS hazards and risks, and understands the impact of operational and business requirements on the safety and wellbeing of our staff.

The committee completed two days of WHS training in 2014–15, to consolidate and update their knowledge. As with every year, first aid officers completed first aid and defibrillation refresher training. We also continued work on updating the Business Continuity Plan, ensuring all WHS requirements were included.

During 2014–15, there was a reduction in reportable WHS incidents down to 17 from 21. The issues directly related to safety were immediately reported and addressed by the WHS Manager and the committee. The reports were varied, and main injury categories were slips, trips and falls, manual handling, environmental hazards and repetitive strains. Seven of these resulted in workers' compensation claims (three slips, trips and falls, and four repetitive strains), with four resulting in lost time. We worked closely with these staff to support their recovery and safe and timely return to the workplace.

We set a goal to improve safety awareness and WHS knowledge in 2014–15, and measured this through our annual WHS survey. We are pleased to report a significantly higher proportion of respondents are 'aware' of WHS basics (71 per cent, up from 54 per cent in 2013–14), which includes knowledge of staff representatives, contact details

and policies. One hundred per cent of staff completed compulsory online WHS training, which will now be carried out annually.

In 2014–15, we identified client sites considered 'high risk' and visited premises in order to develop a comprehensive checklist to ensure staff safety. We are trialling this with the view to rolling it out across all client sites.

Quarterly reports on WHS goals and targets, as well as WHS Committee meeting outcomes, are presented to the Office Executive and Audit and Risk Committee. In 2014–15, we further refined our key WHS measures and performance indicators by developing new, more effective, key performance indicators.

Reducing our environmental impact

The Audit Office continues to implement its Waste Reduction and Purchasing Plan (WRAPP) which guides us towards meeting environmental targets.

We use 50 per cent recycled content paper in all our photocopiers and printers and recycle 100 per cent of wasted paper using secure disposal processes. We recycle 100 per cent of our ink and toner cartridges, and continue to recycle cardboard and other recyclable products. All laptop batteries are disposed of in an environmentally-friendly way.

In 2014–15, we remained focused on reducing our environmental footprint by:

- publishing all of our Auditor-General's Reports to Parliament in online format only
- implementing a secure online file-transfer platform, so clients can easily share large files with us electronically, rather than via post
- continuing to convert hard copy forms to self-service online forms
- introducing improved recycling sorting bins to encourage recycling
- completing our electronic mail distribution project.

Greenhouse performance maintained

The Audit Office achieved a greenhouse building rating of four and a half stars, in line with government targets, by:

- buying 40 per cent green electricity
- using timers on lights and equipment
- buying energy efficient equipment
- running small, fuel efficient vehicles in our fleet
- reducing our fleet car size.

The year ahead

In 2015–16, we plan to build on last year's progress around WHS by focusing on:

- reducing the lost time injury frequency rate
- rolling out a new WHS Client Safety Checklist to be completed at all client sites
- developing and distributing injury management information packages to support timely return to work
- improving reporting against WHS goals and targets.

We will aim to continue to reduce our environmental footprint in 2015–16 by:

- exploring the possibility of recycling organic waste
- researching the benefits of reducing fluorescent light tubes.



Developing the leadership capability and creativity of our staff

1 100 Day Leaders program launched

For the first time in March 2015, we launched a program we call '100 Day Leaders'. This is a structured opportunity for senior staff who are not part of the Leadership Team to participate in the Audit Office strategic planning process. The 100 Day Leaders had the opportunity to attend the 2015–16 strategic planning session, and to run the 'Constructive Leadership' focus area, with assistance from Leadership Team mentors. Each 100 Day Leaders group works for three months before handing over to a new group. This gives many people an opportunity to participate, and also allows for a significant amount of time for each group in the program to achieve some great results. The 100 Day Leaders are developing a toolkit to guide staff in providing performance feedback to managers, which will be implemented in the business. They have been great ambassadors for strategic planning and taking back key messages to their colleagues. The 100 Day Leaders are also workshoping strategies to assist staff in leadership roles to become more constructive and confident leaders.

2 Reviewing our skill mix for excellence and transparency

In 2014–15, we undertook two restructures as part of our 'Operational Excellence' strategic focus area, which involved our Performance Audit and administration staff.

Performance Audit restructure

Performance Audit implemented several initiatives to improve the way the audit program is delivered, including streamlining audit processes, improving planning and scheduling of audits and delivering an increased number of audits each year.

Progress was made to meet new audit program requirements, however, it was determined some fundamental structural issues needed to be addressed to ensure Performance Audit continues to 'make a difference through audit excellence'.

As a result, the structure of Performance Audit was reviewed and a restructure implemented.

The overall benefits of the restructure were to:

- provide enhanced career opportunities
- better match skills and capabilities with roles and tasks at all levels
- create more opportunities for skill development across all Performance Audit roles
- be able to produce more performance audits of greater value and with more impact
- better utilise and leverage resources and expertise for performance audits
- create a more agile performance audit function better able to respond quickly to changes in the external environment with greater skills diversification, multi-tasking and flexible resourcing – cross-branch, pooled and short-term specialists as required.

3 Working within the NSW Public Sector Capability Framework

In 2014–15, we adopted the NSW Public Sector Capability Framework. A 'capability' describes the knowledge, skills and abilities that public sector staff, at every level, must demonstrate to perform their roles efficiently and effectively. As an independent agency we are not required to adopt the framework, but we recognise the value of this best practice approach and the value in aligning with the greater public sector.

There are 20 capabilities, each with five levels from 'foundational' to 'highly advanced'. The framework describes the necessary skills and behaviours for each level.

We also developed occupation-specific capabilities and descriptions for some Audit Office roles, for example, financial auditors and analysts in Performance Audit.

These occupation-specific capabilities, along with those determined by the PSC, provide a comprehensive description of the knowledge, skills and abilities required for each role. 'Focus capabilities' are highlighted as those that a staff member would need to demonstrate on day one of starting their role.

Capabilities and role descriptions

All of our role descriptions have been updated using the PSC's role description template, ensuring they are all consistent and relevant, with defined deliverables, not just an exhaustive list of tasks required for the role. Each individual's role description was assessed against the capability framework and will be reviewed each year.

Capabilities and recruitment

We have adopted the PSC recommendation that when recruiting for a role, at least three assessments should be utilised, which are based on capabilities listed for that role.

Capabilities and performance management

By adopting the NSW Public Sector Capability Framework we are assisting managers and staff to have a clear, common understanding of the role expectations, and providing a starting point for capability assessment and development planning.

Capabilities and learning and development

The NSW Public Sector Capability Framework has given the Audit Office a common language to assess organisation-wide learning and development needs, as well as enabling development to be targeted to build the capabilities needed in a staff member's current and future role.

Capabilities and career planning

Capability levels allow our staff to shape their own learning and development plans to meet their career goals and take responsibility for their career development.



Profession

We are known for influencing auditing in Australia

We work closely with the auditing profession, commenting on draft accounting and auditing standards, and presenting to various forums on auditing and governance.

This helps us maintain our professional presence and influence the direction of auditing in Australia.

Michael Thistlewaite Senior Manager, Programmes and Business Analysis

Client location – The Mint (Historic Houses Trust)

Professional influence

Making positive and varied contributions

30 presentations delivered to the public and the profession

Professional services

The Audit Office has an Audit Support team responsible for technical advice on professional standards, legislation and regulations. Audit Support contributes to high quality public sector financial reporting by ensuring Financial Audit staff understand, implement and apply auditing and accounting standards consistently and fairly. Audit Support reviews modifications to clients' audit opinions before they are issued, to ensure they are fair and in accordance with applicable standards and helps our financial auditors maintain their professional knowledge and keep up-to-date with latest developments.

Audit Support is seen as a leader in the profession, particularly in public sector accounting issues. Their input is regularly sought by professional bodies and NSW Treasury on a wide variety of financial reporting matters.

They also contribute to the effort of the Australasian Council of Auditors-General when commenting on new pronouncements.

The team produces a monthly publication, 'Professional Update', available on our website. This provides commentary on emerging issues, the activities of standard setters, NSW Treasury and other central agencies, regulators, professional bodies and the courts.

In 2014–15, the team continued to play a role in supporting and maintaining our financial audit methodology, Iris, which is based on one used by a 'Big Four' professional services firm. Iris addresses the requirements of the professional standard setters and legislators and uses world-leading audit software. It is designed to target risks and deliver effective, value adding audits. During 2014–15, Performance Audit also worked to develop a software-based solution to document and deliver their audits based on Iris.

Services to the public sector

The Audit Office aims to be recognised as a leader and expert in the auditing and accounting profession. We do this via presentations, submissions, contributions to external committees, and appearances before parliamentary committees.

We delivered 30 presentations to a variety of audiences in 2014–15, two less than in 2013–14. Fifteen of these were to the public sector. Presentation topics included the role of the Audit Office and future of public-private partnerships, governance in the public sector, managing fraud control obligations, issues impacting Australian universities, the role and functions of a best practice Chief Financial Officer (CFO) and where a CFO needs to focus to maximise impact and value (see pages 100 and 102).

Submissions to professional bodies

The Audit Office coordinates the efforts of all Australian audit offices developing responses to professional bodies on pronouncements they have exposed for comment. We determine which will impact audit offices, our clients or the public sector in general. We have prepared or contributed to five responses by the Australasian Council of Auditors-General.

Influencing by educating, mentoring and advising

Educating

Our staff have, for many years, been involved in determining the content of training modules, leading training and focus sessions, and marking exam papers for the Institute of Chartered Accountants Australia and New Zealand and CPA Australia (see pages 46 and 102). Graduates employed by the Audit Office must gain membership of a professional accounting body and their professional qualifications by completing the training and passing exams for a recognised Australian professional accounting qualification.

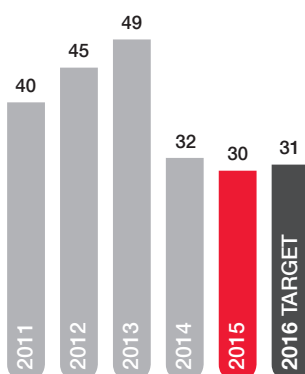
Mentoring

We provide formal mentoring to all our candidates for memberships of professional accounting bodies. This program has achieved consistently outstanding results, and produces well trained, high calibre professionals for our audit teams.

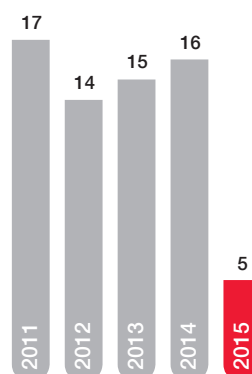
Advising

The Audit Office interacts with Australian accounting bodies, participating in their committees, research groups and working parties (see page 102). We aim to help them gain an understanding of the issues facing the public sector. Our representatives attend roundtables hosted by the standard setters. We develop comments in conjunction with other Australian audit offices to help the boards develop standards that can be applied with equal ease in the public as well as private sectors.

Presentations delivered



Submissions made



Influencing through the Australasian Council of Auditors-General

The Audit Office is an active participant in the Australasian Council of Auditors-General (ACAG), established in 1993 to encourage sharing and cooperation between audit offices in Australasia.

We provide administrative support for the Executive Director of ACAG. We host and chair meetings of Auditors-General, as well as participate in and support various ACAG sub-groups and working parties, including:

- ACAG Financial Reporting and Auditing Committee, which is responsible for, among other things, developing a consensus view in relation to financial auditing, accounting and financial reporting matters
- Heads of Financial Audit, which shares information between members and supports the development of effective and efficient financial auditing methods and practices by members, and oversees financial audit training for member offices and others
- Heads of Performance Audit Group, which shares information between members and supports the development of effective and efficient performance auditing methods and practices by members, and oversees performance audit training for member offices and others
- Audit Quality Assurance Panel, which assists audit offices to meet, as a minimum, legal and professional requirements for quality control, establishes agreed Audit Quality Indicators, and coordinates various related surveys
- ACAG Information Systems Audit Group, a forum for exchange of knowledge and experience in information systems audit and the use of information technology as a support tool for auditors.

As a new initiative, in 2014–15, we took the lead role in organising and coordinating an online update on accounting standards for ACAG member offices, with a view to cost-saving and establishing a better understanding of common problems and possible responses (see page 46).

We contribute to ACAG's position on various issues, including submissions to public inquiries on matters of public sector accountability and to ACAG's position on local and international accounting and audit standards.

ACAG Performance Audit Managers Workshop 2015

This workshop, held in March 2015, brought together managers from audit offices in Australia and New Zealand. We hosted this forum where participants discussed current practice issues and emerging challenges of performance auditing.

ACAG Performance Audit Methodology Workshop 2014

In October 2014, many of our Performance Audit staff attended this workshop, along with analysts from other audit offices in Australia and New Zealand. The program defined performance auditing, discussed relevant auditing standards and guidance for assurance engagements, and ACAG performance audit methodology. It outlined each stage of an audit from planning a performance audit to reporting.

Knowledge sharing

The heads of Performance Audit in all Australian States and Territories meet twice a year to share ideas on performance audit topics, methodologies and better practice. Through these meetings, and subsequent liaison between audit teams in the different jurisdictions, we have helped other offices develop new audits on topics that have proved useful to them. These have included efficiency of operating theatres, chronic disease management and tendering bus contracts. In turn, our performance audit program has benefited from topics successfully delivered elsewhere. Our audits on major capital projects and information technology security were two examples (see page 28).

The year ahead

In 2015–16, we will maintain our professional presence by:

- contributing through ACAG to the development of new standards by the Australian Accounting Standards Board (AASB), as it works through a substantial program focused on not-for-profit and public sector entities
- implementing a new approach to enhance audit quality. We will conduct quality reviews that focus on audits in progress, as well as completed audits, providing timely support and feedback to audit teams in the field
- our Performance Audit team's representation on the advisory group for the Auditing and Assurance Standards Board's (AUASB) review of the Standard on Assurance Engagements 3500 Performance Engagements
- liaising with NSW Treasury about their Financial Management Transformation Program and development of public sector accounting policy
- engaging with professional bodies about issues facing the profession and the development and focus of educational programs
- engaging with central agencies, standard setters, regulators and audit offices in other jurisdictions, on their focus areas, emerging issues and requirements
- publishing Professional Update, the Audit Office's monthly newsletter highlighting developments likely to impact the NSW public sector
- releasing newly developed better practice guides, including commissioning and the role of the CFO, and continuing to actively participate in consultation forums and make submissions on proposed changes to professional standards
- continuing to support the development of audit staff from Papua New Guinea by hosting two secondees.



Collaboration adds value

1 Collaborating with other audit offices to provide shared training

Auditors-General across Australia recognise the potential for savings and collaboration through the effective online delivery of training material of national relevance, such as accounting standards. The national audience for such training is 700 to 800 technical staff.

A pilot project was conducted in May 2015 with participation from the audit offices of New South Wales, Queensland and Victoria. Proposals for a learning solution were sought from six external training providers. The objectives of the training were to:

- reduce the cost of audit offices delivering an annual update on accounting standards
- expose staff to a range of views and issues from other audit offices
- facilitate the early identification of issues which lend themselves to a common approach
- expose professional development staff in each office to the practicalities of organising and participating in a concurrent online training exercise.

The three offices worked closely with the chosen training provider to develop materials relevant to the public sector. The learning solution was unique and innovative. Live facilitated training sessions were delivered simultaneously to groups in New South Wales, Queensland and Victoria, with the facilitation managed evenly across the three states. Facilitated webinars were available for staff to access from remote locations. Participants then completed online testing to determine whether learnings had been absorbed. Staff unable to participate in the group sessions or webinars could access a recorded version of the training.

The training met the objectives, despite some technical issues impacting the experience for some participants, and substantial cost savings were achieved. The three offices conducted a full debriefing of the pilot and agreed on enhancements for the training for 2016. Other audit offices have indicated their interest in participating and it is likely the collaboration will be extended to other types of training in the future.

2 Supporting CPA Australia in setting assessment standards

The Audit Office has a keen interest in supporting accounting professional bodies. In February 2015, CPA Australia sought nominations for qualified chartered accountants or certified practicing accountants (CAs or CPAs) to form a committee of subject matter experts (SMEs) to set the minimum competence levels for the CPA Financial Accounting and Reporting module. This module is one of the six foundation exams which provide an opportunity for candidates without the traditional accounting education background to demonstrate the required knowledge for the CPA Program.

Weini Liao, Director of Financial Audit, was selected to attend the two-day assessment standard workshop in Melbourne in March 2015. Weini's expert knowledge in financial accounting and reporting, and experience in working with undergraduates from her previous lectureship at a number of universities, meant that she was a good candidate to become a SME.

The Committee of SMEs was formed by academics from universities, accounting and auditing practitioners from private and public sectors, and CPA representatives. The workshop involved a two-step process that first required the SMEs to describe the knowledge and skills exhibited by a minimally competent candidate, and secondly, examine each exam question to translate the criteria defined above into a cut score for the Financial Accounting and Reporting exam. It was a well-executed and documented assessment standard setting process which helped protect the exam against legal challenges and assure the public that the credentialing decisions resulting from exam scores are fair and valid.

CPA Australia highly valued our contribution to the success of the workshop. We endeavour to continually assist accounting professional bodies in building a sustainable and competent accounting profession in New South Wales.

3 Fraud Control Better Practice Guide released

In February 2015, the Audit Office released an updated Better Practice Guide: Fraud Control Improvement Kit. The improvement kit aligns with Australian Standard AS8001-2008 Fraud and Corruption Controls and other better practice. The guide updates the ten attributes of fraud control by emphasising the importance of developing an ethical framework and establishing the right fraud control culture.

The improvement kit consists of guidance and a checklist for each attribute and a series of resources. The guidance is deliberately concise and intended to provide an overview of key points, rather than comprehensive instruction on each issue. The resources are designed to give practical tools for agencies to meet their fraud control obligations.

In developing the improvement kit, the Audit Office invited representatives from each of the NSW Government clusters to attend a workshop designed to get feedback on the current guidance and suggestions for improvement. Attendees at that workshop were also given the opportunity to provide comment on the material. The feedback we received was overwhelmingly supportive of the proposed updates to the guidance, which were designed to more closely reflect the current fraud control challenges faced by the public sector.

To view the guide, see: www.audit.nsw.gov.au/publications/better-practice-guides.





Governance

We have sound corporate governance which guides us to achieve our purpose

At the Audit Office we:

- have a governance framework that reflects the eight core principles of good corporate governance
 - are committed to legislative compliance and ethical behaviour
 - meet public expectations of probity, accountability and transparency
 - have a dedicated governance unit to administer, support and guide our governance processes
-

Raymond Bailey Audit Leader

Client location – State Library of New South Wales

Strong governance foundations

Driven by the eight core Australian Securities Exchange (ASX) corporate governance principles

Corporate governance leading the way

Our governance processes and behaviours guide us to achieve our purpose, conform to all relevant laws, standards and directions and meet public expectations of probity, accountability and transparency. They provide our staff with a clear sense of purpose and focus, guiding their behaviour when dealing with each other, our audit clients and other stakeholders.

Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations

Our governance framework, the Governance Lighthouse, reflects the eight core Australian Securities Exchange (ASX) Corporate Governance Principles. Under these eight core principles, the Audit Office has developed 17 major points of good governance. We use the Governance Lighthouse as a way to develop, implement, review and report on our governance arrangements.

