

# Annual Report 2017/18

# annual report 2017–18

This annual report summarises the activities and performance of the Audit Office of New South Wales for 2017–18 against the main goals, strategies and targets in its corporate 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.

[audit.nsw.gov.au](http://audit.nsw.gov.au)



Our insights inform and challenge government to improve outcomes for citizens

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Under section 12A of the *Annual Reports (Statutory Bodies) Act 1984*, I have pleasure in submitting for the information of members this report of the activities of the Audit Office of New South Wales for the year ended 30 June 2018.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

**Margaret Crawford**  
Auditor-General  
18 October 2018

**Cover: Orchard Hills, Penrith – the Audit Office audited the Penrith City Council for the first time in 2017–18**

During 2017–18 our people travelled extensively throughout New South Wales, including metropolitan, regional and rural areas, to undertake the first audits of local and county councils under our new local government mandate.

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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 (no age limit), and prevented acceptance of any other post in the NSW public service.
- 2001** Auditor-General's role expanded to report 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.
- 2016** The *Local Government Act 1993* expanded the Auditor-General's mandate to include financial and performance auditing of local government.



# Our organisation

## Built on strategic foundations

### Our vision

Our insights inform and challenge government to improve outcomes for citizens.

### Our purpose

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

### Our values

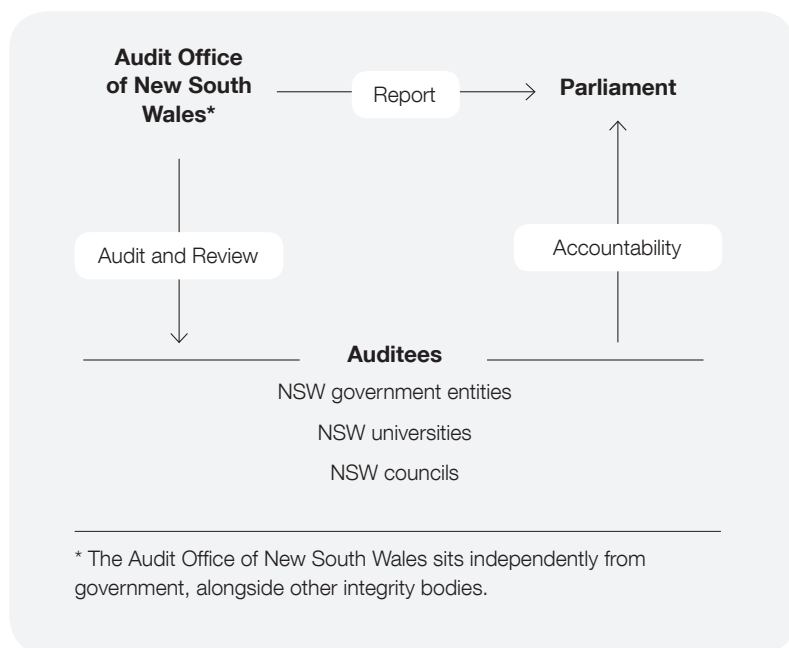
**Purpose** – we have an impact, are accountable, and work as a team.

**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 stakeholders

- NSW Parliament
- NSW citizens
- NSW government entities
- NSW universities
- NSW councils.



### 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.

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

### What we do

The Auditor-General reports to the NSW Parliament and 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 *Local Government Act 1993*.

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

Performance audits review whether public money is spent efficiently, effectively, economically and in accordance with the law.

Special audits are sometimes conducted to confirm that specific legislation, directions and regulations have been adhered to.

The Auditor-General also provides certain assurance services over Commonwealth grants and payments to the NSW government and local government under Commonwealth legislation.

### Our resources

278 full-time equivalent staff at the Audit Office at 30 June 2018.

\$48 million revenue from government entities, councils and universities for audits of their financial statements.

\$10.3 million from the government for our performance and compliance audits and reports to parliament.

33 per cent of our financial audit work is delivered in partnership with external audit service partners.



## Parliament

92 per cent of parliamentarians agreed we operate independently from government.

89 per cent agreed we perform audits with integrity.

89 per cent agreed our reports and services help improve public sector administration.

87 per cent satisfied with the Audit Office's reports and services.

92 per cent agreed our reports and services provide valuable information on public sector performance.

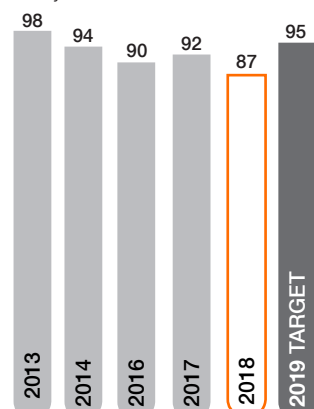
100 per cent of audits reported to parliament on time.

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

● Refer to page 10

## Overall satisfaction %

% satisfied or very satisfied  
Survey not conducted in 2015



## Government entities, universities and councils

Overall performance index for performance audits 81.

Overall CFO performance index for financial audits 76.

93 per cent of performance audit recommendations accepted.

95 per cent of financial audit recommendations accepted.

19 performance audits or compliance audits completed, including 3 under our new mandate to audit local government.

550 financial audits completed, including 139 under our new mandate to audit local government.

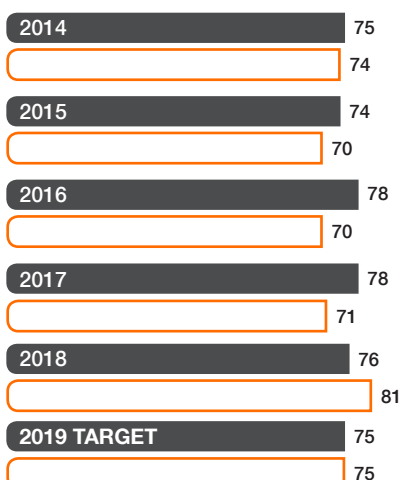
91 per cent of financial audit opinions issued within ten weeks.

● Refer to page 18

## Overall performance index

Aggregate performance indices

Financial audit clients (CFO only)  
Performance audit clients



## People

66 per cent staff satisfaction.

69 per cent staff engagement.

78 per cent of staff report reasonable to very high morale.

71 per cent of staff describe the Audit Office as 'a great place to work'.

12 per cent staff turnover.

58 per cent of middle management are women.

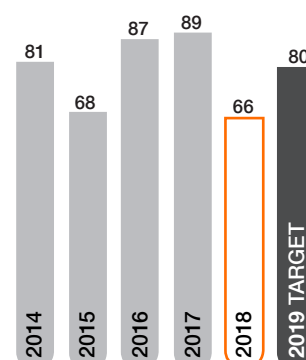
50 per cent of executive and senior leadership are women.

5 notifiable injuries and 2 new workers' compensation claims.

5-star greenhouse building rating maintained.

● Refer to page 38

## Staff satisfaction %



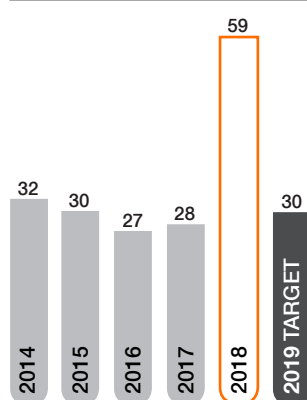
## Profession

59 presentations made, 31 more than last year

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

• Refer to page 48

### Presentations delivered



## Governance

The Audit Office received 1 formal GIPA access application.

We received and examined 17 public interest disclosures.

• Refer to page 52

## Finances

\$0.7 million cumulative surplus (excluding superannuation adjustments) over a four year period, close to our break-even target

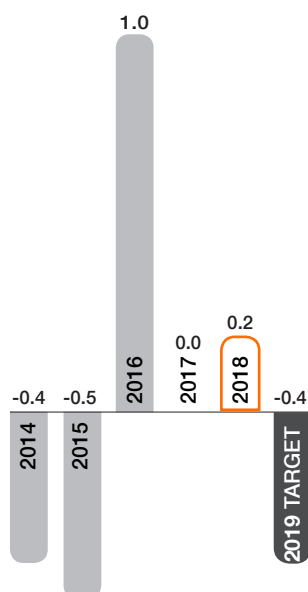
\$0.2 million result for 2017–18 (excluding superannuation adjustments)

99 per cent of our creditors were paid on time.

• Refer to page 64

### Operating result 2017–18/\$m

Excluding superannuation



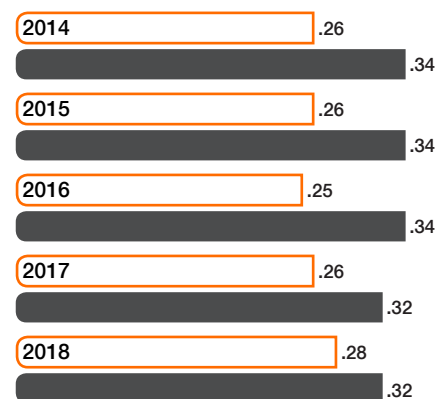
## Benchmarks

Our costs compare favourably with other Australian audit offices

We benchmark ourselves against the national average for audit offices.

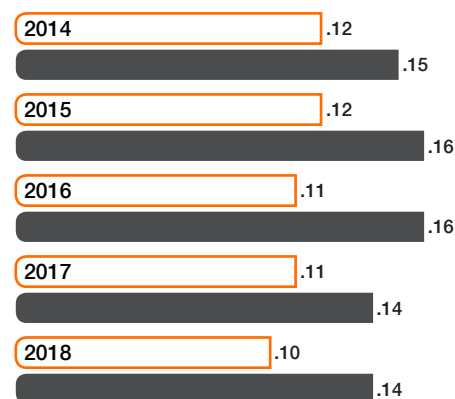
### Total audit costs (excluding payroll tax) per \$'000 of public sector transactions \$

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

Our vision and commitment is to provide insights that inform and challenge government to improve outcomes for citizens

This report covers the second full year of my term as Auditor-General and marks a time of considerable challenge and achievement.

We have fully established our new local government mandate as an integral part of our business, released a new approach to setting our forward audit program, improved our parliamentary reporting, created an Office of the Auditor-General, and consolidated a new executive team. These adjustments aim to achieve our vision of providing the Parliament of New South Wales and the entities we audit with accurate, timely and relevant insights that inform and challenge government to improve outcomes for citizens.

## First full year of local government audits

Following our appointment on 1 October 2016 as the auditor of NSW local government councils, we completed our first full year of audits of all NSW local council's financial statements. We also released three performance audits of the local government sector. Importantly, we tabled our first whole-of-sector report on local government in April 2018 – a ground breaking report in that it presents, for the first time, a consistent view of financial performance across the NSW local government landscape.

I am particularly proud of these significant achievements. Adding to this, my staff have continued their considerable efforts of the previous year to build an understanding of, and relationships with, councils and the many organisations that make up the local government sector. Our partnership with the audit service providers we engage to conduct audits on our behalf has continued to mature and provide increasing value to the councils we audit, the communities they serve; and to parliament.

## A new annual work plan

Throughout the year we worked with stakeholders to refine our approach to choosing audits for the coming year, leading to the publication in July 2018 of our 2018–19 Annual Work Program. This audit work plan explains how we decide what to focus on, what we intend to cover in the next year and broad areas of audit for the following two years. It also gives parliament, the entities we audit and the broader community some certainty over future topics and the timing of our reports.

We plan to publish this annually and will continue to refine our approach, listen to feedback, and adapt to changing circumstances or requests for audits.

## Improved reporting to parliament

During the year we introduced two new reports and standardised the look and feel of our regular reports to parliament.

The first of these new reports was dedicated to internal controls and governance. It was designed to help parliament understand broad issues affecting the public sector, and help agencies to compare their own performance against their peers. The report covered the findings and recommendations from our 2016–17 financial audits of the 39 largest agencies in the NSW public sector. These agencies are a large enough group to identify common issues and insights.

We also released a report on performance audit insights. In this report, we presented common findings and lessons from the past four years of performance audits and offered insights on elements of effective performance. We analysed the key findings and recommendations from 61 performance audits tabled in the Parliament of New South Wales between July 2014 and June 2018,

spanning varied areas of government activity.

These two new reports supplement our regular reports on our financial and performance audits that were redesigned during the year to provide a more contemporary look and ease of read.

In combination, I hope the new reports and design will add clarity to our findings and lead to demonstrable improvements to public administration in New South Wales.

## New structure and executive team

In late 2017, I created an Office of the Auditor-General to better support my deputy and I to manage workflow and engage more effectively with external stakeholders. The Office of the Auditor-General is separate from the operational audit and corporate service areas. In this way, it is able to provide assurance over the quality of the work we produce in addition to providing governance and technical functions.

The Director of the Office of the Auditor-General and the Executive Director Quality and Innovation attend all meetings of the Office Executive to challenge and offer alternative views to enrich discussions.

## Quadrennial review of the Audit Office

Once in every parliament, the Legislative Assembly Public Accounts Committee undertakes a quadrennial review of the performance of my office. This review was undertaken at the end of 2017 and the outcomes were tabled in parliament in February 2018.

The review concluded that:

'the Audit Office has demonstrated that the Auditor-General has in place methodology and tools to effectively, economically and efficiently deal with its core business and

achieve compliance with the appropriate standards.'

This supports my view that the Audit Office is a very professional office that continues to provide valued audit services to parliament, the organisations we audit and the citizens of New South Wales.

The review went on to say that:

'Without affecting our conclusion, we have made a number of recommendations to assist in further strengthening and improving the effectiveness and efficiency of the AONSW [Audit Office of New South Wales].'

It recommended:

- that a 'follow the dollar' mandate is required in order to restore the oversight that the Auditor-General has traditionally had over public spending
- the staged introduction of a mandate to provide assurance over performance measures, and that
- the Audit Office should conduct an independent review of the NSW Budget annually as a formal requirement.

These recommendations recognise contemporary approaches in public sector management, like commissioning, and would ensure greater accountability and transparency over the use of public resources.

### IMPACT Conference

In March 2018, we hosted IMPACT – the International Meeting for Performance Audit Critical Thinkers.

This biennial conference was held in Sydney and brought together performance auditors and public sector leaders from around

Australasia and other nations for two days of thought-provoking discussion about the changing nature of government and the contribution performance auditors can make. We heard from leading international and Australian speakers on public sector management, transparency and accountability.

To host a conference of this scale and profile was a major undertaking for our office. The feedback we received from the conference was very positive and the professional connections made between our staff and those who travelled to Sydney will be lasting.

### Challenging year for the staff of the Audit Office

This year more than ever I want to thank and recognise the dedication, professionalism and resilience of all staff in the Audit Office.

The impact our expanded local government mandate has had should not be underestimated, in addition to the many other challenges and achievements of this year. This is reflected in our People Matter survey results which are down on previous years. This will be a key area of focus for myself and my executive over the coming year to ensure the Audit Office remains a high performing organisation and a great place to work.



**Margaret Crawford** Auditor-General

# Office Executive

## Experience and performance

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

### Margaret Crawford

#### Auditor-General

*Bachelor of Arts*  
*Graduate Diploma of Recreation Management*  
*Master of Business Administration*

Margaret has many years of experience as a senior executive across large, complex public sector organisations – local, state and the Commonwealth governments – including the Victorian Department of Human Services, the Australian Taxation Office, the former NSW Roads and Traffic Authority and Australia's largest local government, Brisbane City Council. Before becoming Auditor-General, she held the position of Deputy Secretary at the NSW Department of Family and Community Services.

Margaret has worked across a diverse range of sectors, including housing and homelessness, community and disability services, road transport policy and regulation, taxation administration, and gaming regulation.

### Ian Goodwin

#### Deputy Auditor-General

*Bachelor of Business*  
*Chartered Accountant Fellow*

Ian's early career was in banking and capital markets, working at the Reserve Bank of Australia, a 'Big Four' accounting firm and the International Monetary Fund in Washington DC. Returning to Australia, Ian joined the Australian National Audit Office (ANAO) and as a Group Executive Director was responsible for leading the ANAO's Assurance Audit Services Group and the audit of the Australian Government's Consolidated Financial Statements. Ian is a Chartered Accountant Fellow and was an ACT Regional Councillor for Chartered Accountants Australia and New Zealand. Ian is also a commissioned officer in the Australian Army and dedicates time to his role as a Squadron Commander in the Australian Army Reserve.

### Alison Gatt

#### Assistant Auditor-General, Financial Audit

*Bachelor of Commerce*  
*Chartered Accountant Fellow*

Alison Gatt has had audit and finance roles in both the private and public sectors. Prior to joining the Audit Office, Alison worked at the Australian National Audit Office, Westpac and KPMG's Orange County Office in California. Alison's most recent role was Director of the Audit Office's Audit Support Team, providing specialist technical support to the Office's financial audit teams. Alison contributes strongly to the profession, the sector and the community through her roles on boards and advisory panels.

### Steven Martin

#### Assistant Auditor-General, Financial Audit (see note below)

*Bachelor of Business*  
*Chartered Accountant*  
*Graduate Australian Institute of Company Directors*

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

### Scott Stanton

#### Assistant Auditor-General, Financial Audit

*Bachelor of Commerce*  
*Fellow Certified Practising Accountant*  
*Graduate Australian Institute of Company Directors*

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 and university sectors. Scott has previously served on CPA Australia's NSW Divisional Council and is a past Chair of CPA Australia's NSW Public Sector Committee.

### Claudia Migotto

#### Assistant Auditor-General, Performance Audit

*Bachelor of Arts (Honours)*  
*Master of Public Health*  
*Master of Policy Studies*

Claudia has over 15 years experience across Commonwealth and NSW government agencies in policy and program development, implementation and evaluation. Claudia has also recently held leadership roles in agencies tasked with providing independent information to the community on the performance of governments – including the COAG Reform Council and the National Mental Health Commission. Her work in reporting on the performance of governments has touched on a diverse range of sectors, including health system performance, disability, mental health and drug and alcohol issues, gender equity, Indigenous communities regulation and housing.

### Lyndal Hayward

#### Executive Director, Corporate Services

*Bachelor of Arts*  
*Graduate Diploma of Editing and Publishing*  
*Master of Business Administration*  
*Executive Master of Public Administration*

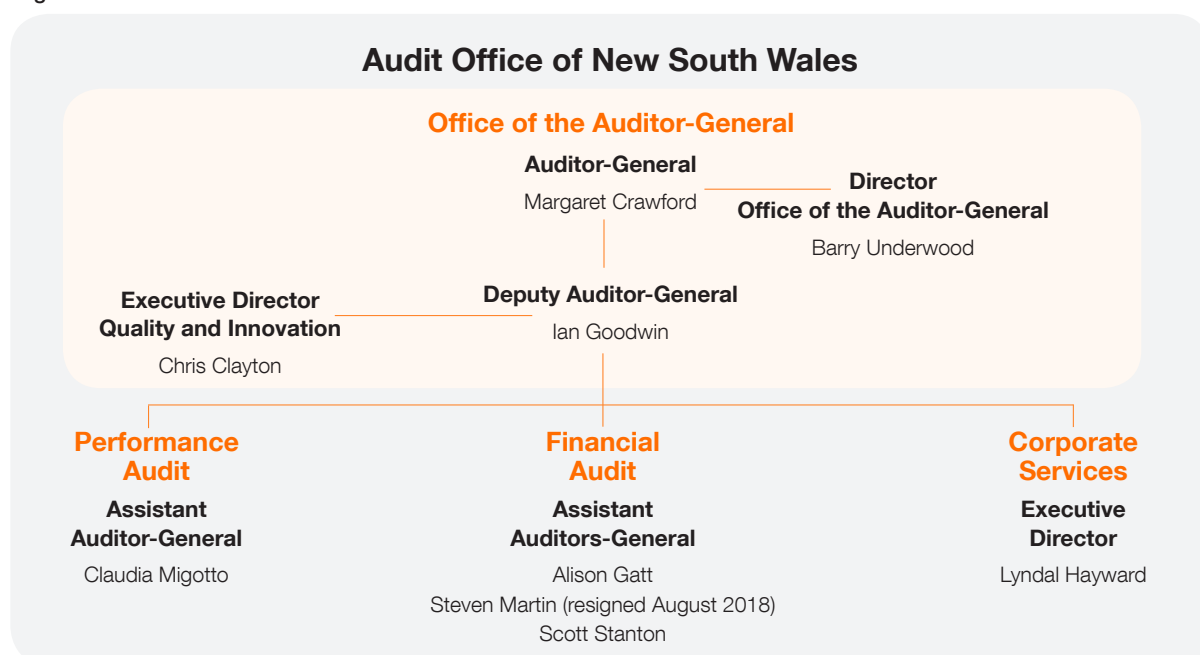
Lyndal's early career was in publishing where she worked for some of the world's leading book publishing houses in Sydney, London and Tokyo. Lyndal joined the Audit Office in 2009 and has worked in a variety of roles across communications, reporting, records and information management, human resources, business administration and project management.

Note: Steven Martin resigned from the Audit Office on 17 August 2018. Karen Taylor has been acting as Assistant Auditor-General, Financial Audit with permanent recruitment to the role to take place in the second quarter of 2018–19.





Organisational structure at 30 June 2018



# The year ahead

## Our activity in 2018–19 will be driven by our Corporate Plan

### Corporate planning framework

Our activity in 2018–19 will be driven by our corporate planning framework comprised of:

- Corporate Plan 2017–2020
- Future State Roadmap
- branch business plans
- individual staff performance agreements.

Together, these plans support the Audit Office to achieve its vision:

*Our insights inform and challenge government to improve outcomes for citizens.*

### Strategic initiatives

Six strategic initiatives are focussed on building the organisational capabilities needed to achieve our vision. All the activities in these initiatives are included in what we call our Future State Roadmap.

#### Local Government

The *Local Government Amendment (Governance and Planning) Act 2016* appointed the Auditor-General as the auditor of local government entities from 2016–17.

In 2017–18, we completed 139 financial audits of local and county councils which we reported in our inaugural Report on Local Government 2017, and three performance audits. Reviewing lessons learnt from these audits, we will continue to improve the delivery of high quality audit services to the local government sector. A key focus in 2018–19 will be finalising and implementing a Commissioning Strategy. This strategy will inform how we engage with the market when procuring and managing our external audit service partners.

See pages 16, 20, 22, 37, 50 and 54 for further details.

#### Influencing for Impact

The Audit Office has a strong desire to engage effectively with all our stakeholders to ensure we deliver audits that are of a high quality and lead to improved public sector reporting and performance.

Our immediate focus over the 2018–19 year will include developing a Stakeholder Engagement Strategy and delivering a new, upgraded and more functional website.

See pages 12, 14, 20, 22, 53, 54 and 63 for further details.

### Reporting Process

In this initiative we are building streamlined, efficient processes that support the production of clear, concise and insightful reports. During the 2017–18 year, significant enhancements were made both to the reporting process and the format of our reports.

Building on work to date, in 2018–19 we will review and respond to external stakeholder feedback on the new format of our reports and continue to improve the reporting process. As part of this work, we will begin work to identify a suitable software solution to support a more streamlined and collaborative authoring and review process.

See pages 11, 12 and 22 for further details.

### Working Better, Working Together

This initiative is focused on defining what our work will look like in the future, the capabilities we will need, and the culture and conditions we will need to create.

A key focus for 2018–19 is creating a new, modern office space that enables collaboration, integration and more agile ways of working. Our Future Workplace Project will be our largest and most significant project for the year ahead.

We will also develop a future-focused Workforce Strategy that ensures we have the right people in the right jobs at the right time.

Another key area for this initiative will be the implementation of a Leadership Framework, and the continued implementation of our Diversity Framework. This will also continue our work to ensure our people work in an environment of diversity and empowerment, supported by clear and focused leadership.

See pages 22, 39, 42, 45, 46 and 54 for further details.

### Data Analytics

We live in a digital world and the mass of data now available to governments present opportunities to deliver better services more efficiently and economically. This initiative seeks to use data analytics to improve the risk focus of audits and create better quality insights.

In 2017–18, we developed a local government data visualisation dashboard that accompanied our local government Auditor-General's Report to Parliament

on financial audits. In 2018–19, we will build on this experience to produce other sector dashboards, as well as develop an overarching Data Analytics Strategy.

We will also in 2018–19 implement the innovation roadmap we developed in 2017–18.

See pages 16 and 54 for further details.

### Technology and Process Innovation

Continuously improving our systems and processes is crucial to ensure our sustainability, and the efficiency and effectiveness of our work. The key areas of focus for this initiative in 2018–19 will be to uplift our cyber security maturity, enhance our corporate reporting framework — including implementing performance reporting dashboards to support management decision-making — and implement a mobile expense management tool.

See pages 40 and 54 for further details.





# Parliament

## Regularly seeks and uses our advice

The Auditor-General and the Audit Office of New South Wales provide assurance on the performance and accountability of NSW government entities, universities and local government by:

- reporting to the Parliament of New South Wales on our audits
- working closely with parliamentary committees

# Satisfaction

## Parliamentarians satisfied overall with our reports and services

95% of parliamentarians agreed we provide high quality reports and services

92% of parliamentarians agreed we operate independently from government

### Surveying our parliamentarians

Our purpose is to help parliament hold government to account for its use of public resources. It is critical that we understand parliamentarians' views on 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. This was driven by our 'Influencing for Impact' strategic initiative in 2017–18 (see page 54).

In the 2018 survey, of the 135 parliamentarians invited to complete the survey, 28 per cent responded, the same response rate as in 2017.

### Overall satisfaction down slightly

Although parliamentary satisfaction with the Audit Office's reports and services is high, satisfaction is down slightly compared to 2017. Eighty-seven per cent of parliamentarians were satisfied overall in 2018, a decrease from 92 per cent last year. Parliamentarians believe:

- in general, the Audit Office provides high quality reports and services, 95 per cent agreeing, down on 100 per cent in 2017
- the Audit Office's reports and services provide valuable information on public sector performance, with 92 per cent in

agreement, down slightly on last year's 96 per cent result

- the Audit Office's reports and services help improve public sector administration, with 89 per cent agreeing, down from 96 per cent in 2017
- the Audit Office performs audits with integrity, with 89 per cent agreeing, down on 94 per cent in 2017
- the Audit Office operates independently from government, with 92 per cent agreeing, broadly consistent with 94 per cent in 2017.

### Satisfaction with financial audit reports improved

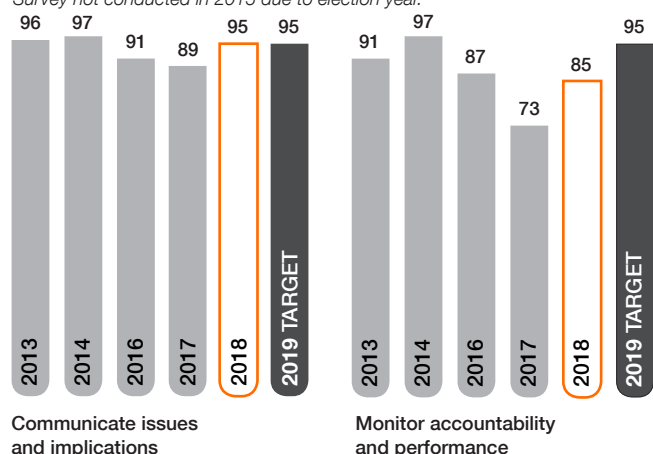
Although overall parliamentary satisfaction with the Audit Office's reports and services is down slightly on 2017, satisfaction with financial audit reports specifically has improved – in some areas significantly. The percentage of parliamentarians who agreed our financial audit reports clearly communicated the significant issues and their implications improved from 89 per cent in 2017 to 95 per cent in 2018. There was a similar increase in the number who agreed that the reports were easy to understand, from 89 per cent in 2017 to 95 per cent.

Our 'Reporting Process' strategic initiative implemented a new, more modern and accessible design for our financial audit reports in 2017–18 which seems to have improved parliamentarians' satisfaction with the layout and design of these reports, as well as how easy they are to understand.

The number of parliamentarians who agreed our reports were presented effectively in terms of layout and design improved from 85 per cent to 89 per cent. The most significant improvement was in the area of monitoring the accountability and financial performance of the NSW public sector, with 85 per cent of parliamentarians agreeing our financial audit reports help them do this, compared to 73 per cent in 2017.

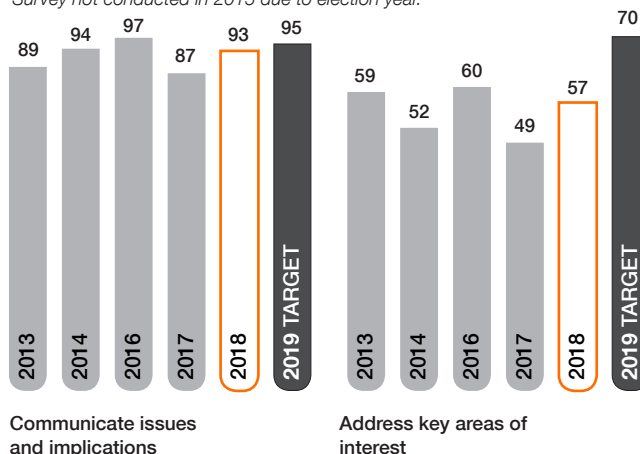
### Satisfaction with financial audit reports %

Survey not conducted in 2015 due to election year.



### Satisfaction with performance audit reports %

Survey not conducted in 2015 due to election year.



## Performance audit satisfaction improved

Similar to the satisfaction results for our financial audit reports, parliamentarians have rated the Auditor-General's Reports to Parliament for performance audits higher, with results generally improved on 2017. Ninety-five per cent agreed the reports were easy to understand, up from 84 per cent in 2017. Similarly, 93 per cent of parliamentarians agreed the reports clearly communicated significant issues and their implications, up from 87 per cent in the previous survey. Agreement that the reports were effectively presented in terms of layout and design also improved, with 92 per cent agreeing compared with 87 per cent in 2017.

As with our financial audit reports above, our 'Reporting Process' strategic initiative implemented a new, more accessible design for our performance audit reports in 2017–18 which seems to have improved parliamentarians' satisfaction with the accessibility and clarity of these reports also.

In regards to parliamentarians feeling our performance audits addressed their key areas of interest to a high or very high extent, 57 per cent agreed up from 49 per cent in 2017. Consistent with our financial audit reports above, a significant increase was in the area of monitoring the performance of the NSW public sector, with 88 per cent of parliamentarians agreeing our performance audit reports help them do this, compared to 76 per cent in 2017.

## Our reports and services compare well to other audit offices

Since 2005, we have been comparing our parliamentary survey results against results from other participating Australian audit offices.

On an overall measure of satisfaction with reports and services, 87 per cent of parliamentarians were satisfied. This is a decrease from 92 per cent in 2017 but consistent with the 88 per cent average of participating audit offices.

We rated above the average of the other audit offices on three key measures. Eighty-nine per cent agreed that our reports help improve public sector administration, above the average of 85 per cent. In regards to our reports being easy to understand, the 95 per cent result for financial audits was above the 89 per cent average for participating audit offices, and the 95 per cent result for performance audits was above the 90 per cent average for other offices. In regards to our reports clearly communicating the significant findings and implications, the 95 per cent result for financial audits was above the 88 per cent average for participating audit offices, and the 93 per cent result for performance audits was above the 88 per cent average for other offices.

## The year ahead

In 2018–19, through our 'Influencing for Impact' strategic initiative, we will:

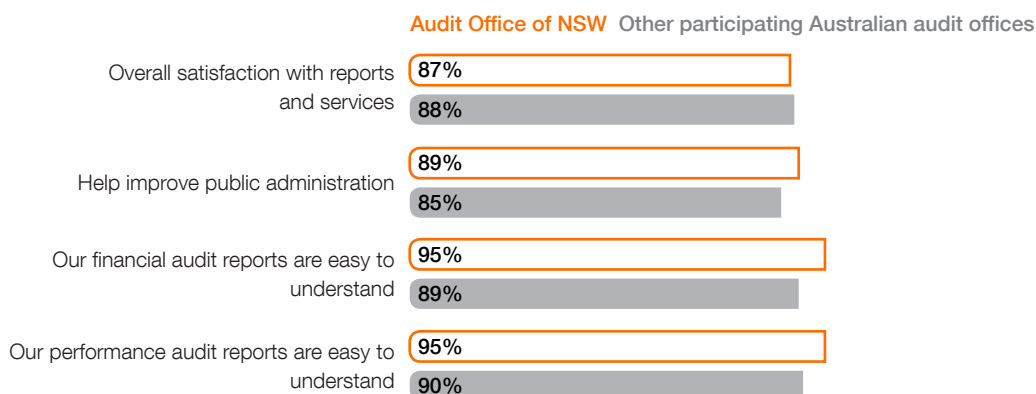
- develop a stakeholder engagement strategy that enables us to better engage with parliamentarians and ensure our reports are impactful and relevant
- build a new website to ensure our reports are delivered in a way that meets the needs of varied audiences
- strengthen government accountability through our collaborative relationship with parliament's Public Accounts Committee (PAC) (see page 17 for further details on our relationship with the PAC)
- support other parliamentary committees as required.

Through our 'Reporting Process' strategic initiative, we will:

- continue to evolve our Auditor-General's Reports to Parliament to further improve the look, layout and readability of our reports to better meet the needs of our stakeholders, including parliamentarians.

(See page 9 for further details on our 2018–19 strategic initiatives.)

## Satisfaction compared with other participating Australian audit offices



# Assurance on government finances

## Our financial audits provide assurance to parliament

550 financial audits and 583 other assurance audits and reviews completed

8 modified audit opinions issued

### Providing an independent opinion

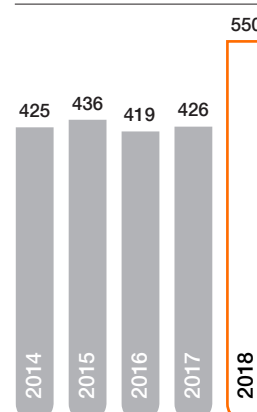
Parliament requires reliable information on the operation of NSW government entities. We provide parliament with independent audit opinions on these entities' financial statements, increasing confidence in their reliability. Our audits comply with professional quality and independence requirements as parliament needs to be assured our audits are of a high quality and objective. Our mandate further assures our independence by restricting us from providing non-audit services.

We completed 550 financial audits this year compared to 426 last year. This significant increase was due to our new mandate to audit local government with 139 audits completed under this new mandate.

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

We also provided 583 other assurance audits and reviews (79 last year) to help entities attest compliance or acquit their grant revenues. This significant increase in the number of other assurance audits and reviews is largely due to our new mandate to audit local government.

### Number of financial audits



### Modified auditor's opinions and conclusions

During 2017–18, we issued eight modified audit opinions and conclusions in our Independent Auditor's Reports (for details see pages 24–26). This represented one per cent of the 1,133 total assurance engagements we conducted. Modified opinions and conclusions included:

- 1 disclaimed opinion on an entity's financial statements
- 1 disclaimed opinion on an entity's special purpose financial statements
- 3 qualified opinions on an entity's financial statements
- 1 qualified opinion on Basic Financial Statements prepared under the United States of America's Generally Accepted Accounting Standards
- 2 qualified conclusions on a review of financial information.

Modified 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

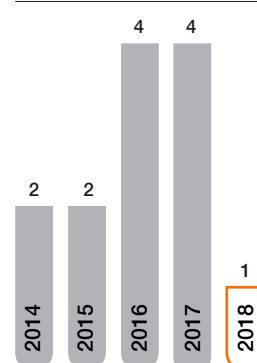
During 2017–18, we repeated three modifications, one fewer than last year. One modification relates to an engagement that is only performed every three years.

We continue to notify parliament of these modifications and encourage the entities concerned to act on our recommendations to address the underlying causes.

### New modifications

We issued five new modified opinions and conclusions in 2017–18.

### Modified audit opinions and conclusions as a % of total assurance engagements

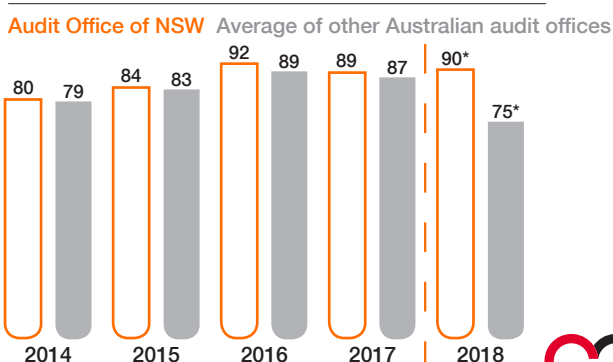


### Comparing costs with other audit offices

We compare our financial costs with other Australian audit offices. In 2017–18, our cost per financial audit was \$89,594 compared with \$75,305 across other Australian audit offices. This includes the cost of auditing the state, university and the local government sectors. The significant difference between our cost and the average is due to the inclusion of the cost of auditing the local government sector for the first time. The prior year comparisons exclude the local government sector.

\* Prior to 2018, figures include state and university costs only as these were the only sectors we audited. From 2018, our costs also include local government costs, and our costs are compared only to other audit offices who audit local government in their jurisdictions.

### Cost per financial audit opinion (\$'000)



## Our financial audit volumes

The results of our 2017 financial statement audits were reported to parliament in 12 volumes of the Auditor-General's Reports to Parliament in 2017–18.

Nine volumes focused on particular NSW state government clusters. One volume focused on internal controls and governance of the 39 largest agencies in the NSW public sector, and another volume focused on the university sector. We also released our first volume on the outcomes of our financial audits of the local government sector under our new mandate.

The nine state cluster-based volumes covered:

- Planning and Environment
- Transport
- Education
- Industry
- Family and Community Services
- Health
- Justice
- Central Agencies
- State Finances.

## Timeliness of reporting to parliament

We recognise parliament and other stakeholders need timely reports to allow prompt scrutiny of government entities' financial position and performance. For state government entities with a 30 June balance date our internal benchmark is to report to parliament before the end of the calendar year. For our local government auditees, who also have a 30 June balance date, we reported to parliament by 20 April 2018 in accordance with transitional legislation. 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.

In 2017–18, we reported 100 per cent of our financial audits to parliament on time.

## The year ahead

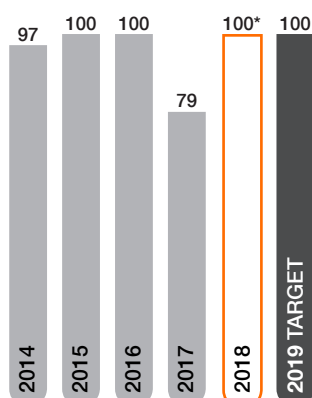
In 2018–19, we will continue to provide assurance to parliament. In addition, we will strive to provide greater insights to increase our impact on the entities we audit.

Under our strategic initiative 'Influencing for Impact' we will improve engagement with our external stakeholders, and find more innovative ways to present our reports on a new, modern website.

We will also explore alternate audit approaches that improve the relevance, value and impact of our financial and performance audits.

(See page 9 for further details on our strategic initiatives for 2018–19.)

## Financial audits reported to parliament on time



\* Local government financial audits were reported to parliament on 20 April 2018 in accordance with transitional legislation allowing that our report not be tabled before 31 March 2018.



# Effectiveness, efficiency and economy

## Our performance audits help parliament assess entity performance

18 performance audits and 1 compliance review completed

### Helping to improve public administration

Performance audits provide information to the New South Wales Parliament and public about how well government programs and services are delivered. Ultimately, they aim to improve public administration. Performance audits examine whether programs and services are delivered efficiently, effectively, economically and in accordance with the law.

In 2017–18, the Auditor-General tabled 18 performance audit reports on the effectiveness, efficiency and economy of the NSW public sector. These reports made a total of 96 recommendations to improve public administration.

The reports looked at operations, service delivery, governance, project implementation and government advertising across a range of NSW government agencies and local councils. Some audits considered particular issues across a number of entities.

The extracts in the box below from published responses to our reports indicate the value the entities we audit attach to our recommendations in improving public administration, and the collaborative approach we adopt.

### Opportunities to improve 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.

Although we add value to the parliamentary process, there are always areas to improve. Comments in our most recent parliamentary survey provide insights into the value we provide to parliament, as well as gap areas. Most of the comments from Members of Parliament (MPs) who completed the survey were complimentary:

*Well-presented reports which give great insight into Government services and delivery.*

*Thank you for the work and the detailed reports.*

*Its independence and integrity of the audit reports are an important part of good public administration.*

We also received some criticisms which can help us improve, as well as comments

on our resource base and mandate:

*The reports have become far less detailed, far less useful and far less important over the past few years*

*Need to lift profile.*

*The only suggestion would be more resources for the Auditor-General's office so that the Government and Public Service delivery can be MORE closely scrutinized across more topics.*

*The AG [Auditor-General] needs to be able to follow the (public) money even when it goes into the pockets of private entities.*

Full details of our parliamentary survey results can be found on page 11.

## Published agency responses to our reports

### Office of Local Government, 'Shared services in local government'

The Office of Local Government welcomes the Audit Office's observations on strengthening local government performance in shared service delivery . . . in particular, we note and support the report's recommended practices for councils to efficiently and effectively undertake shared services.

### Environment Protection Authority, 'Regulation of water pollution in drinking water catchments and illegal disposal of solid waste'

I welcome the opportunity that the performance audit provides to identify prospects for the EPA to improve its regulatory operations. I would like to express my appreciation for the significant work of your audit team and their ongoing commitment to working through this process with my team.

### NSW Treasury, 'Managing risks in the NSW public sector: risk culture and capability'

Strong risk culture and capabilities are essential to ensuring risk management is effective throughout an organisation and I welcome the Auditor-General's focus on such an important area. This audit has provided valuable input on how the audited agencies have embedded risk management into their organisational cultures.

### NSW Health, 'Healthroster Benefits Realisation'

I appreciate the efforts of the NSW Audit Office in conducting performance audit and for your ongoing engagement with NSW Health.



## Average cost of performance audits was below target

The average cost of performance audits and special reports published in 2017–18 was \$287,420. This was below the target of \$330,000 and six per cent higher than the 2016–17 result of \$272,166.

The small cost increase of our performance audit work can be attributed to our new role in auditing the local government sector. This new role has entailed additional work to gain a good grounding in the issues facing the sector, and in engaging with a new group of stakeholders to communicate our role and purpose.

## Choosing performance audit topics

We recently analysed the key findings and recommendations from 61 performance audits and special reports tabled in the NSW Parliament between 2014 and 2018, spanning varied areas of government activity. We will use this analysis to help determine areas of unaddressed risk across all parts of government, and to shape our future audit priorities.

We also continue to work with parliament's Public Accounts Committee, senior members of agencies, ministers and other key stakeholders (see pages 37 and 62), to identify important issues and areas of concern to help define and focus the scope of our audits.

In addition, we work collaboratively across the organisation to draw together insights from financial, performance and compliance audits to help formulate our program and add to our understanding of key risks.

## Leveraging internal and external expertise

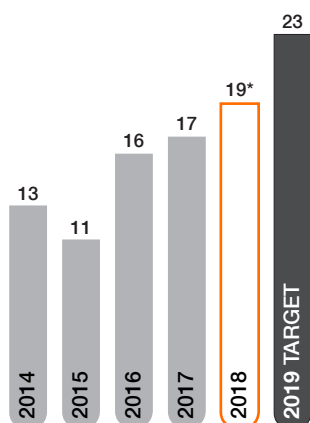
For highly specialised and in more complex performance audits, required expertise can be drawn from across the organisation, senior members of staff and external advisors/consultants. In 2017–18, seven audits used external advisors/consultants leveraging expert advice and industry knowledge in data analytics, health planning, cyber security best practice, risk management culture and frameworks, best practice in probity principals, local government and facilitation of surveys.

## The year ahead

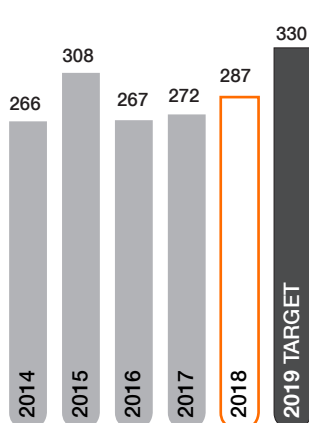
In 2018–19, we plan to:

- build on our first audits in the local government sector and focus our audits on specific issues and some individual councils
- use the analysis from our Performance Audit Insights report to help determine areas of unaddressed risk across all parts of government, and to shape our future audit priorities
- investigate ways of harnessing relevant information held by agencies on our performance audit topics – such as data mining – whilst reducing the administrative burden on agencies in sourcing and producing it
- seek further opportunities to use data analytics to support audit insights.

Number of performance audits and compliance reviews completed



Average cost of performance audits \$'000



\* includes one compliance review conducted under section 38E of the Public Finance and Audit Act 1983



# Parliamentary response to our work

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## *Promoting improvements*

Supported the Public Accounts Committee in following up 20 earlier performance audits

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### **Parliament follows up on progress in implementing our recommendations**

The Public Accounts Committee (PAC) holds the entities we audit to account for implementing the recommendations in our reports. It does so through follow-up inquiries conducted a year after the reports are tabled. The PAC may hold a public inquiry to seek further information from agencies regarding our reports and can make further recommendations for action when it considers them necessary.

In 2017–18, the PAC has sought our comment on agencies' progress in implementing recommendations from 20 of our completed performance audit reports. Four of these reports were also subject to a public inquiry.

The PAC's report on its examination of these audits noted that 'with some exceptions, the Committee is generally satisfied that the responsible agencies are now implementing the Auditor-General's recommendations, while identifying areas where more action is required.'

The process has proven to be an effective means of testing action taken on performance audits and maintaining a high level of scrutiny of the agencies under review.

This PAC report made ten recommendations designed to improve the performance of government entities, building on matters already identified by the Auditor-General.

### **The year ahead**

In 2018–19, we plan to further strengthen our support to parliament and the PAC by:

- led by the Auditor-General, continuing to build on our strong relationship with the Public Accounts Committee
  - continuing to respond promptly and thoroughly to all requests from NSW Parliament for Audit Office support, including all audit suggestions
  - producing 22 performance audit reports on issues of importance to parliament, and through them, the community.
-



# Government entities, universities and councils

## Act on our recommendations and seek our advice

- We work collaboratively with the entities, universities and councils we audit
- We identify opportunities to improve financial reporting and management through our financial statement audits
- Our performance audits examine government programs critically in order to identify potential improvements

# Auditee response to our work

## Our audits continue to be well regarded

Overall CFO performance index for financial audits 76, compared to 78 last year

Overall performance index for performance audits 81, compared to 71 last year

### Surveying our auditees

Each year, we measure our auditees' satisfaction with our services through a survey. The survey results and feedback provide valuable information on our performance. We use an independent research company to conduct the survey and clients have the option of responding anonymously.

In 2017–18, for our financial audit clients, we invited 388 Chief Financial Officers (CFOs) or General Managers (GMs) from our state government, local government and university auditees to participate in the survey. This was the first year we surveyed local government General Managers on the audits performed under our new local government mandate. We also invited 181 Audit and Risk Committee Chairs (ARC Chairs) from our state government and university auditees to participate. The response rates were similar to last year, with responses from 72 per cent of CFOs/GMs and 78 per cent of ARC Chairs.

For our performance audit auditees, we invited 24 agency contacts to respond to the survey and received a response rate of 71 per cent, again similar to last year.

### Overall performance indices

The overall CFO performance index for financial audits remained similar to last year, at 76 compared to 78 in 2016–17. ARC Chairs' satisfaction decreased from 86 last year to 81. The overall performance index for performance audits increased significantly, from 71 last year to 81.

### Satisfaction with audit process

#### Financial audit satisfaction improves across key measures

The CFO performance index for our audit process decreased slightly from 82 to 79. CFOs were particularly positive about:

- our auditors meeting agreed deadlines, the 89 per cent result similar to 92 last year
- our auditors conducting themselves professionally during the audit, the 98 per cent result similar to 100 last year
- senior staff being appropriately involved in the audit, although down on last year's result of 97 per cent, still very positive at 91
- our auditors having the professional skills and knowledge required to conduct the audit, remaining at 94 per cent
- our client service plan adequately informing them about audit strategy, key milestones and cost, the 95 per cent result similar to last year's 98.

CFOs were less positive about:

- our auditors communicating effectively, down to 87 per cent from 96
- our auditors adequately understanding their organisation, down to 81 per cent from 92
- being promptly informed of significant issues identified during the audit, down to 80 per cent from 90

- their organisation's staff members' time being used efficiently, down to 82 per cent from 88.

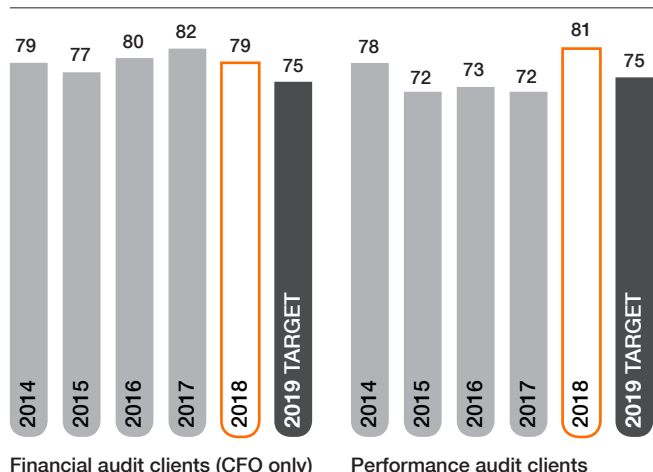
ARC Chairs' ratings of our audit process were similar or improved from last year across all areas except one. Ninety-eight per cent of ARC Chairs agreed that we promptly informed them of significant issues, 99 per cent agreed our auditors adequately understood their organisation, and 99 per cent agreed our auditors had the professional skills and knowledge to conduct the audit. However, the percentage of ARC Chairs who agreed our auditors met agreed deadlines decreased significantly from 99 to 84.

#### Satisfaction with the performance audit process significantly increased

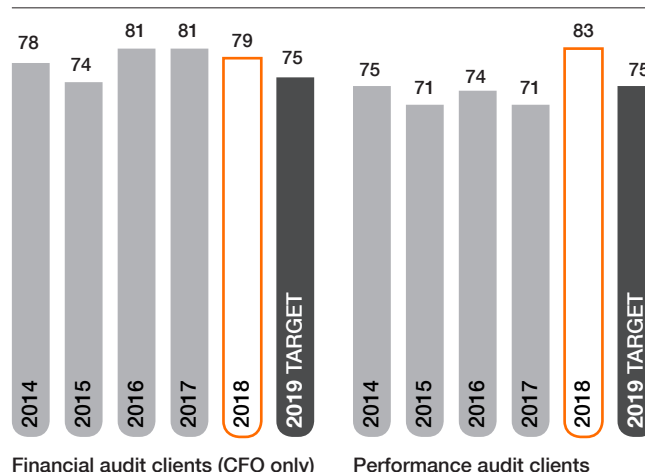
The audit process performance index for performance audits was 81, a significant increase on last year's 72 and representing a five-year high for this measure. Ninety-four per cent agreed our auditors communicated effectively, up from 78. Seventy-seven per cent agreed our auditors adequately understood their organisation, up significantly from 39. Another area of significant improvement was auditees agreeing we promptly informed them of the significant issues/findings as they arose during the audit, up from 71 per cent last year to 94.

An area for improvement includes our auditors meeting agreed deadlines, the result decreased significantly from 82 per cent last year to 71.

Satisfaction with audit process %



Satisfaction with audit reporting %



## Satisfaction with audit reporting

### Financial audit results steady

The CFO performance index result of 79 for audit reporting was similar to 81 last year. CFOs were particularly positive about our:

- management letters communicating the audit findings clearly, the 96 per cent result on par with 97 last year
- Client Service Reports communicating audit findings and issues clearly, up from 97 per cent to 99
- having adequate opportunity to comment on audit findings and issues, up from 91 per cent to 94.

CFOs were less positive about audit opinions being issued in a timely manner, down from 98 per cent to 94, and management letters being balanced and fair, down from 93 per cent to 89.

Ninety-nine per cent of ARC Chairs were positive about our Client Service Reports and management letters communicating findings and issues clearly. ARC Chairs were less positive about our management letters and Client Service Reports being issued in a timely manner, with management letters down to 82 per cent from 96, and Client Service Reports down to 86 per cent from 98.

### Performance audit reporting satisfaction at a five-year high

The performance index for performance audit reporting increased from 71 in 2017 to 83. This is a five-year high for this measure and well above our target.

All reporting survey areas improved. The number of auditees who agreed the tabled audit report was factually accurate improved from 74 per cent to 94, and agreement the report was balanced and fair improved from 70 per cent to 77. Ninety-four per cent of auditees agreed our reports communicated

the findings and issues clearly, up significantly from 70 last year.

Media releases in particular had significant increases in auditee satisfaction. Ninety-four per cent agreed our media releases communicated the key audit findings and issues clearly, up from 71, and 82 per cent agreed they were balanced and fair, up from 57.

### Satisfaction with audit value

#### Financial audit value down

Our CFO performance index for financial audit value is 71, similar to 73 in 2017. However, there were decreases across all value measures. Ninety per cent of CFOs agreed they value the assurance obtained from our financial statement audits, down from 98, and 53 per cent of CFOs agreed our financial audit services provide value for money, down from 64.

Our financial audit services providing value for money also decreased with ARC Chairs, with 66 per cent agreeing, down from 75 last year and representing a five-year low for this measure. However, ARC Chairs continue to value the assurance they obtain from our statutory financial statement audits, improved from 97 per cent in 2017 to 100 per cent this year.

### Performance audit value improves

The audit value performance index for performance audits improved from 69 in 2016, to 79, a five-year high for this measure and significantly above our target. Ninety-four per cent of respondents agreed that the timing of the performance audit was appropriate, up from 57, while 88 per cent agreed that the audit provided a balanced assessment of the management of the activity, up from 74. When it came to respondents agreeing that the audit will help improve the performance of the audited

activity, there was a significant increase in the results, from 70 per cent in 2017 to 94 per cent this year.

### In line with other audit offices

We have been comparing our auditee satisfaction with other Australian audit offices since 2005. In 2017–18, our results were in line with other audit offices for our financial audit auditees. The overall performance index for the Audit Office is 78, compared to 80 across all offices. We are also in line with the other audit offices on audit process, with the Audit Office index at 77 and the average also 77, and on audit reporting, with the Audit Office index at 79 and the average also 79. However, we are below the other Audit Office's on audit value, with the Audit Office index at 79 and the average 84.

For our performance audit auditees, our results are significantly ahead of the other audit offices. The overall performance index for Audit Office performance audits is 83 compared to 73 across all offices.

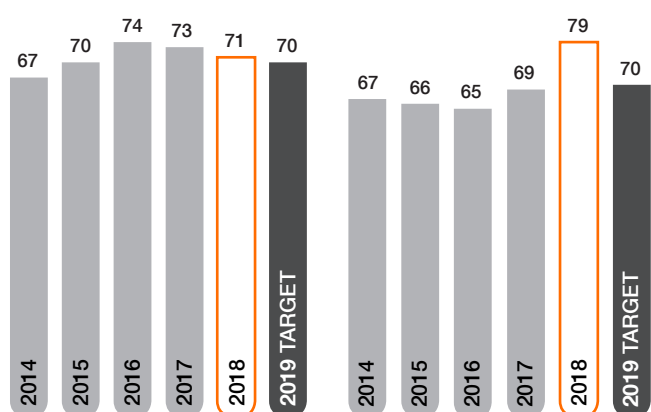
### The year ahead

In 2018–19, we will:

- under our 'Local Government' strategic initiative, work harder to ensure our audit process, reporting and perceptions of value in this sector are improved as we undertake our second year of local government audits under our new mandate
- in our 'Influencing for Impact' strategic initiative, develop a strategy for better engaging with our external stakeholders, including our auditees. This aims to ensure we deliver insights in our reports that are of a high quality, are valued, and lead to improved public sector reporting and performance.

See page 9 for further details on our strategic initiatives for 2018–19.

### Satisfaction with audit value %



Financial audit clients (CFO only)

Performance audit clients



# Influencing for impact

## *Our work is topical, relevant and has high impact*

95% of our financial audit recommendations accepted

93% 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 the entities we audit in response to our audit findings. Our recommendations are reported to the entities involved and, for the more significant matters, to parliament. Most entities agree with our recommendations.

Of the 335 recommendations we made to the 39 financial audit entities included in our governance and controls volume in 2017–18, 319 (95 per cent) were accepted, meeting our target of 95 per cent.

Ninety-three per cent of performance audit recommendations were accepted either in full, or in principle, a significant improvement on last year's result and above our target of 90 per cent.

In regards to the recommendations we have made, it is pleasing we continue to make an impact through these recommendations, as the following case studies highlight.

### Case studies

#### Detecting and Responding to Cyber Security Incidents

Tabled in February 2018, this report advised that given current weaknesses identified, the NSW public sector's ability to detect and respond to incidents needs to improve significantly and quickly.

In June 2018, the NSW government announced \$20 million in funding for cyber security.

#### Planning for School Infrastructure

Following the tabling of this report, the government allocated an additional \$4.2 billion over the next four years for school infrastructure. It also established the School Infrastructure NSW unit within the Department of Education to implement the School Assets Strategic Plan, a blueprint for the future of school infrastructure in New South Wales.

#### Implementation of the NSW Government's Program Evaluation Initiative

Tabled in November 2016, this report concluded that the NSW government was not receiving sufficient information from the initiative to make evidence-based investment decisions, and there was little assurance that the right programs were being evaluated.

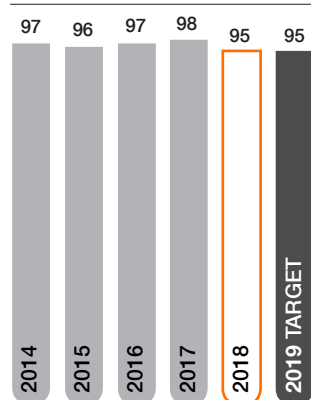
NSW Treasury advised that it has since developed an evidence bank to collect data from completed program evaluations across government. The evidence bank will contain comparative analysis of program effectiveness, costs and benefits so that Treasury can provide evidence-based advice to the NSW government on agency funding bids for evaluated programs.

The Treasury and the Department of Premier and Cabinet have also advised that they have improved their oversight of agencies' proposed programs nominated for evaluation to ensure these reflect NSW government priorities.

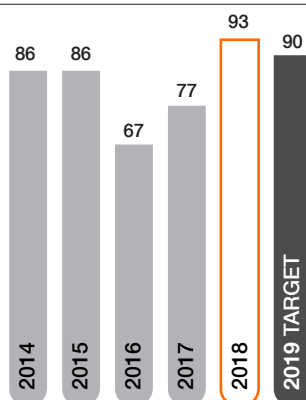
#### Planning and Evaluating Palliative Care Services in NSW

The audit report concluded that there was not effective planning and evaluation of palliative care services. It also concluded that there is a limited understanding of the quantity and quality of palliative care services, making it difficult for Health to plan for future demand and the workforce required to deliver it. The NSW government announced a record \$100 million funding boost to palliative care shortly before our report was tabled in parliament.

Recommendations accepted %



Financial audits



Performance audits



# Timeliness

## Timeframes for reporting to agencies

91% of financial audit opinions issued within ten weeks, up from 86% last year

### Financial audit timeliness needs to improve

Under the *Public Finance and Audit Act 1983*, we are required to issue all NSW government entity financial audit opinions within ten weeks of receiving entities' financial statements. Ninety-one per cent of our opinions were issued within ten weeks in 2017–18, an increase from 86 per cent. The earlier we give entities our audit opinions and management letters, the sooner they can make a decision around our recommendations.

In our first year auditing the financial statements of local government entities, we provided 73 per cent of audit opinions by 31 October 2017. Our target for the 2018–19 year is 100 per cent.

While we issue interim management letters throughout the audit, we aim to issue our final management letters within six weeks of issuing our respective audit opinions. In 2017–18, we achieved 61 per cent, compared to last year's 67 per cent. We continue to develop and implement strategies to improve the timeliness of our management letters.

### Performance audit timeliness remains steady

Our average time to complete performance audits was 11 months, which is consistent with previous years' averages of 10–11 months. We have achieved this while taking on a new mandate and exploring new ways to present insights from our reports.

Taking on a new mandate to conduct performance audits of the local government sector entailed important work developing a good understanding of the issues in the sector, and taking appropriate time to respond to questions and concerns from key stakeholders.

### The year ahead

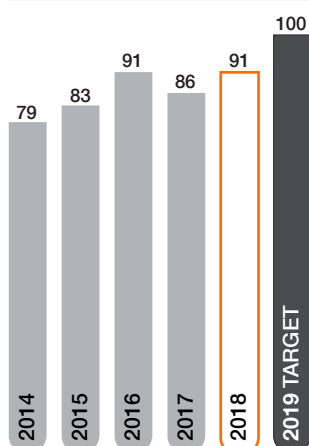
In 2018–19, we will focus on the timeliness of our audit output through innovation, collaboration and streamlined processes. This includes:

- working with NSW government entities, central agencies and the Office of Local Government to achieve improved quality and timeliness of financial and performance audit reports
- using stakeholder feedback to maintain effective relationships through our 'Influencing for Impact' strategic initiative
- improving our resource capacity by spreading the timing of audit work and partnering better with audit service providers external to the Audit Office
- our branches working together better to improve efficiency and enhance skills and knowledge transfer through our 'Working Better, Working Together' strategic initiative
- exploring opportunities to make greater use of technology to speed up and simplify reporting processes through our 'Reporting Process' strategic initiative.

(See page 9 for further details on our strategic initiatives for 2018–19.)

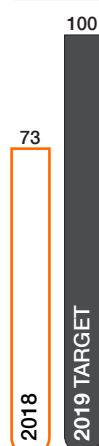
### State and university entities

Audit opinions within 10 weeks %



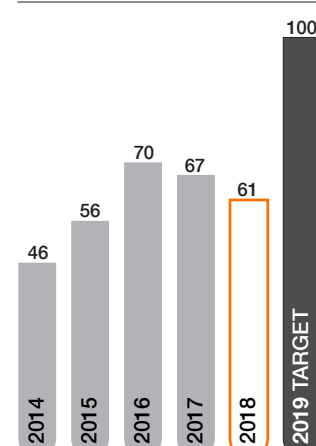
### Local government entities

Audit opinions by 31 October



### All entities

Management letters to clients within 6 weeks %



# Our financial audits

## Providing value to the entities we audit

5 new modifications issued and 4 modifications cleared

### What are financial audits?

Our financial audits provide independent opinions on the financial statements of NSW government entities, universities and councils. Our opinions provide assurance about whether these financial statements comply with accounting standards, 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 where entities can improve their accounting and financial systems.

### Our audit base

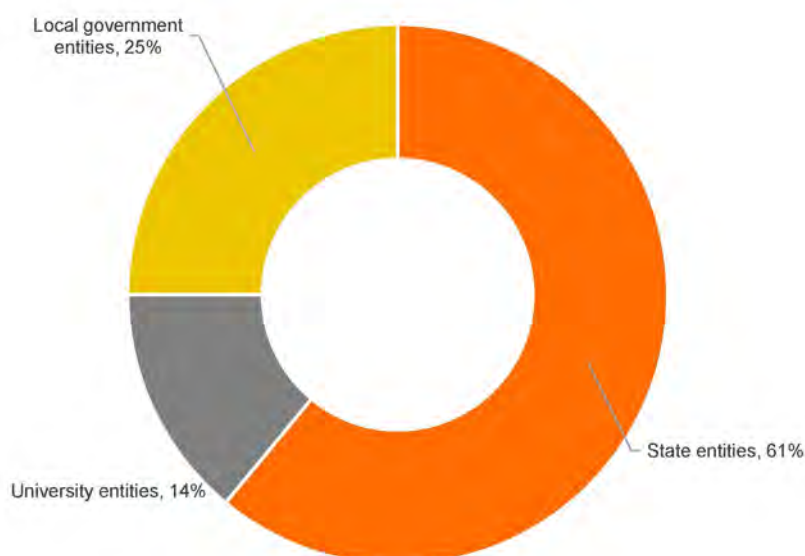
We completed 550 financial audits of NSW government entities and local government councils in 2017–18 (see Appendix Two for the full list of entities we audited over this period). These entities provide a diverse range of services and vary in size from large government departments, universities, state superannuation entities and utilities, and local and county councils, to small boards and trusts.

NSW state government entities as a whole collected income of approximately \$110 billion, spent approximately \$93 billion and managed more than \$430 billion in assets.

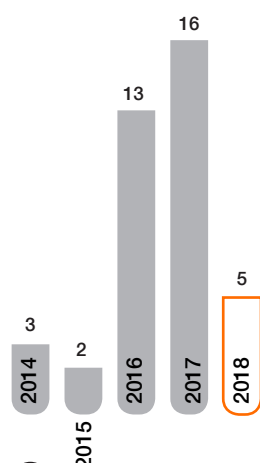
### NSW General Government and Total State Sector opinion

For the fifth 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. Over the past five years, the number of significant errors in financial statements of agencies has generally fallen largely due to identifying and resolving complex accounting issues early.

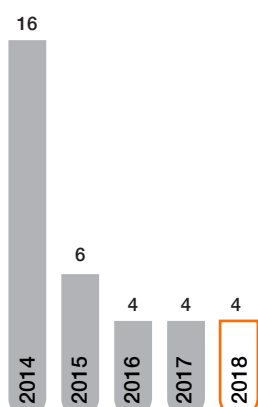
### Financial audits per sector



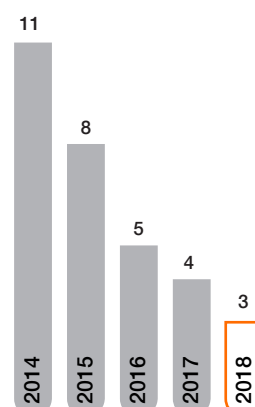
### Number of new modifications



### Number of modifications cleared



### Number of repeat modifications



## Modified auditor's opinions and conclusions

We issued eight modified auditor's opinions and conclusions on assurance engagements in 2017–18 (20 modified audit opinions in 2016–17).

Of the 20 modifications from the previous year, three remain unresolved. Two of these assurance engagements have not yet been finalised. Thirteen modifications have not been repeated as they were one-off modifications related to a compliance audit conducted in 2016–17.

Agency	New/repeat modification	Type of modification	Reason for modification
<b>Modified opinions on financial statements</b>			
Former City of Botany Bay Council General purpose financial statements	New	Disclaimer of opinion	Significant breakdowns in administrative, financial and governance internal controls affected the reliability of financial reporting of the former Council. A significant fraud involving former management was also identified in the reporting period.  Consequently, councillors and management were unable to provide written representation that the financial statements present fairly the financial performance and position of the Council. As a result, Australian Auditing Standards require a disclaimer of opinion to be issued.
The Hills Shire Council	New	Qualified opinion	The method used by the Council to value land under roads did not appropriately reflect external restrictions on the use of this land as required by Australian Accounting Standards.
Junee Council	New	Qualified opinion	Council could not demonstrate that roads, bridges, footpaths and bulk earthworks were reported at fair value, as it did not value these asset classes during the year. The last valuation was conducted in 2012.
Yass Valley Council	New	Qualified opinion	Council did not record the receipt of financial assistance grants from the Australian Government as revenue in the year received, as required by Australian Accounting Standards
The University of Sydney Basic Financial Statements prepared in accordance with United States of America's Generally Accepted Accounting Standards (US GAAP)	Repeat  This engagement is performed once every three years.	Qualified opinion	The University accounted for certain property, plant and equipment at fair value, which complies with Australian Accounting Standards. However, US GAAP requires measurement of these assets at historical cost.

# Our financial audits (continued)

## Providing value to the entities we audit

### Modified opinions and conclusions (continued)

Agency	New/repeat modification	Type of modification	Reason for modification
<b>Modified opinions and conclusions on other assurance engagements</b>			
Former City of Botany Bay Council Special purpose financial statements of the Council's Declared Business Activities	New	Disclaimer of opinion	Significant breakdowns in administrative, financial and governance internal controls affected the reliability of financial reporting of the former Council. A significant fraud involving former management was also identified in the reporting period.  Consequently, councillors and management were unable to provide written representation that the financial statements present fairly the financial performance and position of the Council. As a result, Australian Auditing Standards require a disclaimer of opinion to be issued.
Department of Industry Review of the Summary of Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) Financial Data for New South Wales for the year ended 2016	Repeat	Qualified conclusion	Ongoing systems limitations of the student revenue system prevented us from obtaining sufficient and appropriate evidence to support the amounts recorded for student revenue and related transactions.
Department of Industry Review of the Summary of Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) Financial Data for New South Wales for the year ended 2017	Repeat	Qualified conclusion	Ongoing systems limitations of the student revenue system prevented us from obtaining sufficient and appropriate evidence to support the amounts recorded for student revenue and related transactions.

## Modified opinions cleared

We work closely with agencies to resolve qualification issues. This year we resolved four previous modifications.

Agency	Type of opinion removed	Reason for modification
<b>Financial statements</b>		
Former Gosford Water Supply Authority	Disclaimer of opinion	The previous disclaimer of opinion arose for the Authority because control weaknesses in the finance system prevented management from attesting that all transactions had been properly recorded and reflected in the financial statements.
Office of the NSW State Emergency Service	Qualified opinion	The previous qualification arose because we were unable to form an opinion on the completeness of received donations and fundraising revenues due to the internal controls at the point of collection not operating for the full financial year. The modification was removed as controls over donations and fundraising operated effectively for the full financial year.
<b>Other assurance engagements</b>		
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	Qualified conclusion	The previous qualification arose as upfront deposits by self-funded and overseas patients to the Network, as a Billing Agent, were not paid directly into the Network's compartmentalised bank account.  The modification was removed as confirmation was received from the Department of Human Services that upfront deposits by self-funded and overseas patients should not be treated as a transaction with the Department and therefore not required to comply with the Guidelines.
The Sydney's Children's Hospital Network (Randwick and Westmead) (incorporating the Royal Alexandra Hospital for Children)  Audit of the Acquittal Statements for the National Centre for Immunisation Research and Surveillance activities	Qualified opinion	The previous qualification arose as we could not verify the unexpected funds brought forward at 1 July 2014 because the acquittal statements were not audited from the commencement of the funding agreement on 14 September 2010 until 30 June 2014.  The modification was removed as opening balances for the current year were subject to audit with no exceptions noted.



# Our performance audits

## *Addressing issues of public concern*

### What is a performance audit?

Performance audits are in-depth assessments of whether government entities are achieving effectiveness, efficiency and economy in the programs and services they deliver.

A performance audit may cover:

- the whole of an entity's operations
- one particular entity activity
- an activity across a number of entities.

We report the results of these audits to the head of each entity, the responsible minister, the Treasurer and the NSW Parliament. We also publish our findings publicly on our website.

### Choosing a topic

There are a multitude of government activities and programs which we could audit. But our resources are limited, so we undertake a robust process to identify the matters we focus on in our audits and to determine the performance audits we undertake. When selecting and scoping topics, we combine our own research with suggestions from parliamentarians, agency CEOs, councillors and members of the public. We aim to choose topics that reflect the interests of parliament in holding the government to account.

We also identify one area a year to test compliance with a law and/or a government direction and report it under the performance audit mandate of our legislation.

Our audit work 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.

For an overview of our performance audit work program, see page 37.

### This year's performance audits

On the following page is a table detailing all of the performance audit reports we tabled in parliament in 2017–18. Pages 29–36 provide a summary of the content of each report, as well as a summary of the response provided by each auditee.

The future performance audit program is discussed on page 37.

Entities audited	Performance audit report	Tabled in parliament
• Department of Education	ICT in schools for teaching and learning	6 July 2017
• Department of Planning and Environment	Office of Strategic Lands	10 August 2017
• NSW Health	Planning and evaluating palliative care services in NSW	17 August 2017
• Department of Planning and Environment	Energy rebates for low income households	19 September 2017
• Department of Education	Sharing school and community facilities	1 November 2017
• Department of Premier and Cabinet	Government Advertising: Campaigns for 2015–16 and 2016–17	2 November 2017
• Office of Local Government		
• Department of Justice		
• NSW Ambulance	Managing demand for ambulance services	13 December 2017
• NSW Ministry of Health		
• NSW Local Government sector	Council reporting on service delivery	1 February 2018
• Department of Finance, Services and Innovation	Detecting and responding to cyber security incidents	2 March 2018
• Ministry of Health	Managing risk in the NSW public sector: risk culture and capability	23 April 2018
• NSW Fair Trading		
• NSW Police Force		
• NSW Treasury Corporation		
• NSW Treasury		
• Department of Education	Grants to non-government schools	3 May 2018
• Infrastructure NSW	Regional assistance programs	17 May 2018
• Transport for NSW		
• Department of Premier and Cabinet		
• NSW Health	HealthRoster benefits realisation	7 June 2018
• Office of Local Government	Shared services in local government	21 June 2018
• Office of Local Government	Fraud control in local councils	22 June 2018
• Department of Finance, Services and Innovation	Evaluation of a training program (special report)	27 June 2018
• Service NSW		
• Environmental Protection Authority	Regulation of water pollution in drinking water catchments and illegal disposal of solid waste	28 June 2018
• NSW public sector	Performance audit insights (special report)	29 June 2018

# This year's performance audits

## Addressing issues of public concern

### ICT in schools for teaching and learning

This audit assessed how well NSW public schools are using information and communications technologies (ICT) to improve teaching and learning.

In making this assessment, we examined:

- department and school level planning for ICT
- teacher use of ICT in the classroom
- student learning with ICT.

Some specific findings included:

- old equipment and wireless networks are not keeping pace with modern demands
- the central funding model for ICT in schools is not meeting current needs
- many teachers are not provided with devices for use outside of the classroom
- there is limited teacher professional learning in the use of ICT.

Greater monitoring and reporting on technology use in schools is required. We made seven recommendations to the Department of Education to:

- review whether resources allocated to ICT are adequate for modern school requirements
- develop a program to improve wireless networks in all NSW schools
- target assistance to schools requiring support with forward planning for ICT
- improve the evidence base on ICT in schools to inform future plans and strategies
- improve teacher access to devices for use outside of the classroom
- improve teacher professional learning in ICT through more online learning opportunities
- provide teaching resources to help develop student ICT skills and monitor their achievement.

#### Response

The Department of Education accepted the report's recommendations.

📅 Report release date:  
6 July 2017

### Office of Strategic Lands

This audit assessed whether the Office of Strategic Lands (OSL) effectively fulfils its role, and whether it is sustainable over the long-term. We asked the two following questions:

- Does OSL fulfil its role to identify, acquire, manage and dispose of land?
- Does OSL ensure it is sustainable over the long-term, to meet its objectives?

Overall, we found that OSL effectively fulfils most aspects of its defined role, but is not supporting strategic land planning through proactive identification and acquisition of land for future public use.

OSL is diligent in its financial management over the short and medium terms. However, it has identified that relying on the sale of surplus land to continue funding its ongoing operations is not sustainable, and it is yet to finalise a strategy to address this.

We made three recommendations to OSL to:

- clarify and document its long-term purpose, role and goals in line with its mandate
- develop and implement an approach for working with NSW government agencies to improve its efficacy in strategic land identification, acquisition and management
- improve the transparency of its operations, and its communication and engagement with all stakeholders. This includes developing engagement strategies appropriate for different stakeholder groups.

#### Response

The Department of Planning and Environment (Office of Strategic Lands) accepted the report's recommendations.

📅 Report release date:  
10 August 2017

## Planning and evaluating palliative care services in NSW

This audit assessed whether NSW Health is effectively planning and evaluating palliative care services in the context of rising demand, increasingly complex needs, and the diversity of service providers. We asked the three following questions:

- Does NSW Health collect and use data to inform the planning of high quality, safe and appropriate palliative care services?
- Is service planning and delivery informed by evaluation and data?
- Does NSW Health work in collaboration with other stakeholders in evaluating and planning palliative care services in New South Wales?

Overall, we found that NSW Health's approach to planning and evaluating palliative care is not effectively coordinated. There is no overall policy framework for palliative and end-of-life care, nor is there comprehensive monitoring and reporting on services and outcomes.

We made four recommendations to NSW Health to:

- develop an integrated palliative and end-of-life care policy framework
- assess how outcomes data can be collected across all palliative care services in New South Wales
- complete its state-wide review of systems and reporting and develop a business case to implement a more integrated set of solutions
- develop a state-wide stakeholder engagement strategy.

### Response

NSW Health accepted all recommendations.

📁 Report release date:  
17 August 2017

## Energy rebates for low income households

This audit aimed to assess whether the current design and distribution of energy rebates schemes is effective. The audit did not seek to comment on the value of individual rebates or whether rebates are the best way to provide assistance to households.