Continuous enhancement

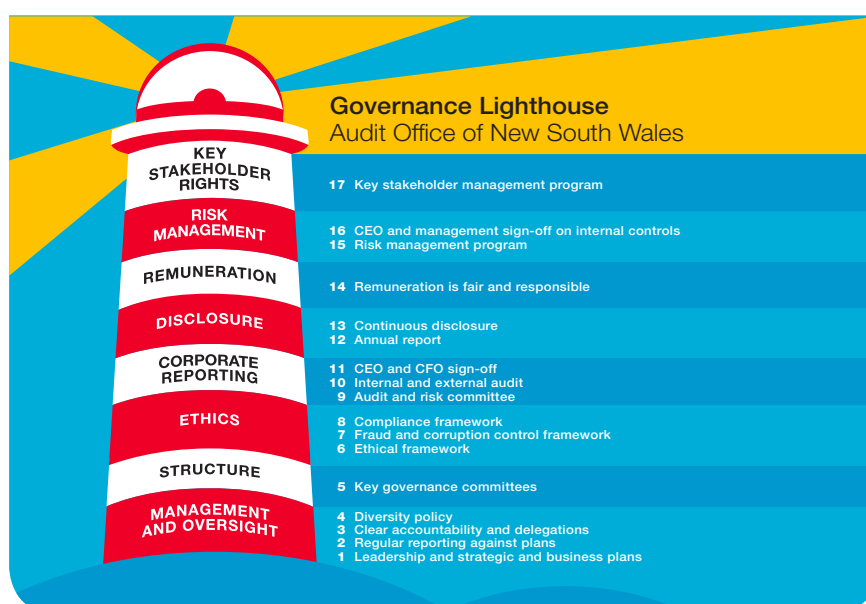
In 2014–15, we continued to strengthen our governance framework by:

- releasing our updated Governance Lighthouse (see page 58) and Fraud Control Better Practice Guide (see page 46)
- conducting the biennial fraud risk assessment
- reviewing and enhancing our Gifts and Benefits Policy
- rolling out new Fraud Control and Gifts and Benefits training
- implementing our revised Code of Conduct and related policies
- reassessing the strategic risks against our 2014–15 strategic goals
- implementing a new Audit Office Policy Framework
- improving transparency by establishing a program for proactive release of information under the *Government Information (Public Access) Act 2009*, and publishing our gifts and benefits register
- developing and publishing a Statement of Business Ethics
- redefining the purpose and structure of our Remuneration Committee. The committee now provides independent assurance to the Auditor-General on the application and appropriateness of Audit Office remuneration policies.

The year ahead

In 2015–16, we will:

- review our ethical framework, including our Professional Independence Policy
- develop a stakeholder management plan
- develop an office-wide risk appetite statement
- reconsider our key performance indicators and establish a centralised office-wide and business unit reporting and monitoring system
- develop a governance and ethical behaviour online training module.



Setting direction

We have a strong commitment to strategic planning

LIGHTHOUSE PRINCIPLE: MANAGEMENT AND OVERSIGHT (based on ASX Principle 1)

Lay solid foundations

The Audit Office of New South Wales is a statutory authority established under the *Public Finance and Audit Act 1983* to conduct audits for the Auditor-General, who is accountable to the NSW Parliament. The Auditor-General is responsible for the Audit Office and its activities.

Our strategic plan

Our 2014–15 strategic plan was developed by the Office Executive and the Leadership Team to meet the strategic priorities for the Audit Office. Lead managers and executive sponsors met every 30 days to review milestones and key performance indicators and track progress towards achieving overall outcomes.

The four focus areas for 2014–15 were:

Operational Excellence

Goal for 2014–15:

We operate in a business-like manner with competitive models for pricing, resourcing and outsourcing. Our structure and skill mix is regularly reviewed, to deliver excellent products in a transparent manner.

Strategies:

- Deliver value through the right skills, resources and structure of audits
- Implement an outsourcing model for audits with benchmarking and demonstration of value for money
- Develop a transparent pricing approach.

Key achievements include:

- Designed, built and implemented a new pricing approach, demonstrating how our fee rates are set to allow us to break even over a rolling five-year cycle
- Developed a pricing statement, explaining clearly to our clients and stakeholders the principles applied when developing our fees
- Implemented an 'outsourcing and right resourcing' model for Financial Audit. The model uses decision inputs to provide guidance on the right skill and resource mix for an audit
- Developed a benchmarking tool to compare our audit costs to our contract agent audit costs.

Product Delivery

Goal for 2014–15:

We have a strong understanding of the public sector to deliver products and services that have impact and relevance, and improve client assessment of value for money.

Strategy:

Implement a program to build knowledge of public sector reforms and government priorities.

Key achievements include:

- Improved our understanding of the public sector and its reform agenda, including the introduction of regular external speakers on relevant topics
- Improved our reporting, as a result of our improved understanding of what drives the public sector.

Constructive Leadership

Goal for 2014–15:

Our leaders are agile and adaptable. They listen and communicate a shared vision and direction, model constructive behaviours and set challenging but realistic goals that are rigorously pursued with enthusiasm.

Strategies

- Develop constructive behaviours across the Leadership Team to build a high achieving team
- Articulate and share the Audit Office vision.

Key achievements include:

- Formed a shared vision of constructive behaviour for the Audit Office
- The Leadership Team attended a number of workshops, that focused on the language of change, the language and behaviours of constructive leaders and the key elements of constructive leadership
- The Leadership Team refreshed their Human Synergistic Learning Styles Index profiles, sharing results with one another and their staff. Strategies were developed during facilitated discussions to improve team results for constructive styles
- Created a program of activity for sharing and embedding our vision into the organisation. This included working on new organisational key performance indicators, which will roll down into our new staff performance agreements (see pages 6, 10 and 37).

People

Goal for 2014–15:

We create a constructive and achievement oriented environment for our people that requires them to take opportunities to achieve their potential. Our people are flexible and receive regular and honest performance feedback.

Strategies:

- Implement a modern employee relations framework
- Implement an achievement oriented performance management framework
- Implement a reward and recognition framework
- Implement a learning and development strategy to build core capabilities required.

Key achievements include:

- Reviewed our reward and recognition framework and developed new policies and governance processes
- Launched revised role descriptions and aligned with the NSW Public Service Commission's Capability Framework (see pages 37 and 42)
- Modernised our existing executive contracts, consulting widely with staff affected, and extended the number of positions subject to contract (see page 37)
- Consulted extensively with staff to identify areas of concern with their current working conditions
- Developed new policies to support the implementation of performance agreements and the related Performance Management Framework (see page 37)
- Introduced MiCareer to support continuously improving staff performance (see page 10).

The year ahead

Our 2015–16 Strategic Plan will build on the work achieved in 2014–15, under the same four strategic focus areas:

- 1 Operational Excellence
- 2 Product Delivery
- 3 Constructive Leadership
- 4 People.

See page 10 for full details on these strategic focus areas and the goals, strategies and activities planned for 2015–16.



Structured to add value

Key committees provide leadership and guidance

LIGHTHOUSE PRINCIPLE: STRUCTURE

(based on ASX Principle 2)

Office Executive

The Auditor-General has established and delegated operational responsibility to the Deputy Auditor-General, advised by the rest of the Office Executive. The Office Executive comprises the Deputy Auditor-General and Assistant Auditors-General within Financial Audit, Performance Audit and Corporate Services. The Office Executive meets informally each week and formally each month. The monthly meetings are attended by the Auditor-General.

The Office Executive leads and guides the Audit Office to achieve its strategic priorities, manage strategic risks, monitor financial and operational performance and comply with relevant codes, practices, laws and directions.

A copy of the Office Executive Charter can be found on our website at:

www.audit.nsw.gov.au/about-us/accessing-information/open-access-information.

In 2014–15, the Governance Unit continued to support the Office Executive by:

- providing secretarial support
- ensuring the principles and requirements of the charter were followed
- ensuring the reporting plan was met
- maintaining a conflict of interest register.

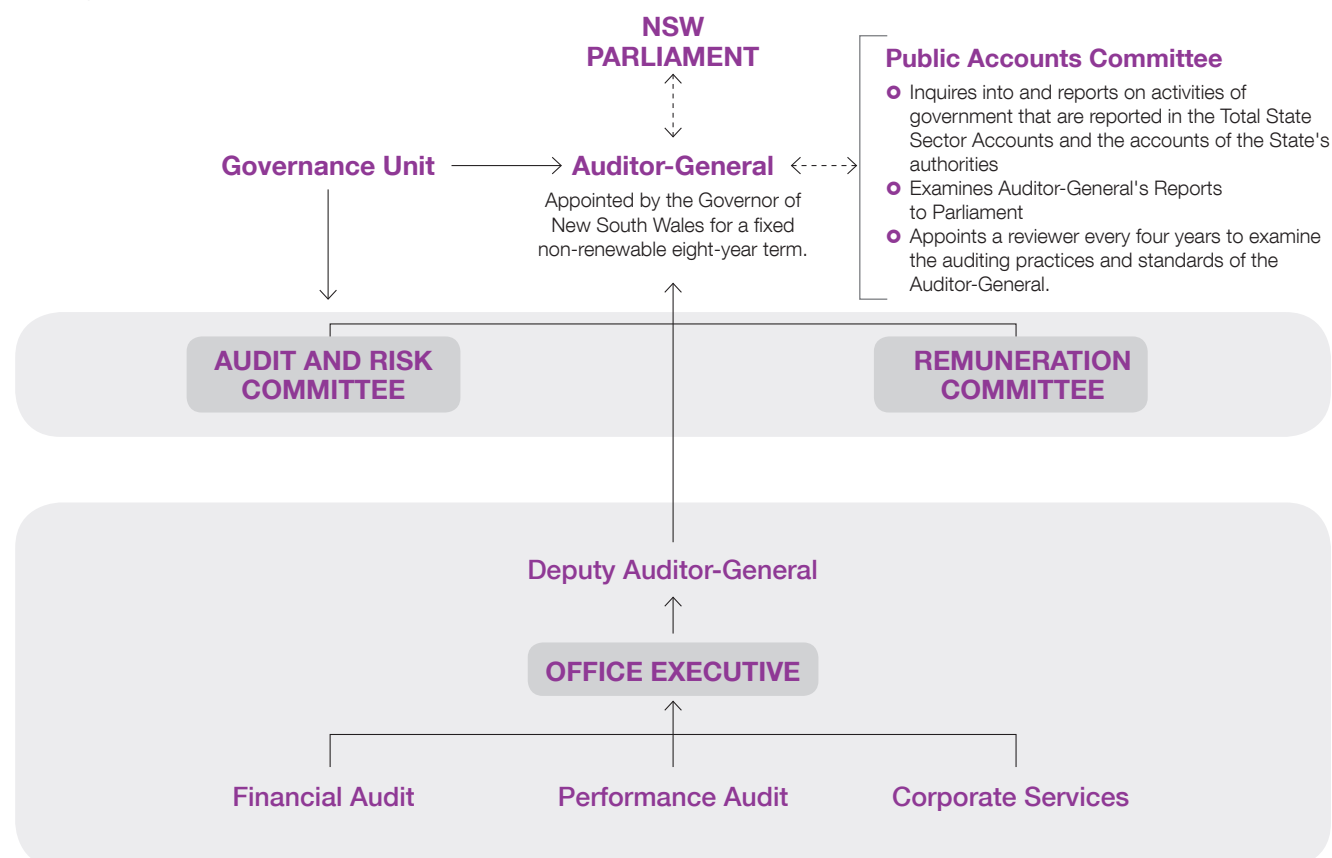
These activities helped the Office Executive discharge its responsibilities by having timely and appropriate information to allow constructive discussion and adequate lines of enquiry.

Key focus areas for the Office Executive during 2014–15 included:

- reassessing and tracking progress against the Audit Office strategy and vision (see page 10)
- reviewing the Audit Office's strategic risks, including rigorous assessment and monitoring to mitigate each strategic risk to an acceptable level
- overseeing key Audit Office projects, including Elite, the practice management system project, and Project Blue (see page 10)
- ensuring key policies are regularly reviewed, up-to-date and relevant.

Reports to the Office Executive are prepared by staff and various committees in accordance with the meeting agenda and annual reporting plan. For further details on the experience and performance of members of the Office Executive and the Audit Office's organisational structure, see pages 8 and 90–92.

Our governance framework



Audit and Risk Committee

The Audit and Risk Committee is an advisory committee providing assistance to the Auditor-General on the Audit Office's governance processes, financial reporting, risk management and control frameworks and its external accountability obligations. The Audit and Risk Committee consists of three independent members, Brian Suttor (Chair), Greg Fletcher and Dianne Hill. The independence, integrity, and experience of the Audit and Risk Committee members are key strengths, providing insight and enhancing the operations of the Audit Office.

Brian Suttor, who was reappointed on 28 November 2012 for a final four-year term, has been a partner in a major accounting firm and brings an independent perspective to the committee. He is Chair of several audit and risk committees of NSW public sector agencies.

Greg Fletcher was reappointed on 4 December 2013 for a final four-year term, and brings considerable experience as a former partner in a major accounting firm where he specialised in external audit, internal audit and risk management. He is an Audit and Risk Committee Chair for several NSW public sector agencies and a director of a number of publicly listed companies.

Dianne Hill was reappointed, effective from 29 August 2014, for a further three years, following an initial one-year term. She brings considerable experience having been an independent non-executive director at a number of organisations for 20 years, and currently sits on several boards and audit and risk committees for both NSW public sector agencies and public companies. Her background is in chartered accounting, financial services and project management.

The Auditor-General, internal and external auditors and management representatives attend committee meetings. The committee also met independently, without management, with the internal and external auditors.

A copy of the Audit and Risk Committee Charter can be found on our website at www.audit.nsw.gov.au/about-us/accessing-information/open-access-information.

In 2014–15, the committee reviewed:

- office-wide risk management processes, financial and business risks, including fraud, project risk management and business continuity and disaster recovery plans
- internal audit reports and the annual internal audit plan
- the Audit Office's compliance with applicable laws and regulations, relevant government policies and directions
- the Audit Office's financial statements and related disclosures.

The committee completed a performance self-assessment, confirming it effectively met its obligations and that it is constituted and operating in accordance with the requirements of NSW Treasury Circular NSW TC 09/08 Internal Audit and Risk Management Policy (for a copy of our attestation statement see page 56). Committee members also provided written declarations to the Auditor-General stating any potential conflicts of interest which were verbally confirmed at the start of each meeting.

Remuneration Committee

The Remuneration Committee was reconstituted in 2014–15, and had their first meeting in June 2015. Please see page 54 for more information around the committee, under the Lighthouse Principle 'Remuneration'.

Monthly formal Office Executive meetings attended

A total of 11 meetings held

Tony Whitfield 11
Acting Auditor-General from 9 June 2015, Chair

Grant Hehir 6
Resigned as Auditor-General 10 June 2015

Kathrina Lo 7
Joined 23 October 2014

Steven Martin 9

Rob Mathie 3
Retired 5 November 2014

Louise Mooney 10

Bola Oyetunji 1
Acting Assistant Auditor-General from 25 May 2015

Scott Stanton 11
Acting Deputy Auditor-General from 9 June 2015

John Viljoen 9

Paola Rigby 11
Secretary



Audit and Risk Committee meetings attended

A total of 5 meetings held*

Brian Suttor 5
Chair

Greg Fletcher 5
Independent Member

Dianne Hill 5
Independent Member

Paola Rigby 5
Secretary

*Including one special meeting to review the annual financial statements

Ethical and responsible decision-making

We are driven by strong values and ethical behaviour

LIGHTHOUSE PRINCIPLE:

ETHICS

(based on ASX Principle 3)

High standards of conduct are instilled

We aim to be recognised for our independence and integrity. To do this, we foster a culture that strongly values ethical behaviour, integrity, respect and professionalism throughout the organisation.

Our framework for managing ethical and lawful behaviour includes our Code of Conduct, which we reviewed against both the best practice standards and the Public Service Commission's Ethical Framework for the Public Sector. The Audit Office's Professional Independence Policy and Gifts and Benefits Policy provide guidance for managing actual and perceived conflicts of interest, and the acceptance of gifts and benefits.

During induction, all new staff are trained on our policies around ethical and lawful behaviour. All staff are required to sign the Code of Conduct and Professional Independence Policy when they join the Audit Office, and then re-sign annually.

In 2014–15, we assessed our Gifts and Benefits Policy against the Public Service Commission directive 'Managing Gifts and Benefits: Minimum Standards'. As a result, we strengthened our policy and procedures by:

- explicitly disallowing staff to solicit gifts and benefits, not just for themselves but also for relations, friends or associates and being mindful of gifts and benefits received by relations, friends or associates that could be perceived as an attempt to influence staff behaviour
- requiring staff to be alert to gifts and benefits offered by potential suppliers and not just actual suppliers
- providing further guidance to staff when deciding to accept or not accept by adopting the 'reasonable person test'
- being clear on the potential consequences of breaches of our Gifts and Benefits Policy
- publishing our gifts and benefits register and our newly developed statement of business ethics on our website. This provides greater transparency and clearer expectations and obligations for third parties acting on our behalf.

Protecting privacy

The Audit Office is committed to protecting individual privacy and managing personal information in accordance with the *Privacy and Personal Information Protection Act 1998*. We comply with the Act by ensuring personal information:

- collection is lawful, direct, open and relevant
- is stored securely
- access is transparent
- use is accurate and limited
- disclosure is restricted and safeguarded.

During 2014–15, we undertook a review of our compliance with the privacy legislation. We assessed our level of compliance as high and that we have appropriate processes and systems in place to manage personal information. We did identify some areas for improvement around collecting information from new members of staff, and in 2015–16 the Governance Unit will work with the business to implement these improvements.

Zero tolerance for fraud

The Audit Office has zero tolerance for fraud and is committed to minimising fraud by implementing and regularly reviewing strategies that prevent, detect and investigate fraud.

Our Fraud Control Framework is based on ten fraud control attributes within the themes of prevention, detection and response. We adhere to the Australian Standard AS 8001-2008 Fraud and Corruption Controls. The Auditor-General reports suspected fraud, internally or at other organisations, to the Independent Commission Against Corruption.

During 2014–15, we:

- conducted our biennial fraud control risk assessment
- rolled out fraud control and gifts and benefits training to all staff.

No internal suspected or actual frauds were reported during 2014–15.

Compliance management

The Audit Office has many compliance obligations including legislation, central agency directions, standards and codes. To meet these obligations, our compliance program promotes the importance of compliance to all staff, identifies obligations and responds to noncompliance.

The Audit Office's compliance framework is based on International Standard ISO 19600-2014 Compliance Management Systems – Guidelines, and includes:

- a Compliance Policy, reviewed in June 2015
- a Register of Compliance Obligations that includes a risk assessment, and is formally reviewed twice a year
- annual verification of compliance through the Management Internal Control Sign-Off (see page 56)
- financial and performance audit methodologies mapped to professional standards and legislation
- regular management reviews and reporting to the Office Executive and Audit and Risk Committee.

A centralised policy register was developed during 2014–15. The register captures all key internal policies and allows for better oversight of policies ensuring they are kept up-to-date and remain relevant.

The year ahead

In 2015–16, in line with our 'Operational Excellence' and 'People' strategic focus areas, we will:

- conduct the biennial fraud health check
- review our approach to fraud control to ensure it aligns with our updated Fraud Control Better Practice Guide
- develop an ethical behaviour training module for all staff.

(For more information on our strategic focus areas, see page 10.)



Safeguarding the integrity of corporate reporting

Sound financial reporting structure

LIGHTHOUSE PRINCIPLE: CORPORATE REPORTING (based on ASX Principle 4)

The integrity of our financial information is safeguarded by several key mechanisms.

Audit and Risk Committee

The Audit and Risk Committee independently reviews the objectivity and reliability of the Audit Office's financial information, and ensures the financial statements are supported by appropriate management sign-off on the adequacy of internal controls. At each meeting, financial reports and budgets are presented to the committee for review. A special meeting is held annually to review the annual financial statements (see page 51).

Internal audit

Our internal auditors add value and improve our operations by monitoring and providing independent and objective assurance to the Audit and Risk Committee and ultimately the Auditor-General. The internal audit function brings a systematic, disciplined approach to evaluate and improve organisational systems, processes and reporting. The internal auditors attend each quarterly Audit and Risk Committee meeting to report on the progress of the Internal Audit Plan and present the findings of their reviews. Our internal audit function is externally resourced.

In 2014–15, the internal auditors reviewed:

- the Records Management Project – benefit realisation review
- the information security management system
- revenue
- procurement
- the implementation of a number of technology improvements to communications, including Microsoft Lync
- the audit methodology replacement project, Iris (see page 44) – post-implementation review
- the human resources framework project, Project Blue (see page 10) – pre-implementation review
- previous internal audit findings.

External audit

Pursuant to Section 47 of the *Public Finance and Audit Act 1983*, the Governor of New South Wales appointed an independent audit practitioner to annually audit the Audit Office's financial statements. The external auditor, Nexia Australia, provides an independent opinion on whether the Audit Office's financial statements are true and fair and comply with applicable Australian Accounting Standards. The external auditor also attends all Audit and Risk Committee meetings.

Quality assurance

Quality assurance in the Audit Office is monitored through the Audit and Risk Committee, the Office Executive and through various reviews including:

- parliamentarian and client surveys (see pages 12, 13, 20 and 21)
- an annual program of internal audits
- regular peer reviews of financial and performance audit processes
- internal quality reviews of our audits for compliance with applicable professional standards and legislative requirements
- four-yearly Public Accounts Committee reviews of the Audit Office (see page 18)
- benchmarking against other State audit offices (see pages 5, 13–15 and 21)
- reviewing trends within complaints received which may identify any areas for improvement.

Auditor-General and Management Internal Control Sign-Off

The Auditor-General certifies that the financial statements give a true and fair view and are prepared in accordance with applicable Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, the Financial Reporting Code for NSW General Government Sector Entities and the Treasurer's Directions.

This sign-off is supported by the Management Internal Control Sign-Off (see page 55). The Executive Manager, Finance, provides written assurance that the financial statements are founded on a sound system of risk management and internal control. A checklist of minimum required procedures for this process is also completed.

Performance reporting

In 2014–15, the Audit Office reviewed its key performance indicators with a focus on improving our reporting, which will help us achieve the goals of our four strategic focus areas (see page 10).

The year ahead

In 2015–16, in line with our four strategic focus areas, our internal auditors will review:

- the information security management system
- expenditure
- payroll
- our human resources framework project, Project Blue – post-implementation review
- our practice management system project, Elite – post-implementation review
- Audit Office readiness for Public Accounts Committee quadrennial review
- budget setting process
- previous internal audit findings.

The Audit Office's independent assurance activities will look more closely at whole-of-office reporting, including revised key result areas, goals, key performance indicators and our current strategic focus areas.

(For more information on our strategic focus areas, see page 10.)



Disclosure – timely and balanced

We are committed to fair and responsible disclosure and remuneration

LIGHTHOUSE PRINCIPLE: DISCLOSURE

(based on ASX Principle 5)

Accountability and transparency

Accountability and transparency are directly aligned with our 'Operational Excellence' strategic focus area (see page 10).

We are committed to proactively disclosing information to the public and key stakeholders and release information on our website about planned financial and performance audits.

Our Continuous Disclosure Policy further demonstrates our commitment to accountability and transparency and explains how we provide information to the public. We keep the public informed about our performance, expenditure of public funds and any significant issues through our annual report, the Auditor-General's Reports to Parliament and updates to our website.

Open access information

We comply with the *Government Information (Public Access) Act 2009* (the GIPA Act or GIPA).

The Audit Office holds a significant amount of government information, the majority of which we use for our financial and performance audit services. We also hold a smaller amount of information dealing with administrative matters.

Members of the public can request information held by the Audit Office that is not on the website and we try to deal with requests informally with no charge. Information held by us which relates to our auditing, investigative and reporting functions is classed as 'excluded information' under the GIPA Act and is not released to the public. Our Right to Information Officer provides advice about what can and cannot be released under the GIPA Act.

In 2014–15, we:

- published relevant audit and assurance policies on our website as part of a program of proactive release
- reviewed our Information Guide
- developed a strategy for the proactive release of information.

During 2014–15, we received three GIPA applications. Partial access was granted to two of the applications. Full access was not provided as both applications contained, in part, requests for information relating to the Auditor-General's investigative, audit and reporting functions.

The third access application was deemed to be an invalid application as it requested access to excluded information (see Appendix Ten).

We received two informal requests for information. Both related to excluded information and therefore access was not granted. We also received two requests from other government agencies for our consent to release information. One was approved as the information was already in the public domain, and the second was not as it related to excluded information.

Award-winning annual report

Our annual report is a key part of our commitment to continuous disclosure and we voluntarily adopt full and open reporting on our performance. The report contains extensive comment on what our key stakeholders, parliament and our audit clients think of our services.

One of the key measures of our success, whether agencies have accepted and acted on our recommendations, is documented in the report. As we only have the power to inform and influence, agency acceptance of our recommendations is central to our success as an organisation and features in the report (6, 16–17, 22 and 33).

In recognition of our high standard in annual reporting, we won a Gold Australasian Reporting Award for our 2013–14 Annual Report, making it the sixth consecutive year we have received this award.

LIGHTHOUSE PRINCIPLE: REMUNERATION

(based on ASX Principle 8)

Remuneration Committee

In 2014–15, the Audit Office Remuneration Committee was reconstituted to become more independent and provide assurance to the Auditor-General on the appropriateness and application of Audit Office remuneration policies. The committee now has two members – an independent Chair, Dianne Hill and the Executive Manager, Governance, Barry Underwood, who is effectively independent of the remuneration process. Secretariat support is provided by the Governance Unit. The committee is directly responsible and accountable to the Auditor-General for the exercise of its responsibilities.

The Deputy Auditor-General provides the committee with relevant management

sign-offs to support remuneration policies and decisions. The Assistant Auditor-General, Corporate Services and the Executive Manager, Human Resources provide advice and information to the committee.

A charter was developed outlining the committee's key responsibilities, reporting lines and a code of conduct. In 2014–15, the committee:

- completed written conflict of interest declarations and confidentiality agreements
- endorsed the committee's new charter
- reviewed management reports on the appropriateness of remuneration policies and procedures including that these policies and procedures:
 - clearly explain remuneration principles
 - lead to remuneration packages that are reasonable, fair and responsible
 - attract, retain and motivate people of the highest quality
 - incorporate a level of disclosure that encourages those involved in the process to be accountable for their decisions
 - comply with laws and government policy
 - comply with procedural fairness.
- reviewed management reports to confirm the Audit Office has consistently and equitably applied remuneration policies and procedures for the June 2015 remuneration assessment
- reviewed management sign-offs, including validating the financial impact of the recommended annual remuneration determination.

See Appendix One for details of our executive remuneration.

The year ahead

In 2015–16, in line with our 'Operational Excellence' and 'Product Delivery' strategic focus areas, we will:

- publish our 2014–15 Annual Report in an interactive online version to promote best practice reporting and improve transparency and accessibility
- undertake our annual review of compliance with the GIPA Act.

(For more information on our strategic focus areas, see page 10).



Risks – recognised and managed

Our risk management framework is embedded in our strategy

LIGHTHOUSE PRINCIPLE:

RISK MANAGEMENT

(based on ASX Principle 7)

Recognising and managing risk

Our Risk Management Framework is embedded in our strategic and operational policies and practices. The Auditor-General assumes ultimate responsibility for our Risk Management Framework. We maintain and regularly review our risk registers for key strategic, operational and significant project risks.

The Audit and Risk Committee regularly reviews how we address key strategic risks and the Office Executive reviews the strategic risk register and undertakes detailed analysis of each strategic risk over the course of the year.

Our Risk Management Framework is developed in line with NSW Treasury's Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 09-05, now 15-03), the Risk Management Toolkit (TPP 12-03), the Australian/New Zealand Risk Management Standard, AS/NZS ISO 31000:2009, and the Accounting Professional and Ethical Standards Board's professional risk management standard, APES 325 Risk Management for Firms.

In 2014–15, we reviewed and updated our strategic risks and delivered risk management training to key Financial Audit staff.

Our insurance cover is provided by the Treasury Managed Fund in respect of:

- workers' compensation according to NSW statute
- property (full replacement, new for old, consequential loss, and business continuity costs or losses of revenue)
- liability, including but not limited to public liability, professional indemnity and directors and officers liability
- motor vehicles
- miscellaneous losses including those due to staff dishonesty, personal accident, and protection for local and overseas travel.

Exposures not included are:

- illegal activities
- wear and tear and inherent vice
- pollution (not being sudden and accidental pollution).

Strategic risks

In 2014–15, our six key strategic risks were:

- failure to anticipate, manage and live up to stakeholder expectations and to fulfil our mandate
- failure to achieve efficiencies and demonstrate value for money
- our audit opinions and reports do not meet our quality standards
- internal governance failure
- failure to effectively manage our workforce
- inability to adapt to and influence changes in audit mandate.

Risk management and internal control attestation

To provide additional assurance that the Audit Office's Risk Management Framework and related controls are operating properly, two attestations are completed each year. The first relates to the quality of the Audit Office's risk management and internal audit, and the other attests to the adequacy of internal controls that we have in place to address our risks. The Auditor-General annually attests to the quality of Audit Office risk management and internal audit processes. This is based on an annual review of our compliance with the core requirements of NSW Treasury Circular NSW TC 09/08 Internal Audit and Risk Management Policy (see our Internal Audit and Risk Management Attestation statement on page 56).

Internal control attestation

The Management Internal Control Sign-Off is completed annually in line with the Audit Office's financial statements and covers the financial year. Managers sign off on the quality of the internal controls they are responsible for and compliance with our policies.

Our Internal Control Policy and Framework is based on internal control guidelines recommended by the Committee of Sponsoring Organisations of the Treadway Commission.

The year ahead

In 2015–16, in line with our 'Operational Excellence' strategic focus area, we will:

- undertake further risk management training for key staff in line with our strategic goals and strategies
- develop a risk appetite statement for the Audit Office.

(For more information on our strategic focus areas, see page 10.)



Internal audit and risk management attestation

Proving assurance of risk management and internal audit processes

Internal Audit and Risk Management Attestation for the 2014-2015 Financial Year for the Audit Office of New South Wales

I, Tony Whitfield, am of the opinion that The Audit Office of New South Wales has internal audit and risk management processes in operation that are, in all material respects, compliant with the core requirements set out in Treasury Circular NSW TC 09/08 Internal Audit and Risk Management Policy. These processes provide a level of assurance that enables the senior management of the Audit Office of New South Wales to understand, manage and satisfactorily control risk exposures.

I, Tony Whitfield, am of the opinion that the Audit and Risk Committee for the Audit Office of New South Wales is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08, excluding the exception below.

Treasury Circular NSW TC 09/08 Internal Audit and Risk Management Policy, requires that the Chair of the Audit and Risk Committee must be appointed for a maximum term of four years. For reasons of continuity and maintaining robust and effective leadership of the Audit and Risk Committee, the Chair had been reappointed for a further and final four year term. To reinforce the independence of the Audit and Risk Committee, all members are independent.

Treasury Circular NSW TC 09/08 Internal Audit and Risk Management Policy, also requires that the Internal Audit function, whether in-house or outsourced, is externally assessed at least every five years. This is not considered necessary as the performance of our outsourced internal audit function is assessed at least annually by the Audit Office's Audit and Risk Committee and every three years as part of the tender to outsource the service. The internal audit function also has quality assurance processes to ensure its internal audit activities are conducted in accordance with relevant professional standards including International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The Chair and Members of the Audit and Risk Committee are:

- Independent Chair, Brian Suttor, re-appointed on 28 November 2012 for a final four year term
- Independent Member, Greg Fletcher, re-appointed on 4 December 2013 for a final four year term
- Independent Member, Dianne Hill, appointed 29 August 2013 for a four year term.



A T Whitfield PSM

Acting Auditor-General

24 August 2015

Stakeholder engagement

We regularly connect with our stakeholders

LIGHTHOUSE PRINCIPLE:
KEY STAKEHOLDER RIGHTS
(based on ASX Principle 6)

Building effective relationships

In 2014–15, we maintained our focus on building effective relationships with our key stakeholders:

- NSW Parliament
- NSW Government agencies.

Our 2014–15 strategic focus areas 'Product Delivery, and 'Operational Excellence' (see page 10) were key drivers to achieve effective stakeholder relations through:

- having a transparent pricing approach for our clients
- delivering value through the right skills, resources and structure of audits
- implementing an outsourcing model for audits with benchmarking and demonstration of value for money
- building knowledge of public sector reforms and government priorities.

The Auditor-General met regularly with our stakeholders, including parliamentarians, the secretaries of all nine clusters, the Independent Commission Against Corruption Commissioner, the NSW Ombudsman and the Public Service Commissioner.

The Auditor-General and Deputy Auditor-General also meet regularly with NSW Treasury and the Department of Premier and Cabinet.

Our targeted engagement was supported by our senior management team who continue to meet regularly with our audit clients including the Chief Executive Officers and Chief Financial Officers of agencies, and Audit and Risk Committees.

Our strategic risk, 'Failure to anticipate, manage and live up to stakeholder expectations and to fulfil our mandate' is key to our stakeholder engagement activity by:

- assisting parliament in holding government accountable for achieving its priorities and reform agenda
- issuing recommendations that add value

- maintaining effective relationship management and communication strategies and processes
- achieve positive satisfaction ratings from audit clients
- adopt government reform agenda principles
- be well-regarded, respected, relevant and credible and as a result our recommendations are adopted.

We aligned the themes in our financial audit volumes with the government priorities in the State Plan NSW 2021 and the government's reform agenda to better deliver relevance and value to parliament through our reports. Our reports focus on four themes – financial reporting, financial controls, governance and service delivery.

We consulted our stakeholders widely when developing our performance audit three-year plan and published it on our website to promote ongoing comment and feedback.

We conducted our annual survey of audit clients and Audit and Risk Committee Chairs, to gain their feedback on our performance and target areas where we can improve (see pages 20–21 for more details). Due to the election in New South Wales in 2015, we did not survey parliamentarians.

Public interest disclosures

The Auditor-General has the power to examine allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*. This Act protects public officials who make such public interest disclosures in good faith. We examined eight public interest disclosures in 2014–15, none of which demonstrated serious and substantial financial waste.

During 2014–15, we reviewed our internal and external public interest disclosures policies to align with the model policy issued by the NSW Ombudsman. We also consolidated the centralisation of complaints handling and management of public interest disclosures into our Governance Unit.

The year ahead

In 2015–16, we will ensure our work continues to deliver clear, positive outcomes for New South Wales through assisting parliament to hold government to account for its use of public resources. We will achieve this by working closely with the Public Accounts Committee and assisting them with their response to our recommendations to agencies.

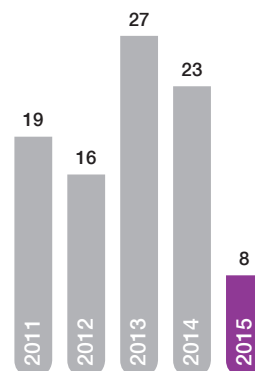
Our strategic focus areas of 'Operational Excellence' and 'Product Delivery' will remain key drivers for achieving effective stakeholder relationships which will ultimately deliver our vision, 'Making a difference through audit excellence'.

We will:

- revisit our key external stakeholder communication and engagement plan to strengthen our relationship with parliament and the Public Accounts Committee
- continue to seek feedback from our audit clients and Audit and Risk Committee Chairs on our performance
- continue to consult with stakeholders on our three-year performance audit plan.

(For more information on our strategic focus areas, see page 10.)

Number of public interest disclosures



Stakeholder engagement (continued)

We regularly connect with our stakeholders

Complaints management

We are committed to actively seeking and using feedback to improve our performance and services. We regularly report to the Office Executive on complaints received.

In 2014–15, we received two complaints about the Audit Office itself and 54 complaints about other agencies (15 per cent increase in complaints from the prior year). Of the two complaints received about the Audit Office one was related to the content of an audit report and one was related to an audit opinion issued by the Audit Office.

The 54 complaints about other agencies were varied in nature and across all government clusters. The most common complaints (22 per cent) were about the Transport cluster, particularly on infrastructure projects. We refer many of the complaints we receive to Financial Audit and Performance Audit for information and/or action.

Thirteen per cent of complaints were about local councils which are outside our mandate. Where complaints are outside our mandate, we try to provide more appropriate contacts for the complainant.

Working with the public and other watchdog agencies

We work closely with other watchdog agencies in New South Wales and audit offices in other jurisdictions to improve our services and increase the impact of our work. This includes our important work in responding to public complaints and public interest disclosures where serious and substantial waste is involved. We refer complaints involving allegations of corruption, maladministration or privacy to the Independent Commission Against Corruption, the NSW Ombudsman, the Information and Privacy Commission or to other watchdog agencies.

Case study

Continuing to contribute to public sector governance

The Governance Lighthouse – strategic early warning system

In February 2015, the Audit Office released a revised version of its Governance Lighthouse containing updates to the eight principles and 17 key governance components first published in 2011. The lighthouse provides practical advice and resources on implementing successful governance in the public sector, and is the guideline we use to structure our governance framework.

The revised guidance recognises the wider government desire for more open and transparent government and the critical importance of culture to a successful governance framework. The guide focuses on the need for independent governance committees, acting ethically and responsibly, the link between risk management and strategic planning, performance information on key metrics and a formal compliance process.

Other factors that influenced the changes to the lighthouse included:

- the release of the NSW Public Service Commission's ethical framework
- updates to the 3rd edition of the ASX 'Corporate Governance Principles and Recommendations', released in March 2014
- the June 2014 update of the Australian National Audit Office 'Public Sector Governance – Strengthening Performance through Good Governance, Better Practice Guide'
- the results of our 2012 surveys on internal audit and risk management and fraud control.





Finances

We have a financial framework that supports our business objectives

We aim to:

- break even over the medium-term
 - collect our debts within a reasonable time
 - pay our creditors promptly
-

Gearoid Fitzgerald Senior Auditor

Client location – Sydney Royal Botanic Gardens

Financial performance

Meeting our goal to break even over the medium-term

\$0.4 million deficit (excluding superannuation adjustments) over 5 years, a cumulative result achieving our medium-term break-even target

Close to our break-even target

The work of the Audit Office is largely self-funded, generated from audit fees paid by our clients. These fees are set to cover our expenses while maximising value for the NSW public sector. Unlike private sector auditors, we aim to break even overall rather than make a profit.

In monitoring our financial performance, we exclude the impact of the annual superannuation adjustments that affect our operating results. Like all government agencies with staff in the State's defined benefit superannuation schemes, the schemes' assessment of our liability to them varies substantially from year to year. These annual variations are outside our control and reflect the investment performance of the schemes and changes in actuarial assumptions and disclosure requirements of the Australian Accounting Standards.