Overall, we found that funds are directed to energy bills as intended. Ongoing support schemes have no measurable objectives or outcome measures and therefore cannot be assessed for their effectiveness. Crisis support, provided by the Energy Accounts Payment Assistance (EAPA) scheme, has a clear objective – to keep households experiencing financial crisis connected to energy services – but the Department of Planning and Environment does not monitor the performance of EAPA against this objective.

The structure of rebates providing ongoing support is complex and can be inequitable for some households. Stronger oversight is also required over partner organisations. We made specific recommendations around ensuring effective strategies, evaluation of alternative models, and assurance of equity of access.

### Response

The Department of Planning and Environment's responses were not specific, nor did the department commit to specific actions.

📁 Report release date:  
19 September 2017



# This year's performance audits (continued)

## Addressing issues of public concern

### Sharing school and community facilities

This audit assessed how effectively schools share facilities with other schools, local councils and community groups. In making this assessment, we examined whether the Department of Education:

- has a clear policy to encourage and support facilities sharing
- is implementing evidence-based strategies and procedures for facilities sharing
- can show it is realising an increasing proportion of sharing opportunities.

Overall, we found that the sharing of school facilities with the community is not fully effective.

We made four recommendations to the Department of Education to:

- increase incentives and reduce impediments for school principals to share school facilities
- provide readily-accessible information about available school facilities to community groups and local councils
- ensure that the implementation of the new 'Joint Use of School Facilities and Land Policy' is adequately resourced, and has the support of principals
- implement processes to monitor and regularly evaluate the implementation of shared use and joint use policies and promote better practice to drive improvements.

#### Response

The Department of Education accepted the report's recommendations.

📅 Report release date:  
1 November 2017

### Government advertising campaigns for 2015–16 and 2016–17

The *Government Advertising Act 2011* requires the Auditor-General to conduct an annual performance audit to check NSW government compliance with the Act. This audit examined two campaigns:

- the 'Stronger Councils, Stronger Communities' advertising campaign run by the Office of Local Government and the Department of Premier and Cabinet during 2015–16
- the 'Dogs Deserve Better' campaign run by the Department of Justice during 2016–17.

Overall, both government advertising campaigns complied with the *Government Advertising Act* and most elements of the Government Advertising Guidelines.

However, some advertisements were designed to build support for government policy and used subjective or emotive messages. This is inconsistent with the requirement in the Government Advertising

Guidelines for 'objective presentation in a fair and accessible manner'.

The perceived urgency to advertise impacted how the agencies engaged creative suppliers and the notice given to book placement of advertisements in the media. Due to this approach, it is hard for the agencies to demonstrate that value for money was achieved for both campaigns.

We made four recommendations to the Department of Premier and Cabinet around clarifying the meaning of 'objective presentation in a fair and accessible manner' as referenced in the NSW Government Advertising Guidelines, and processes around 'urgent circumstance' to advertise before completing the relevant compliance processes.

#### Response

The Department of Premier and Cabinet accepted three of the report's recommendations and accepted the fourth in principle.

📅 Report release date:  
2 November 2017



## Managing demand for ambulance services

This audit aimed to assess the extent to which NSW Ambulance's demand management initiatives have improved the efficiency of its services.

Overall, we found that NSW Ambulance does not have an overall strategy for its demand management initiatives and its data systems do not measure their outputs or outcomes. As a result we were unable to assess the impact of NSW Ambulance's demand management initiatives on the efficiency of ambulance services.

We recommended that NSW Ambulance develop a demand management strategy.

This strategy should outline its approach to managing demand. It should also determine the data system improvements required to provide accurate oversight of demand management initiatives that enable routine monitoring and reporting of activity and performance.

The strategy should also guide the continued use of Extended Care Paramedics, evaluate the approach to using telephone referrals for managing less urgent demand for services, and ensure paramedics are as well prepared as possible for their contemporary role.

### Response

The Ministry of Health accepted all recommendations.

📁 Report release date:  
13 December 2017

## Council reporting on service delivery

This was the Auditor-General's first local government performance audit. For this inaugural audit in the local government sector, the Auditor-General chose to examine how well councils report to their constituents about the services they provide. The overall finding was that NSW local government councils could do more to report on how well they are delivering services to the public.

The report recommended the Office of Local Government, as the regulator of councils in New South Wales, issue additional guidance to councils on reporting on targets, outcomes, effectiveness and efficiency and performance over time.

The report also recommended the Office of Local Government consult with councils to develop a performance measurement framework. The report further advised that this framework should include associated performance indicators to support more transparent and informative reporting, target assistance to rural councils to help them improve their reporting, and work with NSW

government agencies to help streamline and consolidate local government reporting requirements.

### Response

The Office of Local Government, as the regulator, accepted all of the report's recommendations.

📁 Report release date:  
1 February 2018



## Addressing issues of public concern

### Detecting and responding to cyber security incidents

The audit focused on the role of the Department of Finance, Services and Innovation (DFSI), which oversees the Digital Information Security Policy. The audit also examined ten case study agencies to develop a perspective on how they detect and respond to incidents.

Overall the audit found that there is no whole-of-government capability to detect and respond effectively to cyber security incidents. There is very limited sharing of information on incidents amongst agencies, and some agencies have poor detection and response practices and procedures. There is a risk that incidents will go undetected longer than they should, and opportunities to contain and restrict the damage may be lost.

The audit made an extensive list of recommendations, including in summary:

- to develop whole-of-government procedures, protocol and supporting systems to effectively share reported threats and respond to cyber security incidents
- revise the Digital Information Security Policy and Event Reporting Protocol
- develop a means for agencies to report incidents in a more effective manner
- enhance NSW public sector threat intelligence gathering and sharing
- direct agencies to include standard clauses in contracts requiring IT service providers to report all cyber security incidents within a reasonable timeframe
- provide assurance that agencies have appropriate incident reporting procedures.

#### Response

DFSI agreed with the general findings and recommendations outlined in the report. It also noted that the response strategy cannot be achieved without investment in cyber security, and so the findings and recommendations will be considered in the context of government funding priorities.

📅 Report release date:  
2 March 2018

### Managing risk in the NSW public sector: risk culture and capability

This audit assessed how effectively NSW government agencies are building risk management capabilities and embedding a sound risk culture throughout their organisations.

Overall the audit found that the agencies are taking steps to strengthen their risk culture. Senior management communicates the importance of managing risk to their staff. They have risk management policies and funded central functions to oversee risk management. We also found many examples of risk management being integrated into daily activities.

Agencies could do more to understand their existing risk culture. Our survey of risk culture found that agencies could strengthen a culture of open communication, so that all employees feel comfortable speaking openly about risks. To support innovation,

senior management could also do better at communicating to their staff the levels of risk they are willing to accept.

NSW Treasury provides agencies with direction and guidance on risk management through policy and guidelines. However, there is scope for NSW Treasury to develop additional practical guidance and tools to support a better risk culture.

We recommended that NSW Treasury should review the scope of its risk management guidance, and identify additional guidance, training or activities to improve risk culture across the NSW public sector.

#### Response

NSW Treasury supported the recommendation and committed to undertake action in this area.

📅 Report release date:  
23 April 2018

## Grants to non-government schools

This audit assessed how effectively and efficiently grants to non-government schools are allocated and managed.

Overall the audit found that the Department of Education effectively and efficiently allocates grants to non-government schools. Clarifying the objectives of grants, monitoring progress towards these objectives, and improving oversight, would strengthen accountability for the use of public funds by non-government schools.

The audit recommended the Department of Education establish and communicate funding conditions that require funded schools to adhere to conditions of funding, report their progress towards the objectives of the schemes, allow investigations to verify enrolment and expenditure of funds, and provide access to existing student level data

to inform policy development and analysis.

The audit also recommended the NSW Education Standards Authority (NESA) extend its inspection practices to increase assessment of the proper governance of schools and establish formal information-sharing arrangements with the Department of Education. This will help them more effectively monitor schools' continued compliance with registration requirements.

### Response

The Department of Education was accepting of the findings in the report.

NESA supported the findings of the report, but indicated that limited resources may impact on its ability to provide a greater focus on proper governance in non government schools.

📁 Report release date:  
3 May 2018

## Regional assistance programs

This audit assessed whether two regional assistance programs (Resources for Regions and Fixing Country Roads) were being effectively managed and achieved their objectives.

Infrastructure NSW effectively manages how grant applications are assessed and recommended for funding. Infrastructure NSW's contract management processes are also effective. However, we are unable to conclude on whether program objectives are being achieved as Infrastructure NSW has not yet measured program benefits.

We made recommendations to:

- improve probity reporting and record keeping practices
- incorporate a benefits realisation framework as part of a project's detailed application

- strengthen some areas of program administration, such as by publishing the circumstances under which unspent funds can be allocated to extensions in project scope.

In considering the report recommendations, the three agencies clarified that Transport for NSW and the Department of Premier and Cabinet are responsible for program objectives, guidelines and measuring program benefits. Infrastructure NSW has committed to collaborate with these agencies to ensure that program benefits are measured and reported.

### Response

All of the recommendations were broadly accepted.

📁 Report release date:  
17 May 2018



# This year's performance audits (continued)

## Addressing issues of public concern

### HealthRoster benefits realisation

This audit assessed the effectiveness of the HealthRoster system in delivering business benefits. In making this assessment, we examined whether:

- expected business benefits of HealthRoster were well-defined
- HealthRoster is achieving business benefits where implemented.

The HealthRoster system is realising functional business benefits in the Local Health Districts (LHDs) where it has been implemented. In these LHDs, financial control of payroll expenditure and rostering compliance with employment award conditions has improved. However, these LHDs are not measuring the value of broader benefits such as better management of staff leave and overtime.

HealthRoster is taking six years longer, and costing \$37.2 million more, to fully implement than originally planned. NSW Health attributes the increased cost and extended timeframe to the large scale and complexity of the full implementation of HealthRoster.

We recommended that NSW Health:

- review the use of HealthRoster in the LHDs that implemented HealthRoster in the early stages to assist them to improve their HealthRoster related processes and practices.
- ensure that LHDs undertake benefits realisation planning according to the NSW Health benefits realisation framework
- regularly measure benefits realised, at state and local health district levels, by the

state-wide implementation of HealthRoster

- ensure that all LHDs are effectively using demand based rostering.

#### Response

NSW Health accepted all of the report's recommendations.

📅 Report release date:  
7 June 2018

### Shared services in local government

This audit assessed how efficiently and effectively councils engage in shared service arrangements. Overall it was found that most councils we surveyed are not efficiently and effectively engaging in shared services.

The audit made one recommendation to the Office of Local Government to develop guidance which outlines the risks and opportunities of governance models that councils can use to share services. This should include advice on legal requirements, transparency in decisions, and accountability for effective use of public resources.

The audit also made four additional recommendations around practices for

efficient and effective shared services. This includes building the capability of councillors and council staff in the areas of assessing and managing shared services, ensuring that the governance models they select to deliver shared services are fit for purpose, and ensuring clear roles, responsibilities, accountability and transparency of decisions.

#### Response

The Office of Local Government accepted the recommendation and supported the recommended practices.

📅 Report release date:  
21 June 2018

### Fraud Controls in Local Councils

This audit provides a sector-wide snapshot of how local councils manage the risk of fraud. To understand this, we asked councils to complete a survey to assess their fraud controls against the ten fraud control attributes set out in our Fraud Control Improvement Kit.

Overall the audit found that most councils we surveyed have substantial room for improvement in their fraud control systems.

The audit made two recommendations and four observations for the Office of Local Government (OLG) to work with councils to ensure they comply with the *Public*

*Interest Disclosure Act 1994*. The audit recommended OLG work with state entities and councils to develop commonality in how fraud complaints and incidences are defined and categorised. This will ensure they can better use data to provide a clearer picture of the level of fraud within councils and measure the effectiveness of, and drive improvement in, councils' fraud controls systems.

#### Response

The Office of Local Government accepted the recommendations and supported our observations.

📅 Report release date:  
22 June 2018

## Assessment of the use of a training program (special report)

On 15 March 2018, the Hon. Victor Dominello MP, Minister for Finance, Services and Property, requested the Auditor General conduct this audit. The audit assessed the effectiveness and economy of the Franklin Covey '7 Habits' training program as used by the Department of Finance, Services and Innovation (DFSI) and Service NSW.

Overall, the audit found that both agencies negotiated value for money contracts for the delivery of the program when compared to other available options for training all staff. However, the agencies did not document evidence to show that training all staff members was necessary to meet their business needs, as compared with training fewer staff members at a lower overall cost. As a result, we were unable to form a view on whether the approach to train all staff members was economical.

The audit also found that the agencies are collecting the data they need to evaluate the program, and there is some evidence that the program is achieving its objectives in Service NSW. Due to the timing of the audit, there was not yet enough information available to comment on whether the program is achieving its objectives in DFSI.

The audit recommended that that DFSI improve the guidance provided to NSW government agencies engaging in direct procurement negotiations and that both agencies conduct post-completion reviews of their procurement processes. The audit also recommended that both agencies conduct an evaluation to inform a decision on whether implementation of the program should continue.

### Response

The agencies accepted the recommendations contained in the report.

📁 Report release date:  
27 June 2018

## Regulation of water pollution in drinking water catchments and illegal disposal of solid waste

The NSW Environment Protection Authority (EPA) is the state's primary environmental regulator. The EPA regulates waste and water pollution under the *Protection of the Environment Operations Act 1997* through its licensing, monitoring, regulation and enforcement activities.

This audit assessed the effectiveness of the EPA's regulatory response to water pollution in drinking water catchments and illegal solid waste disposal. It found that there are important gaps in how the EPA implements its regulatory framework for water pollution in drinking water catchments and illegal solid waste disposal. This limits the effectiveness of its regulatory response. The EPA uses a risk-based regulatory framework that has elements consistent

with the NSW government guidance for regulators to implement outcomes and risk-based regulation. However, the EPA did not demonstrate that it has established reliable practices to accurately and consistently detect the risk of non-compliance by licensees, and apply consistent regulatory actions. This may expose the risk of harm to the environment and human health.

The audit made seven recommendations on how the EPA can improve its governance and oversight, consistency in regulatory practices, compliance monitoring, and enforcement. The report also recommended the EPA, in collaboration with other agencies, address worsening water quality in Lake Burragorang – Sydney's primary drinking water reservoir.

### Response

The EPA accepted all of the report's recommendations.

📁 Report release date:  
28 June 2018

## Performance audit insights: key findings from 2014–2018 (special report)

In this special report, we presented an overview of common findings and themes from four years of performance audits. By highlighting commonly encountered issues, this report aimed to help agencies to learn from and respond to future challenges, and reduce the occurrence of repeat issues and findings arising from Auditor-General's reports. This report has also helped us to determine areas of unaddressed risk across all parts of government, and will shape our future audit priorities.

We analysed the key findings and recommendations from 61 performance audits tabled in the NSW Parliament between July 2014 and June 2018, spanning varied areas of government activity. This analysis highlighted a need for continued overall improvement in key areas such as governance, assurance, transparency to the public, and measuring performance. The report findings are presented around six areas of government activity including planning for the future, meeting community expectations for key services, investment in infrastructure, managing natural resources, ensuring good governance, and digital disruption.

📁 Report release date:  
29 June 2018



# The year ahead for performance audit

## Our annual work program

We consider broad themes in government administration and reform

Section 38B of the *Public Finance and Audit Act 1983* gives the Auditor-General of New South Wales the mandate to undertake performance audits in NSW government.

In developing the proposed performance audit program, we directly consulted a range of stakeholders, including NSW Parliament's Public Accounts Committee, cluster department secretaries, and the integrity agencies. We also receive suggestions from members of parliament, and from the community.

In designing our program of performance audit topics, we consider the risks and challenges facing government, and opportunities for improved public-sector accountability, governance and performance. We identify these risks and opportunities through research and consultation, and continuously scan the environment for emerging issues. The current areas of focus are:

### Planning for the future

Governments play an important stewardship role. Their decisions need to consider intergenerational equity by ensuring that investment strategies are sustainable. Governments also need to consider the impact of their decisions on different parts of the community.

### Meeting community expectations for key services

State and local governments exist to provide services to citizens, and citizens are playing a greater role in defining what services they want or need. Expectations about consultation, ease of access, timeliness, and customisation of services are rising. Governments face challenges to continually improve the way they plan and deliver services to meet these expectations and are increasingly moving to commissioning and partnership models with external providers. Governments also need to provide quality services for a growing and ageing population whilst working within a constrained financial environment.

### The scale of investment in infrastructure

The NSW government will invest \$87.2 billion\* in infrastructure over the next four years. Infrastructure investment of this size creates significant opportunities and risks. Competition for resources is high and maintaining the capability to manage and deliver projects effectively is challenging. Governments also need to plan effectively to ensure infrastructure built today will meet future needs.

### Managing the environment and natural resources

Governments face challenges in balancing the use of natural resources to meet diverse interests, while ensuring resources are used sustainably into the future. Governments need to supply communities with water, produce energy, and manage threats to the environment and human health. They also need to support farming, industry and economic development.

### Ensuring good governance and transparency

A range of checks and balances is needed to support public confidence in government decision-making. To maintain trust, government agencies and local councils should act transparently, and in accordance with relevant legislation and policy. This is particularly important as the public sector increasingly engages with external partners to deliver services and provide a more contestable environment.

Good governance arrangements should result in improved service delivery and more effective and efficient use of resources.

### Responding to digital disruption

Global trends in digital technology provide governments with opportunities to interact with citizens in more immediate and responsive ways than was previously possible. Data is used to predict future demand for services, target interventions, respond to crises, and evaluate outcomes. When doing this, governments need to maintain secure digital environments that protect citizen interests, privacy, and autonomy.

Our full audit work program for 2018–19 can be found on our website.

\* Source: Budget Paper No. 2 'Infrastructure Statement 2018–19'.





# People

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

At the Audit Office of New South Wales, we have built a constructive and achievement-oriented working environment that:

- is founded on respect for staff, clients and stakeholders
- strives to maintain a balance between work life and personal life
- fosters and values trust and allows staff to be the best they can be
- attracts and retains highly skilled staff who take opportunities to achieve their potential

# Staff satisfaction

## *A challenging year that has resulted in a decline in satisfaction and engagement*

Staff satisfaction 66%, compared to 89% last year

Staff engagement 69%, compared to 82% last year, above NSW public sector result of 61%

### A different approach to surveying our staff

For many years we have conducted our own Audit Office Employee Opinion Survey. In 2012, the NSW government introduced the cross-sector 'People Matter Employee Survey'. In 2017–18, for the first time, we combined the two surveys, working with the NSW Public Service Commission to include questions from our own survey in the People Matter survey. This allowed us to run one consolidated employee survey in June 2018.

### Survey participation high

Ninety-five per cent of staff participated in the People Matter survey, up considerably on the 29 per cent who participated last year. However, this year's participation rate is consistent with the 95 per cent of staff who completed our Audit Office Employee Opinion Survey last year.

### Employee satisfaction down

Sixty-six per cent of respondents indicated they were 'satisfied' to 'extremely satisfied' working at the Audit Office, down from 89 per cent last year and well below our 80 per cent target.

### Employee engagement down

Employee engagement was 69 per cent, which is a slight improvement on last year's People Matter survey result of 66, but down significantly on last year's Audit Office survey result of 83. Given our Audit Office survey had a significantly higher participation rate last year compared to the People Matter survey, we have concluded that the Audit Office survey comparator is more accurate for this measure. Consequently, employee

engagement is down on last year. However, our employee engagement is above the NSW public sector result of 61.

Although overall employee morale remained steady at 78 per cent, employees feeling motivated to put in extra effort than normally required reduced from 94 per cent in last year's Audit Office survey to 71 per cent, and just below the 72 per cent result for the rest of the NSW public sector. Employees who would recommend the Audit Office as a great place to work reduced significantly from 90 per cent in last year's Audit Office survey to 71 per cent this year.

### Several areas of strength

This year's People Matter survey results show several areas of strength for the Audit Office where our results were at 89 per cent or above. The top five results are:

- My workgroup strives to achieve client satisfaction
- My organisation respects individual differences
- I have informal feedback conversations with my manager throughout the year
- I understand what is expected of me to do well in my role
- People in my workgroup treat each other with respect.

### Areas employees feel we need to improve

The areas our employees believe we perform the least well in, with results of 60 per cent or below, are:

- I have confidence in the way recruitment decisions are made

- I believe action will be taken on the results from this survey by my organisation
- I feel that change is handled well in my organisation
- I have confidence in the ways my organisation resolves grievances
- The Audit Office has sufficient resources to deliver value to clients.

### We benchmark well against the NSW public sector

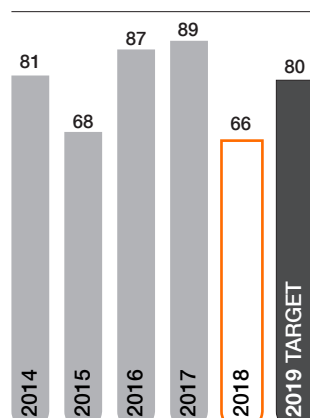
A big advantage for us in participating in the cross-sector People Matter survey is that we can benchmark our results against other NSW public sector organisations. In 2017–18, we had the same or better result compared to the rest of the NSW public sector for 57 of the 62 measures, or 92 per cent. Some of the areas we performed extremely well in compared to the rest of the sector include:

- 77 per cent of our staff agreed their organisation is committed to developing its employees, compared to 52 per cent in the rest of the NSW public sector
- 84 per cent of our staff agreed senior managers genuinely support the career advancement of women, compared to 60 per cent in the rest of the NSW public sector
- 81 per cent of staff agreed they have scheduled feedback conversations with their manager throughout the year, compared to 58 per cent in the rest of the NSW public sector.

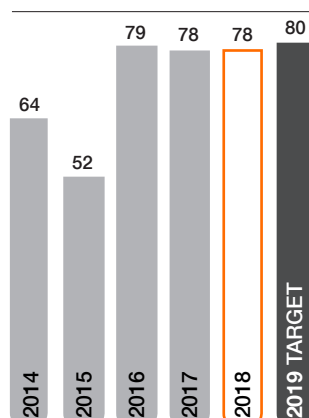
### The year ahead

Our employees have indicated to us through the People Matter survey that there are several areas we will need to focus on in the coming year to better meet their needs. In 2018–19, we will begin a consultative and collaborative process of working with our employees to formulate a People Matter Action Plan. To ensure this plan receives the maximum focus and attention possible, it will be developed and implemented as part of our 'Working Better, Working Together' strategic initiative, and be a key focus for the Leadership Team throughout the year (see page 9 for further details on our strategic initiatives for 2018–19).

Staff satisfaction %



Staff morale %



# Performance

## A focus on effective, quality results

59% billable productivity achieved, compared to 57% last year

### Productivity

Our billable staff productivity (the percentage of total staffing hours that we charge to our audit work) in 2017–18 increased from 57 per cent to 59 per cent. While an improvement on the prior year, we did fall short of our target by one percentile point or 4,000 hours. We missed the target because we invested additional resources into our corporate support areas to deliver key strategic projects such as our Data Centre Refresh Project (see below for further details).

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

### Enhancing technology infrastructure and systems

In 2017–18, we continued to enhance audit delivery through improved systems and processes. Technology achievements included:

- as part of our major Data Centre Refresh Project, one element of the 'Technology and Process Innovation' strategic initiative, we completely refreshed our data centre infrastructure, moving from on-premise systems to a cloud-based 'Platform-as-a-Service' solution hosted in the GovDC data centre. This project has delivered improvements in the performance and availability of our key systems, as well as being more resilient and secure. It will be a key enabler for future strategic initiatives including our Future Workplace Project, and provides a more agile environment to enable future changes

- piloted and rolled out new technology-enabled collaboration spaces for our staff, including one-click wireless presentation screens with interactive whiteboard touchscreens, and enhanced video-conferencing facilities
- implemented an enterprise service management platform across all Corporate Services units to improve tracking of issues and reporting.

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

- maintaining certification of compliance with the ISO27001:2013 security standard
- maintaining systems availability above the target of 99 per cent
- refreshing our Business Continuity Plan and Crisis Management Plan under an improved maintenance framework aligned to relevant Australian and international standards
- developing a cyber security roadmap and new policies and standards for information security
- conducting an external penetration test.

### Focus on performance management

The performance, behaviour and conduct of our employees are integral to our success. The Audit Office promotes a transparent performance management approach that aligns personal goals and individual development with the Audit Office corporate plan and vision.

In 2017–18, we continued focusing on performance management by:

- cascading the Audit Office corporate plan down into branch plans and individual performance agreements
- strengthening our performance management process, including performance conversations, two-way feedback and the link between performance and remuneration
- holding valuable collaboration sessions for all classification levels to ensure managers have an agreed and collective understanding of expectations.

### Fair and responsible remuneration

Our approach to remuneration is focused on being procedurally fair and fiscally responsible, and in line with the NSW government's wages policy.

Mid-year and end-year performance conversations were held between managers and employees. An end-year performance and remuneration assessment was conducted and the results were moderated across branches through leadership collaboration sessions.

The Remuneration Committee met twice during 2017–18 to consider auditor/analyst progression and the end-year remuneration review. The committee reviews recommendations to the Auditor-General on the application of the Audit Office's remuneration policies and practices. These recommendations continue to improve the remuneration assessment process.

### The year ahead

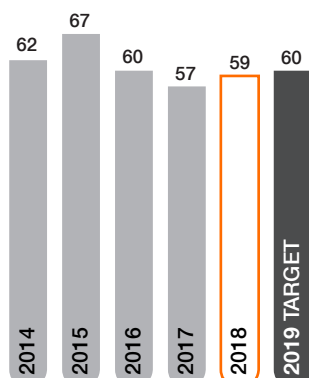
In 2018–19, we will continue to:

- cascade the Audit Office Corporate Plan 2017–2020 to branch plans and individual performance agreements
- pilot a performance feedback tool that enables managers to provide feedback to employees at the end of audit engagements
- ensure our approach to remuneration remains procedurally fair and fiscally responsible, and in line with the NSW government's wages policy.

We will also in 2018–19, under our 'Technology and Process Innovation' strategic initiative, implement our cyber security roadmap and develop performance reporting dashboards for management decision-making.

(See page 9 for further details on our strategic initiatives for 2018–19).

Productivity %



# Staffing and recruitment

## Focus on attracting high quality staff

278 full-time equivalent staff

58% of middle management are women

### Staff turnover within target

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

We have experienced a decrease in staff turnover in 2017–18, the 12 per cent result down from the 19 per cent of 2016–17 and within our target range of 12–15 per cent.

Feedback gathered in surveys of staff exiting the Audit Office reveals they:

- appreciated the work-life balance and the people at the Audit Office
- valued our role within the public sector
- were happy with the quality of training but would like to see an improvement in the training being implemented on the job
- felt they were free to express their opinions and would be listened to by their manager
- appreciated the challenging work
- believed the Audit Office was a friendly place to work
- felt there were limited promotional opportunities
- felt there were increased resourcing pressures and work could be more evenly distributed between teams.

This exit survey feedback will be fed into the People Matter Action Plan that we will be developing in 2018–19 in response to broader survey feedback from our staff. See page 39 for details of our People Matter Survey results.

From the exit survey responses received, 38 per cent of exiting employees have moved to the private sector and 33 per cent have moved within the public sector. Eighty-one per cent of respondents would return to the Audit Office if an opportunity arose.

The number of full-time equivalent staff at 30 June 2017 was 278, consistent with 275 last year.

In March 2018, we began our graduate recruitment process for 2019. We worked to enhance our ongoing alliance with professional accounting bodies and universities by attending career events, promoting our program through universities and engaging in other recruitment activities. We also worked closely with Indigenous Accountants Australia to target employment opportunities to Indigenous accounting students in support of our diversity initiatives. From the 371 applications received for our graduate program, we interviewed 61 candidates and offered four-year fixed term contracts to 16 candidates.

### Continued focus on diversity

At the Audit Office, we are committed to ensuring we have a diverse workplace that reflects a constantly changing external workforce and client base. We recognise that by embracing the different contributions, perspectives and talents that make up our organisation we not only create a culture of participation, contribution and respect, but also increase innovation, creativity and organisational performance. Our Diversity Inclusion and Accessibility Framework continues to guide our activity in this area.

The number of women as a percentage of the total full-time equivalent workforce remains at 51 per cent.

The representation of women in middle management has increased to 58 per cent from the previous 54 per cent. The Audit Office has an ongoing commitment to supporting the growth and development of talented women in the organisation. The percentage of women in executive and senior leadership positions has also increased from 46 to 50 per cent in the last twelve months.

Staff at the Audit Office come from over 40 countries and speak over 26 languages. In 2017–18, we celebrated many cultural festivals such as Diwali, NAIDOC, Lunar New Year, Harmony Day, and International Women's Day. These celebrations help us recognise the diversity of our workplace and encourage our staff to learn more about other cultures and diversity groups.

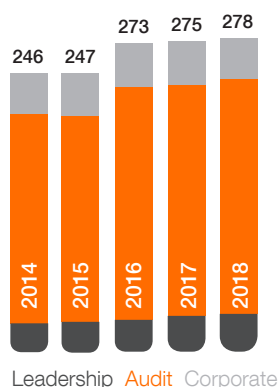
The Audit Office also continues to develop and support a culture of supporting flexible working options. Fourteen per cent of staff have a formal flexible working arrangement and many more take advantage of flex leave and informal flexible working arrangements.

We continued to develop and implement our Indigenous Internship Program with five Indigenous interns working at the Audit Office over a 12-week summer period. Another Indigenous intern joined us for the winter intake starting in June 2018. This program aims to increase the representation of Indigenous people in our organisation. In addition, we have drafted Phase 1 (Reflect) of our Reconciliation Action Plan.

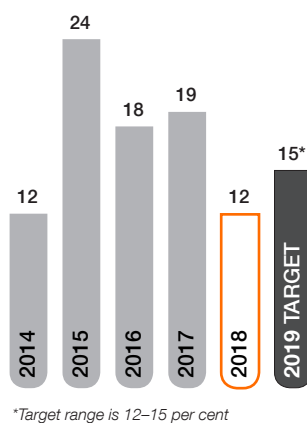
For further information on workforce diversity, see Appendix 6.

### Total staff at 30 June\*

\*FTE: Full-time equivalent.



### Staff turnover %



\*Target range is 12–15 per cent



## Supporting our staff

The health and wellbeing of our staff remains a strong focus for the Audit Office. In 2017–18, several staff used our Employee Assistance Program, which includes independent, confidential counselling services for staff and their immediate families. We continued to provide assorted fruit every day to promote healthier eating, and offer free flu vaccinations to all staff.

We also continue to offer flexible working arrangements. Employees can have a flexible approach to working hours that helps them manage fluctuating workloads and achieve work-life balance. Flexible arrangements include working from home, a compressed working week, term working, job share and career breaks.

In 2017–18, we provided support to those competing in the Corporate Cup running competition to further commit to our healthy workforce culture.

## Recognising our staff

The Audies formal Recognition Program continued this year with a total of 37 nominations for the July to December 2017 period. There were nine individual winners (one winner being for the Karyn Neal Leadership Award) and three team winners.

## 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, slightly less compared to last year's 63 per cent. The club is fully funded by staff and run by a representative committee.

The ReClub is responsible for organising a number of the Audit Office's key events including the Annual Dinner, Christmas Party and numerous 'Happy Hour' events. Additionally, in 2017–18, the ReClub organised:

- Launchies – a welcome event for new graduates joining the Audit Office and a fun event for all employees
- Australia's Biggest Morning Tea annual bake-off – our eleventh participation which raised over \$651 in 2018
- Futsal – our fiercely competitive indoor soccer competition which this year includes four teams with 25 players
- 10,000 steps challenge – a health event challenging staff to walk 10,000 steps per day, with almost every business team across the Audit Office entering a team
- City2Surf – partially subsidising entry fees for ReClub members
- Happy Hour breakfast – a feast for all staff with delicious pastries, hot food and healthy options
- Book Club – a new initiative for Audit Office bookworms and an opportunity to meet and discuss good reads
- Street Count – members continued to take part in the City of Sydney's bi-annual street count to help collect information about the number of homeless people sleeping rough in the Sydney municipality

- Trivia nights – a new event for Audit Office quiz masters to test their skills against one another.

The ReClub 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 due to our largely mobile workforce.

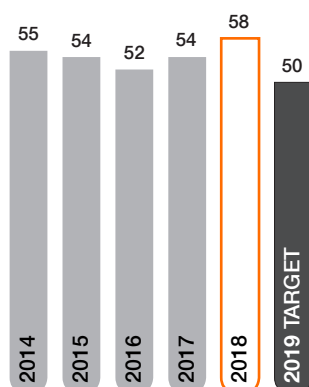
## The year ahead

In 2018–19, our 'Working Better, Working Together' strategic initiative will work towards staff improvements in a number of areas by:

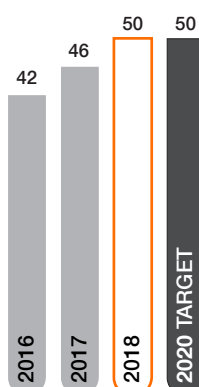
- providing a new, modern and collaborative workplace for staff under our major Future Workplace Project, that incorporates disability inclusive design principles
- continuing to implement the Diversity Inclusion and Accessibility Framework
- finalising and then implementing a Workforce Strategy to ensure the Audit Office has the capability and capacity to meet current and future workforce needs
- implementing our Leadership Development Framework to support our leaders in developing their leadership capability
- developing a Health and Wellbeing Strategy that will specifically focus on physical and mental wellness and bring together all the Audit Office's various initiatives in this space and further build on them.

(See page 9 for further details on our 2018–19 strategic initiatives).

Women in middle management %



Women in executive and senior leadership %



# Professional development

## Ongoing investment in our talent

6 training days on average per employee

### Well-developed skills

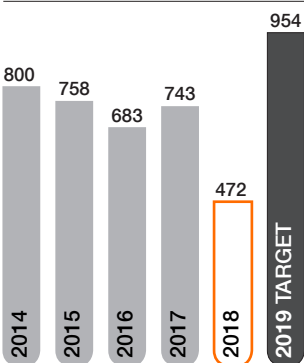
Our learning and development program ensures our staff have the skills and capability they need to do their job well, and ensure they are supported to meet their career goals.

In 2017–18 we:

- expanded local government training to ensure staff are prepared for our new mandate to audit local government
- ensured senior managers have the required skills to present at local government public meetings through training and coaching
- delivered detailed accounting standards training
- developed and implemented a new Study Support Policy
- Senior Auditors and Audit Leaders facilitated parts of the graduate induction program
- delivered cultural awareness training to support the Indigenous internship program
- developed an 'About Government' online learning module for recruits hired from outside the public sector
- partnered with the Committee for Economic Development in Australia (CEDA) which has enabled our Office Executive and Leadership Team to attend meetings and events with government leaders.

We continued to help staff gain their professional accounting qualifications in 2017–18 by reimbursing 100 per cent of fees and providing study leave. Seven staff qualified as Chartered Accountants and one as a Certified Practising Accountant. In addition, we had one staff member complete their Certified Information Systems Auditor (CISA) Certification.

Learning and development spending  
\$'000



The implementation of our new Study Support Policy has solidified our ongoing support of formal education. This includes supporting non-audit staff with tertiary education by paying a percentage of fees for studies relevant to their role. In addition to financial support, approved staff are also granted study leave to maximise their potential for success.

General training in 2017–18 included a combination of online training, face-to-face sessions, quizzes, external courses, seminars and conferences. In addition to this, staff continue to consistently learn and develop whilst on the job. Internal coaching and face-to-face training delivered by Audit Office subject matter experts continue to form an integral part of our learning program.

### Leadership development

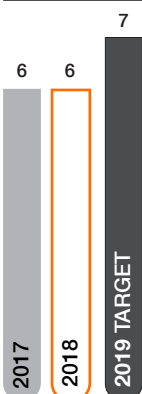
In 2017–18, we developed a Leadership Development Framework that links to the NSW Public Service Commission's Capability Framework. Leadership development of our Office Executive group has been the first step in the framework's implementation with a team development workshop conducted in February 2018. (See the case study on page 47 for further details on our Leadership Development Framework.) We also focused in 2017–18 on women's leadership development.

### Technical development

Financial audit staff in 2017–18 were trained across a variety of subject areas, including Plain English, audit methodology, accounting standards, on-the-job coaching and auditing local government.

Corporate Services staff received relevant industry-specific training and continued to develop through attendance at seminars, training sessions and conferences.

Average training days per staff member



Performance audit staff attended industry conferences, and developed advanced report writing skills through face-to-face training and coaching.

### Staff development

Throughout 2017–18, we continued to offer our staff a diverse range of development opportunities both externally and internally. Staff continue to be given the opportunity for internal movement which includes acting at higher levels.

We also continued our ongoing commitment to offering staff development experiences with external organisations. In 2017–18, we seconded 13 staff to accounting firm PwC Australia, including two information systems auditors as a part of a new pilot program. This program received positive feedback. In addition, two staff were seconded to accounting firm BDO.

### Training days steady but overall spend down

In 2017–18, we delivered six training days per staff member on average which is consistent with last year, but below our target of seven days. We were also well below our target for overall learning and development expenditure, with \$472,000 spent in 2017–18, compared to last year's \$743,000. Although our expenditure reduced, we managed to keep training days per staff member steady as many of our staff attended free seminars, and we delivered some training internally. The main reason we did not meet our expenditure target was a delay in developing our Leadership Development Framework, which was not finalised until the end of 2017–18.

### The year ahead

In 2018–19, our learning and development program will include:

- implementing our Leadership Development Framework
- implementing Lynda.com, an online learning platform
- continuing to focus on women's leadership development
- providing all-of-organisation anti-bullying, harassment and discrimination training
- developing a Learning and Development Strategy.



# Workplace health and safety

## Keeping our people safe a high priority

5 reported notifiable injuries and 2 new workers' compensation claims

### WHS injuries and incidents

In 2017–18, we recorded a total of five notifiable injuries directly related to Workplace Health and Safety (WHS), up from three in 2016–17. These were immediately reported and addressed. Reported injury categories included:

- slips, trips and falls
- repetitive strain
- electric shock
- hot substances
- pedestrian accident.