These superannuation adjustments are fully reflected in our audited financial statements, but are excluded from the information presented here so we can focus on our own performance.

Our 2014–15 result was a loss of \$0.5 million, excluding defined benefit superannuation adjustments. Over the five years to 2014–15, the cumulative result was a small deficit of \$0.4 million representing one per cent of average turnover, a result impacted by the investment in systems to improve audit service delivery, practice management and human capital management frameworks (see page 10 for details).

Our 2014–15 revenue of \$43 million was \$1 million more than the previous year's \$42 million. Government agencies paid \$36 million for the audit of their financial statements. Parliament contributed \$7 million towards our performance audits and reports to parliament. Our 2014–15 total expenditure of \$44 million, excluding the defined benefit schemes superannuation adjustments, was \$1 million more than the previous year's \$43 million.

Audit fees increased by \$1 million compared to the previous year. Total expenditure, excluding superannuation adjustments, is \$1 million higher than last year. Employee related expenses were consistent across the two years. Other expenditure also remained consistent with the prior year. Contract audit agent costs increased by \$1 million. This is consistent with our ongoing strategy around the rotation of contracted out work which, amongst other things, allows us to measure our performance against the private sector. Depreciation and amortisation expense increased by \$0.5 million due to investment in new software including our audit methodology and practice management system.

Budgeting

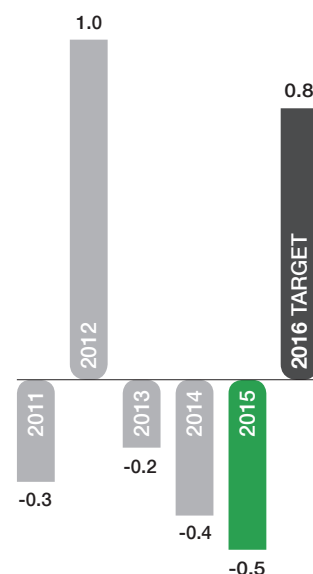
We are budgeting for a \$0.8 million surplus in 2015–16. Revenue is expected to be \$45 million, about four per cent more than the 2014–15 actual of \$43 million. We expect our expenditure to be consistent overall with 2014–15.

Our 2014–15 operating loss was \$1 million less than budget. This was largely due to audit fee revenue being \$2 million less than expected and lower investment income.

Total expenses were \$3 million less than budget. This was due to lower staff, data and telephone expenses offset by higher recruitment and consultancy costs, and lower than expected capitalised expenses.

Operating results/\$m

Excluding superannuation



Financial position

Our financial management is sound

Our financial position is sound

Most of our assets and liabilities are of a financial rather than physical nature, as we do not own major buildings or machinery.

We report a net liability position as a result of the actuarial losses on the defined benefit superannuation schemes. While we do not have net liabilities, we are a going concern as we have a sustainable level of cash with positive cashflows.

Cash remains our largest asset with \$9 million at 30 June 2015. The increased cash balances were primarily due to improved focus on our collection of receivables, together with reduced capital investment in 2014–15 compared to previous years.

Our assets include \$7 million for the Crown's assumption of the liability for our staff's long service leave entitlements. This offsets the liability in our accounts. We also have \$5 million in receivables, mostly from government agencies for our auditing services.

Our liabilities at 30 June 2015 were \$53 million, increased from \$48 million in the previous year. This is mainly due to an increase in superannuation liabilities to \$40 million, from \$34 million in 2014.

Effective solvency, debtor management needs to improve

Our current ratio at 30 June 2015 shows we had \$1.80 in current assets to meet every \$1.00 of our current liabilities. This is a small increase on the previous year's ratio and still at the upper level of our target range of between \$1.00 and \$2.00.

Our debtors continue to take longer to pay than our agreed invoice terms of 14 days. In 2014–15, it took us an average of 44 days from invoice to collection.

Timely creditor payments

During the year we paid 94 per cent of our creditors on time. We are expected to pay all creditors within 30 days, unless contracts state otherwise.

For more detail on our performance with creditor payments, see Appendix Seven.

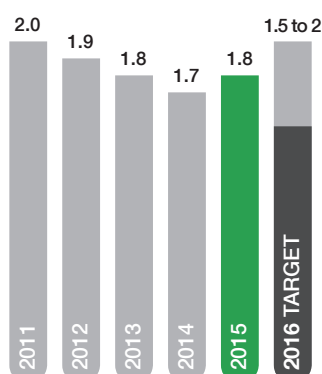
The year ahead

In 2015–16, we will be driven by our 'Operational Excellence' strategic goal to:

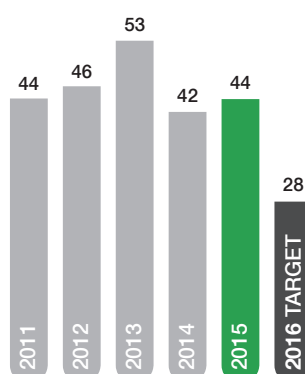
- use our new performance agreement frameworks to reinforce the financial responsibilities of all staff
- improve our efficiency and productivity by improving information made available at all levels in the business
- improve the capacity to share costing information with all clients
- embed our new pricing approach and work to ensure our clients understand and support it.

(For more information on our strategic focus areas, see page 10.)

Solvency – current ratio



Debtor management – average days to collect



Key financial statistics

	2010–11 \$'000	2011–12 \$'000	2012–13 \$'000	2013–14 \$'000	2014–15 \$'000
Five year trend					
Financial performance¹					
Total revenue	39,102	42,859	42,541	42,271	43,021
Total expenses	39,392	41,869	42,659	42,658	43,534
(Loss) on disposal	(2)	0	(38)	(22)	0
Operating profit/(loss)	(292)	990	(156)	(409)	(513)
Financial position					
Total assets	26,206	28,823	28,555	27,587	26,020
Accumulated funds	1,370	(31,303)	(19,601)	(20,288)	(26,696)
Solvency and debtor management					
Current ratio	2	1.9	1.8	1.7	1.8
Average days to collect debts	44	46	53	42	44

	2014–15 Budget \$'000	2014–15 Actual \$'000	2015–16 Budget \$'000
Performance against budget¹			
Revenue			
Audit fees	44,607	42,567	44,540
Interest	250	148	150
Other revenue	104	306	206
Total revenue	44,961	43,021	44,896
Expenditure			
Salaries and related expenses	33,876	30,886	33,424
Other expenses including operating expenses, maintenance, loss on disposal and finance costs	8,382	7,788	5,549
Contract audit agent costs	2,135	3,133	3,388
Depreciation and amortisation	1,975	1,727	1,761
Total expenditure	46,368	43,534	44,122
Operating (loss)	(1,407)	(513)	774

¹ Includes impact of changes in accounting policies for Revenue and Work In Progress and excludes defined benefit superannuation scheme adjustments of \$1,733,000 in 2014–15 (\$1,843,000 in 2013–14 and \$2,226,000 in 2012–13).





Financial Report

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Independent Auditor's Report

to the Members of the New South Wales Parliament



To the Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Audit Office of New South Wales (the 'Audit Office'), which comprises the Statement of Financial Position as at 30 June 2015, the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Auditor-General's Responsibility for the Financial Statements

The Auditor-General of New South Wales is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Public Finance and Audit Act 1983* (PF&A Act), and for such internal control as the Auditor-General determines is necessary to enable the preparation of financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor-General of New South Wales, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does not provide assurance:

- about the future viability of the Audit Office;
- that it has carried out its activities effectively, efficiently and economically;
- about the effectiveness of its internal control;
- about the assumptions used in formulating the budget figures disclosed in the financial statements;
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented; and
- about other information which may have been hyperlinked to or from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements.

Auditor's Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Audit Office as at 30 June 2015, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards; and
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the 'PF&A Act') and the Public Finance and Audit Regulation 2010.

Lester Wills

Chartered Accountant
Sydney, 26 August 2015

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Statement by Acting Auditor-General of New South Wales

for the year ended 30 June 2015

Under section 41C of the *Public Finance and Audit Act 1983*, I state that, in my opinion, the accompanying financial statements and notes thereto exhibit a true and fair view of the financial position of the Audit Office of New South Wales at 30 June 2015 and its performance for the year then ended.

I further state:

(a) that the financial statements and notes thereto comply with applicable Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2010, the Financial Reporting Code for NSW General Government Sector Entities and the Treasurer's Directions.

(b) that I am not aware of any circumstances which would make any details in the financial statements misleading or inaccurate.



A T Whitfield PSM

Acting Auditor-General

Sydney, 26 August 2015

Audit Office of New South Wales

Statement of comprehensive income for the year ended 30 June 2015

	Notes	Actual 2015 \$'000	Budget 2015 \$'000	Actual 2014 \$'000
Expenses excluding losses				
Operating expenses				
– employee related	2(a)	32,619	33,876	32,927
– other operating expenses	2(b)	10,848	10,180	10,114
Depreciation and amortisation	2(c)	1,727	1,975	1,278
Finance costs	2(d)	19	–	18
Other expenses	2(e)	54	337	164
TOTAL EXPENSES EXCLUDING LOSSES		45,267	46,368	44,501
Revenue				
Sale of goods and services	3(a)	42,567	44,607	41,943
Investment revenue	3(b)	148	250	199
Other revenue	3(c)	306	104	129
TOTAL REVENUE		43,021	44,961	42,271
Loss on disposal	4	–	–	22
NET RESULT		(2,246)	(1,407)	(2,252)
Other comprehensive income				
Items that will not be reclassified to net result:				
Superannuation actuarial gain/(loss) on liabilities	5	(9,241)	–	(4,276)
Superannuation actual return on Fund assets less interest income	5	5,079	–	5,841
Total remeasurement in other comprehensive income	5	(4,162)	–	1,565
TOTAL COMPREHENSIVE INCOME		(6,408)	(1,407)	(687)

The accompanying notes form part of these financial statements.

Audit Office of New South Wales

Statement of financial position as at 30 June 2015

	Notes	Actual 2015 \$'000	Budget 2015 \$'000	Actual 2014 \$'000
Assets				
Current assets				
Cash and cash equivalents	6	8,871	3,236	6,949
Receivables	7	4,885	7,513	6,747
Other financial assets	8	871	–	642
Other	11	6,083	6,830	6,791
Total current assets		20,710	17,579	21,129
Non-current assets				
Property, plant and equipment	9			
– plant and equipment		504	1,131	719
– leasehold improvements		428	572	842
Total property, plant and equipment		932	1,703	1,561
Intangible assets	10	3,849	6,170	4,540
Other	11	529	430	357
Total non-current assets		5,310	8,303	6,458
Total assets		26,020	25,882	27,587
Liabilities				
Current liabilities				
Payables	12	2,380	2,376	2,336
Provisions	13	8,789	10,093	9,987
Other	14	37	232	109
Total current liabilities		11,206	12,701	12,432
Non-current liabilities				
Provisions	13	41,507	30,355	35,403
Other	14	3	77	40
Total non-current liabilities		41,510	30,432	35,443
Total liabilities		52,716	43,133	47,875
Net liabilities		(26,696)	(17,251)	(20,288)
Equity				
Accumulated funds		(26,696)	(17,251)	(20,288)
Total equity		(26,696)	(17,251)	(20,288)

The accompanying notes form part of these financial statements.



Audit Office of New South Wales

Statement of changes in equity for the year ended 30 June 2015

	Notes	Accumulated Funds \$'000
Balance at 1 July 2014		(20,288)
Net result for the year		(2,246)
Other comprehensive income:		
Superannuation actuarial loss and return on Fund assets	5	(4,162)
Total comprehensive income for the year		(6,408)
Balance at 30 June 2015		(26,696)
Balance at 1 July 2013		(19,601)
Net result for the year		(2,252)
Other comprehensive income:		
Superannuation actuarial gain and return on Fund assets	5	1,565
Total comprehensive income for the year		(687)
Balance at 30 June 2014		(20,288)

The accompanying notes form part of these financial statements.

Audit Office of New South Wales

Statement of cash flows for the year ended 30 June 2015

	Notes	Actual 2015 \$'000	Budget 2015 \$'000	Actual 2014 \$'000
Cash flows from operating activities				
Payments				
Employee related		(30,046)	(34,065)	(31,963)
Other		(19,454)	(10,517)	(14,921)
Total payments		(49,500)	(44,582)	(46,884)
Receipts				
Sale of goods and services		47,357	44,607	42,549
Interest received		164	250	236
Other		4,807	104	4,578
Total receipts		52,328	44,961	47,363
Net cash flows from operating activities	20	2,828	379	479
Cash flows from investing activities				
Purchases of property, plant and equipment		(647)	(540)	(104)
Intangible assets		(259)	(2,463)	(2,555)
Net cash flows from investing activities		(906)	(3,003)	(2,659)
Net increase/(decrease) in cash				
Opening cash and cash equivalents		6,949	5,860	9,129
Closing cash and cash equivalents	6	8,871	3,236	6,949

The accompanying notes form part of these financial statements.



1. Summary of significant accounting policies

(a) Reporting entity

The Audit Office of New South Wales (the 'Audit Office') is a NSW government entity. The Audit Office is a not-for-profit entity (as profit is not its principal objective). Its financial report is consolidated as part of the NSW Total State Sector Accounts.

These financial statements for the year ended 30 June 2015 have been authorised for issue by the Acting Auditor-General on 26 August 2015.

(b) Basis of preparation

The Audit Office's financial statements are general purpose financial statements which have been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulation 2010
- the Financial Reporting Directions published in the Financial Reporting Code for NSW General Government Sector Entities or issued by the Treasurer.

The Audit Office incurred a deficit of \$2,246,000 (2014: \$2,252,000) and a net liability position is reported as a result of the recognition of the actuarial valuation losses on the defined benefit superannuation schemes. The liability is a long-term non-current liability. A triennial review is being undertaken and will be applicable as at 30 June 2016. The 2012 triennial review is applicable as at June 2015, and the economic assumptions were reviewed. The Audit Office had not been required to make employer contributions for a number of years to these schemes and we do not foresee any contributions in the near future. The solvency ratio of the Audit Office increased to 1.8 (2014: 1.7) and the cash balance is at a sustainable level with positive actual cash flows from operating activities. The assumption that the Audit Office is a going concern is justified.

Property, plant and equipment are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars and expressed in Australian currency.

(c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Insurance

Insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government entities. The expense (premium) is determined by the Fund Manager based on past claim experience.

(e) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST except for:

- the amount of GST incurred as a purchaser that is not recoverable from the Australian Taxation Office (ATO), which is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing activities which are recoverable from, or payable to the ATO are classified as operating cash flows.

(f) Income recognition

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

(i) Rendering of services – audit fees

Revenue from rendering of service is recognised by reference to the stage of completion of audit assignments at the reporting date. The revenue is recognised when:

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured
- b) the probable economic benefits associated with the transaction will flow to the Audit Office.

The stage of completion of audit assignments at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

(ii) Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial Instruments: Recognition and Measurement.

(g) Assets

(i) Acquisition of assets

Assets acquired are initially recognised at cost. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

(ii) Capitalisation thresholds

Property, plant and equipment and intangible assets individually costing \$1,000 and above or forming part of a network costing more than \$1,000 are capitalised.

(iii) Revaluation of property, plant and equipment

Physical non-current assets are valued in accordance with the 'Valuation of Physical Non-Current Assets at Fair Value' Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 Fair Value Measurement and AASB 116 Property, Plant and Equipment.

Property, plant and equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financially feasible. The highest and best use must be available at a period that is not remote and take into account the characteristics of the asset being measured. In most cases, after taking into account these considerations, the highest and best use is the existing use.

Fair value of property, plant and equipment is based on market participant's perspective, using valuation techniques (market approach, cost approach, income approach) that maximise relevant observable inputs and minimise unobservable inputs.

Under AASB 13 Fair Value Measurement, non-specialised assets with short useful lives measured using depreciated historical cost as an approximation of fair value do not require fair value hierarchy disclosures. Our plant and equipment are measured by this method and it has been assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

(iv) Impairment of property, plant and equipment

As a not-for-profit entity with no cash generating units, impairment under AASB 136 Impairment of Assets is unlikely to arise. AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means, that where an asset is already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.



(v) Depreciation of property, plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets to write off their depreciable amount as it is consumed over its useful life as follows:

- computer equipment – three years
- office equipment – five years
- furniture and fittings – ten years
- leasehold improvements – over the term of the lease.

(vi) Restoration costs

The estimated cost of restoration for our leasehold improvements is included in this asset to the extent it is recognised as a liability.

(vii) Maintenance

Day-to-day servicing costs or maintenance of assets are charged as expenses as incurred. Where they relate to the replacement of a part or component of an asset, the costs are capitalised and depreciated.

(viii) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases where the lessor does not transfer substantially all the risks and benefits.

Operating lease payments for office accommodation and motor vehicles are recognised as expenses on a straight-line basis over the period of the lease term.

(ix) Intangible assets

Intangible assets are recognised only if it is probable that future economic benefits will flow to the Audit Office and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value at the date of acquisition.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for our intangible assets, the assets are carried at cost less any accumulated amortisation.

All intangible assets are amortised using the straight-line method over a period of three to ten years, as follows:

- audit methodology software – ten years
- management information systems (MIS) software – five years
- other software licences – three to five years.

Intangible assets are tested for impairment

where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

(x) Receivables

Receivables are recognised at fair value based on the original invoice amount. The receivables are due for settlement within fourteen days from the date of issue of the invoice, hence are not amortised or discounted as the effect of discounting is immaterial.

(xi) Other financial assets

Work in progress (WIP) represents staff time measured at standard charge rates and other expenses directly chargeable to the client, which were unbilled to the client at balance date.

WIP is assessed for impairment annually and is not carried at an amount in excess of its recoverable amount.

(xii) Impairment of financial assets

All financial assets, most notably, receivables, are reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that the amounts due will not be collected. The amount of the allowance is the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the effective rate.

The amount of the impairment loss is recognised in the net result for the year. Any reversals of impairment losses are reversed through the net result for the year, where there is objective evidence of recovery.

(xiii) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or if all the risks and rewards have substantially been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(xiv) Other assets

Other assets are recognised on a historical cost basis.

The 'Crown Acceptance of Long Service Leave Liability' is recognised as an asset, which is offset by the liability.

(h) Liabilities

(i) Payables

The Audit Office carries liabilities for trade creditors and other payables, which are initially recognised at fair value, usually based on the transaction cost or face value. These payables are subsequently measured at an amortised

cost using the effective interest rate method. Trade payables with no stated interest rate are measured at the original invoice amount where the effect of the discounting is immaterial.

(ii) Employee benefits and related on-costs provisions

(a) Salaries and wages, annual leave, sick leave and on-costs

Liabilities for salaries and wages, including non-monetary benefits, annual leave and sick leave are measured on an undiscounted basis. Where annual leave is not expected to be settled within 12 months, it is accounted for as a long-term benefit at the present value in accordance with AASB 119 Employee Benefits.

Unused non-vested sick leave entitlement does not give rise to a liability as it is considered that sick leave taken in the future will not be greater than the benefits accrued in the future.

(b) Long service leave

The Crown Finance Entity takes on the Audit Office's liability for long service leave. The liability is accounted for and then offset by showing a corresponding asset as 'Crown Acceptance of Long Service Leave Liability'. It is a statutory asset/liability and not considered as a financial asset/liability within the scope of AASB 7 Financial Instruments: Disclosures.

A long service leave liability is recognised as a long-term employee benefit and measured for all employees with five or more years of service. The present value method based on remuneration rates approved to be payable post 30 June, is used to measure the liability. The on-cost factors specified in NSW Treasury Circular 15/09 are applied when calculating the liability.

(c) Superannuation

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (i.e. First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (i.e. State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contribution.

The superannuation schemes for the Audit Office are:

- the State Superannuation Scheme (SSS)
- the State Authorities Superannuation Scheme (SASS)
- the State Authorities Non-Contributory Superannuation Scheme (SANCS – Basic Benefits Scheme)
- the First State Super Scheme (FSS) and other schemes to receive Superannuation Guarantee Contributions (SGC).

The first three schemes are multi-employer defined benefit schemes. At least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. The Pooled Fund holds in trust the investments of these closed NSW public sector superannuation schemes.

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916*, *State Authorities Superannuation Act 1987*, *Police Regulation (Superannuation) Act 1906*, *State Authorities Non-Contributory Superannuation Scheme Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed at 30 June 2012. The next actuarial investigation is due as at 30 June 2015 and the report is expected to be released by the end of 2015.

Other entities' responsibilities for the governance of the fund

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- management and investment of the fund assets
- compliance with other applicable regulations.

Risks

There are a number of risks to which the Fund exposes the Audit Office. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment returns will be lower than assumed and the Audit Office will need to increase contributions to offset this shortfall
- Longevity risk – The risk that pensioners live longer than assumed, increasing future pensions
- Pension indexation risk – The risk that pensions will increase at a rate greater than assumed, increasing future pensions
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions
- Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

Significant events

There were no fund amendments, curtailments or settlements during the year.

Asset-Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between the Audit Office, STC and NSW Treasury.

The next triennial review as at 30 June 2015, the report is expected to be released by the end of 2015.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

AASB 119 requires detailed narrative information regarding the key actuarial assumptions underlying the reported superannuation figures. Note 5 details the disclosures provided by the Schemes Administrator's actuary.

Actuarial gains and losses are recognised immediately in other comprehensive income in the year in which they occur.

The Audit Office has no ongoing liability for First State Superannuation (FSS) and the other SGC schemes because they are accumulation schemes.

d) Consequential on-costs

Consequential costs to employment are recognised as liabilities and expenses where the employment benefits to which they relate have been recognised. This includes outstanding amounts of payroll tax, workers' compensation insurance premiums, fringe benefits tax and superannuation.

(iii) Other provisions

The provisions are recognised when there are legal or constructive obligations as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for the restoration costs of our leasehold improvements asset are recognised.

(i) Equity and reserves

Accumulated funds:

The accumulated funds include all current and prior period retained funds.

(j) Budgeted amounts

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament. Other amendments made to the budget are not reflected in the budgeted amounts.

(k) Comparative information

Where necessary, the comparatives are re-classified and re-positioned to be consistent with current year disclosures except when an Australian Accounting Standard permits or requires otherwise.

(l) Changes in accounting policies

(i) New Australian Accounting Standards issued but not yet effective

At the reporting date, a number of accounting standards and interpretations adopted by the AASB had been issued but not yet operative and have not been early adopted by the Audit Office. The initial application of these standards will have no material impact on our financial results. The standards are operative for annual reporting periods ending after 30 June 2015.



Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

	2015 \$'000	2014 \$'000
2. Expenses excluding losses		
(a) Employee related expenses		
Salaries and wages (including annual leave)	24,909	25,525
Superannuation – defined benefits plans (Note 5)	1,733	1,843
Superannuation – defined contribution plans	2,369	1,832
Long service leave	653	844
Workers' compensation insurance	73	103
Payroll tax and fringe benefits tax	1,650	1,627
Redundancy	767	–
Temporary employees	465	1,153
	32,619	32,927
Employee related costs of \$75,000 (2014: \$754,000) have been capitalised to fixed and intangible asset accounts and are excluded from the above.		
(b) Other operating expenses include the following:		
Auditor's remuneration		
– audit of the financial statements	37	36
Operating lease rental expense		
– minimum lease payments	1,609	1,567
Maintenance*	570	363
Insurance	42	32
Consultants	361	521
Other contractors	4,838	3,605
Staff development and training (excluding salaries)	868	941
Fees for services rendered	920	1,229
Other operating expenses	1,603	1,820
	10,848	10,114
Fees for services rendered of \$139,000 (2014: \$262,000) have been capitalised to fixed and intangible asset accounts and are excluded from the above.		
<i>*Reconciliation – total maintenance</i>		
Maintenance expense – contracted labour and other (non-employee related), as above	570	363
Employee related maintenance expense included in Note 2(a)	–	–
Total maintenance expenses included in Note 2(a) + 2(b)	570	363
(c) Depreciation and amortisation expense		
Depreciation		
– leasehold improvements	425	426
– plant and equipment	352	385
	777	811
Amortisation		
– intangible assets	950	467
Total depreciation and amortisation expense	1,727	1,278
(d) Finance costs		
Unwinding of the discount rate for the make-good of premises	19	18
(e) Other expenses		
Legal	54	164



Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

	2015 \$'000	2014 \$'000
3. Revenue		
(a) Sale of goods and services		
Rendering of services – audit fees	42,567	41,943
(b) Investment revenue		
Interest received	148	199
(c) Other revenue		
Recoupment of salaries and oncosts	286	121
Other	20	8
	306	129
4. Loss on disposal		
Plant and equipment	–	22

Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

5. Superannuation

The defined benefit schemes from 30 June 2014 have remained at an unfunded liability position, a net movement of \$5,895,000 (2014: \$278,000). Employer contributions to all funds have been suspended since 1 December 2005.

The following information has been prepared by the Scheme actuary.

	2015 \$'000	2014 \$'000
Reconciliation of the Net Defined Benefit Liability		
Net Defined Benefit Liability at start of year	34,337	34,059
Expenses:		
Current service cost	507	549
Net interest on the Net Defined Benefit Liability	1,226	1,294
Superannuation expense in profit and loss	1,733	1,843
Other comprehensive income:		
Actual return on Fund assets less Interest income	(5,079)	(5,841)
Actuarial losses arising from changes in demographic assumptions	65	–
Actuarial losses arising from changes in financial assumptions	8,699	3,711
Actuarial losses arising from liability experience	477	565
Amount recognised in other comprehensive income	4,162	(1,565)
Net Defined Benefit Liability at end of year	40,232	34,337

Reconciliation of the fair value of Fund assets

Fair value of Fund assets at beginning of the year	64,011	59,777
Interest income	2,212	2,189
Actual return on Fund assets less Interest income	5,079	5,841
Employer contributions	–	–
Contributions by participants	273	339
Benefits paid	(4,368)	(4,446)
Taxes, premiums and expenses paid	380	310
Transfers in	–	–
Contributions to the accumulation section	–	–
Settlements	–	–
Exchange rate changes	–	–
Fair value of Fund assets at end of the year	67,587	64,010



Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

	2015 \$'000	2014 \$'000
Reconciliation of the defined benefit obligation		
Present value of defined benefit obligations at beginning of the year	98,348	93,836
Current service cost	507	549
Interest cost	3,438	3,484
Contributions by participants	273	339
Actuarial losses arising from changes in demographic assumptions	65	–
Actuarial losses arising from changes in financial assumptions	8,699	3,711
Actuarial losses arising from liability experience	477	565
Benefits paid	(4,368)	(4,446)
Taxes, premiums and expenses paid	380	310
Transfers in/out due to business contributions and disposals	–	–
Contributions to the accumulation section	–	–
Past service cost	–	–
Settlements	–	–
Exchange rate changes	–	–
Present value of defined benefit obligations at end of the year	107,819	98,348

Fair value of Fund assets

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers. Assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund managed by Pillar on behalf of the NSW public sector.

As at 30 June 2015

Asset category	Quoted prices in active markets for identical assets Level 1 \$'000	Significant observable inputs Level 2 \$'000	Unobservable inputs Level 3 \$'000	Total \$'000	Percentage invested in each asset class
Short-term securities	95,603	2,545,913	–	2,641,516	6.5%
Australian fixed interest	958	2,638,759	16,881	2,656,598	6.6%
International fixed interest	(110)	1,003,959	–	1,003,849	2.5%
Australian equities	9,898,541	503,999	4,400	10,406,940	25.7%
International equities	9,963,287	2,585,150	563,044	13,111,481	32.4%
Property	948,421	718,406	1,785,782	3,452,609	8.6%
Alternatives	622,102	3,020,225	3,527,860	7,170,187	17.7%
TOTAL*	21,528,802	13,016,411	5,897,967	40,443,180	100.0%

* Additional to the assets disclosed above, at 30 June 2015 the Pooled Fund has provisions for receivables estimated to be around \$1.74 billion. This gives total estimated assets of \$42.2 billion.

Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 – inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.



Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

Fair value of entity's own financial instruments

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets as at 30 June 2015 include \$209.2 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

- GPNSW occupies part of a property owned by the Pooled Fund with a fair value of \$159 million (30 June 2014: \$153 million).
- NSW Ambulance occupies part of a property 50% owned by the Pooled Fund with a fair value of \$204 million (30 June 2014: \$205 million).

Significant Actuarial Assumptions at the Reporting Date

As at	30 June 2015	30 June 2014
Discount rate	3.03% pa	3.57% pa
Salary increase rate (excluding promotional increases)	2.50% 2015/2016 to 2018/2019; 3.50% 2019/2020; 3.00% pa 2021/2022 to 2024/2025; 3.50% pa thereafter	2.27% pa to June 2015, then 2.50% pa to 30 June 2018, 3.00% pa from 1 July 2018 to 30 June 2023, and 3.50% pa thereafter
Rate of Consumer Price Index (CPI) increase	2.50% 2015/2016; 2.75% 2016/2017 & 2017/2018; 2.50% pa thereafter	2.50% pa
Pensioner mortality	The pensioner mortality assumptions are as per the 2012 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.	as per the 2012 Actuarial investigation of the Pooled Fund



Sensitivity analysis

The Audit Office's total defined benefit obligation as at 30 June 2015 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2015. Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.03%	2.03%	4.03%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$'000)	107,819	126,158	93,068

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$'000)	107,819	115,904	100,480

	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation (A\$'000)	107,819	108,433	107,222

	Base case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation (A\$'000)	107,819	106,551	109,162

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

Surplus/deficit

The following is a summary of the 30 June 2015 financial position of the Fund calculated in accordance with AAS 25 Financial Reporting by Superannuation Plans:

	2015 \$'000	2014 \$'000
Accrued benefits*	57,199	56,884
Net market value of Fund assets	(67,587)	(64,011)
Net surplus	(10,388)	(7,127)

* There is no allowance for a contribution tax provision with the Accrued Benefits figure for AAS 25. Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

Recommended contribution rates for the Audit Office are:

	SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
	NIL	NIL	NIL

Economic assumptions

The economic assumptions adopted for the 30 June 2012 actuarial investigation of the Pooled Fund are:

Weighted average assumptions	2015	2014
Expected rate of return on Fund assets backing current pension liabilities	8.3% pa	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa	7.3% pa
Expected salary increase rate (excluding promotional salary increases)	2.7% pa to 30 June 2018, then 4.0% thereafter	2.7% pa to 30 June 2018, then 4.0% pa thereafter
Expected rate of CPI increase	2.5% pa	2.5% pa

Economic contributions

	SASS	SANCS	SSS
	Financial year to 30 June 2016		
Expected employer contributions	–	–	–

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 14.4 years.

6. Current assets – cash and cash equivalents	2015 \$'000	2014 \$'000
Cash at bank and on hand	8,871	6,949

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and cash on hand.

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

Cash and cash equivalents (per statement of financial position)	8,871	6,949
Closing cash and cash equivalents (per statement of cash flows)	8,871	6,949

Refer Note 21 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.



7. Current assets – receivables

	2015 \$'000	2014 \$'000
Sale of goods and services	4,368	6,178
Prepayments	311	227
Interest receivable	71	87
GST receivable from ATO	135	255
	4,885	6,747

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 21.

8. Other financial assets

Work in progress	871	642
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Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 21.

9. Non-current assets – property, plant and equipment

	Plant and Equipment \$'000	Leased Assets (Leasehold Improvements) \$'000	TOTAL \$'000
2015:			
At 1 July 2014 – fair value			
Gross carrying amount	2,063	3,096	5,159
Accumulated depreciation	(1,344)	(2,254)	(3,598)
Net carrying amount	719	842	1,561
At 30 June 2015 – fair value			
Gross carrying amount	2,200	3,107	5,307
Accumulated depreciation	(1,696)	(2,679)	(4,375)
Net carrying amount	504	428	932

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below:

Year ended 30 June 2015

Net carrying amount at start of year	719	842	1,561
Additions	137	11	148
Disposals	–	–	–
Depreciation expense	(352)	(425)	(777)
Net carrying amount at end of year	504	428	932

2014:

At 1 July 2013 – fair value			
Gross carrying amount	2,242	3,095	5,337
Accumulated depreciation	(1,219)	(1,828)	(3,047)
Net carrying amount	1,023	1,267	2,290
At 30 June 2014 – fair value			
Gross carrying amount	2,063	3,096	5,159
Accumulated depreciation	(1,344)	(2,254)	(3,598)
Net carrying amount	719	842	1,561

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the prior reporting period is set out below:

Year ended 30 June 2014

Net carrying amount at start of year	1,023	1,267	2,290
Additions	103	1	104
Disposals	(283)	–	(283)
Depreciation expense	(385)	(426)	(811)
Write-back of depreciation on disposal	261	–	261
Net carrying amount at end of year	719	842	1,561



10. Intangible assets

	Systems Software \$'000	Intangible Assets Under Development \$'000	TOTAL \$'000
2015:			
At 1 July 2014			
Cost (gross carrying amount)	4,362	1,890	6,252
Accumulated amortisation	(1,712)	–	(1,712)
Net carrying amount	2,650	1,890	4,540
At 30 June 2015			
Cost (gross carrying amount)	5,489	241	5,730
Accumulated amortisation	(1,881)	–	(1,881)
Net carrying amount	3,608	241	3,849

The fully depreciated Financial Management and Practice Management Systems (\$781,000) were written off during the year. The replacement system (\$1,890,000) became operational and has been included under Systems Software. The Human Capital Management System (\$241,000) remains under development at 30 June 2015.

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current reporting period is set out below:

Year ended 30 June 2015

Net carrying amount at start of year	2,650	1,890	4,540
Transfer from systems development to software	1,890	(1,890)	0
Additions	18	241	259
Retirements/disposals	(781)	–	(781)
Amortisation (recognised in 'depreciation and amortisation')	(950)	–	(950)
Write-back of amortisation on retirement/disposal	781	–	781
Net carrying amount at end of year	3,608	241	3,849

2014:

At 1 July 2013			
Cost (gross carrying amount)	2,739	1,482	4,221
Accumulated amortisation	(1,977)	–	(1,977)
Net carrying amount	762	1,482	2,244
At 30 June 2014			
Cost (gross carrying amount)	4,362	1,890	6,252
Accumulated amortisation	(1,712)	–	(1,712)
Net carrying amount	2,650	1,890	4,540

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the prior reporting period is set out below:

Year ended 30 June 2014

Net carrying amount at start of year	762	1,482	2,244
Transfer from systems development to software	1,316	(1,316)	–
Additions	1,039	1,724	2,763
Retirements/disposals	(732)	–	(732)
Amortisation (recognised in 'depreciation and amortisation')	(467)	–	(467)
Write-back of amortisation on disposal	732	–	732
Net carrying amount at end of year	2,650	1,890	4,540



Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

	2015 \$'000	2014 \$'000
11. Current/non-current assets – other		
Crown acceptance of long service leave liability – current	6,083	6,791
Crown acceptance of long service leave liability – non-current	529	357
	6,612	7,148

12. Current liabilities – payables

Accrued salaries, wages and on-costs	876	842
Creditors and accruals	943	930
Payroll tax	121	119
GST payable to ATO	440	445
	2,380	2,336

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in Note 21.

13. Current/non-current liabilities – provisions

Employee benefits and related on-costs

Annual leave	1,784	2,145
Long service leave	6,612	7,148
Superannuation (Note 5)	40,232	34,337
Related on-costs	978	1,089
Employee benefits provision	49,606	44,719
Accrued salaries, wages and on-costs (Note 12)	876	842
Aggregated employee benefits and related on-costs	50,482	45,561

Provisions

Current

– employee benefits provision	8,789	9,987
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Non-current

– employee benefits provision	40,817	34,732
Other provisions – leasehold improvements – restoration costs	690	671

Non-current	41,507	35,403
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TOTAL PROVISIONS	50,296	45,390
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a) Employee benefits and related on-costs

Annual leave

The liability at 30 June 2015 was \$1,784,000 (2014: \$2,145,000). This is based on leave entitlements at 30 June using remuneration rates to be payable post 30 June.

Of this liability, the value expected to be paid within twelve months is \$1,181,000 (2014: \$1,302,000) and \$603,000 (2014: \$843,000) after twelve months. This calculation of leave for the next twelve months is the minimum required to be taken to achieve the target of a maximum of 30 days at 30 June 2016.

Leave paid and entitlement for the year are as follows:	2015 \$'000	2014 \$'000
Balance at beginning of the financial year	2,145	2,371
Less: Value of leave paid during the year	(2,520)	(2,277)
	(375)	94
Add: Value of increased entitlement during the year	2,159	2,051
Balance at the end of the financial year	1,784	2,145

The amount of annual leave as disclosed above is increased by on-costs in the determination of the total provision.

Long service leave

The total liability at 30 June 2015 was \$6,612,000 (2014: \$7,148,000) shown as current \$6,083,000 (2014: \$6,791,000) and non-current \$529,000 (2014: \$357,000). This liability comprises:

Short term – expected to be settled within 12 months	198	703
Long term – not expected to be settled within 12 months	6,414	6,445
	6,612	7,148

Contributions of \$762,000 (2014: \$844,000) were made to the Crown Finance Entity pool account during this financial year, which included leave transfers received from other agencies (\$109,000). Reimbursements from the Crown Finance Entity because of payments to staff, or transfers of entitlements to other agencies, were \$1,789,000 (2014: \$1,468,000).

The amount of long service leave as disclosed above is increased by on-costs in the determination of the total provision.

(b) Other provisions

Restoration costs

The costs of restoration for the leasehold improvements at 1 Margaret Street are recognised as a provision in accordance with AASB 137 – Provisions, Contingent Liabilities and Contingent Assets. The provision for the costs of restoration is reviewed to cover three financial years. The last valuation was conducted on 30 June 2013 with the assistance of Government Property Authority.

Movements in provision during the financial year are set out below:

Carrying amount at the beginning of financial year	671	653
Additional provisions recognised	–	–
Unwinding/change in the discount rate	19	18
Carrying amount at end of financial year	690	671

14. Current/non-current liabilities – other

Current – other		
Fees in advance – audit fees	–	72
Rental incentive	37	37
	37	109
Non-current – other		
Rental incentive – other	3	40
	40	149

15. Commitments for expenditure

(a) Capital commitments

Aggregate capital expenditure for the acquisition of intangible assets contracted for at balance date and not provided for:

	2015 \$'000	2014 \$'000
Not later than one year	–	180
Total (including GST)	–	180

(b) Operating lease commitments

Future non-cancellable operating lease rentals not provided for and payable:

Not later than one year	1,957	1,391
Later than one year and not later than five years	131	1,563
Total (including GST)	2,088	2,954

Commitments exist for leased accommodation, purchase orders and motor vehicles under operating leases.