One injury was a notifiable incident to Safe Work Australia, and two incidents resulted in workers' compensation claims but only one had lost time. One workers' compensation claim is still active and we are currently working closely with this employee and our insurers to support their recovery back to full pre-injury duties.

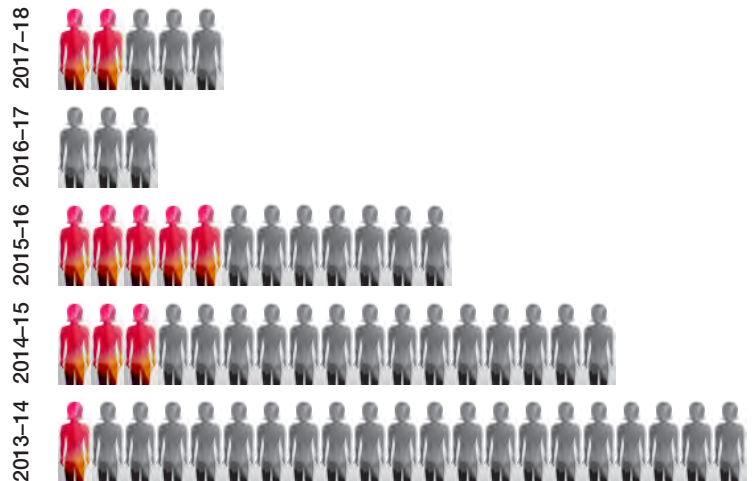
The WHS Committee proactively conducted regular WHS internal inspections and actioned any issues raised through our WHS Client Site Checklist to minimise the risk of injury.

Strategies to deal with reported safety hazards and risks are developed by the Audit Office's WHS Committee through ongoing consultation, education and training. In 2017–18, the WHS Committee continued to put a strong focus on consultation within each of our workgroups and actively identified hazards.

### Notifiable injuries by body part and occurrence

In 2017–18, we recorded five notifiable injuries, categorised below by body part and how the injuries occurred.

#### Notifiable injuries



#### Workers' compensation claims

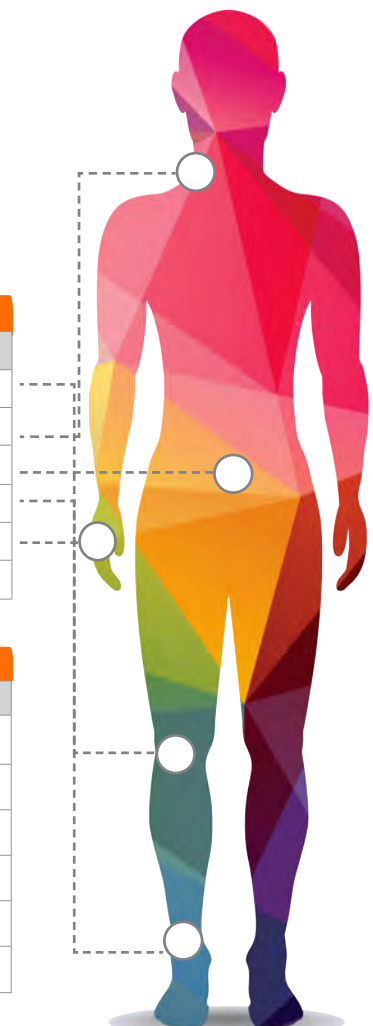
Notifiable injuries

#### Notifiable injuries by body part

Body part	Injuries
Ankle	1
Neck	1
Stomach/Thigh	1
Legs	1
Hand	1
<b>Total</b>	<b>5</b>

#### Notifiable injuries by mechanisms

How injuries occurred	Injuries
Slips, trips and falls	1
Repetitive movement	1
Hot substances	1
Electric shock	1
Pedestrian accident	1
<b>Total</b>	<b>5</b>



## Keeping our people safe a high priority

### We have an engaged and active WHS Committee

The primary objective of the Audit Office's WHS Committee is to provide a formal forum for communication between the organisation's senior management and its employees in health, safety and welfare matters. The committee is responsible for:

- monitoring WHS performance
- monitoring the return to work and rehabilitation of injured employees
- ensuring the adequacy of WHS procedures and controls
- supporting and developing activities to promote WHS awareness
- reviewing WHS training programs
- identifying key WHS issues and risks, and recommending appropriate mitigations.

The WHS Committee met four times in 2017–18.

In 2017–18, the Audit Office appointed two new members to our WHS Committee due to resignations within the organisation. Existing committee members conducted a successful handover to the new members of the committee, ensuring the transition was seamless. All new members within the committee attended required health and safety committee training. The training was open to the wider organisation allowing others to be trained and have a greater understanding of the committee and WHS within the organisation. As per previous years, our first aid officers completed first aid and defibrillation refresher training, and two new first aid officers were appointed and trained.

### Staff satisfaction with WHS

Each year the Audit Office conducts a comprehensive WHS Survey to identify:

- employee awareness of WHS representatives, policies and issues
- employee knowledge of WHS reporting processes
- current WHS issues
- what employees would like to see improved.

In 2017–18, the survey showed a WHS satisfaction index score of 91, which is consistent with 92 in 2016.

The results from our WHS Survey are used to determine areas of focus for the WHS Committee the following year. The results we received in the previous 2016–17 year showed that there were several areas that could be improved. The core issues staff wanted to see addressed were:

- poor facilities at client sites, for example broken chairs, small rooms and flickering lights
- increased random checks at client sites to ensure facilities are adequate
- communication to the client prior to the audit detailing the Audit Office's expectation for the standard of facilities
- managing workplace stress, particularly during peak periods of work.

In response to last year's results, in 2017–18 the WHS Committee developed action points to be delivered throughout the year. These actions included:

- ensuring staff can easily identify safety representatives by placing posters in appropriate locations across the office, supplemented by regular safety representative communications
- updating our WHS policies and procedures, including procedures on incident reporting, and ensuring these can be easily accessed via our intranet
- further educating our staff on utilising WHS Client Checklists to identify any hazards or risks that may be at our client sites
- starting on the development of a Health and Wellbeing Strategy to create a healthier work environment for our staff.

### We aim to continuously improve WHS initiatives

In addition to the specific actions taken in response to our WHS survey results, there was also strong focus in 2017–18 on improving our consultation approaches. The WHS Committee has a strong commitment to consulting with employees throughout the year to ensure employee concerns are raised in quarterly WHS Committee meetings.

There was also a focus this year on educating our employees on what procedures to follow when reporting or witnessing workplace hazards or risks. Workplace Health and Safety was also a strong discussion topic within branch and team meetings, as well as at our all-staff Office Forums.

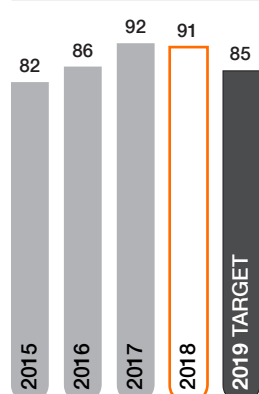
#### The year ahead

In 2018–19, we plan to build on last year's progress in WHS by focusing on:

- further reducing our lost time injury frequency rate
- embedding promotion of, and compliance with, our WHS Client Site Checklist
- continuing to improve communication on WHS initiatives across the organisation
- finalising a Health and Wellbeing Strategy
- training all new WHS Committee members, first aid officers and fire wardens.

We will also in 2018–19 be ensuring our new Workplace Strategy has a keen focus on WHS. It will be important to ensure the new office environment we deliver under our Future Workplace Project meets the safety, accessibility, and health and wellbeing needs of our staff.

#### WHS staff satisfaction



# Environment

## *Reducing our impact on the environment*

Achieved a 5 star greenhouse building rating

Significantly reduced paper storage to encourage electronic document production

### Reducing our environmental impact

The Audit Office continues to report its progress against the Government Resource Efficiency Policy (GREP) which guides us towards meeting environmental targets.

In 2017–18, we remained focused on reducing our environmental footprint by:

- using 100 per cent recycled content paper in all our photocopiers and printers
- recycling 100 per cent of wasted paper using secure disposal processes
- recycling 100 per cent of our ink and toner cartridges, and continuing to recycle cardboard and other recyclable products
- disposing all laptop batteries in an environmentally-friendly way
- publishing all of our Auditor-General's Reports to Parliament in online format only to reduce paper usage
- using 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 greater recycling by staff
- completing our electronic mail distribution project
- continuing to reduce our paper-based storage to encourage electronic document creation and storage
- transitioning client correspondence to electronic only, to further reduce printing.

In 2017–18, we also implemented two water saving improvements. We installed new filter water units in our kitchen areas on each of our floors with low-flow taps. We also installed new double-drawer dishwashers to improve efficiency and eliminate water wastage.

### Greenhouse performance maintained

In 2017–18, the Audit Office achieved a greenhouse building rating of 5 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
- using automated lighting in meeting rooms to reduce power usage
- utilising video-conferencing equipment for external meetings where possible to reduce travel
- moving our on-premise data centre infrastructure into the cloud.

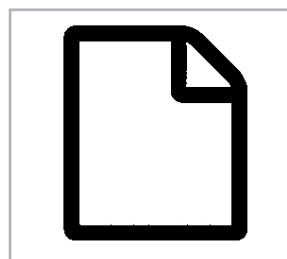
### The year ahead

In 2018–19, we will continue our commitment to reducing our environmental impact as part of our 'Working Better Working Together' strategic initiative. In our major Future Workplace Project within this initiative, we will be sourcing environmentally friendly office space, as well as designing as sustainable a workplace environment as possible.

## Environmental initiatives 2017–18



Transitioned some audit client correspondence to electronic only



100% recycled content paper in photocopiers and printers



Introduced new recycling sorting bins to encourage greater recycling



Low-flow taps and water efficient dishwashers installed

### 1. Kaleidoscope Room

In May 2018, the Audit Office opened a new space called the Kaleidoscope Room. This space aims to ensure our people feel valued and are working in an environment of respect, inclusivity and empowerment. The Kaleidoscope Room can be used by staff for prayer, meditation and relaxation, or parenting activities.

In order to successfully deliver this initiative, a project team consulted widely with staff, including those with specific religious and parenting requirements, to ensure the space and furnishings would meet a broad spectrum of needs.

The introduction of the room supports the Audit Office's commitment to promoting cultural diversity and is in keeping with our commitment to gender equity and supporting women in the workplace. The room

also supports the mental health and wellbeing of our staff by providing a private space for meditation and relaxation.

The Kaleidoscope Room was a key deliverable on our Diversity Inclusion and Accessibility Roadmap, as part of our 'Working Better, Working Together' strategic initiative. See page 54 for further details on our 2017–18 strategic initiatives.

### 2. Leading for the future

To achieve our strategic objectives, our leaders need to be equipped with the required leadership capabilities. As part of our 'Working Better, Working Together' strategic initiative, in 2017–18 we developed a Leadership Development Framework based on benchmarking and learnings from other Australasian audit offices, State Government departments and major accounting firms.

The framework covers a leadership journey that begins when staff join at an entry level, right through to our Office Executive level with five distinct leadership levels.

The framework is linked to the NSW Public Sector Commission's Capability Framework. This allows our leaders to identify and develop the leadership capabilities they need for both current and future roles, and promotes mobility across the public sector.

The framework aims to offer leaders diverse types of learning experiences, including face-to-face training, on the job coaching,

mentoring, secondments, eLearning modules, and leadership behaviour tools.

A focus on women's development has also been taken into account to ensure that the challenges that women face in developing their leadership potential are addressed.

The face-to-face training stream for the middle management leadership level will be piloted in the first half of 2018–19 prior to being rolled out to the remaining four levels.

### 3. Providing value to local government

In 2017–18, we completed the first audits of local government under our new mandate. This was a significant change for the Audit Office in many different areas. One particular area was the requirement for our financial audit directors to present their audit findings in council forums, where both the public and media are often present. This change required new skills in public speaking, answering questions under pressure, and media awareness.

We sourced a training provider who could help our directors develop their presentation skills in an environment that would simulate a real-life council meeting.

To make the simulation as real as possible, our directors were asked to bring along a real report and present the report to an audience that included the training provider and three 'councillors', the latter being a group of people from our audit service providers who had previous experience speaking at council forums, as well as one actual councillor.

The 'councillors' asked questions of the directors – often deliberately challenging – that the directors then had to answer as best they could. The trainer took notes of each participant's performance and then held one-on-one coaching sessions with each person that focused on building on strengths and providing suggestions for change.

Feedback from participants was overwhelmingly positive, with specific comments including 'changed the way I present', 'enabled me to better understand the challenges of the council', and 'gave me the confidence to handle questions'.

This training program was delivered under our 'Local Government' strategic initiative. For further details on our strategic initiatives in 2017–18 see page 54.



# Profession

**We are known for influencing auditing in Australia**

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

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

# Professional influence

## Making positive and varied contributions

59 presentations delivered to the public and the profession

### Professional services

The Audit Office's Quality and Innovation group supports the Audit Office by establishing and maintaining a system of quality control. They provide the Auditor-General with assurance that the Audit Office complies with Australian auditing standards – including relevant ethical requirements and, legal and regulatory requirements.

Quality and Innovation:

- provides technical support (including accounting, auditing and applicable ethical and legislative requirements) to the Audit Office
- drives innovation and improvement in our audits and reporting, focusing on technology and data
- facilitates early resolution of key audit issues impacting our auditees through a focused engagement strategy and strong partnering with audit teams
- maintains the Quality and Assurance Framework.

Quality and Innovation is seen as a leader in the profession, particularly in public sector accounting issues. Their input is sought by professional bodies, NSW Treasury and the Office of Local Government on a wide range of financial reporting matters, policy development and legislative proposals. Quality and Innovation also contributes to the Australasian Council of Auditors-General comments on new pronouncements.

Quality and Innovation produces a quarterly publication, 'Professional Update', available on our website. This provides commentary on emerging issues, activities of standard setters, NSW Treasury, the Office of Local Government and other central agencies, regulators and professional bodies.

### Services to the public sector and the profession

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 59 presentations to a variety of audiences in 2017–18, compared to 28 in 2016–17. Forty-four of these were to the public sector. This marked increase in presentations reflects the significant presence we had in the local government sector in 2017–18 with many of our staff presenting at conferences, workshops and roadshows across New South Wales. Presentation topics included the Auditor-General's new mandate and financial reporting in local government, principles of governing in local government, risk management and fraud control (see pages 109–111 and 114 for further details).

### Submissions to professional bodies

The Audit Office contributes to the collaborative efforts of Australian audit offices by helping develop responses to professional bodies on pronouncements exposed for comment. In 2017–18, Quality and Innovation prepared or contributed to 18 responses to standard setters by the Australasian Council of Auditors-General (ACAG) and audit offices (see page 113 for further details).

### Influencing by educating, mentoring and advising

#### Educating

Our staff have, for many years, been involved in determining the content of course and training modules, leading training and focus sessions and marking examination papers for Chartered Accountants Australia and New Zealand, and CPA Australia (see page 112).

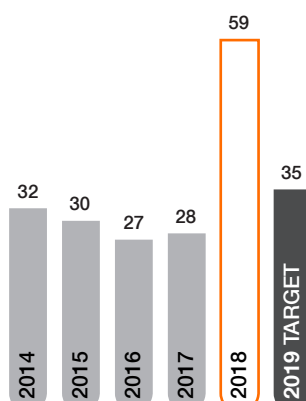
#### Mentoring

The Audit Office provides formal mentoring to all our candidates working towards membership of a professional accounting body. Our mentors support and guide our candidates through the practical aspect of obtaining a professional accounting qualification, by helping them develop the knowledge and skills to become well trained, high calibre professionals.

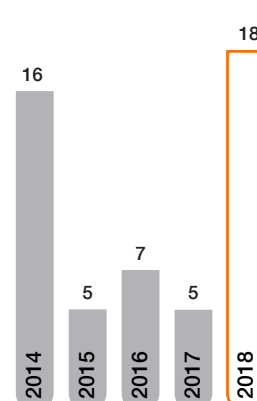
#### Advising

The Audit Office interacts with Australian accounting and auditing bodies, participating in their committees, research groups and working parties (see page 112). We help them better understand public sector issues. Our representatives attend roundtables hosted by Australian and international standard setters.

Presentations delivered



Submissions made



## Influencing through the Australasian Council of Auditors-General

The Audit Office is an active participant in ACAG, established in 1993 to encourage sharing and cooperation between audit offices in Australasia.

In 2017–18, the Audit Office participated in and supported various ACAG sub-groups and working parties, including:

- Financial Reporting and Accounting Committee – provides ACAG with proactive strategic and technical advice on developments in financial reporting and accounting
- Audit Standards Committee – provides ACAG with advice on emerging issues that impact audit quality and developments in auditing and assurance standards
- Corporate Services Committee – an avenue for heads of corporate services to share, collaborate and leverage ideas and practices, including discussing and exchanging intelligence about the practical challenges and solutions for managing a corporate services function within an audit office
- Heads of Financial Audit Group – an avenue for heads of financial audit to share, collaborate and leverage ideas and practices, including discussing and exchanging intelligence about the practical challenges and solutions for managing a financial audit business
- Heads of Performance Audit Group – an avenue for heads of performance audit to share, collaborate and leverage ideas and practices including discussing and exchanging intelligence about the practical challenges and solutions for managing a performance audit business
- Information Systems Audit Group – a forum for exchanging knowledge and experiences in information systems audit and the use of technology as a support tool for auditors.

## Local 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. In turn, our performance audit program has benefited from topics successfully delivered elsewhere.

## ARC Chair events

We also hold events for Audit and Risk Committee (ARC) Chairs who play an important role in the governance of the entities we audit. This year we hosted meetings of the ARC Chairs of the local government and university sectors.

At the NSW universities' ARC Chairs meeting, we discussed issues raised in our Auditor-General's report 'Universities: 2016 Audits' and ARC Chairs shared their own observations of the sector.

At the local government ARC Chairs meeting, we shared insights from our first financial audit Auditor-General's report and three performance audit Auditor-General's reports. The Independent Commission Against Corruption (ICAC) was invited to this meeting and presented findings from their investigation into the former Botany Bay Council. They also shared their views on the types of fraud and corruption that ARCs should be aware of and put in place strategies to prevent.

Feedback from participants on these events was extremely positive.

## International knowledge sharing

In 2017–18, we assisted the Australian National Audit Office (ANAO) by helping to arrange four staff secondments from the Audit Board of the Republic of Indonesia, BPK Republic Indonesia (BPK). These secondments allowed the BPK's staff to gain practical insights and on the job experience in applying a contemporary audit methodology and auditing financial statements prepared using accrual accounting. This activity was funded by the Australian Department of Foreign Affairs and Trade (DFAT).

We also worked closely with the Auditor-General's Office in Papua New Guinea, with staff coming to the Audit Office on secondment. These secondees had the

opportunity to work with our audit teams to improve their skills and knowledge in contemporary audit techniques and methodology.

We are currently working to extend this knowledge sharing through our 'twinning' relationship with the Solomon Islands Office of the Auditor General (SIOAG) funded by DFAT. This involves sharing our knowledge of public sector auditing with the SIOAG to help their staff develop audit skills and capabilities.

During the year, staff from our Financial Audit and Performance Audit branches travelled to SIOAG. Our Performance Audit staff shared their experience in planning performance audit work. Our Financial Audit staff coached SIOAG staff on how to:

- properly plan the audit
- apply the financial audit methodology
- use and document audit work in our common audit software solution (TeamMate).

## The year ahead

In 2018–19, we will maintain our professional presence by:

- contributing through ACAG to the development of new standards by Australian standard setters
- continuing to liaise with NSW Treasury on the development and implementation of the government sector finance reforms, and development of public sector accounting policy (see the case study on page 51 for further details of this reform)
- continuing to liaise with the Office of Local Government, councils and our audit service providers on the Audit Office's mandate, and development of local government sector accounting policy
- engaging with professional bodies about issues facing the profession, their focus areas, the public sector and the development of educational programs
- engaging with central agencies, standard setters, regulators and audit offices in other jurisdictions
- publishing 'Professional Update', the Audit Office's quarterly technical update newsletter
- hosting industry events that allow us to better share insights from our audits.



## Collaboration adds value

### 1. Engagement with the local government sector

In 2016–17, the *Local Government Amendment (Governance and Planning) Act 2016* gave the Auditor-General the mandate to audit NSW local government. Since being given the mandate, the Audit Office has worked collaboratively with the sector and with audit service providers to ensure the arrangements we put in place are efficient and effective, and add value to councils and to the citizens of New South Wales. We have undertaken a wide range of stakeholder engagement activities, including workshops, briefings and attendance at conferences and regional meetings.

This year, we provided detailed comments to the Office of Local Government (OLG) as part of their update of the Local Government Code of Accounting Practice. We also partnered with OLG to deliver financial reporting information sessions for council finance staff. The

sessions provided key stakeholders with the opportunity to discuss the impact of new accounting standards issued but not yet effective, audit focus areas for 2018, technical issues and changes to the final code.

The Audit Office is an active member of the Technical Advisory Group, a committee set up by OLG to provide advice on technical accounting and audit related matters impacting the sector.

### 2. IMPACT conference

In March 2018, we hosted IMPACT – the International Meeting for Performance Audit Critical Thinkers. This biannual conference is an initiative of the Australasian Council of Auditors-General.

Performance auditors from around Australasia and other nations gathered in Sydney for two days of interesting and thought-provoking discussion. This discussion included future challenges for the public sector and the role of performance audit in helping government to navigate those challenges. The conference was not limited to performance auditors. Professionals from private and public organisations as well as Non-Government Organisations (NGOs) came to the conference to hear from a line-up of outstanding speakers. In all, more than 180 delegates attended from Australia, New Zealand, Canada, Scotland, Indonesia, the Philippines and the Pacific Islands, including many performance and financial auditors from our own office.

At the conference, we heard from some of Australia's leading thinkers and speakers on public sector management, transparency and

accountability. Some challenged us to consider how we might re-think our approach to performance audit. Others opened our eyes to new technologies that will transform how public services are delivered. We also heard from senior performance auditors from other countries, some of whom are facing similar challenges to ourselves or are experiencing unprecedented change in their own public sector. The professional connections made between our staff and those who travelled to Sydney from other states and countries will be lasting, and the feedback we received from the conference was very positive.

### 3. Financial Management Transformation

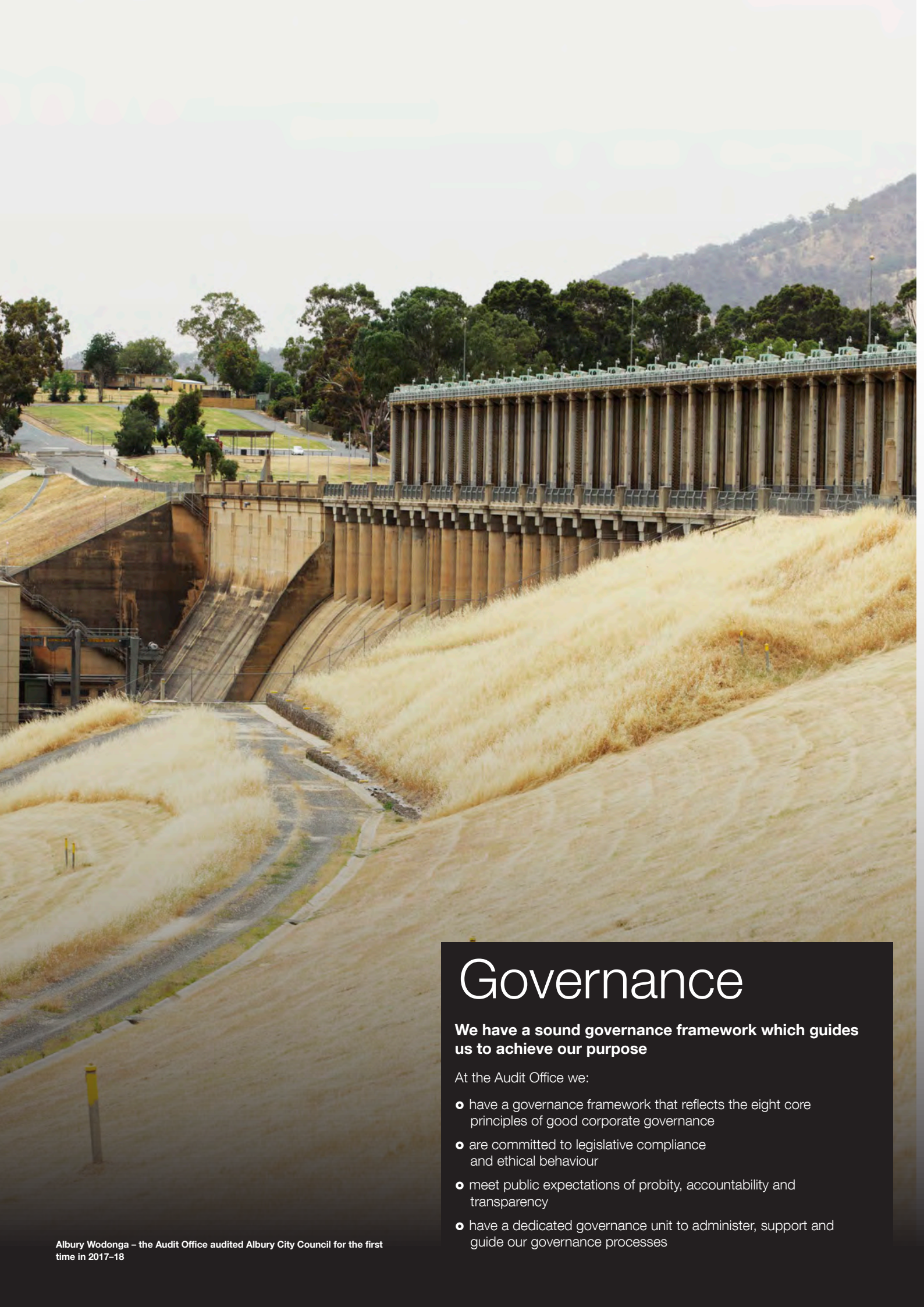
In 2017–18, the Audit Office worked closely with NSW Treasury during their drafting of the Government Sector Finance Bill 2018 and Government Sector Finance Legislation (Repeal and Amendment) Bill 2018 brought before Parliament in May 2018. These bills are the final pillar of NSW Treasury's Financial Management Transformation (FMT) project. These bills will separate government sector financial management legislation and legislation relating to the Auditor-General and the Audit Office into two separate Acts:

- the proposed Government Sector Finance Act will establish a new framework for government sector financial and resource management in New South Wales. The Act aims to simplify and modernise agency management, responsibility and accountability, financial reporting, governance and performance

- the Government Sector Audit Act (formerly known as the *Public Finance and Audit Act 1983*) will address the audit of government sector finances and governance of parliament's Public Accounts Committee. The revised Act will recognise the role of the Auditor-General as an independent and accountable statutory officer and establishes the Audit Office to assist the Auditor-General in the exercise of her functions.

The Audit Office provided feedback to NSW Treasury as they developed the bills, working through key aspects of the bills with the FMT project team, the Crown Solicitor and the Parliamentary Counsel's Office.

The Audit Office is continuing to work with NSW Treasury as they develop regulations and policies that support the bills.



# Governance

**We have a sound governance framework 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

# Strong governance foundations

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

## Our governance processes 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 employees with a clear sense of purpose and focus, guiding their behaviour when dealing with each other, parliamentarians, our audit clients and other stakeholders.

## 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, manage and report on our governance arrangements.

## Continuous enhancement

In 2017–18, we continued to strengthen our governance framework by:

- releasing our new Corporate Plan taking us to 2020
- developing a new process to capture conflicts of interest and threats to professional independence
- reviewing our Risk Management Framework including our Risk Management Policy, reassessing our risk appetite statement and strategic risks and developing risk tolerances
- preparing a detailed strategic three-year internal audit plan, linking to our strategic risks and updating our assurance map
- undertaking an extensive program of stakeholder engagement with our new local government clients.

## The year ahead

In 2018–19, we will:

- undertake an annual review of our Corporate Plan and underlying Future State Roadmap
- continue to mature our risk management approach by embedding risk management practices throughout our organisation including capturing operational risks at the appropriate level and establishing formal escalation processes
- develop our performance reporting systems to provide timely, accurate reports on the performance of our organisation
- under our 'Influencing for Impact' strategic initiative, develop a stakeholder engagement strategy to ensure we take a co-ordinated and strategic approach to stakeholder engagement (see page 9 for more information on our 2018–19 strategic initiatives).



# Setting direction

## *We have a strong commitment to strategic planning*

### LIGHTHOUSE PRINCIPLE: MANAGEMENT AND OVERSIGHT

(based on ASX Principle 1)

#### Our corporate plan

Our 2017–20 Corporate Plan was developed by the Office Executive and the Leadership Team to achieve our vision and meet the strategic priorities of the Audit Office.

Our strategic focus areas for 2017–18 were:

##### 1. Products

Our insights are trusted as independent, relevant, timely and impactful, and they make a positive contribution to government financial reporting and performance. Our partnerships with stakeholders will be responsive and value-adding.

##### 2. Systems and Processes

Our innovative technology, systems and processes are integrated, efficient and improve organisational performance. We have the capability and capacity to keep pace with a fast-changing world.

##### 3. People and Culture

Our people are diverse, dynamic, agile and insightful and work in a collaborative and constructive environment. They are connected to each other and our stakeholders, and are developed to be leaders in their field.

##### 4. Finances

Our financial frameworks are fiscally responsible, future-focused, and ensure our sustainability.

The strategic initiatives that underpin our four focus areas are outlined below.

#### Local Government

##### Goal for 2017–18:

Develop our capacity to deliver high quality audit services to the local government sector into the future.

##### Key achievements include:

- completion of 139 financial audits of councils, the first under our new local government mandate and representing a 30 per cent increase in our audit work
- our first three performance audit Auditor-General's reports on local government
- our first financial audit Auditor-General's report on councils
- extensive stakeholder engagement including roadshows and workshops.

#### Influencing for Impact

##### Goal for 2017–18:

Engage effectively with all our external stakeholders to ensure we deliver audits that are of a high quality and lead to improved public sector reporting and performance.

##### Key achievements include:

- stakeholder workshops such as the Performance Audit Industry Workshop
- hosted the IMPACT Conference, an international conference on emerging trends in public sector governance
- developed a key stakeholder engagement plan
- created local government sub-brand
- modernised and streamlined our financial statements and included transparency reporting in our annual report
- commenced work on developing a new, modern, accessible website.

#### Data Analytics

##### Goal for 2017–18:

Develop our capacity to use data analytics to improve audit insights.

##### Key achievements include:

- created a data visualisation for our financial audit report on local government
- commenced development of a data analytics strategy
- started piloting data analytics tools
- developed an audit innovation maturity assessment and roadmap.

#### Reporting Process

##### Goal for 2017–18:

Build streamlined, efficient processes that support the production of clear, concise and insightful reports.

##### Key achievements include:

- developed a modern, accessible and easy-to-use design template
- developed an all-of-office reporting timetable
- piloted collaborative editorial review technologies
- commissioned specialist services to uplift the structure and content of reports
- produced the inaugural report on Internal Controls and Governance
- developed a summary video to accompany our first report on council financial audits.

#### Working Better, Working Together

##### Goal for 2017–18:

Define what our work will look like in the future, the capabilities we will need, and the culture and conditions we will need to create. This initiative also seeks to ensure our people work in an environment of diversity and empowerment, supported by clear and focused leadership.

##### Key achievements include:

- commenced our major Future Workplace Project to secure and establish a modern office space with supporting technology. Completed a Workplace Strategy as the foundation of the project.
- progressed a Workforce Strategy
- developed a Leadership Development Framework
- implemented the first year of our Indigenous Internship Program.

#### Technology and Process Innovation

##### Goal for 2017–18:

Continuously improve our systems and processes to ensure our sustainability, and the efficiency and effectiveness of our work.

##### Key achievements include:

- delivered a major project to replace our on-site data centre with a cloud-based facility
- developed a roadmap to uplift our cyber security capability
- implemented MiService, allowing for services task tracking and reporting
- developed a Corporate Reporting Framework.

#### The year ahead

Our 2017–20 Corporate Plan identifies a clear vision – ‘Our insights inform and challenge government to improve outcomes for citizens’. This vision, and the strategic objectives that support the vision, will be achieved by building organisational capabilities through continued work on the six strategic initiatives above.

See page 9 for full details on our strategic initiatives for 2018–19.



# Structured to add value

## Key committees provide leadership and guidance

### LIGHTHOUSE PRINCIPLE:

#### STRUCTURE

(based on ASX Principle 2)

The Audit Office has a well-defined governance structure consisting of the Office Executive, independent Audit and Risk Committee and Remuneration Committee, as well as an external and internal audit function (see page 59).

#### Office Executive

The Office Executive, with the Auditor-General as Chair, directs the affairs of the Audit Office and is responsible for:

- setting the strategic direction and monitoring performance against the Audit Office's Corporate Plan and Future State Roadmap
- setting direction on the impact to the Audit Office of key changes to standards, legislation and machinery of government change that have a whole-of-office consequence
- ensuring the Audit Office is compliant with relevant laws, directions, codes and practices, ensuring key policies

are regularly reviewed, up-to-date and relevant, as well as embedding a culture of compliance

- operating in accordance with the Audit Office's values and embedding a culture of ethical and lawful behaviour
- overseeing the Audit Office's financial performance and sustainability.

The Office Executive consists of the Auditor-General as Chair, the Deputy Auditor-General, Assistant Auditors-General from Financial Audit and Performance Audit, and the Executive Director Corporate Services. Meetings are also attended by the Executive Director Quality and Innovation, the Director of the Office of the Auditor-General as the Chief Risk Officer and Chief Audit Executive, and from time to time by management representatives. The CFO attends all monthly meetings.

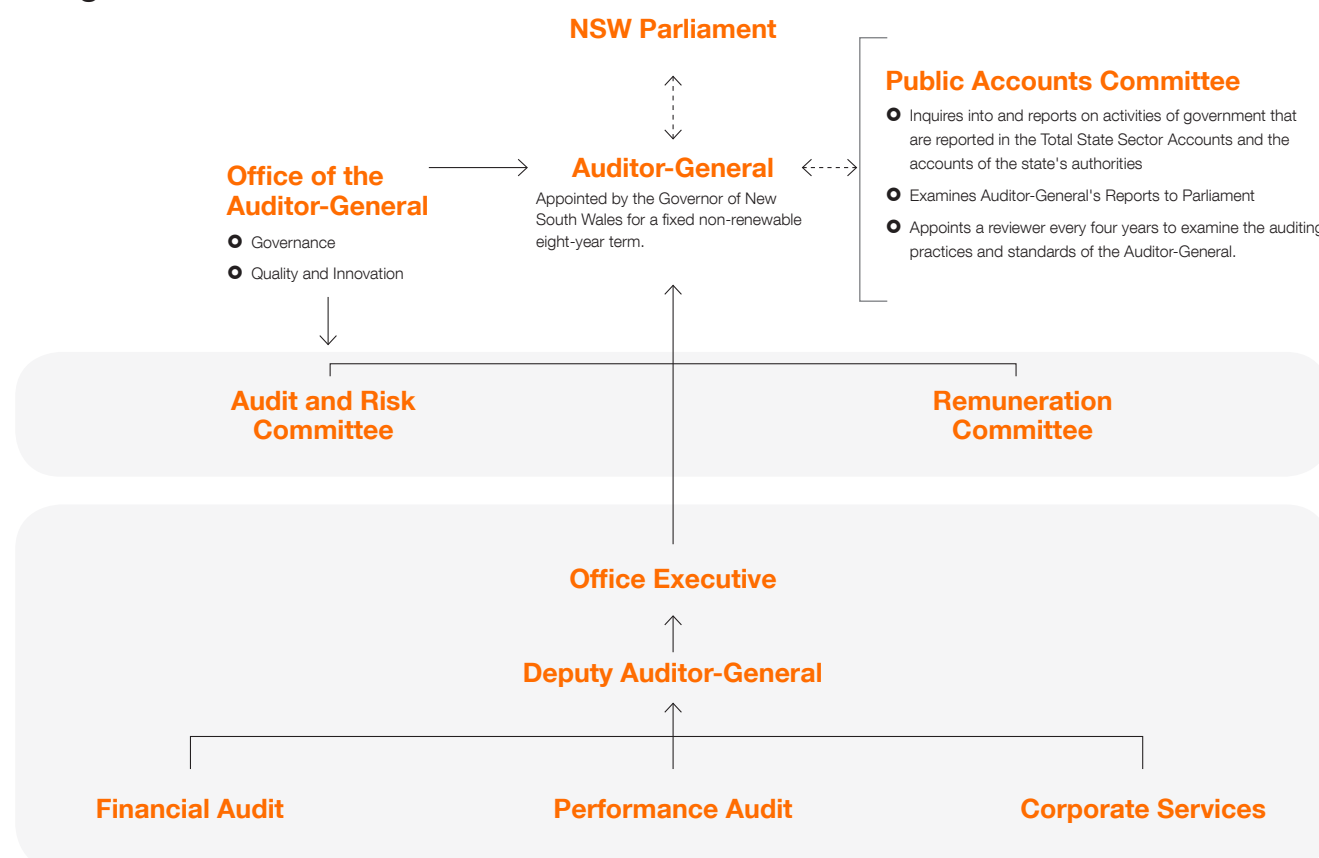
The Office Executive has a broad level of experience, skills, and diversity to fulfil its oversight role. This includes disciplines in economics, accounting, law and business administration, experience in local and state government and the private sector, and

diversity in gender and age consisting of four women and three men (at 30 June 2018) within a diverse age range. For further details on the skills and experience of members of the Office Executive see page 7.

Key focus areas for the Office Executive during 2017–18 included:

- carrying out our new mandate to audit local government (see page 51)
- reassessing and tracking progress against the Audit Office's Corporate Plan (see page 54)
- overseeing the Audit Office's strategic initiatives including Local Government, Influencing for Impact, Reporting Process, Working Better, Working Together, Data Analytics, and Technology and Process Innovation (see page 54)
- reviewing the Audit Office's strategic risks and monitoring actions to mitigate each strategic risk to an acceptable level (see page 61)
- working with NSW Treasury on their Financial Management Transformation program and associated legislation (see page 51).