These commitments include GST of \$190,000 (2014: \$285,000). A contingent asset exists for the calculated GST, being an input tax credit recoverable from the ATO after these payments.

16. Contingent assets and contingent liabilities

At the reporting date, aside from those mentioned in Note 15, the Audit Office was not aware of any other contingent assets or contingent liabilities.

17. Auditor's remuneration

In April 2014, the Governor appointed Mr Lester Wills, a partner of Nexia Court & Co, to audit our accounts for a period of three years, commencing in the 2013–14 financial year. Nexia Court & Co does not provide any other services to the Audit Office. Refer to Note 2(b).

18. Audit and Risk Committee

The Audit Office has three independent members on the Audit and Risk Committee. Mr Brian Suttor was appointed as Chair on 28 November 2008 and is paid \$12,552 per year. His appointment as chairperson has been extended for a final four year term. Mr Greg Fletcher was appointed as a member on 4 December 2009 and is paid \$6,275 per year. His appointment as independent member has been extended for a final four year term. Ms Dianne Hill was appointed as an independent member on 29 August 2013. Her term is for four years and is paid \$6,275 per year.

19. Budget review

Net result

The actual net result was unfavourable to the budgeted net result by \$839,000. The major variations to budgets are:

Total Revenue was \$1,940,000 unfavourable to budget, mainly in sale of goods and services and investment revenue. The sale of goods and services was \$2,040,000 lower than budget due to reduced audit production, which is consistent with lower employee related expenses. The fall in interest rates during the year also contributed to lower investment revenue.

Total Expenses were \$1,101,000 favourable to budget, primarily due to lower employee related expenses. The employee related expenses were \$1,257,000 lower than budget because of reduced full-time staff numbers needed to deliver audits.

Assets and liabilities

Net Liabilities: The actual negative equity of \$26,696,000 was primarily due to the actuarial valuation of our defined benefit superannuation schemes, which resulted in an unfunded liability of \$40,232,000 that is significantly greater than the valuation of \$34,337,000 for 2013–14. The Net Liabilities were higher than budget by \$9,445,000. The major factors are:

Total Assets were favourable to budget by \$138,000 mainly due to higher cash balance but is offset by lower investment in plant and equipment and intangible assets.

Total Liabilities were higher than budget by \$9,583,000 mainly due to the impact of the actuarial valuation for our defined benefit superannuation schemes. The budgeted provision was based on the result of prior year because any change in the valuation could not be ascertained at the time of budget submission.



Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

Cash flows

The actual cash movement was \$5,635,000 favourable to budget. This is mainly due to lower than budgeted amounts in employee related expenses, reduced capital expenditure and significant reduction in our receivables.

20. Reconciliation of cash flows from operating activities to net result

Reconciliation of cash flows from operating activities to the net result as reported in the statement of comprehensive income	2015 \$'000	2014 \$'000
Net cash from operating activities	2,828	479
Depreciation and amortisation	(1,727)	(1,278)
Finance costs	(19)	(18)
Decrease/(increase) in provisions	(615)	(1,307)
(Decrease)/increase in prepayments and other assets	(2,169)	(355)
Decrease/(increase) in creditors	(544)	249
Net loss on disposal of plant and equipment and intangible assets	–	(22)
Net result	(2,246)	(2,252)

21. Financial instruments

The Audit Office's principal financial instruments and the main risks associated are outlined below. These financial instruments arise directly from operations. The Audit Office does not enter into or trade financial instruments for speculative purposes.

Quantitative and qualitative disclosures together with our objectives, policies and processes for measuring and managing risk are included throughout this financial report.

The Office Executive has overall responsibility for the establishment and oversight of risk management and reviews and agreed policies for managing each of these risks. Risk management policies are established to identify and analyse risks, to set risk controls and to monitor the risks faced by the Audit Office. Compliance with policies is reviewed by the Audit and Risk Committee on a continuous basis.

(a) Financial instrument categories

Financial assets	Note	Category	Carrying Amount 2015 \$'000	Carrying Amount 2014 \$'000
Class:				
Cash and cash equivalents	6	N/A	8,871	6,949
Receivables*	–	Receivables	4,439	6,266
Work in progress	8	Other financial assets	981	642
Financial liabilities				
Class:				
Payables**	–	Financial liabilities measured at amortised cost	1,819	1,772

* Excludes statutory receivables and prepayments (not within scope of AASB 7).

** Excludes statutory payables and unearned revenue (not within scope of AASB 7).

Audit Office of New South Wales

Notes to and forming part of the financial statements for the year ended 30 June 2015

(b) Credit risk

Credit risk is the risk of financial loss arising from another party to a contract or financial obligation. The Audit Office's maximum exposure to credit risk is represented by the carrying amounts of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets held, which are cash, receivables and work in progress. The Audit Office does not hold collateral and has not granted any financial guarantees.

Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest rate as determined by NSW Treasury is earned on daily bank balances and paid twice yearly.

Receivables – trade debtors

All trade debtors are recognised as amounts receivable at balance date. Debtors are reviewed on an ongoing basis and their status are reported to the Office Executive on a regular basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that we are not able to collect all amounts due. No interest is earned on our receivables. Invoices are made on 14 day terms.

The Audit Office is not materially exposed to concentrations of credit risk to a single debtor or group of debtors. Most of the debtors are government agencies whose credit ratings are considered less risky. There are no debtors whose terms have been renegotiated.

The following table outlines our financial assets that are past due or impaired, which are the receivables category in the statement of financial position.

	Total \$'000	Past due but not impaired* \$'000	Considered impaired* \$'000
2015			
< 3 months overdue	1,247	1,247	–
3 months – 6 months overdue	126	126	–
> 6 months overdue	–	–	–
	1,373	1,373	–
2014			
< 3 months overdue	1,633	1,633	–
3 months – 6 months overdue	102	102	–
> 6 months overdue	–	–	–
	1,735	1,735	–

* The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the 'total' will not reconcile to the receivables total recognised in the statement of financial position.

Work in progress (WIP)

WIP is recognised as an amount receivable not billed at the balance date. WIP is reviewed and monitored by the Directors responsible for the audit assignments and the Office Executive monthly. A provision for unrecoverable amounts is raised when there is objective evidence that the WIP may not be recoverable.



(c) Liquidity risk

Liquidity risk is the risk that the Audit Office will be unable to meet its payment obligations when they fall due. The risk is continuously managed through monitoring future cash flows to ensure adequate holding of liquid assets.

During the current and prior year, there were no defaults of loans payable. No assets have been pledged as collateral. An exposure to liquidity risk is deemed insignificant based on prior period's data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW TC 11/12. For small business suppliers, where terms are not specified, payment is made not later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. For small business suppliers, where payment is not made within the specified time period, simple interest must be paid automatically unless an existing contract specifies otherwise. For payments to other suppliers, the Assistant Auditor-General, Corporate Services may automatically pay the supplier simple interest. The rate of interest applied during the year was 10.15% (2014: 10.63%).

The table below summarises the maturity profile of the Audit Office's financial liabilities, together with the interest rate exposure.

	Nominal Amount	Interest Rate Exposure			Maturity Dates		
		Fixed Interest Rate	Variable Interest Rate	Non-Interest Bearing	< 1 year	1–5 yrs	> 5 yrs
	\$'000	\$'000			\$'000		
2015							
Payables	1,819	–	–	1,819	1,819	–	–
	1,819	–	–	1,819	1,819	–	–
2014							
Payables	1,772	–	–	1,772	1,772	–	–
	1,772	–	–	1,772	1,772	–	–

The amounts disclosed are the contractual undiscounted cash flows, therefore, the amounts disclosed above will not reconcile to the statement of financial position.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Audit Office has no exposure to foreign currency risk and does not enter into commodity contracts.

Interest rate risk – sensitivity analysis

The sensitivity analysis is performed based on risk exposures in existence at the balance sheet date to show how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. This is determined after taking into account the economic environment in which the Audit Office operates and the time frame for the assessment (i.e. until the end of the next annual reporting period).

At reporting date, if interest rates had been 100 basis points higher and all other variables were held constant, the profit and equity would have increased by \$89,000 (2014: \$69,000).

(e) Credit facility

The Audit Office has no current standing credit facility. The Audit Office's cash position has been consistently adequate to meet its liquidity requirements.

(f) Fair value measurement

Financial instruments as shown in Note 21(a) are recognised in the statement of financial position at amortised cost, which approximates the fair value because of the short-term nature of these financial instruments.

22. Events after the reporting period

There were no events subsequent to reporting date that require disclosure.

End of audited financial statements



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Senior executive and leadership positions

1 Appendix one

Performance statements for senior executive positions

On 10 June 2015, Grant Hehir left to become Auditor-General of Australia. As of 9 June 2015, Tony Whitfield is our Acting Auditor-General. Salaries are reflected as at 30 June 2015.

Grant Hehir

Position	Auditor-General
Remuneration package	\$487,395

The Auditor-General is responsible to parliament. There is no performance agreement with, or annual review by, a minister.

Tony Whitfield

Position	Acting Auditor-General (commencing 9 June 2015)
Position	Deputy Auditor-General
Remuneration package	\$388,845 plus retention allowance of \$43,000
Higher delegation allowance (in addition to package above)	\$4,547

Until 9 June 2015, Tony's main functions as Deputy Auditor-General were to:

- lead the Audit Office of New South Wales as Chief Executive Officer (CEO), taking charge of the day-to-day operations of the business and providing strategic leadership and oversight
- assume the role and responsibilities of the Auditor-General in their absence
- oversee and coordinate the Audit Office's financial and performance audit operations, including policy, research and other professional support activities.

Deliverables in 2014–15 as Deputy Auditor-General included:

- liaising closely with and assisting members of parliament, including the Public Accounts Committee
- developing and progressing the Audit Office's strategic plan
- maintaining sound professional relations with audit clients, agency CEOs and the Chairs of agency Audit and Risk Committees
- chairing the Office Executive Committee
- representing the Audit Office in briefing a number of overseas parliamentary, audit and public sector delegations
- continuing to make a strong external contribution to the accounting and auditing profession.

Tony successfully met the required performance criteria as Deputy Auditor-General at an expert level.

From 9 June 2015, Tony was Acting Auditor-General and directly responsible to parliament.

Public service senior executives remuneration band equivalent range and average remuneration*

	Band range \$	Average remuneration
Band Four (equivalent)	\$430,451–\$497,300	\$436,392
Band Three (equivalent)	\$305,401–\$430,450	\$309,199
Band Two (equivalent)	\$242,801–\$305,400	\$273,778
Band One (equivalent)	\$170,250–\$242,800	\$201,128

*Due to the nature of our business, 22 per cent of the Audit Office's employee-related expenditure was related to senior executives.

Senior executives, by public service senior executives remuneration band equivalent and gender

	Female	Male
Band Four (equivalent) \$430,451–\$497,300	0	1
Band Three (equivalent) \$305,401–\$430,450	0	1
Band Two (equivalent) \$242,801–\$305,400	2	3
Band One (equivalent) \$170,250–\$242,800	12	12



Scott Stanton

On 9 June 2015, Tony Whitfield became the Acting Auditor-General, and Scott Stanton commenced as Acting Deputy Auditor-General.

Position	Acting Deputy Auditor-General (commencing 9 June 2015)
Position	Assistant Auditor-General
Remuneration package	\$297,769
Higher delegation allowance (in addition to package above)	\$534

Until 9 June 2015, Scott's main functions as Assistant Auditor-General, Financial Audit, were to assist in overseeing and coordinating the Audit Office's financial audit operations, in particular the financial and resourcing aspects.

Deliverables in 2014–15 included:

- developing the budget for fees and production costs in Financial Audit, monitoring results and business management improvements
- in conjunction with the Assistant Auditor-General, Corporate Services, contributing to the enhancement of the practice management system for the Audit Office
- overseeing the progression of innovation and change management initiatives within the Audit Office
- continuing to make a strong contribution to the accounting and auditing professions
- maintaining sound professional relations with audit clients
- actively participating in creating development opportunities for staff within the Audit Office.

Scott successfully met the required performance criteria as Assistant Auditor-General at a superior level.

As of 9 June 2015, Scott's main functions as Acting Deputy Auditor-General are:

- lead the Audit Office as CEO, taking charge of the day-to-day operations of the business and providing strategic leadership and oversight
- assume the role and responsibilities of the Auditor-General in their absence
- oversee and coordinate the Audit Office's financial and performance audit operations, including policy, research and other professional support activities.

Number of executive and leadership positions filled by women*



*These figures include Corporate Services Executive Managers.

John Viljoen

Position	Assistant Auditor-General
Remuneration package	\$308,250
Higher delegation allowance (in addition to package above)	\$949

As an Assistant Auditor-General, Financial Audit, the main function of John's position is to oversee and coordinate the Audit Office's financial audit operations, in particular the financial audit methodology, quality and reporting aspects and the information systems auditing.

Deliverables in 2014–15 included:

- overseeing the completion of the implementation of the new financial audit methodology and supporting technology
- further refining the format and content of the Auditor-General's Financial Audit Reports to Parliament
- overseeing the quality assurance program
- overseeing the Information Systems Audit team's strategic direction
- maintaining sound professional relations with audit clients
- actively participating in creating development opportunities for staff within the Audit Office.

John successfully met the required performance criteria at a superior level.

Louise Mooney

Position	Assistant Auditor-General
Remuneration package	\$304,756

As Assistant Auditor-General, Corporate Services, the main function of Louise's position is to oversee the Audit Office's Corporate Services operations, in particular finance, human resources, technology, communications, marketing and Audit Office strategic planning.

Deliverables in 2014–15 included:

- maintaining and promoting sound professional relationships with government agencies, service providers and other key stakeholders
- sponsoring the enhancement of the practice management system for the Audit Office
- overseeing the delivery of all corporate services functions to the Audit Office
- providing leadership and guidance on the content and administration of the Audit Office strategic planning process
- leading the design and implementation of a new employee relations and remuneration framework, capability and performance management framework and human capital management system.

Louise successfully met the required performance criteria at a superior level.



Senior executive and leadership positions

1 Appendix one (continued)

Performance statements for senior executive positions

Kathrina Lo

Position	Assistant Auditor-General (commencing on 23 October 2014)
Remuneration package	\$260,041

As Assistant Auditor-General, Performance Audit, the main function of Kathrina's position is to oversee the delivery of performance audits to the Auditor-General.

Deliverables in 2014–15 included:

- managing the financials and human resources of the Performance Audit team
- delivering a program of performance audits agreed with the Auditor-General, following consultation with a wide range of stakeholders
- liaising and engaging with the Public Accounts Committee
- sponsoring the Audit Office's new 100 Day Leaders Program.

Kathrina successfully met the required performance criteria at a competent level.

Steven Martin

Position	Assistant Auditor-General
Remuneration package	\$259,342

As an Assistant Auditor-General, Financial Audit, the main function of Steven's position is to assist in overseeing and coordinating the Audit Office's financial audit operations, in particular technical training of audit staff.

Deliverables in 2014–15 included:

- monitoring the eight special interest groups in the Audit Office
- ensuring that there is a structured technical training and development program for staff
- maintaining sound professional relations with audit clients
- maintaining the Audit Office's outsourcing model
- actively participating in creating development opportunities for staff within the Audit Office.

Steven successfully met the required performance criteria at a competent level.

Bola Oyetunji

Position	Acting Assistant Auditor-General (commencing on 25 May 2015)
Remuneration package	\$245,831
Higher delegation allowance (in addition to package above)	\$621

As Acting Assistant Auditor-General, Financial Audit, the main function of Bola's position is to assist in overseeing and coordinating the Audit Office's financial audit operations.

Bola was Acting Assistant Auditor-General for only one month at 30 June 2015, and has not had a performance assessment at this level.

Financial audit clients, reviews and other related services

2 Appendix two

Financial audit clients

Aboriginal and Torres Strait Islander Health Practice Council of New South Wales

Aboriginal Housing Office

Art Gallery of New South Wales Foundation, The

Art Gallery of New South Wales Trust
Art Gallery of New South Wales Trust Staff Agency
Australian Institute of Asian Culture and Visual Arts Limited, The

Arts Education Foundation Trust

Ausgrid
Ausgrid Pty Limited

Australian Centre for Advanced Computing and Communications Pty Limited

Australian Museum Trust

Australian Museum Trust Staff Agency

Barangaroo Delivery Authority
Barangaroo Delivery Authority Staff Agency
Office of Barangaroo Delivery Authority

Belgenny Farm Agricultural Heritage Centre Trust

Biamanga National Park Board of Management

Board of Studies, Teaching and Educational Standards
Board of Studies, Teaching and Educational Standards Staff Agency

Board of Surveying and Spatial Information

Brett Whiteley Foundation, The

Building Insurers' Guarantee Corporation

Building Professionals Board

Bush Fire Coordinating Committee

Cancer Institute NSW
Cancer Institute Special Purpose Service Entity

C.B. Alexander Foundation

Centennial Park and Moore Park Trust

Central Coast Regional Development Corporation

Charles Sturt University
Charles Sturt Services Limited
Charles Sturt University Foundation Trust
Charles Sturt Campus Services Limited

Chief Investigator of the Office of Transport Safety Investigations

Chipping Norton Lake Authority

City West Housing Pty Limited

Coal Innovation Fund NSW

Cobar Water Board

Cobbora Holding Company Pty Limited

Cobbora Coal Mine Pty Limited

Cobbora Rail Company Pty Limited

Combat Sports Authority of NSW

Community Relations Commission For a Multicultural NSW
Community Relations Commission Staff Agency

Corporation Sole 'Minister Administering the *Environmental Planning and Assessment Act 1979*'

Corporation Sole 'Minister Administering the *Heritage Act 1977*'

Cowra Japanese Garden Maintenance Foundation Ltd
Cowra Japanese Garden Trust

Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund

Crown Entity, The

Crown Solicitor's Office

Dams Safety Committee

Delta Electricity

Department of Education and Communities

Department of Family and Community Services
John Williams Memorial Charitable Trust

Department of Police and Justice

Department of Trade and Investment, Regional Infrastructure and Services
Milk Marketing (NSW) Pty Limited

Department of Planning and Environment

Department of Premier and Cabinet

Department of Transport
Transport Cleaning Services
Transport for NSW
Transport Services of NSW
MTS Holding Company Pty Limited

Destination NSW
Destination NSW Staff Agency

Election Funding Authority of New South Wales

Electricity Assets Ministerial Holding Corporation

Endeavour Energy

Energy Industries Superannuation Scheme
EIF Pty Limited

Energy Industries Superannuation Scheme (EISS) – Pool A and Pool B

Energy Industries Superannuation Scheme Pty Limited

Energy Investment Fund

Environment Protection Authority

Environmental Protection Authority Staff Agency

Environmental Trust

Eraring Energy

Essential Energy

Fair Trading Administration Corporation

Financial Counselling Trust Fund

Fire and Rescue New South Wales

Forestry Corporation of New South Wales (trading as Forests NSW)

Gaagal Wanggaan (South Beach) National Park Board of Management

Game Council of New South Wales
Game Council Division

Gosford Water Supply Authority

Government Property NSW

Green State Power Pty Limited

Gulaga National Park Board of Management

Health Care Complaints Commission
Health Care Complaints Commission Staff Agency

Health Professional Councils (13)

Historic Houses Trust of New South Wales
Foundation for the Historic Houses Trust of NSW

Foundation for the Historic Houses Trust of NSW Limited

Hamilton Rouse Hill Trust, The
Rouse Hill Hamilton Collection Pty Limited

Home Care Service of New South Wales

Home Care Service Staff Agency

Home Purchase Assistance Fund

Home Warranty Insurance Fund

Hunter Development Corporation

Hunter Water Corporation
Hunter Water Australia Pty Limited

Illawarra Health and Medical Research Institute Limited

Independent Commission Against Corruption

Independent Liquor and Gaming Authority
Independent Liquor and Gaming Authority Staff Agency



Financial audit clients, reviews and other related services

2 Appendix two (continued)

Independent Pricing and Regulatory Tribunal	Macquarie University Property Investment Company Pty Limited	– Mid North Coast
Independent Pricing and Regulatory Tribunal Staff Agency	Macquarie University Property Investment Trust	– Mid North Coast Local Health District Special Purpose Entity
Independent Transport Safety Regulator	MGSM Ltd	– Murrumbidgee
Independent Transport Safety Regulator Staff Agency	MUH Operations No. 2 Limited	– Murrumbidgee Local Health District Special Purpose Entity
Information and Privacy Commission NSW	Risk Frontiers Flood (Australia) Pty Limited	– Nepean Blue Mountains
Infrastructure NSW	Risk Frontiers Group Pty Limited	– Nepean Blue Mountains Local Health District Special Purpose Entity
Infrastructure NSW Staff Agency	U@MQ Limited	– Northern NSW
Internal Audit Bureau of New South Wales	Macquarie Education South Africa NPC	– Northern NSW Local Health District Special Purpose Entity
Jenolan Caves Reserve Trust	Marine Parks Authority	– Northern Sydney
Judicial Commission of New South Wales	Mental Health Commission of New South Wales	– Northern Sydney Local Health District Special Purpose Entity
Lake Illawarra Authority	Mental Health Commission Staff Agency	– South Eastern Sydney
Landcom	Mine Subsidence Board	– South Eastern Sydney Local Health District Special Purpose Entity
Lands Administration Ministerial Corporation	Ministerial Corporation for Industry	– Southern NSW
Legal Aid Commission of New South Wales	Ministerial Holding Corporation	– Southern NSW Local Health Network Special Purpose Entity
Legal Aid Commission Staff Agency	Ministry of Health	– South Western Sydney
Legal Profession Admission Board	Agency for Clinical Innovation Special Purpose Service Entity	– South Western Sydney Local Health Network Special Purpose Entity
Legislature, The	Albury Base Hospital	– Sydney
Legislature (Audit of Members' Additional Entitlements), The	Albury Wodonga Health Employment Division	– ANZAC Health and Medical Research Foundation Trust Fund
Liability Management Ministerial Corporation	Bureau of Health Information	– Sydney Local Health Network Special Purpose Service Entity
Library Council of New South Wales	– Bureau of Health Information Special Purpose Service Entity	– Sydney Children's Hospital Network
Library Council of NSW Staff Agency	Clinical Excellence Commission	– The Sydney Children's Hospital Network Special Purpose Service Entity
State Library of New South Wales Foundation	– Clinical Excellence Commission Special Purpose Service Entity	– Western NSW
Lifetime Care and Support Authority of New South Wales	Graythwaite Charitable Trust	– Western NSW Local Health District Special Purpose Entity
Local Government Superannuation Scheme Pty Ltd	Health Administration Corporation	– Western Sydney
Local Government Superannuation Scheme Trustee	– Public Health System Support Division Special Purpose Service Entity	– Western Sydney Local Health District Special Purpose Entity
Local Land Services	Health Education and Training Institute	NSW Kids and Families
Local Land Services Staff Agency	– Health Education and Training Institute Special Purpose Service Entity	Ministry for Police and Emergency Services
Long Service Corporation	Justice Health and Forensic Mental Health Network	Motor Accidents Authority of New South Wales
Lord Howe Island Board	– Justice Health and Forensic Mental Health Network Special Purpose Service Entity	Motor Vehicle Repair Industry Authority
Lotteries Assets Ministerial Holding Corporation	Local Health Networks	Mutawintji Board of Management
Luna Park Reserve Trust	– Central Coast	Mt Grenfell National Park Board of Management
Macquarie Generation	– Central Coast Local Health District Special Purpose Entity	National Art School
Macquarie University	– Far West	Natural Resources Commission
Access Macquarie Limited	– Far West Local Health District Special Purpose Entity	Natural Resources Commission Staff Agency
Australian Proteome Analysis Facility Ltd	– Hunter New England	Networks NSW Pty Limited
CMBF Limited	– Hunter New England Local Health District Special Purpose Entity	New South Wales Aboriginal Land Council
COH Property Trust	– Illawarra Shoalhaven	New South Wales Crime Commission
Macquarie University Professorial Superannuation Scheme	– Illawarra Shoalhaven Local Health District Special Purpose Entity	



New South Wales Crime Commission Staff Agency	Office of the Director of Public Prosecutions	Government Trust Fund
New South Wales Electoral Commission	Office of Environment and Heritage	Small Business Development Corporation of New South Wales
New South Wales Electoral Commission Staff Agency	Office of Hawkesbury-Nepean	Southern Cross University
New South Wales Film and Television Office (trading as Screen NSW)	Office of Local Government	Asia Pacific Football Institute Operations Pty Ltd
New South Wales Government Telecommunications Authority	Office of Sport	Norsearch Limited
New South Wales Health Foundation	Ombudsman's Office	SCU College Pty Ltd
New South Wales Institute of Psychiatry	Parliamentary Contributory Superannuation Fund	State Rail Authority Residual Holding Corporation
New South Wales Institute of Psychiatry Staff Agency	Parliamentary Counsel's Office	State Records Authority of New South Wales
New South Wales Institute of Sport	Parramatta Park Trust	State Rescue Board
Institute of Sport Staff Agency	Police Integrity Commission	State Sporting Venues Authority
New South Wales Institute of Teachers	Policy Integrity Commission Staff Agency	State Transit Authority of New South Wales
Office of the Institute of Teachers	Port Authority of New South Wales	Western Sydney Buses Division
New South Wales Rural Assistance Authority	Port Botany Lessor Pty Limited	State Water Corporation
New South Wales Rural Fire Service	Port Kembla Lessor Pty Limited	Stockton Bight Board of Management
New South Wales Treasury Corporation	Port Kembla Port Corporation	Superannuation Administration Corporation (trading as Pillar Administration)
TCorp Nominees Pty Limited	Port of Newcastle Lessor Pty Ltd	Sydney Catchment Authority
Treasury Corporation Division of the Government Service	Ports Assets Ministerial Holding Corporation	Sydney Cricket and Sports Ground Trust
Newcastle Port Corporation	Public Service Commission	Sydney Cricket and Sports Ground Trust Staff Agency
NSW Architects Registration Board	Public Trustee NSW Common Fund	Sydney Ferries
NSW Board of Vocational Education and Training	Rail Corporation New South Wales	Sydney Harbour Foreshore Authority
NSW Businesslink Pty Ltd	Trainworks Limited	Cooks Cove Development Corporation
NSW Commission for Children and Young People	Rental Bond Board	Sydney Harbour Foreshore Authority Casual Staff Division
NSW Fire Brigades Superannuation Pty Limited	Residual Business Management Corporation	Sydney Metro
NSW Food Authority	Responsible Gambling Fund	Sydney Olympic Park Authority
NSW Government Telecommunications Authority	Rice Marketing Board for the State of New South Wales	Sydney Opera House Trust
NSW Land and Housing Corporation	Roads and Maritime Services	Sydney Opera House Trust Staff Agency
NSW Ovine Johne's Disease Transaction-Based Contribution Scheme	WestConnex Delivery Authority	Sydney Ports Corporation
NSW Police Force	Royal Botanic Gardens and Domain Trust	Sydney Trains
NSW Self Insurance Corporation	SAS Trustee Corporation	Sydney Water Corporation
NSW Skills Board	SAS Trustee Corporation Staff Agency	Teacher Housing Authority of New South Wales
NSW State Emergency Services	SAS Trustee Corporation – Pooled Fund	Technical and Further Education Commission, New South Wales
NSW Trains	Buroba Pty Limited	Technical Education Trust Funds
NSW Trustee and Guardian	State Infrastructure Trust	The Office of the Children's Guardian of NSW
NSW Trustee and Guardian Common Fund – Financial Management	Valley Commerce Pty Limited	TransGrid
Office of Finance and Services	State Super Financial Services Australia Limited	Treasury
Office of the Children's Guardian	State Super Retirement Fund	Trustees of the ANZAC Memorial Building
	State Super Fixed Term Pension Plan	Trustees of the Farrer Memorial Research Scholarship Fund
	State Super Investment Fund	Trustees of the Museum of Applied Arts and Sciences
	STC Pisco 1 Unit Trust	
	STC Pisco 2 Unit Trust	
	Southern Way Unit Trust	
	Service NSW	
	Sesquicentenary of Responsible	



Financial audit clients, reviews and other related services

2 Appendix two (continued)

Trustees of the Museum of Applied Arts and Sciences Staff Agency	University of Sydney, The	City of Griffith and the Shires of Leeton, Carrathool and Murrumbidgee
Trustees of the Parliamentary Contributory Superannuation Fund	Bandwidth Foundry International Pty Ltd	Worimi Board of Management
Universities Admission Centre (NSW & ACT) Pty Limited	SydneyLearning Pty Limited	WorkCover Authority of New South Wales
University of Newcastle, The	Sydney Talent Pty Limited	Workers' Compensation (Dust Diseases) Board
Newcastle Innovation Limited	The Warren Centre for Advanced Engineering Limited	Workers Compensation Nominal Insurer (trading as The NSW WorkCover Scheme)
UON Services Limited	United States Studies Centre Limited	Wyong Water Supply Authority
UON Singapore Pte Ltd	University of Sydney Professorial Superannuation System	Zoological Parks Board of New South Wales
University of New England	Wayahead Pty Limited	
Agricultural Business Research Institute Limited	Westmead IVF Pty Limited	
Sport UNE Limited	University of Western Sydney, The	
UNE Foundation	Television Sydney (TVS) Limited	
UNE Foundation Limited	University of Western Sydney Foundation Limited	
UNE Health Pty Ltd	University of Western Sydney Foundation Trust	
UNE Life Pty Ltd	UWS College Pty Limited	
UNE Open Pty Ltd	UWS Early Learning Limited	
UNE Partnerships Pty Limited	uwsconnect Limited	
University of New South Wales	Whitlam Institute within the University of Western Sydney Limited and Whitlam Institute within the University of Western Sydney Trust	
UNSW Global Pty Limited	University of Wollongong	
– Australian Education Consultancy Limited	UOWD Limited	
– UNSW Global India Pvt Limited	– UOWC Limited	
– UNSW (Hong Kong) Limited	UniCentre Conferences and Functions Pty Limited	
– UNSW Global (Singapore) Pte Limited	The University of Wollongong USA Foundation	
NewSouth Innovations Pty Limited	Sydney Business School Pty Limited	
– Cystemix Pty Limited	University of Wollongong Recreation and Aquatic Centre Limited	
Qucor Pty Limited	Wollongong UniCentre Limited	
The New South Wales Minerals Industry/ University of New South Wales	Urban Growth NSW Development Corporation	
– Education Trust	Australian Technology Park Sydney Limited	
UK Friends of UNSW Australia	Urban Growth NSW Development Corporation Staff Agency	
University of New South Wales Foundation Limited	Venues NSW	
University of New South Wales Foundation Limited	Newcastle International Sports Centre Club	
University of New South Wales Press Limited	Veterinary Practitioners Board	
UNSW Hong Kong Foundation Limited	Waste Assets Management Corporation	
UNSW Study Abroad – Friends and US Alumni Inc	Water Administration Ministerial Corporation	
University of Technology, Sydney	Wentworth Park Sporting Complex Trust	
accessUTS Pty Limited	Western Sydney Parklands Trust	
AustLii Foundation Ltd	Wild Dog Destruction Board	
Insearch Limited	Wine Grapes Marketing Board for the	
– Insearch Education		
– Insearch Education International Pty Limited		
– Insearch (Shanghai) Limited		
Sydney Educational Broadcasting Limited		
UTS Global Pty Limited		



Audit-related services requested by the Treasurer under s. 27B(3)(c) of the *Public Finance and Audit Act 1983*

Any audit or audit related services for which:

- a Commonwealth or State Government Body requires, for regulatory purposes, a NSW public sector agency to have information, reports or returns audited, reviewed, examined or certified by an auditor, and
- a NSW public sector agency asks the Audit Office to undertake the audit, review, examination or certification.

Audit of concise financial reports of NSW public sector agencies

Audit or audit related services to enable NSW public sector agencies to meet requirements under the *Corporations Act 2001* or the *Superannuation Industry (Supervision) Act 1993*

Audit reports required by s. 24 of the *Charitable Fundraising Act 1991* for NSW Government agencies that conduct fundraising appeals

Audit of financial reports for funds within the Special Deposits Account

Audit or audit related services requested by a NSW Government agency in relation to information, reports of returns required to be provided by NSW Government agencies under the terms of a contract, lease or agreements between the NSW Government agency and third parties

Audit of data returns or reports required under the Australian Government/State Agreements

Audit of data returns or reports to acquit Disaster Relief Payments from the Commonwealth

Audit of data returns or reports to acquit grants provided by the Commonwealth and other donors to NSW Government agencies

Review of agencies' compliance with the requirements of NSW Government Treasury Directions – Section 744.05 'Disaster Recovery Plan' and the NSW Government Digital Information Security Policy

Audit of universities' Higher Education Research Data Collection (HERDC) Return – Return 1 as required by Commonwealth funding arrangements and/or agreements

Audit of general purpose financial statements of the NSW Trustee and Guardian Common Fund – Trustee and the NSW Trustee and Guardian Common Fund – Financial Management

Audit of special purpose and trust funds for controlled entities of the Ministry of Health

Audit of Macquarie Generation's half-year financial statements ending 31 December 2014

Certify financial management, control systems and other matters for the Audit Office's clients required by AusAID as a condition of AusAID funding

Issue letters of comfort to interested parties of NSW Treasury Corporation regarding its domestic and offshore funding activities

Review of the reasonableness of the estimates and forecasts in the Half Year Review for 2014–15

Review of the reasonableness of the estimates and forecasts in the 2015–16 Budget



Financial audit clients, reviews and other related services

2 Appendix two (continued)

Overseas visits

Staff member	Date of travel	Return date	Destination	Reason
Grant Hehir	18 August 2014	24 August 2014	Samoa	To attend the Pacific Association of Supreme Audit Institutions (PASAI) congress
Robert Hayek	21 November 2014	29 November 2014	Dubai	To undertake an audit of University of Wollongong, Dubai
Celia Withers	21 November 2014	29 November 2014	Dubai	To undertake an audit of University of Wollongong, Dubai
Lyndal Hayward	22 November 2014	26 November 2014	New Zealand	To participate in the Australia and New Zealand School of Government (ANZSOG) Masters Program
Bola Oyetunji	24 February 2015	28 February 2015	China	To undertake an audit of the University of New South Wales (Nanjing)
Bola Oyetunji	28 February 2015	4 March 2015	Hong Kong and Singapore	To undertake an audit of the University of New South Wales (Hong Kong) and the University of New South Wales (Singapore)
Nirupama Mani	28 February 2015	4 March 2015	Hong Kong and Singapore	To undertake an audit of the University of New South Wales (Hong Kong) and the University of New South Wales (Singapore)

Services to the public sector

3 Appendix three

Appearances before parliamentary committees

We appeared before the following parliamentary committees.

Date	Committee	Event	Who
15 September 2014	Public Accounts Committee	Examination of the Auditor-General's Performance Audits	Grant Hehir Rob Mathie Sean Crumlin

Memberships

Audit Office staff were members of the following public sector organisations and committees.

Alison Gatt	Australian Council of Auditors-General – Financial Reporting and Auditing Committee
Barry Underwood	Corruption Prevention Network – Board Member (ex officio)
Grant Hehir	Australasian Council of Auditors-General
James Sugumar	NSW Public Sector Community of Finance Professionals Advisory Board
John Viljoen	Australasian Council of Auditors-General – Quality Assurance Review Panel
Kathrina Lo	Heads of Performance Audit Group Project Advisory Group for review of Standard on Assurance Engagements ASAE 3500 'Performance Engagements' by Auditing and Assurance Standards Board
Peter Barnes	Taxation Hardship Relief Board
Tony Whitfield	Australasian Council of Auditors-General – Financial Reporting and Auditing Committee

Services to the public sector

3 Appendix three (continued)

Presentations

Audit Office staff gave the following presentations to various public sector audiences.

Title	Presenter(s)	Date	Who
Public sector audit functions in Australia, particularly financial audit	Steven Martin Barry Underwood	1 August 2014	Chinese National Audit Office Delegation
Executive development program – the changing public sector context within New South Wales and Australia	Grant Hehir	13 August 2014	2014 NSW Public Service Commission Executive Development Program – public sector
Observations of implementation fraud control program in Local Government	Barry Underwood	28 August 2014	BPKP Indonesian Delegation
Australian Government Leadership Network Conference: Towards excellence – building capacity for change	Grant Hehir	18 September 2014	Public Service Commission
The role of the Audit Office and future of public-private partnerships	Grant Hehir	20 October 2014	Infrastructure Partnerships Australia
NSW Treasury policy launch – Certifying the effectiveness of internal controls over financial information	Steven Martin	13 November 2014	NSW Public Sector Chief Financial Officers
Oversight of the Audit Office functions, role of the Auditor-General and the Audit Office's interaction with parliament	Grant Hehir	18 November 2014	Myanmar National Parliament
Issues impacting Australian universities	Steven Martin James Sugumar	18–19 November 2014	Universities Australia Finance Officers Group
Role of the Auditor-General and challenges of good governance	Grant Hehir	21 November 2014	South East Sydney Local Health District
Infrastructure performance audits	Kathrina Lo Rod Longford Giulia Vitetta Ed Shestovsky	4 to 7 May 2015	UK National Audit Office Delegate
Ethics and leadership in the public sector – ensuring integrity – role of watchdog agencies	Grant Hehir	8 May 2015	Public Service Commission
Reporting in the NSW public sector	Steven Martin Rod Longford David Daniels	28 May 2015	The Audit Board of the Republic of Indonesia Delegation
Financial reporting in NSW Ministry of Health	Chris Clayton Robert Hayek	10 June 2015	NSW Ministry of Health Financial Accountants Forum
Enterprise risk management maturity model	Bola Oyetunji	19 June 2015	Chairs of NSW Agencies' Audit and Risk Committees
Key messages from 2014 audits	Tony Whitfield	19 June 2015	Chairs of NSW Agencies' Audit and Risk Committees

Services to the profession

4 Appendix four

Memberships

Audit Office staff were members of the following committees, professional associations, panels or working parties.

Alison Gatt	Module Advisory Committee for the Audit and Assurance module
Alison Gatt	Chartered Accountants Australia and New Zealand – Research Group
Alison Gatt	Macquarie University Department of Accounting – Departmental Advisory Board
Alison Gatt	Australian Prudential Regulatory Authority – Superannuation National Audit Consultative Committee
Chris Giumelli	CPA Australia – Public Sector Committee
Grant Hehir	Australian Institute of Company Directors
Vijyata Kirpalani	Chartered Accountants Australia and New Zealand Young Professional Panel – Chair
Lambros Lambropoulos	Information Systems Audit and Control Association (ISACA) – Director, Sydney Chapter
Steven Martin	Chartered Accountants Australia and New Zealand Accounting, Assurance and Governance Discussion Group
Scott Stanton	CPA Australia – NSW Divisional Council CPA Australia – NSW Divisional Council representative to the Public Sector Committee
Tony Whitfield	International Governance and Performance Research Centre – Advisory Panel

Education

Audit Office staff contributed to these professional publications, resources and qualification programs.