## Our governance framework



## Audit and Risk Committee

The Audit and Risk Committee assists the Auditor-General by providing oversight and review of governance, risk management and internal control frameworks. In 2017–18, the committee reviewed:

- the strategic risk register, project risk management, fraud framework, and business continuity and disaster recovery plans
- the internal and external audit plan, internal and external audit reports and follow up of recommendations from these reviews
- the process for appointing the contracted internal audit service provider
- financial results and annual financial statements
- compliance with relevant applicable laws, regulations, government policies and directions, and Audit Office policies
- the internal control framework.

Management provided the committee with regular updates on progress against the Corporate Plan – important information for them to fulfil their responsibilities.

Our Governance Unit assessed the committee's activities in 2017–18 to confirm compliance with Treasury Policy Paper Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 15-03). For a copy of the attestation statement see page 121. The committee's charter is also in line with the requirements of TPP 15-03 and can be found on our website.

The committee prepared an annual report to the Auditor-General for the first time outlining its activities and achievements in the previous year and will continue to do this each year.

The Audit and Risk Committee consists of three independent members – Dianne Hill (Chair), Bruce Turner AM and new member John Gordon who joined on 1 November 2017. The independence, integrity, and experience of the Audit and Risk Committee members are key strengths, providing insight and enhancing our operations.

Greg Fletcher completed his term as member on 3 December 2017. Greg made a strong contribution to the ARC and we are thankful for all his excellent work on this committee.

Dianne Hill was appointed on 12 December 2016 as Chair for a final term until 28 August 2021. Dianne brings considerable experience having been an independent non-executive director for over 25 years at several organisations. Dianne has 30 years experience in chartered accounting, project and business consulting, financial services and risk.

Bruce Turner AM was appointed on 17 February 2017 for a four-year term. Bruce brings extensive experience sitting on audit and risk committees within the state government and not-for-profit sectors, as well as governance committees in the local government sector. Bruce has also been involved through Chief Audit Executive roles in large and diverse state and federal government agencies.

John Gordon was appointed on 1 November 2017 for a three-year term. John has over 40 years experience providing assurance, advisory and corporate governance assistance to a broad range of clients in the private and public sectors. This includes 22 years as an audit and assurance partner with PwC Australia. He was a founding member of the NSW Department of Local Government Accounting Advisory Committee with 35 years of continuing involvement in the local government sector. John currently serves on several audit and risk committees and boards.

The Auditor-General, Deputy Auditor-General, Director Office of the Auditor-General (as Chief Audit Executive and Chief Risk Officer), internal and external auditors, and management representatives attend committee meetings. The committee also met independently, without management, with the internal and external auditors, Chief Audit Executive and Auditor-General.

Committee members also provided annual written conflict of interest declarations to the Auditor-General which were verbally confirmed at the start of each meeting. There were no conflicts of interest declared that prohibited the continuing engagement of the members of the Audit and Risk Committee.

## Remuneration Committee

Please see page 58 for more information on the Remuneration Committee.

### Formal Office Executive meetings attended\*

A total of 10 formal monthly meetings were held.

Margaret Crawford	10
Ian Goodwin	9
Claudia Migotto	9
Steven Martin	9
Scott Stanton	8
Alison Gatt	10
Lyndal Hayward	10

### Audit and Risk Committee meetings attended\*

A total of six meetings held, including one special meeting to review the annual financial statements.

Dianne Hill	6
Independent Chair	
Greg Fletcher	3
Independent Member, term ended 3 December 2017	
Bruce Turner	6
Independent Member	
John Gordon	4
Independent Member appointed 1 November 2017	

\* Individual committee members sit on various boards and audit and risk committees for councils, state government agencies and public companies. These memberships are captured and appropriately managed on a conflict of interest register. This register is publicly available on our website.



# 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

Protecting the reputation of the Audit Office is vital to ensure our credibility and to maintain public trust in what we do. To do this we foster a culture that instils ethical behaviour. Integrity, independence and respect are embedded in our core values of purpose, people and professionalism. These core values, and the NSW Public Sector values of integrity, trust, service and accountability, are the foundation of our Code of Conduct.

In support of our Code of Conduct, the Audit Office's ethical framework includes policies covering conflicts of interest, gifts and benefits, diversity and inclusion, a respectful workplace, compliance, performance management, and privacy management.

During induction, all new staff are trained on the Audit Office's ethical framework before signing the Code of Conduct and completing a Conflict of Interest declaration. These sign-offs are completed annually thereafter.

As part of post induction training, and to support the annual sign-off, all staff are required to complete an online training module before signing the Code of Conduct. We also have a Statement of Business Ethics which provides guidance for third parties when doing business with the Audit Office. The statement is available on our website and is included in our audit service provider manual and contracts.

In 2017–18, we:

- reviewed and updated our Conflict of Interest Policy to incorporate an expanded focus on professional independence for auditors
- developed a central process for capturing conflicts of interest and threats to professional independence
- updated our Gifts and Benefits, Conflict of Interest and Secondary Employment registers to improve how we capture and report the data
- undertook a self-assessment of our Code of Conduct against the Public Service Commission's Code of Conduct
- reviewed our Statement of Business Ethics to ensure it captures key aspects of the Code of Conduct.

#### 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* (Privacy Act) and the *Health Records and Information Privacy Act 2002* (Health Records Act). As required by the Privacy Act, the Audit Office has a Privacy Management Plan that sets out how we manage personal information in line with the Privacy Act and health information under the Health Records Act. The plan was reviewed and updated during 2017–18. The revised plan can be accessed on our website.

#### Prevent, detect and respond to fraud

The Audit Office has a zero tolerance for fraud and is committed to minimising the incidence of fraud by implementing and regularly reviewing strategies that prevent, detect and respond to fraud. No instances of suspected fraud against the Audit Office were detected during 2017–18.

In 2017–18, we finalised the biennial fraud risk assessment using a newly developed standard template. The results of the risk assessment show the Audit Office has strong and effective internal controls to minimise the risk of fraud. The outcomes from the fraud risk assessment were fed into our fraud control plan.

#### 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 non-compliance.

The Audit Office's compliance framework is based on International Standard ISO 19600-2015 Compliance Management Systems – Guidelines, and includes:

- a Compliance Policy, updated in 2017–18
- a Register of Compliance Obligations that includes a risk assessment formally reviewed by the Office Executive
- annual verification of compliance through the newly developed Management Control Questionnaire
- 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.

In 2017–18, we continued to maintain our centralised policy register which captures key internal policies and ensures policies are up-to-date and remain relevant.

#### The year ahead

In 2018–19, we will:

- finalise the biennial fraud control health check and action any areas for improvement
- roll out the new process to capture Conflict of Interest and Professional Independence declarations
- refresh the compliance register to provide a more concise document
- combine the compliance and policy registers.



# 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

The Audit Office supports the principle of accountability and transparency to the public. Information we proactively release on our website includes our planned audit programs, corporate and auditing policies, Professional Update newsletters, client service resources, presentations and better practice guides.

### Open access information

The Audit Office holds a significant amount of government information, mostly used for our audit services. We also hold a smaller amount of information dealing with administrative matters. Certain government information is made available to the public under the 'open access' provisions of the *Government Information (Public Access) Act 2009* (GIPA Act). The Audit Office's 'open access' information includes:

- Information Guide – explains who we are, what we do and how to interact with us
- policy and charter documents
- disclosure log of access applications
- disclosure register
- register of government contracts.

The Information Guide was reviewed during the year with enhancements made to improve clarity and to update the guide.

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.

### Access applications and informal release

The Audit Office welcomes requests for government information from the public and will, unless the request refers to excluded information, make every effort to make information readily available without charge.

During 2017–18, we received one formal GIPA access application which was deemed to be invalid as it was seeking access to excluded information. We also received a request from another government agency for our consent to release information. This was not approved as it related to excluded information. Statistical information about access applications can be found in Appendix Twelve.

## 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, and whether agencies have accepted and acted on our recommendations.

In recognition of our high standard in annual reporting, in June 2018 we were awarded a Gold Award for the ninth consecutive year for our 2016–17 annual report, as well as special awards for 'Online Reporting' and 'Governance' categories.

## LIGHTHOUSE PRINCIPLE: REMUNERATION

*(based on ASX Principle 8)*

### Remuneration Committee

The Audit Office's Remuneration Committee consists of two members – an independent Chair, Dianne Hill and the Director Office of the Auditor-General, Barry Underwood. The committee is directly responsible and accountable to the Auditor-General and provides independent advice on the appropriateness and application of the Audit Office's remuneration policies and procedures.

In 2017–18, the committee met twice and:

- endorsed the committee's charter
- reviewed management reports and made recommendations on the appropriateness and application of remuneration policies and procedures
- reviewed management sign-offs, including validating the financial impact of the recommended annual remuneration determination
- reviewed the remuneration risk assessment including associated controls.

See Appendix One for details of our executive remuneration.

## The year ahead

In 2018–19, we will:

- update our Agency Information Guide
- undertake our annual review of compliance with the GIPA Act.



# Independent assurance and corporate reporting

## Sound financial and corporate reporting structure

### LIGHTHOUSE PRINCIPLE: CORPORATE REPORTING

(based on ASX Principle 4)

The integrity of our financial and corporate information is safeguarded by a number of key mechanisms. These mechanisms also provide independent assurance over how well Audit Office processes are operating and complying with relevant laws, standards and policies.

#### 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 also held annually to review the annual financial statements (see page 56).

#### Internal audit

Our internal audit function is managed by in-house staff, with internal audit services provided by an external service provider.

In 2017–18, an independent quality assessment of the internal audit function was conducted by the Institute of Internal Auditors – Australia and in accordance with the requirements of the NSW Treasury 'Internal Audit and Risk Management Policy for the NSW Public Sector' TPP 15–03 and internal audit standards. The assessment concluded that the Audit Office's internal audit function is generally operating satisfactorily, with improvement opportunities identified and largely now implemented.

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.

In 2017–18, the internal auditors reviewed four areas:

- Expenditure and accounts payable
- ISO 27001 information security management system
- Revenue and pricing model review
- Follow up of previous internal audit and Australasian Council of Auditors-General (ACAG) peer review findings and recommendations.

All these reviews had a 'satisfactory' conclusion, meaning each area assessed had a satisfactory overall control environment with a small number of low risk improvement opportunities.

The number of internal audits conducted in 2017–18 were fewer than in previous years due to further assurance obtained through other independent reviews. These included:

- Cyber security review
- Pricing review
- Quadrennial Public Accounts Committee review (see page 60 for further details)
- Quality and assurance peer review by the Australasian Council of Auditors-General (see page 60 for further details).

Recommendations from internal audits and independent reviews are tracked and progress reported regularly to the Office Executive and Audit and Risk Committee. The majority of recommendations have been implemented.

A new internal auditor was appointed in February 2018 through a process overseen by the Audit and Risk Committee.

#### External audit

Pursuant to Section 47 of the *Public Finance and Audit Act 1983*, the Governor of New South Wales appoints an independent audit practitioner to audit the Audit Office's financial statements. The external auditor 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.

A new external auditor was appointed and commenced in July 2018 to audit the 2017–18 financial statements.

### Auditor-General and Management Control Questionnaire

The Auditor-General certifies that the Audit Office's 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 Treasurer's Directions.

This certification is supported by the Management Control Questionnaire (see page 59 for further information) and the Chief Financial Officer's sign-off on the effectiveness of internal controls over financial information.

### Independent quality assurance program

The Audit Office has established a system of quality control designed to provide assurance that it complies with Australian Auditing Standards, relevant ethical requirements, and applicable laws and regulations. This is achieved through the Quality Audit Review Committee, which monitors the quality of audit products, and provides the Auditor-General with reasonable assurance the Audit Office complies with the requirements of ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Service Engagements and APES 320 Quality Control for Firms.

The Quality Audit Review Committee is accountable to the Auditor-General, is chaired by the Director Office of the Auditor-General, and comprises:

- the Deputy Auditor-General
- the Director Office of the Auditor-General
- two practitioners with appropriate experience and qualifications – one drawn from our financial audit branch and one from our performance audit branch – are standing invitees, as is our Executive Director Quality and Innovation and Director Quality and Innovation.



## External reviews

External reviews provide important scrutiny of the Audit Office's quality control systems and processes and help benchmark their effectiveness.

The Audit Office is subject to, or has participated in, the following external reviews:

- a quadrennial review by a person appointed by the Public Accounts Committee to examine the auditing practices and standards of the Auditor-General. The most recent review was conducted by Deloitte in 2017–18. The review concluded that we demonstrated the Auditor-General has in place methodology and tools to effectively, economically and efficiently deal with our core business and achieve compliance with the appropriate standards. Without affecting their conclusion, Deloitte made a number of recommendations to assist in further strengthening and improving the effectiveness and efficiency of the Audit Office
- periodic reviews of aspects of the Audit Office by peer reviewers arranged under a quality assurance framework sponsored by the Australasian Council of Auditors-General (ACAG). The most recent peer review was conducted in 2016–17 and was led by the Western Australian Office of the Auditor-General. The review confirmed that there is very sound governance and audit practice management in place at the Audit Office. Performance and financial audit engagement files reviewed were supported by sufficient and appropriate audit evidence and were rated either 'better practice' or 'good with limited improvement opportunities'.

## Quality assurance reviews

The Audit Office reviews the quality of its financial audits annually. The reviews may be coaching reviews, where files are reviewed in progress, or monitoring reviews, where files are reviewed on completion. The quality review program covers the audits the Audit Office conducts internally and those contracted to private sector firms (our audit service providers).

The assurance review program for financial statement audits is managed by the Quality and Innovation group. During 2017–18, 15 financial statement audits were reviewed. The reviews consisted of five coaching reviews and ten monitoring reviews.

The results of these reviews are reported to the Quality Audit Review Committee. The Quality Audit Review Committee is responsible for ensuring the process, conclusions and any remedial actions are communicated to the Auditor-General, the Audit and Risk Committee, the Office Executive, audit teams, and the Audit Office's audit service providers.

Overall, the reviews concluded that the system of quality control over the Audit Office's financial audits was functioning effectively, and assurance conclusions for the reviewed audits were appropriate. The results of the quality reviews are communicated to staff at a debrief session and to audit service providers individually and annually at the Audit Service Providers Forum. Quality findings inform the learning and development program of the Audit Office to promote an environment of continuous improvement.

## Independence practices

The Audit Office's commitment to high ethical and professional standards underpins the quality of our work.

The Audit Office's independence policy requires staff and contractors engaged in audits to comply with the relevant provisions of APES 110 Code of Ethics for Professional Accountants relating to independence so independence of mind and appearance is maintained throughout the audit.

## Performance reporting

In 2017–18, performance against the Audit Office's corporate plan was tracked and reported to the Office Executive. Lead managers and executive sponsors met quarterly to review milestones and key performance indicators and track progress towards achieving overall outcomes.

Regular financial and operational reports were presented to the Office Executive, Financial Audit Executive and Performance Audit Executive to monitor our audits and related reporting. These were also supported by regular reports on the performance of our Corporate Services function.

## Transparency reporting

The *Corporations Act 2001* includes requirements for annual transparency reporting by auditors.

Although the Audit Office is not subject to the requirements, the Audit Office has embraced the principles of transparency reporting.

For the first time in our 2016–17 annual report we included content that met all relevant transparency reporting requirements as per the *Corporations Act 2001*.

For our 2017–18 annual report, Appendix Eleven summarises the requirements that are relevant to the Audit Office and shows where the required information is presented in this report.

## The year ahead

In 2018–19, our internal auditors will continue to focus on key areas of risk in our audit practices and corporate systems. Internal audits will be conducted in the following areas:

- implementation review of our Data Centre Refresh project
- ISO 27001 information security management system
- performance reporting and progress against strategic initiatives
- WHS and staff wellbeing
- quality of audit file reviews
- cyber security review
- follow up of past recommendations

We will also expand our Quality Audit Review Committee to include reviews of performance audits, and appoint an external member of the profession to the committee.



# Risks – recognised and managed

## *Our risk management and strategic planning are integrated*

### LIGHTHOUSE PRINCIPLE:

#### RISK MANAGEMENT

(based on ASX Principle 7)

### Recognising and managing risk

Our risk management and strategic planning are integrated. The Auditor-General assumes ultimate responsibility for our risk management framework. The Office Executive sets the organisation's Risk Appetite Statement (RAS) and ensures strategic risks are identified, assessed and treated in accordance with our risk management framework.

The Office Executive regularly reviews the enterprise risk register which is supported by detailed analysis of each strategic risk, taking into account the underlying business risks. The Audit and Risk Committee provides independent advice to the Auditor-General on the risk and internal control frameworks.

### Our risk management framework

Our risk management framework is developed in line with NSW Treasury's Internal Audit and Risk Management Policy for the NSW Public Sector (TPP 15-03), the Risk Management Toolkit (TPP 12-03), the Australian/New Zealand Risk Management Standard (AS/ NZS ISO 31000:2018), and the Accounting Professional and Ethical Standards Board's professional risk management standard (APES 325 Risk Management for Firms).

During 2017–18, we

- finalised our enterprise risk management framework including reviewing our risk appetite statement and updating our risk management policy
- reassessed our strategic risks in line with our Corporate Plan 2017–2020 and local government mandate
- work more closely with our operational areas to help them better understand and manage their risks
- continued to monitor the effectiveness of controls to mitigate risks
- better integrated risk management with our strategic and business planning processes, including incorporating risk identification in our strategic planning process

- assessed the Audit Office's risk maturity and developed a roadmap to improve risk culture and practices

- continued to work towards a better understanding of our risk universe.

### Insurance

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
- inherent vice
- pollution (not being sudden and accidental pollution).

### Strategic risks

In 2017–18, our six key strategic risks were reassessed as follows:

- our insights are not relevant and do not result in a demonstrable improvement in public administration
- our audits are not defensible resulting in lost credibility, trust and confidence by government and the public
- we do not act according to our own ethical standards and are not transparent and beyond reproach damaging our reputation
- we are not efficient such that we don't keep pace in a contestable environment
- we cannot develop or access required capabilities compromising our ability to achieve our objectives
- loss of confidential information (including client and personal staff information) and integrity resulting in legal or regulatory breaches, unable to continue business or reputational damage.

### 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 is an annual attestation by the Auditor-General on the quality of the Audit Office's risk management and internal audit processes. This is based on our compliance with the core requirements of NSW Treasury Policy 15-03 Internal Audit and Risk Management Policy (see our Internal Audit and Risk Management Attestation statement in Appendix Nine).

The second is a Management Control Questionnaire which is completed annually in line with the Audit Office's financial statements and covers the financial year. Management complete the questionnaire on the implementation of internal controls as they relate to their business area and staff compliance with our policies (see page 59).

### The year ahead

In 2018–19, we will:

- assess and select an appropriate integrated enterprise risk management technology system
- continue to embed risk management practices throughout the organisation and establish dynamic and consistent risk reporting which is both bottom up and top down
- enhance risk reporting to better support robust discussions on strategic and key operational risks
- incorporate risk velocity into our regular risk reports
- roll out risk management training to staff
- continue to identify emerging and monitor existing operational, project and strategic risks and assess the effectiveness of mitigating controls.



# Stakeholder management

## *We regularly connect with our stakeholders*

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

### Building effective relationships

In 2017–18, we maintained our focus on building effective relationships with our key stakeholders:

- NSW Parliament
- NSW citizens
- NSW government entities
- NSW universities
- NSW councils.

Our 2017–18 strategic initiatives 'Influencing for Impact' and 'Local Government' (see page 54) were key contributors to achieving effective stakeholder relations. These initiatives provided strategic direction on:

- a key international performance auditing conference – IMPACT in March 2018 – hosted by the Audit Office (see page 51)
- the development of a key stakeholder engagement plan
- the launch of a new project to develop a more stakeholder-friendly and citizen-centric website
- hosting a number of Audit and Risk Committee Chair meetings.
- other key Audit Office initiatives aimed at improving our reach and impact.

### Stronger audit client engagement

In 2017–18, the Auditor-General met with the Secretaries Board, comprising the Secretaries of all clusters that make up the NSW public sector. The purpose of this meeting was to provide a briefing on the proposed audits of NSW government agencies over the coming three years. This is part of a stronger focus on promoting audit client engagement while still maintaining our independence.

The meeting provided an opportunity to review the proposed Performance Audit Program and to check on the status of our

relationships with our clients. Several follow-up meetings were held with individual agency Secretaries and leadership teams, further strengthening existing relationships.

As part of our commitment to engaging more effectively with parliamentarians, the Auditor-General regularly meets with the Public Accounts Committee and has commenced regular meetings with the Legislative Council's Public Accountability Committee. The Auditor-General and Deputy Auditor-General are continuing to meet regularly with NSW Treasury, the Department of Premier and Cabinet and the Public Service Commission, as well as having regular meetings with the Office for Local Government.

Engaging with our local government stakeholders was a key focus during 2017–18, with extensive work undertaken to get to know our new audit clients and their business. Activities included:

- local government updates on the new Audit Office mandate
- information sessions held with local councils across the state
- presentations at a number of different local government sector conferences
- regular visits to individual councils
- development and implementation of a Local Government Stakeholder Engagement and Communications Plan.

### Broader stakeholder engagement

As in previous years, we consulted our stakeholders widely when developing our performance audit three-year plan.

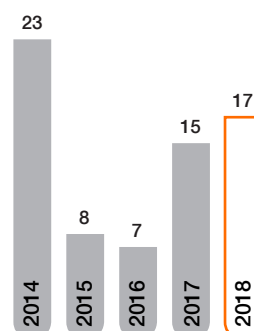
We conducted our annual survey of parliamentarians, audit clients – including our local government clients and Audit and Risk Committee Chairs – to gain their feedback on our performance, and target areas where we can improve (see pages 11–12 and 19–20).

### 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 17 public interest disclosures in 2017–18, none of which demonstrated serious and substantial financial waste. Thirteen of them concerned NSW government agencies and four related to local councils.

The Audit Office has an internal and external Public Interest Disclosures Policy establishing a reporting system for staff and public officials to report allegations of serious and substantial waste. These policies are consistent with the NSW Ombudsman's model policy and the requirements of the Act. These policies were reviewed in 2017–18 to include our expanded local government mandate. In addition, we developed a set of templates based on the NSW Ombudsman's material to help standardise our management of Public Interest Disclosures.

Number of public interest disclosures



## *We regularly connect with our stakeholders*

### Complaints management

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

In 2017–18, we received 88 new complaints. The vast majority of these complaints were about the entities we audit. Of these:

- 18 (20 per cent) were about local councils
- 60 (68 per cent) were about state government agencies
- eight complaints (nine per cent) were classified as ‘other’ – covering complaints which are outside of our mandate and complaints about the government in general
- two (two per cent) were about the Audit Office.

The 88 complaints received about other NSW government agencies were varied in nature and across the ten government clusters. The majority of complaints we received in 2017–18 were about the Transport cluster (23 per cent) and local councils (20 per cent). The complaints received about the Transport cluster were mostly about large infrastructure projects such as WestConnex. The local government complaints were varied in nature with no common pattern or trend.

The majority of complaints received were referred to our financial audit branch. All of the complaints referred to financial audit were considered by the audit teams and 20 complaints were investigated further as part of our audit work. Of these 20, 19 complaints have now been closed and one is still under investigation.

Two complaints were received about the Audit Office in 2017–18. One complaint related to a local council audit and the other to communication issues with the office.

In addition to the 88 new complaints, we also received 28 complaints which were linked to existing complaints.

In 2017–18, we updated our Complaints Management Policy to reflect our local government mandate. We also refined our complaints assessment process to improve our response times to simple complaints.

### Working with the public and other watchdog agencies

We work closely with other independent 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 (ICAC), the NSW Ombudsman, the Information and Privacy Commission, the Office of Local Government or to other independent agencies.

In 2017–18, we developed processes to capture referrals made by the Audit Office to other oversight agencies, and referrals from other oversight agencies to us. We also provided our audit teams with an analysis of the referrals made to ICAC.

### The year ahead

In 2018–19, under our ‘Influencing for Impact’ strategic initiative, we will:

- develop a new stakeholder engagement strategy to ensure we take a coordinated and strategic approach to stakeholder engagement
- launch a new corporate website that will enable greater interactivity and engagement with external stakeholders.

See page 9 for further details on our strategic initiatives for 2018–19.



# Finances

**We have a financial framework that supports our business objectives**

We aim to:

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

# Financial performance

## Close to our goal to break even over the medium-term

Excluding superannuation adjustments, we have achieved a cumulative \$0.7 million surplus over the last four years.

### Close to our break-even target

The work of the Audit Office is largely self-funded, generated from audit fees paid by auditees. 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 over the medium-term rather than make a profit. Over the four years to 2017–18, we have achieved a cumulative \$0.7 million surplus, close to our medium term break-even target.

In monitoring our financial performance, we exclude the impact of the annual superannuation adjustments that affect our operating result. Like all government agencies with staff in the state's defined benefit superannuation schemes, the schemes' assessment of our liability 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. 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 original budgeted result of \$1.9 million for 2017–18 was set in November 2016, well before we had finalised key commissioning and pricing decisions in auditing the local government sector. The original budget was also out of line with our long-standing principle of breaking even over the medium term. Through the 2018–19 State Budget

process, the NSW government agreed to revise our budget to a small loss of \$0.1 million for the year. We operated within this revised budget parameter.

Our 2017–18 revenue of \$59.3 million was \$12 million more than the previous year's \$47.3 million. Government entities, universities and councils paid \$48 million for the audit of their financial statements. The NSW government contributed \$10.3 million towards our performance audits and reports to parliament. Our 2017–18 total expenditure of \$59.1 million, excluding the defined benefit schemes superannuation adjustments, was \$11.9 million more than the previous year's \$47.2 million.

The increase in our total revenue was largely due to the Auditor-General completing the first cycle of local government audits since her appointment as the local government auditor in October 2016. Audit fees from this sector were \$12.9 million in 2017–18, versus \$3.2 million in the prior year. The increase in expenditure was also largely due to completing the first cycle of council audits.

### Budgeting

While our \$0.2 million surplus (excluding defined superannuation adjustments) in 2017–18 was significantly less than the original budgeted surplus of \$1.9 million, it was better than the revised budgeted loss of \$0.1 million the NSW government approved through the 2018–19 State Budget process.

Per the State Budget Papers, we are planning to make a small loss of \$0.4 million in 2018–19.

### Operating result 2017–18/\$m

Excluding superannuation



# Financial position

## Our financial position is sound

### Our financial position is sound

While we have a net liability position, we are a going concern as we have a sustainable level of cash with positive cashflows. Our net liability position is a result of the actuarial losses on the defined benefit superannuation schemes. This liability is a long-term liability whereby the Audit Office has not been required to make employer contributions for several years to these schemes, nor do we foresee any contributions in the near future.

Most of our assets and liabilities are of a financial rather than physical nature. Cash remains our largest asset with \$11.0 million at 30 June 2018. Our assets include \$7.5 million for the Crown agreeing to fund our staff's long service leave entitlements. This offsets the liability in our financial statements. We also have \$6.0 million in receivables from government entities and councils for our auditing services.

Our liabilities at 30 June 2018 were \$55.5 million, a small decrease of \$0.8 million from 30 June 2017.

### Solvency remains stable and debtor management is getting better

Our current ratio at 30 June 2018 shows we had \$2.02 in current assets to meet every \$1.00 of our current liabilities. This is consistent with last year's ratio and at the upper level of our target range of between \$1.00 and \$2.00.

The average time to collect unpaid invoices was 33 days, some four days better than last year. While the timeliness of collecting unpaid invoices did improve, the average time is outside our target of 28 days. We continue to look at ways to reduce the length of time it takes to collect money owing to us to ensure we have sufficient cash on hand to meet our liabilities.

### We continue to generate net cash inflows from our core business

We generated \$0.9 million from our operating activities, some \$0.3 million more than the previous year. As a self-funded organisation, it is important that we generate enough cash to fund today's expenditure, our capital works program and future investment in the organisation. We expect to generate \$1.0 million from our operating activities in 2018–19.

### Timely creditor payments

During the year we paid 99 per cent of our creditors on time. We are expected to pay all creditors within 30 days, unless contracts state otherwise.

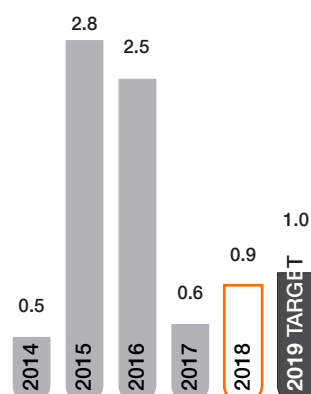
For more detail on our performance with creditor payments, see Appendix Seven.

### The year ahead

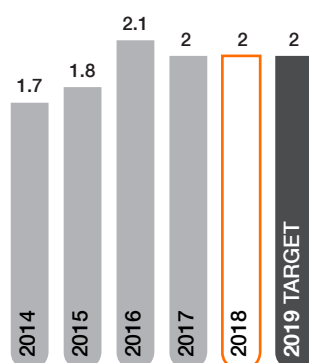
In 2018–19, we will:

- continue to improve our internal reporting capability, bringing together the financial and non-financial metrics which measure our inputs, outputs and success
- invest in upgrading our practice management system, making it more accessible and providing greater integrity checks and balances
- further develop our current audit benchmarking tool to measure the efficiency of our financial audits.

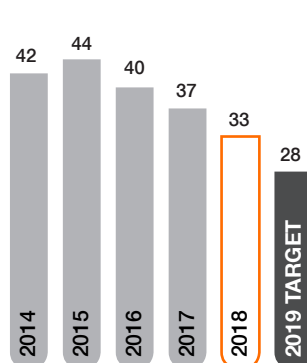
Cashflows from operating activities  
2017–18/\$m



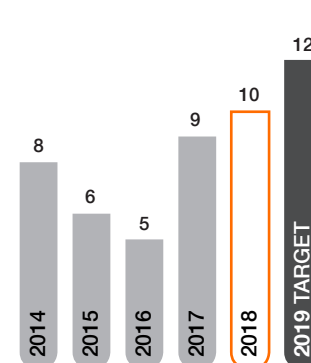
Solvency – current ratio



Debtor management  
– average days to collect



Work in progress – at 30 June 2018



# Key financial statistics

	2013–14 \$'000	2014–15 \$'000	2015–16 \$'000	2016–17 \$'000	2017–18 \$'000
<b>Five year trend</b>					
<b>Financial performance<sup>1</sup></b>					
Total revenue	42,271	43,021	44,979	47,251	59,334
Total expenses	42,658	43,534	43,975	47,246	59,147
(Loss) on disposal	(22)	0	0	0	0
Operating profit/(loss)	(409)	(513)	1,004	5	187
<b>Financial position</b>					
Total assets	27,587	26,020	26,857	27,228	28,721
Accumulated funds	(20,288)	(26,696)	(45,970)	(29,051)	(26,776)
<b>Solvency and debtor management</b>					
Current ratio	1.7	1.8	2.1	2.0	2.0
Average days to collect debts	42	44	40	37	33

	2017–18 Budget \$'000	2017–18 Actual \$'000	2018–19 Budget \$'000
<b>Performance against budget<sup>1</sup></b>			
<b>Revenue</b>			
Audit fees	50,801	48,000	49,941
Government contributions	9,750	10,337	10,089
Interest	151	172	150
Other revenue	213	825	212
<b>Total revenue</b>	<b>60,915</b>	<b>59,334</b>	<b>60,392</b>
<b>Expenditure</b>			
Salaries and related expenses	38,685	35,508	38,749
Other operating	8,024	9,474	9,467
Audit service provider costs	11,304	12,918	11,219
Depreciation and amortisation	1,039	1,247	1,308
<b>Total expenditure</b>	<b>59,052</b>	<b>59,147</b>	<b>60,743</b>
<b>Operating surplus/(loss)</b>	<b>1,863</b>	<b>187</b>	<b>(351)</b>

<sup>1</sup> Excludes defined benefit superannuation scheme adjustments of \$1,758,000 in 2017–18 (\$2,088,000 in 2016–17).



# Financial Report

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# Independent Auditor's Report

to the Members of the New South Wales Parliament



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## Report on the audit of the financial report

### Opinion

I have audited the financial report of The Audit Office of New South Wales (the 'Audit Office'), which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Auditor-General's declaration.

In my opinion, the accompanying financial report of the Audit Office is in accordance with the *Public Finance and Audit Act 1982*, including:

- i) giving a true and fair view of the Audit Office's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- ii) complying with Australian Accounting Standards and section 41B of the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulation 2015.

### Basis for opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. I am independent of the Audit Office in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to the audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

### Information other than the financial report and auditor's report thereon

The Auditor-General is responsible for the other information. The other information comprises the information included in The Audit Office of New South Wales' annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with the audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Auditor-General's responsibility for the financial statements

The Auditor-General is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Public Finance and Audit Act 1983. The Auditor-General's responsibility also includes such internal control as the Auditor-General determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Auditor-General is responsible for assessing the Audit Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Audit Office ceases operations or is dissolved by an Act of Parliament.



# Independent Auditor's Report (continued)

*to the Members of the New South Wales Parliament*

## Auditor's responsibility for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of my auditor's report.

Grant Thornton Audit Pty Ltd

Chartered Accountants

A J Archer

Partner - Audit & Assurance

Sydney, 13 September 2018

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# Statement by Auditor-General of New South Wales

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*for the year ended 30 June 2018*

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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 2018 and its performance for the year then ended.

I further state:

(a) that the financial statements and notes thereto comply with Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the financial reporting directions mandated by the Treasurer

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



**Margaret Crawford**

Sydney, 13 September 2018

# Audit Office of New South Wales

## Statement of comprehensive income for the year ended 30 June 2018

	Notes	2017-18 Actual \$'000	2017-18 Budget \$'000	2016-17 Actual \$'000
<b>Revenue</b>				
Rendering of services	C1	48,000	50,801	37,827
Government contributions	C1	10,337	9,750	8,592
Other revenue	C1	997	364	832
<b>TOTAL REVENUE</b>		<b>59,334</b>	<b>60,915</b>	<b>47,251</b>
<b>Expenses</b>				
Employee related expenses	C2	37,266	38,685	35,586
Operating expenses	C3	22,378	19,309	12,585
Depreciation and amortisation	C4	1,247	1,039	1,150
Finance costs	E2.1	14	19	13
<b>TOTAL EXPENSES</b>		<b>60,905</b>	<b>59,052</b>	<b>49,334</b>
<b>Net result</b>		<b>(1,571)</b>	<b>1,863</b>	<b>(2,083)</b>
<b>Other comprehensive income</b>				
Items that will not be reclassified to net result:				
Superannuation actuarial gain/(loss) on liabilities	E2.2	(81)	–	14,299
Superannuation actual return on Fund assets less interest income	E2.2	3,928	–	4,703
<b>Total remeasurement in other comprehensive income</b>		<b>3,847</b>	<b>–</b>	<b>19,002</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>2,276</b>	<b>1,863</b>	<b>16,919</b>

The accompanying notes form part of these financial statements.



# Audit Office of New South Wales

## Statement of financial position as at 30 June 2018

	Notes	2017-18 Actual \$'000	2017-18 Budget \$'000	2016-17 Actual \$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	D1	11,014	10,962	10,534
Receivables	D2	5,957	4,522	5,323
Other financial assets	D3	1,572	575	1,138
Other current assets	D4	6,917	6,570	6,174
<b>Total current assets</b>		<b>25,460</b>	<b>22,629</b>	<b>23,169</b>
<b>Non-current assets</b>				
Leasehold improvements	D5	–	–	–
Property, plant and equipment	D5	582	1,253	894
Intangible assets	D5	2,078	3,842	2,628
Other non-current assets	D4	601	571	537
<b>Total non-current assets</b>		<b>3,261</b>	<b>5,666</b>	<b>4,059</b>
<b>Total assets</b>		<b>28,721</b>	<b>28,295</b>	<b>27,228</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Payables	E1	2,413	1,293	2,114
Provisions	E2	10,212	9,646	9,196
Other current liabilities		–	–	64
<b>Total current liabilities</b>		<b>12,625</b>	<b>10,939</b>	<b>11,374</b>
<b>Non-current liabilities</b>				
Provisions	E2	42,872	61,844	44,905
<b>Total non-current liabilities</b>		<b>42,872</b>	<b>61,844</b>	<b>44,905</b>
<b>Total liabilities</b>		<b>55,497</b>	<b>72,783</b>	<b>56,279</b>
<b>Net liabilities</b>		<b>(26,776)</b>	<b>(44,488)</b>	<b>(29,051)</b>
<b>Equity</b>				
Accumulated funds		(26,776)	(44,488)	(29,051)
<b>Total equity</b>		<b>(26,776)</b>	<b>(44,488)</b>	<b>(29,051)</b>

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 2018

	Notes	Actual \$'000
<b>Balance at 1 July 2016</b>		<b>(45,970)</b>
Net result for the year		(2,083)
Other comprehensive income:		
– Superannuation actuarial gain and return on Fund assets	E2.2	19,002
<b>Total comprehensive income for the year</b>		<b>16,919</b>
<b>Balance at 30 June 2017</b>		<b>(29,051)</b>
<b>Balance at 1 July 2017</b>		<b>(29,051)</b>
Net result for the period		(1,571)
Other comprehensive income:		
– Superannuation actuarial gain and return on Fund assets	E2.2	3,847
<b>Total comprehensive income for the period</b>		<b>2,276</b>
<b>Balance at 30 June 2018</b>		<b>(26,776)</b>

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 2018

	Notes	2017-18 Actual \$'000	2017-18 Budget \$'000	2016-17 Actual \$'000
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
Rendering of services and Government contributions		65,172	60,551	51,234
Interest received		172	151	183
Other		709	213	665
<b>Total receipts</b>		<b>66,053</b>	<b>60,915</b>	<b>52,082</b>
<b>Payments</b>				
Employee related		(35,441)	(38,717)	(33,328)
Other		(29,746)	(19,336)	(18,164)
<b>Total payments</b>		<b>(65,187)</b>	<b>(58,053)</b>	<b>(51,492)</b>
<b>Net cash flows from operating activities</b>	D1.1	<b>866</b>	<b>2,862</b>	<b>590</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(103)	(720)	(852)
Purchases of intangible assets		(283)	(1,000)	(204)
<b>Net cash flows from investing activities</b>		<b>(386)</b>	<b>(1,720)</b>	<b>(1,056)</b>
<b>Net increase/(decrease) in cash</b>				
		<b>480</b>	<b>1,142</b>	<b>(466)</b>
Opening cash and cash equivalents		10,534	9,820	11,000
<b>Closing cash and cash equivalents</b>	D1	<b>11,014</b>	<b>10,962</b>	<b>10,534</b>

The accompanying notes form part of these financial statements.