Lambros Lambropoulos	Contributing author – ‘Strategic Planning: A Guide to Strategic Planning for Board and Management Teams’
Weini Liao	CPA Australia – Subject Matter Expert in the Financial Accounting and Reporting standard setting workshop
Xin Yin Oii	Institute of Actuaries of Australia – Chartered Enterprise Risk Actuary



Services to the profession

4 Appendix four (continued)

Submissions to professional bodies

The Audit Office coordinates the efforts of all Australian audit offices developing responses to professional bodies on pronouncements they have exposed for comment. We determine which will impact audit offices, our clients or the public sector in general. We have prepared or contributed to the following responses by the Australasian Council of Auditors-General.

Title	Date
AASB – Australian Accounting Standards Board	
Tentative Agenda Decision 'Recognition of Residual Value for Infrastructure Assets'	22 April 2015
AUASB – Auditing and Assurance Standards Board	
Exposure Draft 01/14 'Proposed Standard on Assurance Engagements ASAE 34XX Assurance Engagements on Controls (Replacement of AUS 810)'	22 August 2014
Exposure Draft 01/15 'Reporting on Audited Financial Reports – New and Revised Auditor Reporting Standards and Related Conforming Amendments'	26 June 2015
IAASB – International Auditing and Assurance Standards Board	
Exposure Draft 'Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements'	10 September 2014
IPSASB – International Public Sector Accounting Standards Board	
Consultation Paper 'The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities'	19 December 2014

Presentations

Audit Office staff gave the following presentations to various professional auditing and accounting, and other audiences.

Title	Presenter(s)	Date	Who
Risk transformation panel	Grant Hehir	23 July 2014	Public and private sector at KPMG
Changing our stripes – can the public sector push the boundaries of private sector performance?	Grant Hehir	29 July 2014	Institute of Internal Auditors
Role of the Auditor-General and Audit Office and how changes may impact accountants in government	Grant Hehir	16 September 2014	Sydney accountants in government discussion group – CPA Australia
Excel-lent errors – client spreadsheets and the risks they present	Brett Chaiyawat	12–13 March 2015	Chartered Accountants Australia and New Zealand
Contestability – the public sector business model of the future	Grant Hehir	16 March 2015	Institute of Internal Auditors – SOPAC Conference
Public sector ARIS – getting ready for reporting season – early close/year end audits	John Viljoen	17 March 2015	Delegates from NSW Government Agencies
Excel-lent errors – client spreadsheets and the risks they present	Brett Chaiyawat	24 March 2015	Chartered Accountants Australia and New Zealand Audit Conference, Melbourne
Excel-lent errors – client spreadsheets and the risks they present	Brett Chaiyawat	17 April 2015	Chartered Accountants Australia and New Zealand Audit Conference, Brisbane
Governance in the public sector	Barry Underwood	13 May 2015	Corruption Prevention Network
Government financial reporting update	Grant Hehir	18 May 2015	Ernst & Young
Protecting infrastructure	Kathrina Lo	20–21 May 2015	National Security Australia Conference, Melbourne
Corporate governance forum 2015 – a new era in governance	Grant Hehir	5 June 2015	Governance Institute of Australia
Fraud improvement kit – managing your fraud control obligations	Barry Underwood	10 June 2015	Corruption Prevention Network
Career lessons from the masters – Sydney accountants in government	Tony Whitfield	16 June 2015	Sydney Accountants in Government (SAG) Discussion Group – CPA Australia
The role and functions of a best practice CFO and where a CFO needs to focus to maximise impact and value	Barry Underwood	26 June 2015	The Public Sector Committee Annual Breakfast 2015 – CPA Australia

Publications

5 Appendix five

Financial audit reports

Volume	Focus	Date released
Volume Three 2014	Members' Additional Entitlements	1 July 2014
Volume Four 2014	NSW State Finances	28 October 2014
Volume Five 2014	Electricity and Water	11 November 2014
Volume Six 2014	Premier and Cabinet	13 November 2014
Volume Seven 2014	Transport	18 November 2014
Volume Eight 2014	Police and Justice	20 November 2014
Volume Nine 2014	Family and Community Services	25 November 2014
Volume Ten 2014	Treasury and Finance	27 November 2014
Volume Eleven 2014	Planning and Environment	4 December 2014
Volume Twelve 2014	Health	9 December 2014
Volume Thirteen 2014	Education and Communities	11 December 2014
Volume Fourteen 2014	Trade and Investment	15 December 2014
Volume One 2015	Areas of Focus from 2014	20 February 2015
Volume Two 2015	Universities	28 May 2015
Volume Three 2015	Members' Additional Entitlements	25 June 2015

Performance audit reports

Agencies audited	Performance audit report	Date released
<ul style="list-style-type: none"> Environment Protection Authority Department of Trade and Investment Regional Infrastructure and Services 	Managing Contaminated Sites	10 July 2014
<ul style="list-style-type: none"> Department of Education and Communities 	The Learning Management and Business Reform Program	17 December 2014
<ul style="list-style-type: none"> Roads and Maritime Services WestConnex Delivery Authority Infrastructure NSW Transport for NSW NSW Treasury Department of Premier and Cabinet 	WestConnex: Assurance to the Government	18 December 2014
<ul style="list-style-type: none"> Transport for NSW Roads and Maritime Services Sydney Water Corporation 	Security of Critical IT Infrastructure	21 January 2014
<ul style="list-style-type: none"> Department of Education and Communities 	Vocational Education and Training Reform	29 January 2014
<ul style="list-style-type: none"> NSW Health 	Managing Length of Stay and Unplanned Readmissions in NSW Public Hospitals	23 April 2015
<ul style="list-style-type: none"> Department of Trade and Investment Regional Infrastructure and Services – NSW Office of Water 	Country Towns Water Supply and Sewerage Program	4 May 2015
<ul style="list-style-type: none"> NSW Treasury Infrastructure NSW Transport for NSW NSW Health Roads and Maritime Services Sydney Trains Venues NSW Department of Primary Industries 	Large Construction Projects: Independent Assurance	7 May 2015
<ul style="list-style-type: none"> Department of Premier and Cabinet Destination NSW Sydney Opera House Department of Trade and Investment, Regional Infrastructure and Services 	Government Advertising	22 June 2015
<ul style="list-style-type: none"> Department of Premier and Cabinet NSW Treasury NSW Ministry of Health Department of Education and Communities Transport for NSW NSW Police Force 	Implementing Performance Audit Recommendations	24 June 2015
<ul style="list-style-type: none"> Office of Finance and Services Office of State Revenue 	Efficiency and Effectiveness in Tax Collection	25 June 2015



Publications

5 Appendix five (continued)

Professional Update

Professional Update is produced by our Audit Support team with the main purpose of informing our readers of current issues in the accounting and auditing industry.

Professional Update was published in the following months:

July 2014

August 2014

September 2014

October 2014

November 2014

February 2015

March 2015

April 2015

May 2015

June 2015

Annual report

Annual Report 2013–14

Total external production costs for the Annual Report 2014–15: \$0.

EEO, ethnic affairs priorities and disability action plan

6 Appendix six

Trends in the representation of EEO groups

	Benchmark/Target*	2013	2014	2015
EEO Group	%	% of total staff		
Women	50	52.7	51.2	50.2
Aboriginal people and Torres Strait Islanders	2.6	0	0	0
People whose first language was not English	19	44.9	45.7	40.4
People with a disability	n/a	3.1	2.2	2.7
People with a disability requiring work-related adjustment	1.5	1.4	0.9	2

Trends in the distribution of EEO groups

	Benchmark/Target*	2013	2014	2015
EEO Group	%	% of total staff		
Women	100	94	96	100
Aboriginal people and Torres Strait Islanders	100	0	0	0
People whose first language was not English	100	89	94	98
People with a disability	100	n/a	n/a	n/a
People with a disability requiring work-related adjustment	100	n/a	n/a	n/a

* Provided by the Public Service Commission.

¹ A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

² The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.



EEO, ethnic affairs priorities and disability action plan

6 Appendix six (continued)

EEO outcomes

In 2014–15, the Audit Office prioritised the following policies and programs:

- reviewed and updated all work health and safety policies and reinforced these to all staff, including individual responsibilities
- educated and trained all staff to handle bullying and harassment, and encourage anti-discriminatory behaviour
- key policies and practices implemented by leveraging off workforce data
- work-life balance and flexible working practices championed across the organisation
- a performance management framework, including a performance management system, developed for use in the 2015–16 financial year
- quarterly reporting which is escalated to the Office Executive on all safety initiatives, such as metrics on safety key performance indicators.

In 2015–16, we will focus on the following policies and programs:

- building on work done of measuring the effectiveness of our work health and safety policies and practices to mitigate serious injury or risk
- building on our bullying and harassment and anti-discrimination awareness by continuing training
- continuing to utilise workforce data to inform development of key policies and practices
- continuing to champion work-life balance and promote the use of flexible work practices
- implementing the performance management system due to launch in July 2015
- reviewing our remuneration process and building strong links to performance agreements
- taking a more responsive approach to learning and development needs of the business
- clarifying and strengthening our employee value proposition.

Multicultural Policies and Services Program

The Audit Office's activities are centred on providing services to parliament and government agencies, not directly to members of the public. Therefore we have limited capacity to address multicultural services issues.

We respect the rights of Australian citizens and residents who wish to become citizens to seek employment from advertised vacancies in the Audit Office.

Our employment record is evidence of the support for cultural diversity. Our commitment is reflected in the number of racial, ethnic and ethno religious groups that comprise our staff.

Our Multicultural Policies and Services Program Statement is our planning document showing we will address the needs of a culturally diverse society.

Disability Action Plan

Our Disability Action plan continues to meet the needs of people with a disability, both staff and clients, by:

- ensuring their access to the Audit Office premises and the premises they need to visit in the course of their duties
- ensuring their access to information about the services of the Audit Office
- improving their employment opportunities at the Audit Office
- ensuring they have all the tools and equipment they need to conduct their work.



Accounts payable performance

7 Appendix seven

Aged analysis at the end of each quarter

Quarter	Current (i.e. within due date) \$'000	Less than 30 days overdue \$'000	Between 30 and 60 days overdue \$'000	Between 60 and 90 days overdue \$'000	More than 90 days overdue \$'000
All suppliers					
September	361,470	14,884	–	–	–
December	471,497	51,299	–	–	–
March	298,230	–	1,170	–	–
June	298,230	88,143	–	–	–
Small business suppliers					
September	105,536	–	–	–	–
December	5,367	5,280	–	–	–
March	21,864	–	–	–	–
June	13,744	145	–	–	–

Accounts due or paid within each quarter

Measure	September \$'000	December \$'000	March \$'000	June \$'000
All suppliers				
Number of accounts due for payment	850	653	755	1,075
Number of accounts paid on time	789	589	504	785
Actual percentage of accounts paid on time (based on number of accounts)	93%	90%	67%	73%
Dollar amount of accounts due for payment	5,442,534	13,263,183	10,007,440	11,147,673
Dollar amount of accounts paid on time	5,051,952	11,963,269	9,918,163	10,724,623
Actual percentage of accounts paid on time (based on \$)	93%	90%	99%	96%
Number of payments for interest on overdue accounts	–	–	1	–
Interest paid on overdue accounts	–	–	92	–
Small business suppliers				
Number of accounts due for payment to small businesses	29	39	38	72
Number of accounts due to small businesses paid on time	24	36	20	47
Actual percentage of small business accounts paid on time (based on number of accounts)	83%	92%	53%	65%
Dollar amount of accounts due for payment to small businesses	121,828	70,716	62,056	55,144
Dollar amount of accounts due to small businesses paid on time	100,823	65,276	44,531	42,092
Actual percentage of small business accounts paid on time (based on \$)	83%	92%	72%	76%
Number of payments to small business for interest on overdue accounts	–	–	–	–
Interest paid to small businesses on overdue accounts	–	–	–	–

Commentary

During the year we paid the majority of our accounts on time, and we achieved our target of 90 per cent for the year. When comparing to the previous year, the actual payment of accounts on time at 94 per cent is an increase on last year's 88 per cent. Staff turnover in the third quarter of the financial year caused a delay in processing payments during the recruitment and training period. A new practice management system was implemented at the beginning of the 2014–15 financial year, which has assisted timely processing of invoices and approvals. Processes in this system are continually being improved.

Interest on late payments

We had one instance of penalty interest for a delayed payment to a supplier. The late payment amounted to \$92 (over seven day terms). The delay was attributed to the invoice being held up for coding to correct audit-related matter expense accounts.

Credit Card Certification

The Corporate Credit Policy was last reviewed and updated in January 2014 and considered current. All corporate credit cards were replaced by purchasing cards in January 2014 at the Audit Office in accordance with NSW Treasury's requirement. The policy and controls applied to the use of credit cards are applicable and applied to the use of the purchasing cards. The rules are consistent with government policy as outlined in Treasurer's Directions and NSW Treasury Circulars. For the 2014–15 financial year credit/purchasing card use by officers of the Audit Office has been in line with government requirements.



Consultants

8 Appendix eight

Consultants

A consultant in the Audit Office is referred to as a person or organisation that provides expert advice professionally to assist decision-making. The Audit Office consultancy expenses for 2014–15 were \$361,000, provided by 13 organisations. The consultancy services were provided for audit specialist services, quality assurance and benchmarking for a Human Resources review.

Contracts of \$50,000 or more

Consultant	Nature of service	Amount \$
Oakton Services Pty Ltd	Project quality assurance	162,470
Mercer Australia Pty Ltd	Market practice research and benefits benchmarking	91,179
Infosec Services Pty Ltd	Audit services – critical infrastructure, performance audit	65,700
Total contracts of \$50,000 or more	(3 contracts)	319,349

Contracts of \$50,000 or less (total)	(10 contracts)	41,651
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Total expenditure for 2014–15	361,000
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Digital information security annual attestation statement

9 Appendix nine

Digital Information Security Annual Attestation Statement for the 2014–15 Financial Year for the Audit Office of New South Wales

I, Tony Whitfield, am of the opinion that the Audit Office of New South Wales had an Information Security Management System in place during the 2014–15 financial year that is consistent with the Core Requirements set out in the NSW Government Digital Information Security Policy.

The controls in place to mitigate identified risks to the digital information and digital information systems of the Audit Office of New South Wales are adequate.

There is no agency under the control of the Audit Office of New South Wales which is required to develop an independent ISMS in accordance with the NSW Government Digital Information Security Policy.

The Audit Office of New South Wales has maintained certified compliance with ISO 27001 Information technology – Security techniques – Information security management systems – Requirements by an Accredited Third Party during the 2014–15 financial year.



A T Whitfield PSM

Acting Auditor-General

Sydney, 4 September 2015

GIPA application information

10 Appendix ten

Commentary on applications for information under the *Government Information (Public Access) Act 2009* (the GIPA Act) can be found on page 54.

Table A: Number of applications by type of applicant and outcome*

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of parliament	0	0	0	0	0	0	0	0
Private sector business	0	0	0	0	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	0	0	0	0	0	0	0	0
Members of the public (other)	0	2	1	0	0	0	0	0

* More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to table B.

Table B: Number of applications by type of application and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Personal information applications*	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	0	2	1	0	0	0	0	0
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

* A 'personal information application' is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

Table C: Invalid applications

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	1
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act

	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	3
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

* More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of the Act

	Number of occasions when application not successful
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice	0
Business interests of agencies and other persons	0
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

Table F: Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	3
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
Total	3

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner*	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by Administrative Decisions Tribunal	0	0	0
Total	0	0	0

* The Information Commissioner does not have the authority to vary decisions, but can make recommendation to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.

Table H: Applications for review under Part 5 of the Act (by type of applicant)

	Number of applications for review
Applications by access applicants	0
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

Table I: Applications transferred to other agencies under Division 2 of Part 4 of the Act (by type of transfer)

	Number of applications transferred
Agency-initiated transfers	0
Applicant-initiated transfers	0



Public interest disclosures information

11 Appendix eleven

Commentary on public interest disclosures and the *Public Interest Disclosures Act 1994* can be found on page 57.

Statistical information on Public Interest Disclosures (PIDs) for the period 1 July 2014 to 30 June 2015

	Categories of wrongdoing																	
	Corrupt conduct			Mal-administration			Serious and substantial waste			Government information contravention			Local government pecuniary interest contravention			TOTAL		
	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other	Function	Stat.	Other
Number of public officials who made PIDs direct to the Audit Office	–	–	2	–	–	–	–	–	6	–	–	–	–	–	–	–	–	8
Number of PIDs made directly to your investigating authority	–	–	2	–	–	–	–	–	6	–	–	–	–	–	–	–	–	8
Number of PIDs received by your investigating authority under section 25 of the PID Act	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Number of PIDs received by your investigating authority under section 26 of the PID Act	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total number of PIDs	–	–	2	–	–	–	–	–	6	–	–	–	–	–	–	8		

	Corrupt conduct			Mal-administration			Serious and substantial waste			Government information contravention			Local government pecuniary interest contravention			TOTAL		
Number of PIDs referred to a public authority under section 25 of the PID Act	–			–			–			–			–			–		
Number of PIDs referred to another investigating authority under section 25 of the PID Act	2			–			–			–			–			2		
Number of PIDs handled solely by your investigating authority	–			–			5			–			–			5		
Number of PIDs handled with a public authority	–			–			–			–			–			–		
Number of PIDs handled with another investigating authority	–			–			–			–			–			–		
Total number of PIDs	2			–			–			–			–			7		

Number of PIDs handled by commencing a formal investigation	–			–			–			–			–			–		
Number of PIDs finalised	2			–			5			–			–			7		



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Glossary

Audit evidence

Audit evidence is examined to determine the accuracy of account balances in the financial statements. Main sources of audit evidence are: inspection (records or tangible assets); observation; external confirmation; re-calculation; re-performance; analytical procedures; and enquiry.

Audit methodology

A particular set of processes or procedures that when applied in combination will provide adequate assurance about the risk of material misstatement in financial statements, and will document the audit in compliance with Australian Auditing Standards.

Audit and Risk Committee

Provides the Auditor-General with independent assurance on the Audit Office's financial reporting, risk management and organisational processes.

Australasian Council of Auditors-General

Association established by Auditors-General for their mutual support and the sharing of information.

Controlled entity

A controlled entity exists when another entity has the power to govern its financial and operating policies over and obtain benefits from its activities.

CPA

Accounting body CPA Australia.

CA

Accounting body Chartered Accountants Australia and New Zealand.

Gateway review

A series of structured reviews that are held at key decision points (gates) in the procurement process.

Internal control framework

An integrated set of policies and procedures designed to assist management achieve its goals and objectives.

Management letter

Letter sent to client outlining financial information found in audit.

Material misstatements

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

Modified auditor's opinion

Modifications of an audit opinion can be adverse, qualified or disclaimed. Adverse opinions are issued when misstatements in the financial statements are material and pervasive. Qualified opinions are issued when there are material misstatements in the financial statements or we cannot get all the evidence we require. An opinion is disclaimed only where auditors cannot get the evidence they need and the effects could be material and pervasive.

Risk Management Policy

A policy setting out the how the risks which have been identified by the risk assessment procedure will be managed and controlled.