# Section 1: Basis of preparation and significant changes

## Notes to and forming part of the financial statements for the year ended 30 June 2018

### A1. Entity information

The Audit Office of NSW (the Audit Office) is a statutory authority, established under the *Public Finance and Audit Act 1983* that conducts audits for the Auditor-General of NSW (the Auditor-General). The Auditor-General helps parliament hold government accountable for its use of public resources. The Audit Office is a not-for-profit entity as profit is not its principal objective. Its financial statements are consolidated as part of the NSW Total State Sector Accounts.

These financial statements for the year ended 30 June 2018 have been authorised for issue by the Auditor-General on 13 September 2018.

### A2. Basis of preparation

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

- Australian Accounting Standards (which include Australian Accounting Interpretations)
- the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulation 2015, and
- Financial Reporting Directions mandated by the Treasurer.

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

All amounts are rounded to the nearest one thousand dollars (unless otherwise stated) and expressed in Australian currency.

### A3. Going concern

As at 30 June 2018, the Audit Office has a net liability position of \$26.8 million (2017: \$29.1 million). Despite the net liability position, we believe the assumption that the Audit Office is a going concern is justified. The solvency ratio (short-term) of the Audit Office remains high at 2.02 (2017: 2.04) and the cash balance is at a sustainable level with positive cash flows from operating activities.

The net liability position is due to the Audit Office having a net defined benefit superannuation scheme liabilities of \$41.5 million (2017: \$43.6 million). Note E2.2 contains more detail. This liability is a long-term non-current liability and the Audit Office has not been required to make employer contributions for a number of years to the schemes, and nor do we foresee making any contributions in the near future. The trustee has advised that we do not need to make any contributions in 2018-19. This is because the trustee's use the measurement basis under AASB 1056

'Superannuation Entities' to determine an employer's obligation to make contributions. Based on the recent actuarial assessment, the combined schemes have a net surplus of \$8.3 million at 30 June 2018 (2017: \$7.5 million). Factors that could trigger a contribution by the Audit Office include: multiple large lump sum payments to members that exceed the available surplus under AASB 1056; and/or poor investment returns; and/or reduction in the value of fund assets.

A triennial review of the liability was done at 30 June 2018, where economic assumptions and significant risks were reviewed.

Note	Item	Key Judgement/Estimate
C1	Revenue	We have exercised judgement in determining the stage of completion for recognising revenue.
D2	Receivables	We have exercised judgement in assessing the recoverability of amounts invoiced to clients for audit engagements.
D3	Other financial assets-work in progress	We have exercised judgement in assessing the recoverability of time worked and other charges which remain unbilled at reporting date.
D5	Property, plant and equipment and intangible assets	We have exercised judgement in determining the useful lives of the Audit Office's physical and intangible assets. We have also determined that the written down value of physical assets approximates to their fair value.
E2	Employee provisions	We have made assumptions about the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discounts in measuring employee liabilities.
E2.2	Superannuation Defined Benefit Plans	The calculation of the defined benefit liability involves actuarial assumptions that may differ from actual developments in the future.
F1	Financial instruments	We believe recognising the Audit Office's financial instruments at amortised cost approximates their fair value because of their short-term nature.

### A4. Significant accounting judgments, estimates and assumptions

The significant judgements, key assumptions and estimates we have made in preparing these financial statements are listed below. Refer to the relevant note for more details.

### A5. Statement of compliance

The financial statements and notes comply with Australian Accounting Standards.



# Section 1: Basis of preparation/significant changes (continued)

## Notes to and forming part of the financial statements for the year ended 30 June 2018

### A6. Comparative information

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

### A7. 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 that are recoverable from, or payable to, the ATO are classified as operating cash flows.

### A8. New Australian accounting standards

#### New Australian Accounting Standards issued but not yet effective

At the reporting date, the Audit Office has not early adopted accounting standards and interpretations issued by the AASB but not yet operative. The key accounting standards that will have an impact on the Audit Office of New South Wales are:

- *AASB 15 Revenue from Contracts with Customers* (replaces *AASB 118 Revenue*) and *AASB 1058 Income for Not-for-profit Entities* - these standards apply to reporting periods beginning on or after 1 July 2019. The new standards will result in revenue recognition policies aligning with the satisfaction of performance obligations in contracts with customers. *AASB 1058* includes specific requirements with respect to grants received under enforceable agreements for construction or acquisition of recognisable non-financial assets.

In terms of audit fee revenue, we believe the Audit Office would account for it under *AASB 15* as revenue from contracts with customers. *AASB 15* states that a contract 'is an agreement between two or more parties that creates enforceable rights and obligations' and 'if the counterparty to the contract is a customer'. In terms of when to recognise audit fee revenue (timing), *AASB 15* states an entity shall recognise revenue when it has satisfied a performance obligation. We believe the conduct of an audit represents transferring control of a service over time and therefore the Audit Office has an enforceable right to payment based on the stage of completion (i.e. work performed). Based on the above we do not foresee any major changes to the way we currently recognise audit fee revenue.

The Audit Office receives government funding for its performance audits and preparing the Auditor's General Reports to Parliament. Our assessment is that these grants do not have elements of 'enforceable' rights and obligations and therefore the Audit Office will continue to recognise this contribution as revenue by reference to the stage of completion (work performed).

- *AASB 16 Leases* - this standard applies to reporting periods beginning on or after 1 July 2019. This standard introduces new criteria for assessing contracts to identify leases. Certain leases previously reported as expenses (such as the Audit Office's office accommodation lease) will be recorded on the Statement of Financial Position. Under this new accounting standard, the Audit Office will present these leases as right-of-use assets separately from other assets on the balance sheet or in the notes. Likewise, the Audit Office will present lease liabilities separately from other liabilities on the Statement of Financial Position or in the notes. In the Statement of Comprehensive Income, the Audit Office will present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. In the Statement of Cash Flows, cash payments for the principal portion of the lease liability will be presented within financing activities, while cash payments for the interest portions will be presented within operating activities (in accordance with *AASB 107 Statement of Cash Flows and Treasury Mandates*). Based on the Audit Office's current leasing arrangements, the impact of this new standard will be minimal because the current office accommodation lease expires 31 July 2019. However the Audit Office is likely to execute a new lease before the new standard is applied from 2019-20 and this will result in the Audit Office recording a significant right of use asset and a corresponding lease liability.
- *AASB 9 Financial Instruments* - this standard applies to reporting periods beginning on or after 1 January 2018. This standard replaces the classification, measurement, recognition and de-recognition requirements in *AASB 139 'Financial Instruments'*. Because the Audit Office's only financial instruments are cash, debtors and payables, and because the Audit Office's credit risk is low, we do not expect this standard to have a material impact on our financial statements.

### A9. Events after the reporting period

There were no events subsequent to reporting date that require disclosure in the financial statements.

## Section 2: Budget review

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### *Notes to and forming part of the financial statements for the year ended 30 June 2018*

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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. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained below.

#### **B1. Budget review**

##### **Net result**

The actual net result was unfavourable to the budgeted net result by \$3.4 million. The main reasons for this variance were:

- we do not budget for the current service cost and interest associated with the Audit Office's defined superannuation liability. These expenses totalled \$1.8 million for the year. The expenses are actuarially assessed at the end of the financial year and are outside our control. More information on our defined superannuation liability can be found in Note E2.2.
- the original budget was based on a preliminary impact assessment of the Auditor-General becoming the auditor of local councils. This assessment was done before we determined the resourcing and pricing approach for the new mandate. The NSW Government subsequently approved a \$2.0 million reduction to the Audit Office's net result.

Taking into account the budget adjustments subsequently approved by the NSW Government (but not reflected in the financial statements), the Audit Office operated the year within the approved expenditure limits.

##### **Assets and liabilities**

Total current assets of \$25.5 million is some \$2.9 million higher than the budgeted position of \$22.6 million. This higher than expected position is due to the increase in the Audit Office's operations, following the appointment of the Auditor-General as the auditor of local councils. This change in operations is also the reason why total current liabilities exceed budget by \$1.7 million.

Total non-current assets of \$3.3 million is lower than budget because our actual spend on property, plant and equipment was significantly less than budget. Some of the planned expenditure will now take place in 2018-19 and it relates to projects such as our Future Workplace project and corporate system enhancements.

Total non-current liabilities are lower than budget because of the drop in the Audit Office's defined superannuation liability.

##### **Cash flows**

The net cash from operating activities of \$866,000 was significantly lower than budget because the original budget was based on a preliminary impact assessment of the Auditor-General becoming the auditor of local councils. This assessment was done before we determined the resourcing and pricing approach for the new mandate. The NSW Government subsequently approved a \$1.8 million reduction to our net cash from operating activities, reducing it to \$1.0 million. Our actual net cash from operating activities was largely consistent with the revised budget.



## Section 3: Our financial performance

### Notes to and forming part of the financial statements for the year ended 30 June 2018

This section outlines the major areas of revenue and expenditure incurred by the Audit Office in the course of its ordinary activities.

<b>C1. Revenue</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>(a) Rendering of services</b>		
Audit fee revenue from NSW Government agency audits	30,059	30,135
Audit fee revenue from university audits	5,061	4,500
Fee revenue from local council audits	12,880	3,192
	<b>48,000</b>	<b>37,827</b>
<b>(b) NSW Government contributions</b>		
Funding for performance audits and compliance review	7,108	6,260
Funding for the Auditor-General's Report to Parliament	3,229	2,332
	<b>10,337</b>	<b>8,592</b>
<b>(c) Other revenue</b>		
Interest income	172	167
Recoupment of salaries and oncosts from staff secondments	431	601
Grant funding - twinning support to the Office of the Auditor General Solomon Islands	116	–
Impact conference - ticket sales and contribution by the Australasian Council of Auditors General	104	–
Other	174	64
	<b>997</b>	<b>832</b>

### Recognition and measurement

Income is measured at the fair value of the consideration or contribution received or receivable.

#### (i) Rendering of services – audit fees

Audit fee revenue from rendering of services is recognised by reference to the stage of completion (work performed) on audit engagements. The Audit Office invoices its auditees in arrears for work completed on each audit engagement. Revenue is recognised when:

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

The stage of completion for audit engagements is determined by reference to the actual costs incurred.

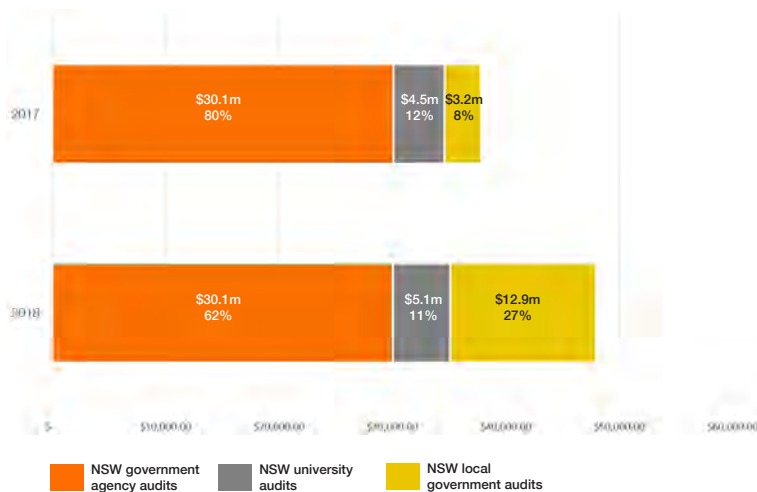
#### (ii) NSW Government contributions

Revenue from the NSW Government is based on an agreed amount set through the annual State Budget process. The Audit Office recognises this revenue source by reference to work performed.

#### (iii) Recoupment of salaries and oncosts

From time to time, the Audit Office enters into secondment arrangements with other NSW public sector agencies and professional services firms. In return for seconding staff, the Audit Office generally seeks to recover the salary and related oncosts on a cost recovery basis. Revenue from seconding staff is recognised by reference to days worked and the agreed daily/hourly rate.

### Audit fee revenue – analysis by auditee



### Key judgements and estimates

At reporting date, we have reviewed amounts owed to the Audit Office (Receivables - see Note D2) and unbilled time and charges on all fee earning audit engagements (Work in progress - see Note D3) to assess their recoverability. Where there was objective evidence that the debtor balance and/or the unbilled time and charges may not be recovered, we have raised an allowance for impairment or written off the amount. Factors considered when making this assessment include: the agreed audit fee; the engagement budget; known or possible variations to the audit engagement; and the likelihood of additional recoveries from the auditee.



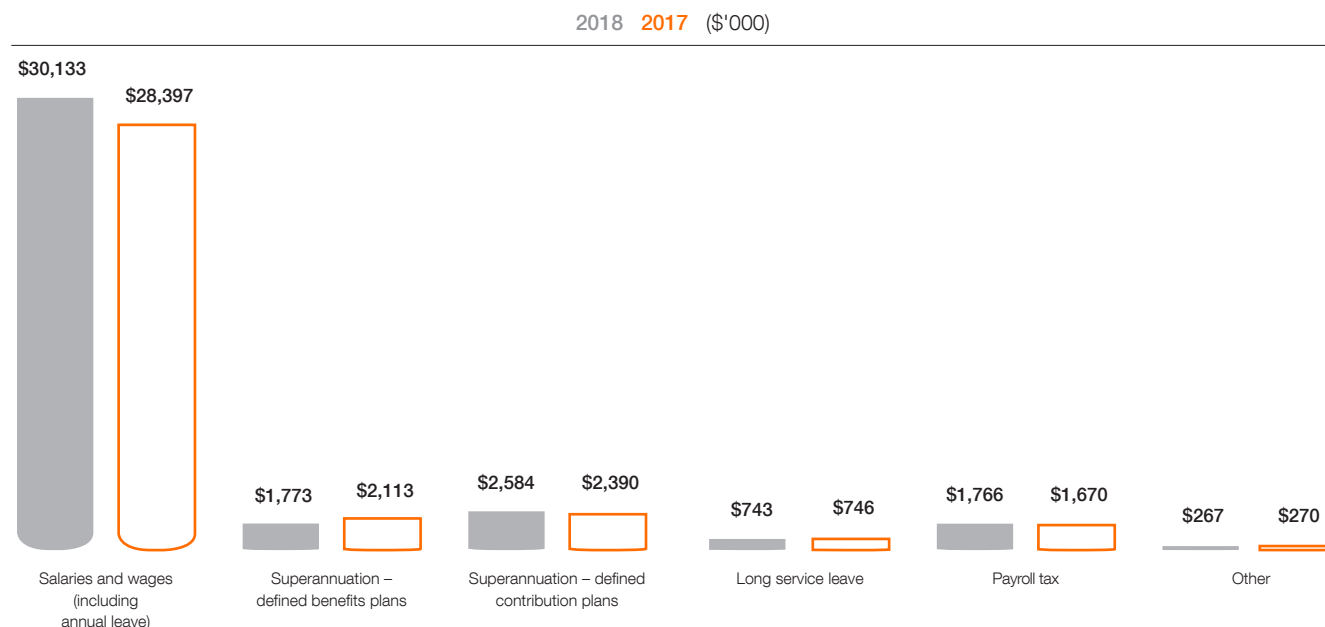
## Section 3: Our financial performance (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### C2. Employee related expenses

The Audit Office's employee related expenses for the year totalled \$37,266,000 (2017: \$35,586,000).

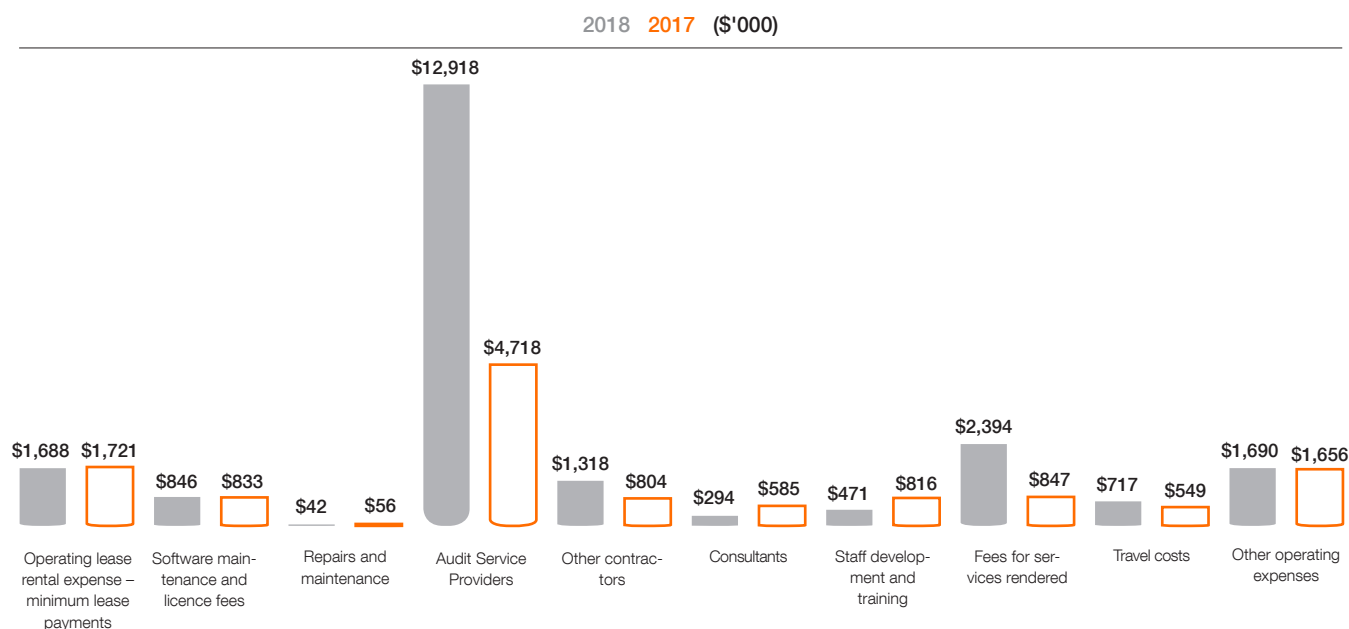
The chart below shows the split between the major components



#### C3. Other operating expenses

The Audit Office's other operating expenses for the year totalled \$22,378,000 (2017: \$12,585,000).

The chart below shows the split between the major components. \*The increase in Audit Service Providers is due to the Auditor-General being appointed as the auditor of local councils from 2016-17. Most of these audits were resourced with an audit service provider.



## Section 3: Our financial performance (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### Operating lease commitments

Future non-cancellable operating lease rentals not provided for and payable:	2018 \$'000	2017 \$'000
Within one year	2,150	2,069
Later than one year and not later than five years	187	2,333
<b>Total (including GST)</b>	<b>2,337</b>	<b>4,402</b>

The above commitments relate to office accommodation, office equipment and motor vehicle leases that will expire within 1 to 3 years. The Audit Office's office accommodation lease contains a fixed annual increase and the lease expires in July 2019.

#### Recognition and measurement

##### Leases

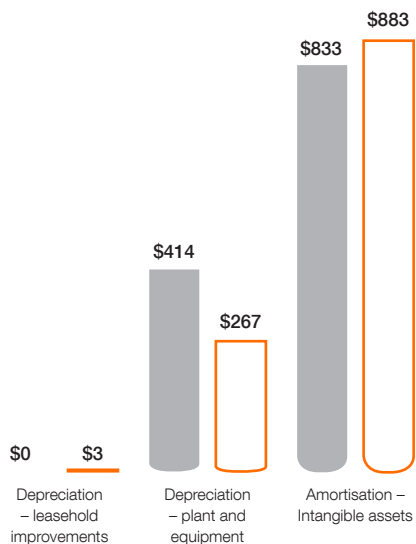
The Audit Office does not have any finance leases. It has operating leases for office accommodation, office equipment and motor vehicles whereby the lessors (being the landlord/supplier) retain substantially all of the risks and benefits incidental to owning the leased assets. The Audit Office recognises the operating lease payments as expenses on a straight-line basis over the period of the lease term.

#### C4. Depreciation and amortisation

##### Depreciation and amortisation

The Audit Office's depreciation and amortisation expenses for the period totalled \$1,247,000 (2017: \$1,153,000). The chart below shows the split between the major components.

2018 2017 (\$'000)



## Section 4: Our assets

### Notes to and forming part of the financial statements for the year ended 30 June 2018

An Audit Office asset is a resource it controls as a result of past events and from which it expects to obtain future economic benefits. The Audit Office's assets comprise cash at bank, receivables, other assets (work in progress and Crown reimbursement), property, plant and equipment and intangibles.

<b>D1. Current assets - cash and cash equivalents</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Cash at bank and on hand	11,014	10,534

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. NSW Treasury determines the interest rate and interest is earned on daily bank balances and paid monthly.

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and cash on hand.

#### Credit facility

The Audit Office has a credit card facility of \$350,000 and we have used \$187,000 of the facility (2017: \$122,000). The Audit Office has no other standing credit facility. The Audit Office's cash position has consistently been adequate to meet its liquidity requirements.

#### Risk

##### Interest rate risk

The Audit Office's exposure to interest rate risk arises primarily through its cash at bank. It does not hold any other interest bearing financial assets or liabilities.

The Audit Office does not hold collateral and has not granted any financial guarantees.

<b>D1.1 Reconciliation of cash flows from operating activities to net result</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Reconciliation of cash flows from operating activities to the net results as reported in the statement of comprehensive income</b>		
Net cash from operating activities	866	590
Depreciation and amortisation	(1,247)	(1,150)
Finance costs	(14)	(13)
Decrease / (Increase) in provisions	(2,752)	(1,561)
Increase / (Decrease) in receivables and other assets	1,875	933
Decrease / (Increase) in creditors	(299)	(882)
<b>NET RESULT</b>	<b>(1,571)</b>	<b>(2,083)</b>



## Section 4: Our assets (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

<b>D2. Current assets – receivables</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Rendering of services - audits	5,436	4,807
Less: allowance for impairment	(16)	(16)
<b>Total receivables</b>	<b>5,420</b>	<b>4,791</b>
Prepayments	534	402
Accrued income and other debtors	3	60
Interest receivable	–	70
	<b>5,957</b>	<b>5,323</b>

#### Recognition and measurement

Receivables are recognised at fair value based on the original invoice amount. Receivables are due for settlement within 14 days from the date of issuing the invoice. They are not amortised or discounted as the effect of discounting is immaterial.

#### Impairment of financial assets

When there is objective evidence that we will not collect the amounts due, the Audit Office recognises an allowance for impairment. The amount of the allowance is the difference between the receivable's carrying amount and the amount we expect to receive.

When an impairment is recognised, the loss is recorded in the net result for the year. Where there is objective evidence of recovering a previously impaired receivable, the reversal of impairment losses is also recognised through the net result for the year.

#### Risk

##### Receivables – trade debtors

Credit risk is the risk of financial loss arising from another party to a contract or financial obligation. This amount is equal to the total amount of receivables for services of \$5,420,000 (2017: \$4,791,000) and amounts recorded in WIP \$1,572,000 (2017: \$1,138,000).

The Audit Office is not materially exposed to concentrations of credit risk to a single debtor or group of debtors. It has policies and procedures in place to guide debt recovery. Most of the debtors are government agencies or local councils whose credit risk is considered low.

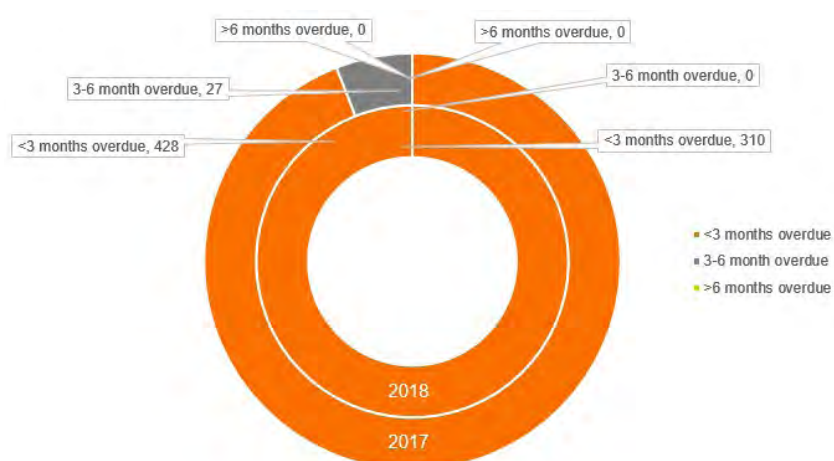
#### Key judgement/estimates Audit Office receivables

The carrying value of the Audit Office's receivables approximates its fair value because of the short-term nature of this financial asset.

We review the Audit Office's receivables for impairment on an ongoing basis. Apart from a single debt of \$16,000 (2017: \$16,000) that is considered impaired at reporting date, we believe all outstanding receivables are recoverable. This is because all amounts owing are bound by agreed terms with our auditees. The ageing profile of our debtors is shown in the chart below.

#### Trade Receivables – past due but not impaired\*

\$'000



\* 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.



## Section 4: Our assets (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

<b>D3. Other financial assets (work in progress)</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Work in progress – unbilled charges on audit engagements	1,572	1,138

#### Recognition and measurement

Work in progress (WIP) represents work performed on audit engagements which the Audit Office has not invoiced to the auditee. This is largely made up of staff time and charges by the Audit Office's contract audit agents. Staff time is based on approved hourly charge out rates.

We assess WIP for impairment annually to ensure it is not carried at an amount in excess of its recoverable amount. A provision for unrecoverable amounts is raised when there is objective evidence that the WIP may not be recoverable.

#### Risk

**Credit Risk** - We believe the Audit Office is exposed to minimal credit risk. The maximum exposure arises from a debtor potentially defaulting on their debt / WIP. We believe the likelihood of this occurring is low.

The audit directors responsible for the audit engagements review and monitor WIP on a monthly basis. WIP is also monitored by the Office Executive on a monthly basis. Refer to Note D2 on Receivables for commentary on auditee creditworthiness.

#### Key judgement/estimates WIP

The audit directors have reviewed the WIP (unbilled staff time and charges) on their engagements to assess their recoverability at reporting date. The figure recognised in the financial statements is net of any time or charges the audit directors have assessed as potentially not being recoverable.

In assessing the recoverability of WIP, the audit directors make reference to factors such as: the remaining budget versus forecasted effort to complete the audit engagement; the historical cost for recurring audit engagements; any unexpected scope variations; and the potential to recover scope variations with an additional billing. audit engagements; unexpected scope variations; and the potential to recover scope variations with an additional billing.

<b>D4. Current / non-current assets – other</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Crown acceptance of long service leave liability – current	6,917	6,174
Crown acceptance of long service leave liability – non-current	601	537
	<b>7,518</b>	<b>6,711</b>

The 'Crown Acceptance of Long Service Leave Liability' represents the Audit Office's right to reimbursement from the Crown Finance Entity for long service leave owed to employees. See Note E2 for more details.

#### D5. Plant, equipment and intangibles

<b>2018:</b>	<b>Leasehold improvements</b>	<b>Plant and equipment</b>	<b>Intangible assets</b>	<b>TOTAL</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>At 1 July 2017</b>				
Cost (gross carrying amount)	3,108	2,875	6,217	<b>12,200</b>
Accumulated depreciation and amortisation	(3,108)	(1,981)	(3,589)	<b>(8,678)</b>
<b>Net carrying amount as at 1 July 2017</b>	<b>–</b>	<b>894</b>	<b>2,628</b>	<b>3,522</b>
Additions	-	121	283	<b>404</b>
Depreciation and amortisation expense	0	(414)	(833)	<b>(1,247)</b>
Disposals		(19)		<b>(19)</b>
<b>Net carrying amount as at 30 June 2018</b>	<b>0</b>	<b>582</b>	<b>2,078</b>	<b>2,660</b>
<b>Net carrying amount as at 30 June 2018 as represented by:</b>				
Cost (gross carrying amount)	3,108	2,977	6,499	<b>12,584</b>
Accumulated depreciation and amortisation	(3,108)	(2,395)	(4,421)	<b>(9,924)</b>
<b>Net carrying amount as at 30 June 2018</b>	<b>0</b>	<b>582</b>	<b>2,078</b>	<b>2,660</b>



## Section 4: Our assets (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### 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:

<b>2017:</b>	<b>Leasehold improvements \$'000</b>	<b>Plant and equipment \$'000</b>	<b>Intangible assets \$'000</b>	<b>TOTAL \$'000</b>
<b>At 1 July 2016</b>				
Cost (gross carrying amount)	3,108	2,053	6,078	<b>11,239</b>
Accumulated depreciation and amortisation	(3,105)	(1,744)	(2,771)	<b>(7,620)</b>
<b>Net carrying amount as at 1 July 2016</b>	<b>3</b>	<b>309</b>	<b>3,307</b>	<b>3,619</b>
Additions	–	852	204	<b>1,056</b>
Depreciation and amortisation expense	(3)	(267)	(883)	<b>(1,153)</b>
Disposals				<b>–</b>
<b>Net carrying amount as at 30 June 2017</b>	<b>–</b>	<b>894</b>	<b>2,628</b>	<b>3,522</b>
<b>Net carrying amount as at 30 June 2017 represented by</b>				
Cost (gross carrying amount)	3,108	2,875	6,217	<b>12,200</b>
Accumulated depreciation and amortisation	(3,108)	(1,981)	(3,589)	<b>(8,678)</b>
<b>Net carrying amount as at 30 June 2017</b>	<b>–</b>	<b>894</b>	<b>2,628</b>	<b>3,522</b>

## Section 4: Our assets (continued)

*Notes to and forming part of the financial statements for the year ended 30 June 2018*

### Recognition and measurement

The Audit Office's intangible assets comprise its audit methodology/software, computer software systems and associated enhancement costs. These assets are carried at cost less accumulated amortisation and impairment losses. The useful lives of the Audit Office's intangible assets are finite.

### Research and Development costs

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

### Amortisation

All intangible assets are amortised using the straight-line method over a period of three to ten years.

### Impairment

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.

### Key judgement/estimates Audit Office intangibles

We have determined there is no active market for the Audit Office's intangible assets and therefore they are recorded at cost less accumulated amortisation and impairment.

We have determined the useful lives of the Audit Office's intangibles to be between three to ten years. The major intangible assets are:

- audit methodology software - 10 years (2017: 10 years)
- corporate management systems - 5 to 6.5 years (2017: 5 years)
- other software licenses - 3 to 5 years (2017: 3 to 5 years).

Effective 1 May 2018, we extended the useful life of some of the Audit Office's intangible assets by up to 18 months to better represent their intended life. As a result of this change, this has reduced the Audit Office's depreciation and amortisation expense by \$48,000 in 2017-18 and will reduce it by \$201,000 in 2018-19 and increase it by \$169,000 in 2019-20 and \$80,000 in 2020-21.

Some of the factors considered in setting the useful lives include: technical obsolescence; the likely support period by vendors; the Audit Office's ability to invest in replacement assets; the typical life cycle of similar assets; and the actual lives of similar assets currently or previously controlled by the Audit Office.

We have reviewed the intangible assets for any indication of impairment at reporting date. None was noted (nil in the prior year).



## Section 4: Our assets (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### Recognition and measurement

##### Acquisition of assets

Purchases of plant and equipment (P&E) are initially recognised at cost in the Statement of Financial Position. The Audit Office capitalises individual pieces of equipment costing \$1,000 or more. When the equipment forms part of a network, the threshold of \$1,000 is applied to the network cost. All other equipment purchases are expensed in the year they are acquired.

##### Revaluation

Following initial recognition at cost, leasehold improvements and plant and equipment are recorded at fair value less accumulated depreciation and impairment. The Audit Office applies the valuation guidelines outlined in the 'Valuation of Physical Non-Current Assets at Fair Value' Policy and Guidelines Paper (TPP 14-01). This policy applies the requirements of AASB 13 Fair Value 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 financial 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 all cases, after taking into account these considerations, the highest and best use of the Audit Office's assets is their existing use.

##### Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	2018	2017
Computer equipment	3 years	3 years
Office equipment	5 years	5 years
Furniture and fittings	10 years	10 years
Leasehold improvements	Over the term of the lease	Over the term of the lease

##### Make good

The estimated cost for making good the Audit Office's leasehold premises is included in leasehold improvements to the extent it is recognised as a liability. See Note E2.1.

#### Key judgement/estimates Plant and equipment

In deciding whether costs should be expensed or capitalised, the Audit Office treats individual computer/telecommunication hardware (such as laptops) as part of a network. As a result, equipment of this nature is generally capitalised.

We review the useful lives of all assets annually. We also assess whether there are any indicators of impairment. The lives ascribed to the Audit Office's assets in 2018 remain unchanged from the prior year. We have also reviewed PPE assets for any indication of impairment. None was noted in the current year (nil in the previous year).

Some of the factors considered in setting the useful lives include: technical obsolescence; the typical life cycle of similar assets; and the actual lives of similar assets currently or previously controlled by the Audit Office.

Because the Audit Office's property, plant and equipment assets are non-specialised with short useful lives, we believe the depreciated historical cost is a reasonable approximation of their fair value. We believe any difference between fair value and depreciated historical cost is unlikely to be material. the depreciated historical cost is a reasonable approximation of their fair value. We believe any difference between fair value and depreciated historical cost is unlikely to be material.

## Section 5: Our liabilities

### Notes to and forming part of the financial statements for the year ended 30 June 2018

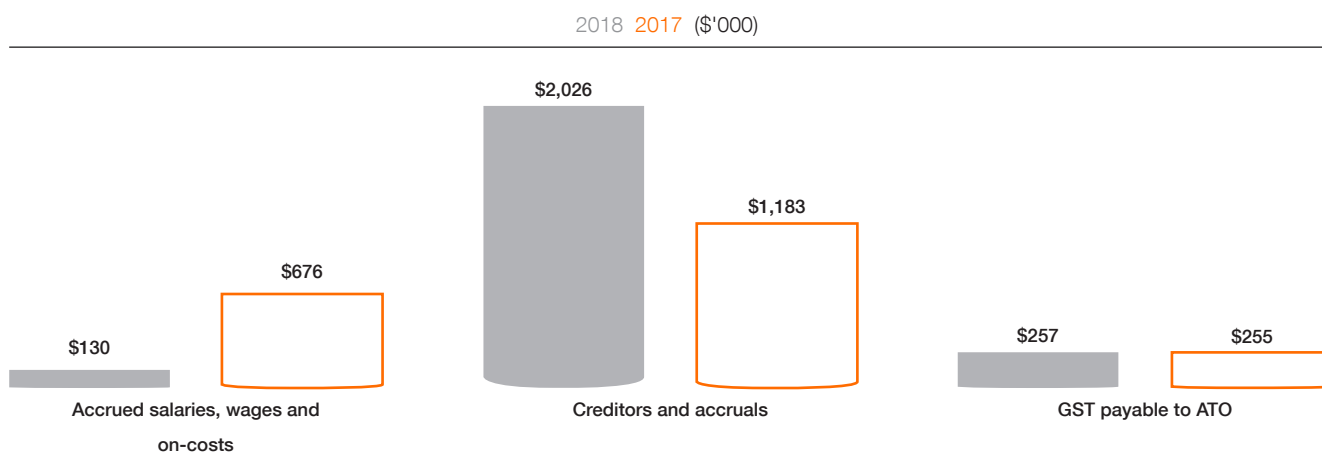
An essential characteristic of the Audit Office's liabilities is that it has a present obligation from past transactions or other past events. A large proportion of the Audit Office's liabilities are employment benefits payable to the Audit Office's staff for services rendered to the reporting date. The Audit Office also has obligations to its suppliers and tax authorities such as the Australian Taxation Office and Revenue NSW.

An obligation is a duty or responsibility to act or perform in a certain way. A future commitment (such as a decision by the Audit Office to acquire assets in the future) does not, of itself, give rise to a present obligation.

The Audit Office's obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise from normal business practice.

#### E1. Current liabilities – payables

The Audit Office's payables at 30 June 2018 totalled \$2,413,000 (2017: \$2,114,000). The chart below shows the split between the major components.



#### Recognition and measurement

##### Payables

The Audit Office initially recognises liabilities for creditors and other payables at fair value, which is usually based on the transaction cost or face value. These payables are subsequently measured at amortised cost using the effective interest rate method. Payables with no stated interest rate are measured at the original invoice amount because the effect of the discounting is immaterial.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced.

#### Risk

##### 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 payables. No assets have been pledged as collateral. The Audit Office's exposure to liquidity risk is deemed insignificant based on prior period's data and our current risk assessment.

For small business suppliers, where terms are not specified, the Audit Office pays no later than 30 days from date of receiving 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 the Audit Office receives an invoice. For small business suppliers, where payment is not made within the specified time period, simple interest must be paid unless an existing contract specifies otherwise. For payments to other suppliers, the Audit Office may pay the supplier simple interest. The Audit Office paid \$40 in interest during the period for a late payment (2017: Nil).

##### Maturity profile

All of the Audit Office's payables and accruals have a maturity of less than 12 months (2017: less than 12 months).

##### Market risk

The Audit Office has no exposure to foreign currency risk and does not enter into commodity contracts.



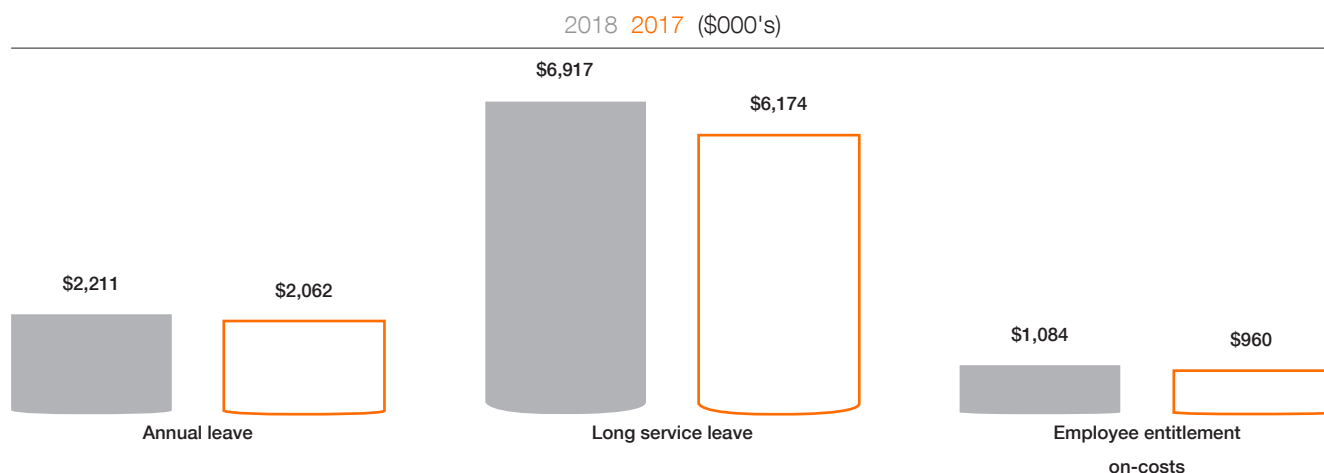
## Section 5: Our liabilities (continued)

Notes to and forming part of the financial statements for the year ended 30 June 2018

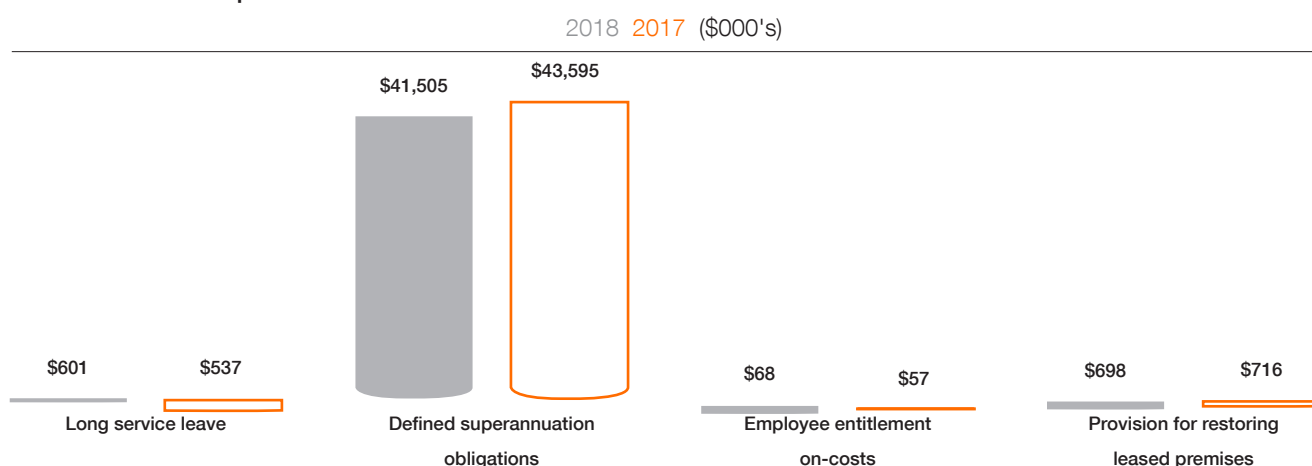
### E2. Current/non-current liabilities – provisions

The Audit Office's current provisions at 30 June totalled \$10,212,000 (2017: \$9,196,000) and its non current provisions totalled \$42,872,000 (2017: \$44,905,000). The charts below show the split between the major components.

#### Current liabilities – provisions



#### Non-current liabilities - provisions



#### a) Employee benefits and related on-costs

##### Annual leave

The annual leave liability at 30 June 2018 was \$2,211,000 (2017: \$2,062,000). Of this liability, the value expected to be paid within the next 12 months is \$1,481,000 (2017: \$1,400,000) and \$730,000 (2017: \$662,000) after 12 months.

##### Long service leave

The long service liability at 30 June 2018 was \$7,518,000 (2017: \$6,711,000) shown as current \$6,917,000 (2017: \$6,174,000) and non-current \$601,000 (2017: \$537,000). This liability comprises:

	2018 \$'000	2017 \$'000
Short term – expected to be settled within 12 months	278	226
Long term – not expected to be settled within 12 months	7,240	6,485
	<b>7,518</b>	<b>6,711</b>

The Audit Office is part of the Crown funded Long Service Leave Pool. As a member of this pool, the Audit Office makes an annual contribution based on its budgeted salaries and wages. In return for making a contribution, the Audit Office has a right to be reimbursed by the Crown Finance Entity for an amount equal to the liability owed to staff. This asset is disclosed in Note D4.

The Audit Office made contributions of \$805,000 to the Crown Finance Entity pool during the year (2017: \$684,000).



## Section 5: Our liabilities (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### Recognition and measurement

##### Salaries and wages, annual leave, sick leave and on-costs

Liabilities for salaries and wages, including non-monetary benefits and annual 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.

The amount of annual leave is increased by on-costs in determining the total provision at reporting date.

##### Long service leave

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 Treasury Circular 15/09 are applied when calculating the related oncosts.

##### 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.

#### Key judgement/estimates Employee entitlements

##### Annual leave

We have referred to leave taken during the year to determine the split between short term (leave expected to be taken in the next 12 months) and long term (leave expected to be taken after 12 months).

##### Long service leave

The present value of long service leave has been calculated by an actuary. The key assumptions they used include:

- discount rate of 2.65 per cent (2017: 2.595 per cent)
- short term salary increases of 2.7 per cent for FY2018/19 and 3.2 per cent per annum thereafter.

In determining the split between current and non current, we have used 92 and 8 per cent respectively. This is consistent with Treasury Circular 15/09.

The Audit Office has recognised a reimbursement from the Crown Finance Entity of equal value to the long service leave liability. This is based on Treasury Circulars *TC18/13 Accounting for Long Service Leave and Annual Leave* and *TC14/06 Funding Arrangements for Long Service Leave and Transferred Officers Leave Entitlements*.

#### E2.1 Other provisions

##### Restoration costs

The Audit Office has an obligation to restore its leased premises at 1 Margaret Street at the end of the lease term. In accordance with AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*, the Audit Office has recognised a provision to make good the premises.

	2018 \$'000
Movements in the provision during the financial year is set out below:	
Carrying amount at the beginning of financial year	717
Re-measurement of provision	(33)
Unwinding / change in the discount rate	14
<b>Carrying amount at end of financial year</b>	<b>698</b>



## Section 5: Our liabilities (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### Recognition and measurement

##### Other provisions

Other 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.

##### Key judgement/estimates – other provisions

This provision to make good the Audit Office's leased premises has been calculated by reference to the leased space area (square metres), an industry rate per square metre to make good the premises, the lease expiry date of July 2019 and the Commonwealth Government bond rate.

#### E2.2 Superannuation

Some current and former Audit Office employees are members of defined benefit schemes which means contributions are required to be made to a separately administered fund and members receive a pension entitlement based on a multiple of salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

Name of Scheme	Type of Scheme
The State Superannuation Scheme (SSS)	Multi-employer defined benefit scheme
The State Authorities Superannuation Scheme (SASS)	Multi-employer defined benefit scheme
The State Authorities Non-Contributory Superannuation Scheme (SANCS – Basic Benefits Scheme)	Multi-employer defined benefit scheme

The above schemes are closed to new members and employer contributions to the above funds were suspended in 2005.

##### Regulatory Framework

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 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.

##### Valuations

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2018.

##### Governance

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 the 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; and
- Compliance with other applicable regulations

The defined benefit schemes from 30 June 2018 have remained at an unfunded liability position, a net movement of \$2,090,000 (2017: \$16,914,000).

Employer contributions to all funds have been suspended since 1 December 2005.

The following information has been prepared by the Scheme actuary.



## Section 5: Our liabilities (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### Reconciliation of the net defined benefit liability

	Present value of obligation \$'000	Fair value of plan assets \$'000	Net amount \$'000
<b>At 1 July 2016</b>	<b>(126,018)</b>	<b>65,510</b>	<b>(60,508)</b>
Current service cost	(884)	–	(884)
Interest (expense) / income	(2,468)	1,264	(1,204)
<b>(Expense)/income recognised in profit or loss</b>	<b>(3,352)</b>	<b>1,264</b>	<b>(2,088)</b>
<b>Contributions by fund participants</b>			
Employers	–	–	–
Plan participants	(229)	229	–
	(229)	229	–
<b>Remeasurements</b>			
Actual return on Fund assets less Interest income	–	4,703	4,703
Actuarial gains/(losses) arising from changes in demographic assumptions	(11)	–	(11)
Actuarial gains/(losses) arising from changes in financial assumptions	11,611	–	11,611
Actuarial gains/(losses) arising from liability experience	2,699	–	2,699
<b>Amount recognised in other comprehensive income</b>	<b>14,299</b>	<b>4,703</b>	<b>19,002</b>
Benefits paid	3,179	(3,179)	–
Taxes, premiums and expenses paid	(563)	563	–
<b>At 30 June 2017</b>	<b>(112,684)</b>	<b>69,090</b>	<b>(43,595)</b>
<b>At 1 July 2017</b>	<b>(112,684)</b>	<b>69,090</b>	<b>(43,595)</b>
Current service cost	(615)	–	(615)
Interest (expense) / income	(2,895)	1,753	(1,142)
<b>(Expense) / income recognised in profit or loss</b>	<b>(3,510)</b>	<b>1,753</b>	<b>(1,757)</b>
<b>Contributions by fund participants</b>			
Employers	–	–	–
Plan participants	(220)	220	–
<b>Remeasurements</b>			
Actual return on Fund assets less Interest income	–	3,928	3,928
Actuarial gains/(losses) arising from changes in demographic assumptions	(596)	–	(596)
Actuarial gains/(losses) arising from changes in financial assumptions	443	–	443
Actuarial gains/(losses) arising from liability experience	71	–	72
<b>Amount recognised in other comprehensive income</b>	<b>(82)</b>	<b>3,928</b>	<b>3,847</b>
Benefits paid	7,025	(7,025)	–
Taxes, premiums and expenses paid	(492)	492	–
<b>At 30 June 2018</b>	<b>(109,964)</b>	<b>68,458</b>	<b>(41,505)</b>



## Section 5: Our liabilities (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### 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. The percentage invested in each asset class at the reporting date is:

As at 30 June 2018

Asset category at 30 June 2018	Quoted prices in active markets for identical assets	Significant observable inputs	Unobservable inputs	Total	Percentage invested in each asset class
	Level 1	Level 2	Level 3		
	\$'000	\$'000	\$'000	\$'000	
Cash	2,185,469	2,215,695	–	4,401,164	11%
Australian Fixed Interest	41,854	2,193,068	–	2,234,921	5%
International Fixed Interest	8,116	1,387,991	–	1,396,107	3%
Australian Equities	8,719,442	548,908	3,055	9,271,405	22%
International Equities	8,499,476	2,391,501	373	10,891,350	26%
Property	788,018	608,934	2,314,335	3,711,287	9%
Alternatives	420,898	5,332,818	4,141,113	9,894,828	24%
<b>Total</b>	<b>20,663,272</b>	<b>14,678,915</b>	<b>6,458,876</b>	<b>41,801,063</b>	<b>100.0%</b>

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.

#### Fair value of pooled fund assets

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets as at 30 June 2018 include \$97.7 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

- SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of \$280 million (30 June 2017: \$250 million).
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of \$287 million (30 June 2017: \$261 million).

## Section 5: Our liabilities (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

As at	30 June 2018	30 June 2017
Discount rate	2.65% p.a.	2.62% p.a.
Salary increase rate (excluding promotional increases)	2.70% p.a. for 2018/2019 and 3.2% p.a. thereafter	2.50% 2017/2018 and 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% p.a. 2021/2022 to 2025/2026; 3.50% p.a. thereafter
Rate of CPI increase	2.25% p.a. for 2018/2019 and 2019/2020; 2.50% p.a. thereafter	2.00% 2017/2018; 2.25% 2018/2019; 2.50% p.a. thereafter
Pensioner mortality	The pensioner mortality assumptions are those to be used for the 2018 actuarial investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report which will be available on the Trustee's website when the investigation is complete. The report will show the pension mortality rates for each age. Alternatively, the assumptions are available on request from the Trustee.	The pensioner mortality assumptions are as per the 2015 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.

### Economic assumptions

The economic assumptions adopted for 30 June 2018 AASB 1056 Accounting Standard 'Superannuation Entities' are (these assumptions are consistent with the assumptions to be used for the 2018 actuarial investigation of the Pooled Fund):

### Weighted-average assumptions

Expected rate of return on Fund assets backing current pension liabilities	7.40% p.a.
Expected rate of return on Fund assets backing other liabilities	6.40% p.a.
Expected salary increase rate (excluding promotional salary increases)	2.70% for 2018/2019; 3.20% p.a. thereafter
Expected rate of CPI increase	2.20% p.a.

### Sensitivity analysis

The entity's total defined benefit obligation as at 30 June 2018 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 2018.

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	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above - 1.0% p.a.	as above + 1.0% p.a.	as above	as above	as above	as above
Rate of CPI increase	as above	as above	as above	above rates plus 0.5% p.a.	above rates less 0.5% p.a.	as above	as above
Salary inflation rate	as above	as above	as above	as above	as above	above rates plus 0.5% p.a.	above rates less 0.5% p.a.
Defined benefit obligation (A\$'000)	109,963,529	127,910,532	95,432,539	118,102,372	102,565,698	110,370,184	109,569,820

	Base Case	Scenario G Lower Mortality*	Scenario H Higher Mortality**
Defined benefit obligation (A\$'000)	109,963,529	111,703,324	108,751,329

\*Assumes the short term pensioner mortality improvement factors for years 2018-2023 also apply for years after 2023.

\*\*Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for the years 2018 to 2023.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.



## Section 5: Our liabilities (continued)

### Notes to and forming part of the financial statements for the year ended 30 June 2018

#### Surplus/deficit

The following is a summary of the financial position of the Fund calculated in accordance with AASB 1056 –Superannuation Entities:

	2018 \$'000	2017 \$'000
Accrued benefits*	60,159	61,613
Net market value of Fund assets	(68,458)	(69,090)
<b>Net surplus</b>	<b>(8,299)</b>	<b>(7,477)</b>

\* There is no allowance for a contribution tax provision within the Accrued Benefits figure for AASB 1056. 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

#### Expected contributions

	SASS	SANCS	SSS
		Financial year to 30 June 2019	
Expected employer contributions	NIL	NIL	NIL

#### Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.8 years.

## Section 5: Our liabilities (continued)

*Notes to and forming part of the financial statements for the year ended 30 June 2018*

### Recognition and measurement

The cost of providing benefits under a defined benefit plan is determined using the projected unit credit method. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

### Key judgement/estimates defined superannuation liability

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial obligations and an actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include:

- the determination of the discount rate
- future salary increases mortality rates; and
- future pension increases (Table C4.1).

Due to the complexities involved in the calculation and its long term nature, a defined benefit obligation is highly sensitive to change in these assumptions. All assumptions are reviewed at each reporting date.

### Risk

#### 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.

#### 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.

# Section 6: Risk and other notes

## Notes to and forming part of the financial statements for the year ended 30 June 2018

### F1. Financial instruments

The Audit Office's principal financial instruments are cash (note D1), receivables (note D2), WIP (note D3) and payables (note E1). These financial instruments arise directly from the Audit Office's operations. The Audit Office does not enter into or trade financial instruments for speculative purposes.

Quantitative and qualitative disclosures together with the objectives, policies and processes for measuring and managing risk are included throughout the financial statements.

The Auditor-General of NSW has overall responsibilities for the establishment and oversight of risk management, as well as reviewing and agreeing 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 Office on a continuous basis.

### F2. Capital commitments

The Audit Office has \$364,000 (2017: nil) of capital contractual commitments at reporting date. These commitments relate to the Future Workplace project.

### F3. Contingent assets and contingent liabilities

The Audit Office is not aware of any contingent assets (2017: nil).

### F4. Auditor's remuneration

In April 2018, the Governor appointed Mr Andrew Archer to audit the Audit Office's financial statements for 2017-18, 2018-19 and 2019-20. Mr Andrew Archer is a partner at Grant Thornton and he uses the firm's resources to complete the audit. The auditor's remuneration for auditing the 2017-18 financial statements is \$43,000.

While Mr Andrew Archer did not provide any other services during the year to the Audit Office, his firm did provide services as an audit service provider (ASP). The Auditor-General appointed Grant Thornton as an ASP on a small number of audits in 2016 and 2017. Their appointment is for a period of up to four years and they conduct these audits under the control and direction of Auditor-General. The fees paid to Grant Thornton for their services as an ASP was \$339,000.

In the prior year, Mr Lester Wills, a partner of Nexia Sydney Partnership, was the appointed auditor. The auditor's remuneration for the prior year was \$38,540.

### F5. Related party disclosures

We have determined that the Office Executive are key management personnel (KMP) of the Audit Office. The Office Executive is made up of the Auditor-General of NSW, the Deputy Auditor-General, the four Assistant Auditors-General and the Executive Director, Corporate Services. We believe they have the authority and responsibility for planning, directing and controlling the activities of the Audit Office.

	2018 \$'000	2017 \$'000
Short-term employee benefits:		
Salaries	2,214	2,139
Other long-term employee benefits	86	84
Post-employment benefits	167	151
<b>Total remuneration</b>	<b>2,467</b>	<b>2,374</b>

The Audit Office did not enter into any material transactions with key management personnel, their close family members or entities they controlled or jointly controlled during the year.


### Transactions with NSW Government agencies

During the year, the Audit Office provided audit and audit related services to entities that are controlled by the NSW Government. These services were provided at arm's length based on agreed terms and using our standard charge rates and pricing approach. None of these transactions were individually significant. The total revenue received from NSW Government agencies was \$30.1 million (2017: \$29.7 million). Of this amount, \$3.7 million (2017: \$3.7 million) is owed to the Audit Office at the reporting date.

The Audit Office also received funding of \$10.3 million (2017: \$8.6 million) from the Crown Finance Entity to fund the performance audit program, Auditor-General's Reports to Parliament and compliance reviews. This funding is set through the annual State Budget process, together with any subsequent adjustments. There were no adjustments in 2017-18. In 2016-17, the Audit Office received additional funding for the new performance audit mandate of the local government sector.

End of audited financial statements



A large tree with peeling bark and a path lined with purple and white flowers.

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# Senior executive and leadership positions

## 1 Appendix one

### Public Service Senior Executive remuneration band equivalent range and average remuneration\*

Band	2016–17		2017–18	
	Range	Average	Range	Average
Band Four (equivalent)	452,251–522,500	499,583	463,551–535,550	524,872
Band Three (equivalent)	320,901–452,250	342,992	328,901–463,550	366,815
Band Two (equivalent)	255,051–320,900	270,811	261,451–328,900	278,373
Band One (equivalent)	178,850–255,050	215,070	183,300–261,450	222,154

\*Due to the nature of our business, 26 per cent of the Audit Office's employee-related expenditure in 2017–18 was related to senior executive, compared with 25 per cent in 2016–17.

### Public Sector Senior Executive remuneration band equivalent and gender

Band	2016–17		2017–18	
	Female	Male	Female	Male
Band Four (equivalent)	1	0	1	0
Band Three (equivalent)	0	3	0	2
Band Two (equivalent)	2	2	2	2
Band One (equivalent)	13	14	15	14
Total		35		36

### Number of executive and leadership positions filled by women



# Financial audit entities, reviews and other related services

## 2 Appendix two

Aboriginal Housing Office	City West Housing Pty Limited	Electricity Transmission Ministerial Holding Corporation
Agency for Clinical Innovation	Clinical Excellence Commission	Energy Industries Superannuation Scheme Pty Limited
Agency for Clinical Innovation Special Purpose Service Entity	Clinical Excellence Commission Special Purpose Service Entity	EIF Pty Ltd
Agricultural Scientific Collections Trust	Coal Innovation Fund	Energy Industries Superannuation Scheme Pool A
Albury Base Hospital	Cobar Water Board	Energy Industries Superannuation Scheme Pool B
Albury Wodonga Health NSW Employment Division Special Purpose Service Entity	Combat Sports Authority of NSW	Energy Investment Fund
Alpha Distribution Ministerial Holding Corporation	Corporation Sole 'Minister Administering the Heritage Act, 1977'	Environment Protection Authority
Ambulance Service of New South Wales	Cowra Japanese Garden Maintenance Foundation Limited	Environment Protection Authority Staff Agency
Ambulance Service of New South Wales Special Purpose Entity	Crown Employees (NSW Fire Brigades Firefighting Staff Death & Disability) Superannuation Fund	Environmental Trust
ANZAC Health and Medical Research Foundation Trust	Crown Entity	Epsilon Distribution Ministerial Holding Corporation
ANZAC Health and Medical Research Foundation Trust Fund	Electricity Retained Interest Corporation Fund - (ERIC-A and ERIC-E )	Essential Energy
Art Gallery of New South Wales Foundation	Restart NSW Fund	Far West Local Health District
Art Gallery of New South Wales Trust	Social and Affordable Housing NSW Fund	Far West Local Health District Special Purpose Entity
Art Gallery of New South Wales Trust Staff Agency	Crown Solicitor's Office	Financial Counselling Trust Fund
Australian Museum Trust	Dams Safety Committee	Fire and Rescue New South Wales
Australian Museum Trust Staff Agency	Department of Education	Forestry Corporation of NSW
Australian Technology Park Sydney Limited	Department of Family and Community Services	Gaagal Wanggaan (South Beach) Board of Management
Barangaroo Delivery Authority	John Williams Memorial Charitable Trust	Generator Property Management Pty Limited
Barangaroo Delivery Authority Staff Agency	Department of Finance, Services and Innovation	Graythwaite Charitable Trust
Belgenny Farm Agricultural Heritage Centre Trust	Professional Standards Council	Greater Sydney Commission
Biamanga Board of Management	Department of Industry	Greyhound Welfare and Integrity Commission
Board of Surveying and Spatial Information	AVETMISS	Office of the Greyhound Welfare and Integrity Commission
Border Fence Maintenance Board	Fisheries Trust Funds	Gulaga Board of Management
Building Insurers' Guarantee Corporation	Game and Pest Management Trust Fund	Health Administration Corporation
Building Professionals Board	Crown Reserves Improvement Fund	Public Health System Support Special Purpose Service Entity
Bureau of Health Information	Jobs for NSW Fund	Health Care Complaints Commission
Bureau of Health Information Staff Agency	Department of Justice	Health Care Complaints Commission Staff Agency
Buroba Pty Ltd	State Rescue Board	Health Education and Training Institute
Cancer Institute NSW	Department of Planning and Environment	Health Education and Training Institute Special Purpose Service Entity
Cancer Institute NSW Special Purpose Service Entity	Department of Premier and Cabinet	Health Infrastructure
CB Alexander Foundation	Department of Transport	Health Infrastructure Special Purpose Entity
Cemeteries and Crematoria NSW	Destination NSW	Health Professional Councils Authority
Centennial Park and Moore Park Trust	Destination NSW Staff Agency	Chinese Medicine Council of NSW
Central Coast Local Health District	eHealth NSW	Chiropractic Council of NSW
Central Coast Local Health District Special Purpose Entity	eHealth NSW Special Purpose Service Entity	Dental Council of NSW
Central Coast Regional Development Corporation	Electricity Assets Ministerial Holding Corporation	Health Professional Council's Authority
Chief Investigator of the Office of Transport Safety Investigations	Electricity Retained Interest Corporation - Ausgrid	Medical Council of NSW
	Electricity Retained Interest Corporation - Endeavour Energy	Medical Radiation Council of NSW



# Financial audit entities, reviews and other related services

## 2 Appendix two (continued)

Nursing and Midwifery Council of NSW	Legal Aid Commission of New South Wales	New South Wales Electoral Commission
Occupational Therapy Council of NSW	Legal Aid Commission Staff Agency	Staff Agency
Optometry Council of NSW	Legal Profession Admission Board	New South Wales General Government and Total State Sectors
Osteopathy Council of NSW	Legal Services Council	New South Wales Government
Pharmacy Council of NSW	LGSS Pty Limited	Telecommunications Authority (TELCO)
Physiotherapy Council of NSW	Liability Management Ministerial Corporation	New South Wales Health Foundation
Podiatry Council of NSW	Library Council of New South Wales	New South Wales Institute of Sport
Psychology Council of NSW	Library Council of New South Wales Staff Agency	Institute of Sport Staff Agency
Health Share NSW	Lifetime Care and Support Authority of New South Wales	New South Wales Rural Assistance Authority
Health Share NSW Special Purpose Service Entity	Local Land Services	New South Wales Rural Fire Service
Historic Houses Trust of New South Wales	Local Land Services Staff Agency	BushFire Co-ordinating Committee
Foundation for the Historic Houses Trust of New South Wales	Long Service Corporation	New South Wales Technical and Further Education Commission
Foundation for the Historic Houses Trust of New South Wales Limited	Lord Howe Island Board	TAFE Commission (Senior Executives) Staff
Home Purchase Assistance Fund	Luna Park Reserve Trust	New South Wales Treasury Corporation
Hunter Development Corporation	Mental Health Commission of New South Wales	TCorp IM Hour-Glass Medium Term Growth Fund
Hunter New England Local Health District	Mental Health Commission of NSW Staff Agency	ICNSW Australian Equities Fund
Hunter New England Local Health District Special Purpose Service Entity	Mid North Coast Local Health District	ICNSW International Equities Fund
Hunter Water Australia Pty Limited	Mid North Coast Local Health District Special Purpose Service Entity	ICNSW International Equities Hedged Fund
Hunter Water Corporation	Ministerial Development Corporation	Insurers' Guarantee Fund Investment Trust
Illawarra Health and Medical Research Institute Limited	Ministerial Holding Corporation	Long Service Corporation Investment Fund
Illawarra Shoalhaven Local Health District	Ministry of Health	NSW Infrastructure Future Fund
Illawarra Shoalhaven Local Health District Special Purpose Service Entity	Mt Grenfell Historic Site Board of Management	Parliamentary Contributory
Independent Commission Against Corruption	Multicultural NSW	Superannuation Fund Investment Trust
Independent Liquor and Gaming Authority	Multicultural NSW Staff Agency	TCorp Commonwealth Guarantee Fee
Independent Pricing and Regulatory Tribunal	Murrumbidgee Local Health District	TCorp IM Alternative Risk Premia Fund
Independent Pricing and Regulatory Tribunal Staff Agency	Murrumbidgee Local Health District Special Purpose Entity	TCorp IM Australian Inflation Linked Bond Fund
Independent Transport Safety Regulator	Mutawintji Board of Management	TCorp IM Bank Loan Fund
Independent Transport Safety Regulator Staff Agency	National Art School	TCorp IM Cash Fund
Information and Privacy Commission NSW	Natural Resources Access Regulator	TCorp IM Direct Investment Fund C
Infrastructure NSW	National Centre for Immunisation Research and Surveillance	TCorp IM Direct Investment Fund D
Infrastructure NSW Staff Agency	Natural Resources Commission	TCorp IM Direct Investment Fund E
Insurance and Care NSW	Natural Resources Commission Staff Agency	TCorp IM Emerging Market Debt Fund
Jenolan Caves Reserve Trust	Nepean Blue Mountains Local Health District	TCorp IM High Yield Fund
Judicial Commission of New South Wales	Nepean Blue Mountains Local Health District Special Purpose Entity	TCorp IM Long Term Growth Fund
Justice Health and Forensic Mental Health Network	New South Wales Aboriginal Land Council	TCorp IM Small Cap Australian Share Fund
Justice Health and Forensic Mental Health Network Special Purpose Entity	NSWALC Resources Pty Ltd	TCorp IM Strategic Cash Fund
Landcom	New South Wales Crime Commission	TCorpIM Australian Bond Fund
Lands Administration Ministerial Corporation	New South Wales Crime Commission Staff Agency	TCorpIM Australian Share Fund
Law Enforcement Conduct Commission	New South Wales Electoral Commission	TCorpIM Cyclical Growth Australian Share Fund
Law Enforcement Conduct Commission Staff Agency		TCorpIM Cyclical Growth International Share Fund
		TCorpIM Direct Infrastructure Fund A
		TCorpIM Direct Investment Fund B
		TCorpIM Downside Protection Australian Share Fund



TCorplM Downside Protection International Share Fund	Office of Local Government	State Insurance and Regulatory Authority
TCorplM Emerging Markets Share Fund	Office of Sport	State Library of New South Wales Foundation
TCorplM Global Credit Fund	Office of the Children's Guardian	State Rail Authority Residual Holding Corporation
TCorplM Indexed Australian Share Fund	Office of the Director of Public Prosecutions	State Rescue Board
TCorplM Indexed International Share Unhedged Fund	Ombudsman's Office	State Sporting Venues Authority
TCorplM International Share (Hedged) Fund	Parliamentary Contributory Superannuation Fund	State Transit Authority of New South Wales
TCorplM International Share (Unhedged) Fund	Trustees of the Parliamentary Contributory Superannuation Fund	Subsidence Advisory NSW
TCorplM Liquidity Cash Fund	Parliamentary Counsel's Office	Sydney Cricket and Sports Ground Trust
TCorplM Listed Property Fund	Parramatta Park Trust	Sydney Ferries
TCorplM Multi-Asset Class Fund	Place Management NSW	Sydney Local Health District
TCorplM Specialist Emerging Markets Share Fund	Planning Ministerial Corporation	Sydney Local Health District Special Purpose Service Entity
TCorplM Unlisted Infrastructure Fund	Port Authority of New South Wales	Sydney Motorway Corporation Pty Limited
TCorplM Unlisted Property Fund	Port Botany Lessor Pty Limited	WCX M4 AHT Pty Ltd
Treasury Managed Fund Investment	Port Kembla Lessor Pty Limited	WCX M4 Asset Hold Trust
Northern NSW Local Health District	Port of Newcastle Lessor Pty Limited	WCX M4 Asset Trust
Northern NSW Local Health District Special Purpose Entity	Ports Assets Ministerial Holding Corporation	WCX M4 AT Pty Ltd
Northern Sydney Local Health District	Property NSW	WCX M4 FinCo Pty Ltd
Northern Sydney Local Health District Special Purpose Entity	Public Service Commission	WCX M4 PHT Pty Ltd
NSW Architects Registration Board	Rail Corporation New South Wales	WCX M4 Project Hold Trust
NSW Biodiversity Conservation Trust	Rental Bond Board	WCX M4 Project Trust
NSW Crown Holiday Parks Trust	Responsible Gambling Fund	WCX M4 PT Pty Ltd
NSW Education Standards Authority	Rice Marketing Board for the State of New South Wales	WCX M4 Pty Limited
NSW Education Standards Authority Staff Agency	Roads and Maritime Services	WCX M4-M5 Link Asset Hold Trust
NSW Fire Brigades Superannuation Pty Limited	Rookwood Necropolis Trust	WCX M4-M5 Link AHT Pty Ltd
NSW Food Authority	Rookwood General Cemetery Land Manager	WCX M4-M5 Link Asset Trust
NSW Health Pathology	Royal Botanic Gardens and Domain Trust	WCX M4-M5 Link AT Pty Ltd
NSW Health Pathology Employment Division	SAS Trustee Corporation	WCX M4-M5 Link Project Hold Trust
NSW Land and Housing Corporation	SAS Trustee Corporation - Pooled Fund	WCX M4-M5 Link PHT Pty Ltd
NSW Ovine Johne's Disease Transaction Based Contribution Scheme	SAS Trustee Corporation Staff Agency	WCX M4-M5 Link Project Trust
NSW Police Force	Service NSW	WCX M4-M5 Link PT Pty Ltd
NSW Self Insurance Corporation	Sesquicentenary of Responsible Government Trust Fund	WCX M4-M5 Link Finco Pty Ltd
NSW Self Insurance Corporation Home Building Compensation Fund	South Eastern Sydney Local Health District	WCX State Works Contractor Pty Ltd
NSW Skills Board	South Eastern Sydney Local Health District Special Purpose Entity	WCX Integrated OpCo Pty Ltd
NSW Trains	South Western Sydney Local Health District	WCX M5 AHT Pty Ltd
NSW Trustee and Guardian	South Western Sydney Local Health District Special Purpose Entity	WCX M5 Asset Hold Trust
NSW Trustee and Guardian - Common Fund	Southern NSW Local Health District	WCX M5 Asset Trust
NSW Trustee and Guardian - Common Fund Financial Management	Southern NSW Local Health District Special Purpose Entity	WCX M5 AT Pty Ltd
Office of Environment and Heritage	Sporting Injuries Compensation Authority	WCX M5 FinCo Pty Ltd
	State Archives and Records Authority of New South Wales	WCX M5 PHT Pty Ltd
	State Emergency Service	WCX M5 Project Hold Trust
		WCX M5 Project Trust
		WCX M5 PT Pty Ltd
		Sydney Olympic Park Authority
		Sydney Opera House Trust
		Sydney Opera House Trust Staff Agency
		Sydney Trains
		Sydney Water Corporation



# Financial audit entities, reviews and other related services

## 2 Appendix two (continued)

Taronga Conservation Society Australia  
Teacher Housing Authority of New South Wales  
The Australian Institute of Asian Culture And Visual Arts Limited (VISASIA)  
The Brett Whiteley Foundation  
The Legislature  
The Sydney Children's Hospitals Network  
Sydney Cord Blood Bank  
The Treasury  
Transport for NSW  
Transport Service of NSW  
Trustees of the ANZAC Memorial Building  
Trustees of the Farrer Memorial Research Scholarship Fund  
Trustees of the Museum of Applied Arts and Sciences  
Museum of Applied Arts and Sciences  
Staff Agency  
Universities Admissions Centre (NSW & ACT) Pty Limited  
UrbanGrowth NSW Development Corporation  
Valley Commerce Pty Limited  
Venues NSW  
Newcastle International Sports Centre Club  
Veterinary Practitioners Board  
Waste Assets Management Corporation  
Water NSW  
Wentworth Park Sporting Complex Trust  
Western NSW Local Health District  
Western NSW Local Health District Special Purpose Entity  
Western Sydney Local Health District  
Western Sydney Local Health District Special Purpose Entity  
Western Sydney Parklands Trust  
Wine Grapes Marketing Board  
Worimi Conservation Lands Board of Management  
Workers Compensation (Dust Diseases) Authority  
Workers Compensation Nominal Insurer

### Universities

Charles Sturt University  
Charles Sturt Campus Services Limited  
Charles Sturt Foundation

Macquarie University  
Access Macquarie Limited  
Australian Proteome Analysis Facility  
Bequest from the Estate of FJ Walsh  
CMBF Limited  
COH Property Trust  
Macquarie University Clinical Associates Limited  
Macquarie University Hong Kong Foundation Limited  
Macquarie University Investment Company No 3 Pty Limited  
Macquarie University Professorial Superannuation Scheme  
Macquarie University Property Investment Company Pty Limited  
Macquarie University Property Investment Trust  
MGSM Limited  
MUH Operations No.2 Pty Ltd  
MUH Operations Pty Ltd  
MUPH Clinic Pty Limited  
MUPH Hospital Pty Ltd  
U@MQ Limited  
University of Newcastle  
The University of Newcastle Research Associates Limited  
UON Singapore Pte Ltd  
Southern Cross University  
Southern Cross Campus Limited  
The University of Sydney  
A14 Holdings Pty Ltd  
Sydney Talent Pty Limited  
SydneyLearning Pty Limited  
The Warren Centre for Advanced Engineering Limited  
United States Study Centre Limited  
University of Sydney Professorial Superannuation System  
Westmead IVF Pty Limited  
University of New England  
Agricultural Business Research Institute  
UNE Foundation Ltd  
UNE Life Pty Ltd  
UNE Partnerships Pty Ltd  
University of New South Wales  
Australian Education Consultancy Limited  
Cystemix Pty Limited  
NewSouth Innovations Pty Limited  
Qucor Pty Ltd  
Scientia Clinical Research Ltd  
The New South Wales Minerals Industry/ University of NSW Education Trust

UK Foundation of UNSW Australia  
University of New South Wales Foundation  
University of New South Wales Foundation Limited  
University of New South Wales Press Limited  
UNSW & Study Abroad - Friends and U.S. Alumni, Inc.  
UNSW Global (Singapore) Pte Limited  
UNSW Global India Private Limited  
UNSW Global Pty Limited  
UNSW Hong Kong Foundation Limited  
UNSW Hong Kong Limited  
University of Wollongong  
CCCU Trust  
The University of Wollongong Asset Trust  
University of Wollongong Recreation and Aquatic Centre Limited  
UOW Pulse Ltd  
UOWC Ltd  
UOWCHK Ltd  
UOWD Ltd  
USA Foundation, University of Wollongong  
University of Technology, Sydney  
accessUTS Pty Limited  
AustLII Foundation Limited  
Insearch Limited  
Piivot Pty Ltd  
Sydney Educational Broadcasting Limited  
UTS Global Pty Limited  
Western Sydney University  
Western Sydney University Early Learning Ltd  
Western Sydney University Enterprises Pty Limited  
Western Unlimited Limited  
Whitlam Institute within Western Sydney University Limited  
Whitlam Institute within Western Sydney University Trust

### Local government

Albury City Council  
Armidale Regional Council  
Ballina Shire Council  
Balranald Shire Council  
Bathurst Regional Council  
Bayside Council  
Bega Valley Shire Council  
Bellingen Shire Council  
Berrigan Shire Council



# Financial audit entities, reviews and other related services

## 2 Appendix two (continued)

Blacktown City Council	Greater Hume Shire Council	Port Stephens Council
Bland Shire Council	Griffith City Council	Queanbeyan-Palerang Regional Council
Blayney Shire Council	Gunnedah Shire Council	Randwick City Council
Blue Mountains City Council	Gwydir Shire Council	Richmond Valley Council
Bogan Shire Council	Hawkesbury City Council	Riverina Water County Council
Bourke Shire Council	Hawkesbury River County Council	Rous County Council
Brewarrina Shire Council	Hay Shire Council	Shellharbour City Council
Broken Hill City Council	Hilltops Council	Shoalhaven City Council
Burwood Council	Inner West Council	Singleton Council
Byron Shire Council	Inverell Shire Council	Snowy Monaro Regional Council
Cabonne Council	Junee Shire Council	Snowy Valleys Council
Camden Council	Kempsey Shire Council	Strathfield Municipal Council
Campbelltown City Council	Ku-ring-gai Council	Sutherland Shire Council
Canterbury-Bankstown Council	Kyogle Council	Tamworth Regional Council
Carrathool Shire Council	Lachlan Shire Council	Temora Shire Council
Castlereagh Macquarie County Council	Lake Macquarie City Council	Tenterfield Shire Council
Central Coast Council	Lane Cove Municipal Council	The Council of the Municipality of Hunters Hill
Central Darling Shire Council	Leeton Shire Council	The Council of the Municipality of Kiama
Central Murray County Council	Lismore City Council	The Council of the Shire of Hornsby
Central Tablelands County Council	Lithgow City Council	The Hills Shire Council
Cessnock City Council	Liverpool City Council	Tweed Shire Council
City of Canada Bay Council	Liverpool Plains Shire Council	Upper Hunter County Council
City of Parramatta Council	Lockhart Shire Council	Upper Hunter Shire Council
City of Ryde Council	Maitland City Council	Upper Lachlan Shire Council
Clarence Valley Council	MidCoast Council	Upper Macquarie County Council
Cobar Shire Council	MidCoast Water	Uralla Shire Council
Coffs Harbour City Council	Mid-Western Regional Council	Wagga Wagga City Council
Coolamon Shire Council	Moree Plains Shire Council	Walcha Council
Coonamble Shire Council	Mosman Municipal Council	Walgett Shire Council
Cootamundra-Gundagai Regional Council	Murray River Council	Warren Shire Council
Council of the City of Sydney	Murrumbidgee Council	Warrumbungle Shire Council
Cowra Shire Council	Muswellbrook Shire Council	Waverley Council
Cumberland Council	Nambucca Shire Council	Weddin Shire Council
Dubbo Regional Council	Narrabri Shire Council	Wentworth Shire Council
Dungog Shire Council	Narrandera Shire Council	Willoughby City Council
Edward River Council	Narromine Shire Council	Wingecaribee Shire Council
Eurobodalla Shire Council	New England Weeds Authority	Wollondilly Shire Council
Fairfield City Council	Newcastle City Council	Wollongong City Council
Federation Council	North Sydney Council	Woollahra Municipal Council
Forbes Shire Council	Northern Beaches Council	Yass Valley Council
Georges River Council	Oberon Council	
Gilgandra Shire Council	Orange City Council	
Glen Innes Severn Council	Parkes Shire Council	
Goldenfields Water County Council	Penrith City Council	
Goulburn Mulwaree Council	Port Macquarie-Hastings Council	



### **Audit-related services requested by the Treasurer under section 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 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*

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Audit reports required by section 24 of the *Charitable Fundraising Act 1991* for NSW Government agencies that conduct fundraising appeals

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Audit of financial reports for funds within the Special Deposits Account

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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

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Audit of data returns or reports required under the Australian Government/State Agreements

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Audit of data returns or reports to acquit Disaster Relief Payments from the Commonwealth

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Audit of data returns or reports to acquit grants provided by the Commonwealth and other donors to NSW Government agencies

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Audit of universities' Higher Education Research Data Collection (HERDC) Return – Return 1 as required by Commonwealth funding arrangements and/or agreements

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Audit of general purpose financial statements of the:

- NSW Trustee and Guardian Common Fund – Trustee
  - NSW Trustee and Guardian Common Fund – Financial Management.
- 

Audit of special purpose and trust funds for controlled entities of the Ministry of Health

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Audit of any Fisheries Trust Funds special purpose financial reports submitted by the Department of Industry

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# Financial audit entities, reviews and other related services

## 2 Appendix two (continued)

### Overseas visits

Staff member	Date of travel	Return date	Destination	Reason
Roopal Rachna	3 July 2017	7 July 2017	Solomon Islands	To help build the Solomon Islands Office of the Auditor General's capacity to perform its audit functions under the Solomon Islands Twinning Arrangement.
Margaret Crawford	5 August 2017	12 August 2017	Tuvalu	To attend the 20th Pacific Association of Supreme Audit Institutions (PASA) Congress.
Celia Withers	24 February 2018	28 February 2018	Hong Kong	To undertake an audit of UNSW Hong Kong Limited and UNSW Hong Kong Foundation Limited.
Renee Meimaroglou Chris Phillips	24 February 2018	3 March 2018	Hong Kong and Singapore	To undertake an audit of Australian Education Consultancy Limited, UNSW Hong Kong Limited, UNSW Hong Kong Foundation Limited and UNSW (Singapore) Pte Limited.
Margaret Crawford Claudia Migotto	3 April 2018	19 April 2018	United States of America and Canada	To attend the Canadian Council of Legislative Auditors (CCOLA) Performance Audit Symposium, ACAG-CCOLA joint meeting and to engage with US State Auditors and Federal Government Accountability Office to establish peer relationship and share learnings with one of the world's peak government oversight bodies.
Farisha Ali Roopal Rachna	14 April 2018	27 April 2018	Solomon Islands	To help build the Solomon Islands Office of the Auditor General's capacity to perform its audit functions under the Solomon Islands Twinning Arrangement.
Alex Kaiser Kenia Parsons	16 June 2018	24 June 2018	Solomon Islands	To help build the Solomon Islands Office of the Auditor General's capacity to perform its audit functions under the Solomon Islands Twinning Arrangement.

# Services to the public sector

## 3 Appendix three

### Appearances before parliamentary committees

We appeared before the following parliamentary committees.

Date	Committee	Event	Who
19 October 2017	Public Accounts Committee	Examination of the Auditor-General's Performance Audit Reports May 2017 – October 2017	Margaret Crawford Ian Goodwin Claudia Migotto Alison Gatt
23 November 2017	Public Accounts Committee	Examination of the Auditor-General's Performance Audit Reports October 2017 – November 2017	Margaret Crawford Ian Goodwin Claudia Migotto
12 February 2018	Public Accounts Committee	Public Hearing – 12 month follow up review	Margaret Crawford Ian Goodwin Claudia Migotto
15 February 2018	Public Accounts Committee	Examination of the Auditor-General's Performance Audit Reports November 2017 – February 2017	Margaret Crawford Ian Goodwin Claudia Migotto
3 May 2018	Public Accounts Committee	Examination of the Auditor-General's Audit Reports May 2017 – October 2017	Margaret Crawford Ian Goodwin Claudia Migotto Steven Martin
8 May 2018	Public Accountability Committee	Introduction and overview of the Audit Office of NSW and its functions	Margaret Crawford Ian Goodwin
7 June 2018	Public Accounts Committee	Examination of Auditor-General's Performance Audit Reports May 2018 – June 2018	Margaret Crawford Ian Goodwin Claudia Migotto
21 June 2018	Public Accounts Committee	Examination of Auditor-General's Performance Audit Reports June 2018	Margaret Crawford Alison Gatt Claudia Migotto

# Services to the public sector

## 3 Appendix three (continued)

### Memberships

Audit Office staff were members of the following public sector organisations and committees.

Margaret Crawford	Australasian Council of Auditors-General – Member Pacific Association of Supreme Audit Institutions (PASAI) – Member Institute of Public Administration Australia – Fellow and NSW Council Member NSW Integrity Agencies Collaboration Group – Member
Ian Goodwin	Australasian Council of Auditors-General – Financial Reporting and Auditing Committee Australian Army Reserve – Squadron Commander
Barry Underwood	Public Interest Disclosure Steering Committee – Auditor-General's Representative
Alison Gatt	NSW Treasury, Financial Management Transformation Working Group – Member Australasian Council of Auditors-General, Financial Reporting and Audit Committee – Member Australian Accounting Standards Board, Public Sector Issues (Service Concessions for Grantors and Research Projects) – Advisory Panel Member Australian Accounting Standards Board, Public Sector Issues (Fair Value) – Member
Chris Clayton	Australasian Council of Auditors-General – Financial Reporting and Accounting Committee Australasian Council of Auditors-General – Auditing Standards Committee Pacific Association of Supreme Audit Institutions (PASAI) – Regional Working Group on Environmental Audit – Member
David Daniels	NSW Public Sector, Community of Finance Professionals – Advisory Board Member Australian Accounting Standards Board, AASB 17 Insurance Contracts Transition Resource Group – Member
Alana Shepherd-Cooper	Pacific Association of Supreme Audit Institutions (PASAI) – Regional Working Group on Environmental Audit – Member
Alex Kaiser	Pacific Association of Supreme Audit Institutions (PASAI) – Regional Working Group on Environmental Audit – Member
Kenia Parsons	Pacific Association of Supreme Audit Institutions (PASAI) – Regional Working Group on Environmental Audit – Member

# 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
Contingent Workforce: Procurement and Management	Michael Thistlethwaite Kenia Parsons	19 July 2017	Corruption Prevention Network Inc – Lunchtime Seminar Series
Update on New Audit Office Mandate	Margaret Crawford	27 July 2017	Orange City Council
Update on New Audit Office Mandate	Margaret Crawford	28 July 2017	Parkes Shire Council
Update on New Audit Office Mandate	Margaret Crawford	4 August 2017	Mid-Western Regional Council, Mudgee
Performance Auditing – What is it?	Rod Longford Jo Manion	10 August 2017	Local Government Professionals – Integrated Planning Officers Conference
Performance Auditing – What is it?	Rod Longford Jo Manion	11 August 2017	Local Government Internal Auditors Network
Key Priorities and Focus for 2017–18	Barry Underwood	24 August 2017	Public Sector Governance Forum 2017 – Governance Institute of Australia
Asset Management and Infrastructure Projects	Ian Goodwin	11 September 2017	Local Government NSW, Finance Summit
Update on New Audit Office Mandate	Ian Goodwin	14 September 2017	Canberra Region Joint Organisation, General Managers Advisory Committee (GMAC)
Update on New Audit Office Mandate	Margaret Crawford Ian Goodwin	5 October 2017	Southern Sydney Regional Organisation of Councils
Update on New Audit Office Mandate	Margaret Crawford	12 October 2017	Hunter Joint Organisation Meeting
Report on the Conduct of the Audit for the City of Sydney Council 30 June 2017	Margaret Crawford	16 October 2017	City of Sydney Corporate Finance, Properties and Tenders Committee
Update on New Audit Office Mandate	Margaret Crawford	20 October 2017	Riverina and Murray Regional Organisation of Councils – General Managers Conference
Engaging with Public Finances	Margaret Crawford	25 October 2017	Commonwealth Parliamentary Association Australia and Pacific – Regional Conference 2017
Leadership – the Transition to Leadership and Accountability	Margaret Crawford	26 October 2017	Public Service Commission – Executive Leadership Essentials
Update on New Audit Office Mandate	Margaret Crawford	3 November 2017	Country Mayors Association of NSW
Financial Reporting Workshop Presentation	Steven Martin	6 November 2017	Office of Local Government
Local Government Performance Expectations of the Future	Ian Goodwin	9 November 2017	Institute of Internal Auditors – Local Government Internal Audit Forum
Chief Financial Officers Workshop Presentation	Steven Martin	9 November 2017	Local Government Internal Auditors Association
The Audit Office and Auditing Local Government	Barry Underwood	15 November 2017	Australian Public Sector Anti-Corruption Conference
International Women's Day Interview	Margaret Crawford	15 February 2018	Department of Premier and Cabinet – Premier's Launch Video



# Services to the public sector

## 3 Appendix three (continued)

### Presentations (continued)

Title	Presenter(s)	Date	Who
Local Government Procurement	Kenneth Leung	22 February 2018	Office of Local Government, Procurement Event, Coffs Harbour
Local Government Procurement	Gearoid Fitzgerald	8 March 2018	Office of Local Government, Procurement Event, Dubbo
Local Government Financial Reporting	James Sugumar Cathy Wu	12 March 2018	Office of Local Government Roadshow, Coffs Harbour
Local Government Financial Reporting	Reiky Jiang Dominika Ryan	13 March 2018	Office of Local Government Roadshow, Tamworth
Local Government Financial Reporting	David Nolan Chris Harper	14 March 2018	Office of Local Government Roadshow, Dubbo
Local Government Financial Reporting	Karen Taylor Monique Bartley	15 March 2018	Office of Local Government Roadshow, Orange
Risk Management Capability in the NSW Public Sector	Margaret Crawford	15 March 2018	Public Service Commission Advisory Board
Audit Program 2018–19	Margaret Crawford Ian Goodwin	21 March 2018	NSW Secretaries Board
Council Reporting on Service Delivery – Overview of Findings	Jo Manion	22 March 2018	Local Government Internal Auditors Network
Local Government Financial Reporting	Renee Meimaroglou David Nolan Caroline Karakatsanis Rod Longford Somaiya Ahmed	26 March 2018	Office of Local Government Roadshow, Sydney
Local Government Financial Reporting	Steven Martin Karen Taylor Weini Liao Kenneth Leung	27 March 2018	Office of Local Government Roadshow, Parramatta
Local Government Financial Reporting	Lawrissa Chan Reiky Jiang Michael Kharzoo	28 March 2018	Office of Local Government Roadshow, Wagga Wagga
Local Government Procurement	Chris Harper	5 April 2018	Office of Local Government, Procurement Event, Wagga Wagga
Financial Audit Training	Roopal Rachna Farisha Ali	16–27 April 2018	Solomon Islands Office of Auditor General (SIOAG)
Local Government	Ian Goodwin Steven Martin	20 April 2018	Audit, Risk and Improvement Committee Chairs Workshop
Local Government Financial Reporting	Marco Monaco	24 April 2018	Office of Local Government Roadshow, Newcastle
Leadership Academy – Closing Dialogue	Margaret Crawford	10 May 2018	NSW Public Service Commission
Local Government Briefing	Lawrissa Chan Reiky Jiang Michael Kharzoo	25 May 2018	Local Government Conference, Crowe Horwath
Local Government Financial Reporting	Lawrissa Chan Michael Kharzoo	7 June 2018	Office of Local Government Roadshow, Queanbeyan



# Services to the public sector

## 3 Appendix three (continued)

### Presentations (continued)

Title	Presenter(s)	Date	Who
Local Government	Ian Goodwin	7 June 2018	Local Government Professionals Conference
Performance Audit Training	Kenia Parsons Alex Kaiser	18–22 June 2018	Solomon Islands Office of Auditor General (SIOAG)
Audit Program 2018–19	Margaret Crawford Ian Goodwin	18 June 2018	Transport for NSW – Cluster Leadership Meeting
Provision of External Audit Services	Margaret Crawford	19 June 2018	Audit Office of New South Wales

# Services to the profession

## 4 Appendix four

### Memberships

Audit Office staff were members of the following committees, professional associations, panels or working parties.

Margaret Crawford	Australian Institute of Company Directors – Fellow
Ian Goodwin	Chartered Accountants Australia and New Zealand – Fellow
Alison Gatt	Macquarie University, Departmental Advisory Board – Member Chartered Accountants Australia and New Zealand – Research Group Chartered Accountants Australia and New Zealand – Audit and Assurance Module Advisory Group Turner Syndrome Association of Australia Inc. – Director
Roopal Rachna	Australian Institute of Company Directors – Affiliate Member
Barry Li	Chartered Accountants Australia and New Zealand, Australia Toastmasters Group – Vice President
Chris Clayton	Chartered Accountants Australia and New Zealand, Sydney Research Group – Member
Chris Giumelli	CPA Australia, Public Sector Committee – Chair

### Education

Audit Office staff contributed to these professional publications, resources and qualification programs.

Alison Gatt	Chartered Accountants Australia and New Zealand, Internal Candidates on Professional Program – Mentor
Susan Loane	‘Social Capital and Consumer Value Co-Created Within an Online Health Community’, <i>Journal of Non-Profit and Public Sector Marketing</i> , 2017, Vol 29(3). – Co-Author

# Services to the profession

## 4 Appendix four

### Submissions to professional bodies

The Audit Office contributes to the collaborative effort of all Australian audit offices by helping to develop responses to professional bodies on pronouncements exposed for comment. We have prepared or contributed to the following responses by the Australasian Council of Auditors-General and audit offices.

Title	Date
<b>AASB – Australian Accounting Standards Board</b>	
Exposure Draft ED 281 'Accounting Policies and Accounting Estimates – Proposed amendments to AASB 108'	17 November 2017
Exposure Draft ED 282 'Definition of Material - Proposed amendments to AASB 101 and AASB 108'	17 November 2017
Invitation to Comment 37 'The AASB's Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities'	17 January 2018
Discussion Paper 'Australian specific Insurance Issues – Regulatory Disclosures and Public Sector Entities'	28 February 2018
Exposure Draft ED 283 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors'[1]	29 March 2018
Exposure Draft ED 284 'Recent Standards – Reduced Disclosure Requirements'	29 March 2018
Exposure Draft ED 285 'Accounting Policy Changes – Proposed amendments to AASB 108'	29 June 2018
<b>IASB – International Accounting Standards Board</b>	
Discussion Paper DP/2017/1 'Disclosure Initiative – Principles of Disclosure'	6 October 2017
Exposure Draft ED/2017/5 'Accounting Policies and Accounting Estimates - Proposed amendments to IAS 8'	17 November 2017
Exposure Draft ED/2017/6 'Definition of Material - Proposed amendments to IAS 1 and IAS 8'	17 November 2017
Exposure Draft ED/2018/1 'Accounting Policy Changes – Proposed amendments to IAS 8'	29 June 2018
<b>AUASB – Auditing and Assurance Standards Board</b>	
Exposure Draft 01/17 'Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements'	21 July 2017
<b>IAASB – International Auditing and Assurance Standards Board</b>	
Exposure Draft, 'Proposed ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures'	31 July 2017
<b>IPSASB – International Public Sector Accounting Standards Board</b>	
Consultation Paper: 'Financial Reporting for Heritage in the Public Sector'	2 October 2017
Consultation Paper 'Accounting for Revenue and Non-Exchange Expenses'	19 January 2018
Exposure Draft ED 63 'Social Benefits'	29 March 2018
IPSASB Consultation Document 'IPSASB Proposed Strategy and Work Plan 2019-2023'	25 May 2018
<b>Other</b>	
'Review of Australian Charities and Not-for-profits Commission (ACNC) legislation'	28 February 2018

# Services to the profession

## 4 Appendix four (continued)

### Presentations

Audit Office staff gave the following presentations to various professional auditing and accounting, and other audiences.

Title	Presenter(s)	Date	Who
External Audit and the Local Government Act	Carolyn Karakatsanis Bola Oyetunji	24 August 2017	2017 Statewide Mutual Risk Management Conference – 'The Value of Risk'
From Poacher to Gamekeeper	Margaret Crawford	27 August 2017	Melbourne University, Professional Practice in Policy
Corporate Governance and the NSW Public Sector	Ian Goodwin	28 September 2017	CPA Australia
Leadership Reflections	Margaret Crawford	19 October 2017	Jeff Whalan Learning Group – Birch Executive Learning Group
Women in Government	Margaret Crawford	13 March 2018	Women in Government Dinner, Minter Ellison
The New Chinese	Barry Li	14 March 2018	University of Technology Sydney, Australia-China Research Institute History Series, 'The New Chinese'
Closing Presentation	Margaret Crawford	20 March 2018	IMPACT 2018 Conference
Keynote Address – IMPACT Conference Update	Margaret Crawford	10 April 2018	ACAG/CCOLA Performance Audit Symposium
IMPACT Conference Overview	Margaret Crawford	10 April 2018	Canadian Council of Legislative Auditors
Working in Professions	Marco Monaco	14 May 2018	Finance students and academics from Western Sydney University
Women in Accounting and Finance Leadership – Challenges and Expectations	Alison Gatt	22 May 2018	Chartered Accountants Australia and New Zealand, CFO Forum
Improving Fraud Control Processes for Local Government	Barry Underwood	23 May 2018	Minimising Corruption, Fraud and Misconduct Conference
Industry Briefing – Provision of External Audit Services	Margaret Crawford David Daniels Peter Coulogeorgiou	19 June 2018	External Accounting Firms
Introductory Comments and Presentation of Report of the Year Award	Margaret Crawford	20 June 2018	Australasian Reporting Awards
Presentation to Korean Delegation	Barry Underwood	20 June 2018	Korea Institute of Human Resource Development in Service and Technology (KIRD)



# Publications

## 5 Appendix five

### Financial audit reports

Report	Date released
Report on State Finances	24 October 2017
Report on Central Agencies	21 November 2017
Report on Justice 2017	28 November 2017
Report on Health 2017	5 December 2017
Report on Family and Community Services 2017	8 December 2017
Report on Industry 2017	12 December 2017
Report on Education 2017	14 December 2017
Report on Transport 2017	15 December 2017
Report on Planning and Environment 2017	19 December 2017
Report on Internal Controls and Governance 2017	20 December 2017
Report on Local Government 2017	20 April 2018
Report on Universities 2017 Audits	8 June 2018

### Performance audit reports

Agencies audited	Report	Date released
NSW Department of Education	ICT in schools for teaching and learning	6 July 2017
NSW Department of Planning and Environment	Office of Strategic Lands	10 August 2017
NSW Health	Planning and evaluating palliative care services in NSW	17 August 2017
NSW Department of Planning and Environment	Energy rebates for low income households	19 September 2017
NSW Department of Education	Sharing school and community facilities	1 November 2017
Department of Premier and Cabinet	Government Advertising: Campaigns from 2015-16 and 2016-17	2 November 2017
NSW Department of Justice		
Office of Local Government		
NSW Ambulance	Managing demand for ambulance services	13 December 2017
NSW Health		
Office of Local Government	Council reporting on service delivery	1 February 2018
NSW Department of Finance, Services & Innovation	Detecting and responding to cyber security incidents	2 March 2018
NSW Health	Managing risk in the NSW public sector: risk culture and capability	23 April 2018
NSW Treasury		
NSW Fair Trading		
NSW Police Force		
NSW Treasury Corporation		
NSW Department of Education	Grants to non-government schools	3 May 2018
Infrastructure NSW	Regional assistance programs	17 May 2018
Department of Premier and Cabinet		
Transport for NSW		
NSW Health	HealthRoster benefits realisation	7 June 2018
Office of Local Government	Shared services in local government	21 June 2018
Office of Local Government	Fraud controls in local councils	22 June 2018
Environment Protection Agency	Regulation of water pollution in drinking water catchments and illegal disposal of solid waste	28 June 2018



## Special reports

Agencies audited	Report	Date released
NSW Department of Finance, Services & Innovation NSW Health	Report on agency compliance with NSW Government travel policies	23 November 2017
NSW Department of Finance, Services & Innovation	Assessment of the use of a training program	27 June 2018
	Performance audit insights: Key findings from 2014–2018	29 June 2018

## Professional Update

Professional Update is produced by our Quality and Innovation group with the main purpose of informing our readers of current issues in the accounting and auditing industry.

Professional Update was published monthly in 2017 until November and has since moved to a quarterly publication in 2018. The following have been published in the financial year of 2017–18:

- July 2017
- August 2017
- September 2017
- October 2017
- November 2017
- March 2018
- June 2018.

## Annual Report

Annual Report 2016–17 published 11 September 2017.

Total external production costs for the Annual Report 2017–18: \$0



# Workforce diversity and disability inclusion action plan

## 6 Appendix six

### Trends in the representation of Workforce Diversity groups

	Benchmark/Target*	2014–15	2015–16	2016–17	2017–18
Workforce Diversity Group	%	% of total staff			
Women	50	50.2	49.3	52.5	52.6
Aboriginal people and Torres Strait Islanders	2.6	0	0	1.4	0.3
People whose first language spoken as a child was not English	19	40.4	38	50	47.4
People with a disability	n/a	2.7	2.5	2.5	1.7
People with a disability requiring work-related adjustment	1.5	2.0	1.8	1.4	1.4

### Trends in the distribution of Workforce Diversity groups

	Benchmark/Target*	2014–15	2015–16	2016–17	2017–18
Workforce Diversity Group	%	% of total staff			
Women	100	100	97	96	100
Aboriginal people and Torres Strait Islanders	100	n/a	0	n/a	n/a
People whose first language spoken as a child was not English	100	98	98	86	93
People with a disability	100	n/a	n/a	n/a	n/a
People with a disability requiring work-related adjustment	100	n/a	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 Workforce Diversity group across salary levels is equivalent to that of other staff. Values less than 100 mean that the Workforce Diversity 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 Workforce Diversity group is less concentrated at lower salary levels.

2. The Distribution Index is not calculated where Workforce Diversity group or non-Workforce Diversity group numbers are less than 20.

### Diversity Inclusion and Accessibility Framework

In 2017–18, we implemented the first year of our Diversity Inclusion and Accessibility Framework. This framework provides an overarching platform for the Audit Office to ensure meaningful employment opportunities to all employees regardless of culture, disability, gender or background. We are working towards breaking down any barriers that may exist and putting strong targets in place to allow us to build a stronger, more innovative workforce. The framework also incorporates our Disability Inclusion Action Plan.

Key achievements and planned activity under this framework can be found in the table below.

### 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 our support for cultural diversity. Our commitment is reflected in the number of racial, ethnic and ethno religious groups that comprise our staff.

Our Diversity Inclusion and Accessibility Framework provides a structure to assist us

in ensuring our people are representative of our community.

The framework includes initiatives across the Audit Office so that employees:

- are informed about diversity activities
- know their responsibilities and rights
- understand the Audit Office's commitment to diversity
- understand the legislation and/or associated requirements underlying diversity
- are supportive of and engaged with the Audit Office's diversity activities and events.



Focus Area	2017–18 Achievements	2018–19 Goals and Planned Activity
<b>Indigenous (Reconciliation)</b> Aims to address barriers that exist for Aboriginal and Torres Strait Islanders for employment with the Audit Office.	<ul style="list-style-type: none"> <li>Investigated practical initiatives for increasing the employment of Aboriginal and Torres Strait Islander people</li> <li>Year 2 of Indigenous internship program developed and implemented using the lessons learnt from Year 1, with one Indigenous intern employed</li> <li>Two Indigenous cultural awareness training sessions conducted</li> <li>Drafted Phase 1 (Reflect) of Reconciliation Action Plan (RAP)</li> <li>5 Indigenous applicants for our Graduate Program with one accepting our offer</li> <li>Using Indigenous catering provider.</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement Year 3 of Indigenous internship program</li> <li>Implement Phase 1 (Reflect) of Reconciliation Action Plan (RAP)</li> <li>Investigate Phase 2 (Innovate) of Reconciliation Action Plan (RAP)</li> <li>Continue to partner with Indigenous Accountants Australia.</li> </ul>
<b>Gender Equity</b> Aims to eliminate discrimination on the basis of gender and remove barriers to equal participation.	<ul style="list-style-type: none"> <li>Conducted gender pay gap analysis</li> <li>Conducted Women in Leadership focus groups</li> <li>Developed a Champions of Change for Gender Equity program.</li> <li>Continued our approach to championing flexible working practices</li> <li>Developed a Leadership Development Framework that has areas that focus on Women's Development</li> <li>Created a nursing/quiet room</li> <li>Using the 'if not, why not' motto – we advertised roles as supporting flexible working arrangements</li> <li>Tailored language in advertisements to attract female candidates</li> <li>Supported a number of International Women's Day events.</li> </ul>	<ul style="list-style-type: none"> <li>Implement our Leadership Development Framework with a focus on women's leadership</li> <li>Provide paternity leave support – prior, during and returning to work</li> <li>Continue to encourage women in leadership events</li> <li>Research and nominate women for leadership awards</li> <li>Implement the Champions of Change for Gender Equity program</li> <li>Continue to review and support flexible working options.</li> </ul>
<b>Disability and Inclusion</b> Aims to meet the needs of people with a disability and increase accessibility to information, services and the workplace.	<ul style="list-style-type: none"> <li>Applied the principles of universal design in the preliminary planning of our Future Workplace (office refit/move) Project</li> <li>Ensured all service information was available in accessible electronic formats</li> <li>Investigated training options for managers of staff with a disability</li> <li>Provided resources to managers of people with disability who required work adjustments.</li> </ul>	<ul style="list-style-type: none"> <li>Develop new website with AA web content compliance</li> <li>Apply the principle of universal design in our Future Workplace (office refit/move) Project</li> <li>Implement training for managers of staff with a disability</li> <li>Investigate and implement training solutions for staff with a disability</li> <li>Review job design of roles, recruitment practices and on-the-job support to potentially broaden participation of people with a disability.</li> </ul>
<b>Cultural Diversity</b> Aims for different cultures to respect each other's differences and to remove cultural barriers such as language and communication.	<ul style="list-style-type: none"> <li>Launched the 'Kaleidoscope' room (prayer/meditation/parenting)</li> <li>Regular intranet profiles of staff representing different cultural backgrounds</li> <li>Diversity statement included in all job advertisements</li> <li>Continued to build our diversity calendar</li> <li>Ensured all new and existing employees complete compulsory Respect and Diversity online learning</li> <li>Numerous diversity events.</li> </ul>	<ul style="list-style-type: none"> <li>Implement Online 'Cultural Competence' and 'Respect and Diversity' Programs</li> <li>Continue to develop a diversity calendar</li> <li>Develop a community services program.</li> </ul>



# 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
<b>All suppliers</b>					
September	1,916	–	–	–	–
December	178	–	–	–	–
March	417	–	–	–	–
June	861	–	–	–	–
<b>Small business suppliers</b>					
September	9	–	–	–	–
December	239	–	–	–	–
March	35	–	–	–	–
June	18	–	–	–	–

### Accounts due or paid within each quarter

Measure	September	December	March	June
<b>All suppliers</b>				
Number of accounts due for payment	1,645	747	698	939
Number of accounts paid on time	1,639	744	690	923
Actual percentage of accounts paid on time (based on number of accounts)	99.6%	99.6%	98.9%	98.3%
Dollar amount of accounts due for payment	\$8,762,581	\$8,093,733	\$5,582,749	\$8,057,154
Dollar amount of accounts paid on time	\$8,406,911	\$8,045,143	\$5,567,415	\$7,976,315
Actual percentage of accounts paid on time (based on \$)	95.9%	99.4%	99.7%	99.0%
Number of payments for interest on overdue accounts	–	–	–	–
Interest paid on overdue accounts	–	–	–	–
<b>Small business suppliers</b>				
Number of accounts due for payment to small businesses	17	15	8	15
Number of accounts due to small businesses paid on time	13	14	8	14
Actual percentage of small business accounts paid on time (based on number of accounts)	76.5%	93.3%	100%	93.3%
Dollar amount of accounts due for payment to small businesses	\$179,684	\$142,740	\$52,768	\$63,650
Dollar amount of accounts due to small businesses paid on time	\$90,384	\$100,021	\$52,768	\$42,750
Actual percentage of small business accounts paid on time (based on \$)	50.3%	70.1%	100%	67.2%
Number of payments to small business for interest on overdue accounts	–	–	–	1
Interest paid to small businesses on overdue accounts	–	–	–	\$20

### Commentary

During the year we paid almost all of our accounts on time, exceeding our target of 90 per cent for the year.

### Interest on late payments

We paid interest to one small business for an overdue payment, compared to nil in 2016–17.

### Purchasing Card Certification

The Purchasing Card Policy was last reviewed and updated in April 2018 and is considered current. The policy and controls are consistent with government policy as outlined in Treasurer's Directions and NSW Treasury Circulars.



# 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. Audit Office consultancy expenses for 2017–18 were \$293,946, compared to \$603,191 in 2016–17.

Consultant	Nature of service	Amount \$
<b>Contracts \$50,000 or more</b>		
Deloitte	Audit innovation maturity assessment and roadmap	80,000
Hivint Pty Ltd	Conduct a cyber security maturity review	68,000
Grisard Consulting	Develop a workforce strategy	52,101
<b>Total</b>	<b>(3 contracts)</b>	<b>200,101</b>
<b>Contracts less than \$50,000 (total)</b>		
	<b>(4 contracts)</b>	<b>93,845</b>
<b>Total expenditure for 2017–18*</b>		<b>293,946</b>

\*This table excludes the engagement of audit service providers and firms/individuals whom the Audit Office engaged to provide assistance on financial and performance audits.



# Internal audit and risk management attestation

## 9 Appendix nine

### Internal Audit and Risk Management Attestation Statement for the 2017–18 Financial Year for the Audit Office of New South Wales

I, Margaret Crawford, am of the opinion that the Audit Office of New South Wales has internal audit and risk management processes in operation that are compliant with the eight (8) core requirements set out in the Internal Audit and Risk Management Policy for the NSW Public Sector, specifically:

Core requirements	Compliant or non-compliant
<b>Risk Management Framework</b>	
1.1 The agency head is ultimately responsible and accountable for risk management in the agency.	Compliant
1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2018.	Compliant
<b>Internal Audit Function</b>	
2.1 An internal audit function has been established and maintained.	Compliant
2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing.	Compliant
2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'.	Compliant
<b>Audit and Risk Committee</b>	
3.1 An independent Audit and Risk Committee with appropriate expertise has been established.	Compliant
3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations.	Compliant
3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'.	Compliant

### Membership

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

- Independent Chair, Dianne Hill, appointed 29 August 2013, (appointed as Chair from 12 December 2016) with term ending on 28 August 2021.
- Independent Member, Greg Fletcher, appointed 4 December 2009 and re-appointed for a final four-year term that ended on 3 December 2017.
- Independent Member, Bruce Turner, appointed 17 February 2017 for a four-year term, ending on 16 February 2021.
- Independent Member, John Gordon, appointed 1 November 2017 for a three-year term, ending on 16 February 2021.



Margaret Crawford  
Auditor-General  
23 August 2018

## 10 Appendix ten

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### Digital Information Security Annual Attestation Statement for the 2017–18 Financial Year for the Audit Office of New South Wales

I, Margaret Crawford, am of the opinion that the Audit Office of New South Wales had an Information Security Management System in place during the 2017-2018 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 2017- 2018 financial year.



Margaret Crawford  
Auditor-General  
5 July 2018

# Transparency reporting

## 11 Appendix eleven

Prescribed information*	Coverage in annual report
Description of the auditor's legal structure and ownership	The 'Our organisation' section details our legislative framework. Refer to page 2.
Description of the auditor's governance structure	The 'Structured to add value' section details our governance structure. Refer to page 55.
Description of the auditor's internal quality control system in the reporting year	The 'Independent assurance and corporate reporting' section details our internal quality assurance program and internal audit and quality assurance arrangements. Refer to pages 59 and 60.
Statement on the effectiveness of the auditor's internal quality control system in the reporting year	The 'Independent assurance and corporate reporting' section includes the Auditor-General's statement on the effectiveness of our internal quality assurance program in 2017–18. Refer to pages 59 and 60.
The name of each body that is authorised to review the auditor, and the date of the most recent review of the auditor conducted by each body	The 'Independent assurance and corporate reporting' section details the bodies that are authorised to review our work and external reviews conducted. Refer to pages 59 and 60.
The names of the bodies for which the auditor conducted an audit in the reporting year	Appendix 2 details all entities audited during 2017–18. Refer to pages 100–104.
Statement about the auditor's independence practices in the reporting year, including the date on which the auditor most recently conducted an internal review of its independence compliance	The 'Independent assurance and corporate reporting' section details our independence practices. Refer to pages 59 and 60.
Statement about the policy that the auditor follows regarding the amount and nature of professional education that members of an audit team must undertake during the reporting year	The 'Professional development' section details our technical development for audit professionals. Refer to page 43.
Financial information for the auditor for the reporting year	The 'Finances' section details our financial results. Refer to pages 65 and 66. For our audited financial statements, refer to pages 69 to 97.
Information on the basis for remuneration of the auditor's senior managers	Appendix 1 details our senior executive and leadership remuneration. Refer to page 99.

\*Based on Schedule 7A of the Corporations Regulations 2001.

# GIPA application information

## 12 Appendix twelve

Commentary on applications for information under the Government Information (Public Access) Act 2009 (the GIPA Act) can be found on page 58.

**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	1	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	0	0	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	0	0	0	0	1	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	1
Invalid applications that subsequently became valid applications	0



# GIPA application information

## 12 Appendix twelve (continued)

**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	1
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 was 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)	1*
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
<b>Total</b>	<b>1</b>

\* The application was determined to be invalid within the statutory timeframe (5 days)

**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
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* The Information Commissioner does not have the authority to vary decisions, but can make recommendations 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

## 13 Appendix thirteen

Commentary on public interest disclosures and the *Public Interest Disclosures Act 1994* can be found on page 62.

### Statistical information on Public Interest Disclosures (PIDs) for the period 1 July 2017 to 30 June 2018

	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	1	–	4	–	–	–	–	–	9	–	–	–	–	–	–	–	–	14
Number of PIDs made directly to your investigating authority	1	–	4	–	–	–	–	–	9	–	–	–	–	–	–	–	–	14
Number of PIDs received by your investigating authority under section 25 of the PID Act	–	–	–	–	–	–	–	–	3	–	–	–	–	–	–	–	–	3
Number of PIDs received by your investigating authority under section 26 of the PID Act	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>Total number of PIDs</b>	1	–	4	–	–	–	–	–	12	–	–	–	–	–	–	–	–	17

	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	4	–	–	–	–	–	2	–	–	–	–	–	–	–	–	6	–	–
Number of PIDs handled solely by your investigating authority	–	–	–	–	–	–	11	–	–	–	–	–	–	–	–	11	–	–
Number of PIDs handled with a public authority	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Number of PIDs handled with another investigating authority	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
<b>Total number of PIDs</b>	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	17	–	–

Number of PIDs handled by commencing a formal investigation	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Number of PIDs finalised in 2017–18	3	–	–	–	–	–	15	–	–	–	–	–	–	–	–	18	–	–



# Glossary

---

## **Audit evidence**

Audit evidence supports the completeness and accuracy of the financial statements.

Main sources of audit evidence are:

observation, re-performance, and examination of documents (including confirmation with third parties) in combination with enquiry and analytical procedures.

## **Audit methodology**

A set of documented processes and procedures that provide evidence the audit team has appropriately addressed the risk of material misstatement in financial statements and comply with Australian Auditing Standards.

## **Audit and Risk Committee**

Provides the Auditor-General with reasonable assurance that the Audit Office has appropriate risk management, organisational processes and controls and reliable financial reporting processes.

## **Audit Service Provider**

Provides services to the Auditor-General and the Audit Office in relation to the undertaking of financial audits of state entities, local government and/or universities.

## **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 (the investor) is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

## **CPA**

The accounting body CPA Australia. Members are Certified Practising Accountants.

## **CA ANZ**

The accounting body Chartered Accountants Australia and New Zealand. Members are Chartered Accountants.

## **Internal audit**

Independent, objective assurance designed to add value and improve an organisation's operations.

## **Internal control framework**

An integrated set of policies and procedures designed to help management achieve its goals and objectives.

## **Management letter**

Letter sent to clients outlining observations from the audit, their possible implications, audit recommendations to address the finding and management responses.

## **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 how risks identified by a risk assessment process will be managed and controlled.



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