audit**office**
OF NEW SOUTH WALES

Justice 2018

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT   FINANCIAL AUDIT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

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

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

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

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

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

GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 52A of the *Public Finance and Audit Act 1983*, I present a report titled '**Justice 2018'.**

Margaret Crawford
Auditor-General
22 November 2018

auditoffice
OF NEW SOUTH WALES

audit.nsw.gov.au

contents

Justice 2018

Section one

Justice 2018

This report analyses the results of our audits of the Justice cluster agencies for the year ended 30 June 2018.

Executive summary

This report analyses the results of the financial statement audits of the Justice cluster for the year ended 30 June 2018. The table below summarises our key observations.

1. Financial reporting

Financial reporting	Unqualified audit opinions were issued for all agencies' 30 June 2018 financial statements.
Early close procedures	Early close procedures continue to facilitate the timely preparation of financial statements and completion of audits. Agencies can improve the effectiveness of early close procedures by completing revaluations earlier.
NSW Police Force Death and Disability Scheme	The cost of the NSW Police Blue Ribbon Insurance Scheme remains above the statutory target of 4.6 per cent. **Recommendation:** NSW Police should estimate the cost of its Blue Ribbon Insurance Scheme for future years, to understand when the statutory target of 4.6 per cent of total NSW Police Officers' remuneration, will be met.
Fire and Rescue Death and Disability Scheme	The Fire and Rescue Death and Disability Scheme liability was $184 million at 30 June 2018. Fire and Rescue NSW project the liability could reach $257 million by 30 June 2022.
Demand funding model	Funding in the criminal and civil justice system is determined in advance through the annual appropriation process. This does not always reflect required expenditure, which is driven by the level of activity. To help address this issue, a new demand funding model for the criminal and civil justice systems is being considered by various agencies from across the cluster in conjunction with NSW Treasury.
Managing annual leave	Reducing annual leave to meet the state target continues to be challenging, with more than one third of employees having balances above the target. Almost 4,700 or 11.6 per cent of employees took little or no annual leave during 2017–18. **Recommendation (repeat issue):** Cluster agencies with annual leave balances exceeding the state's target should review their approach to managing leave balances. They should: • regularly (e.g. each month) project annual leave balances to the end of the financial year, and • for employees with projected balances above target, develop and agree leave plans to reduce their balances over an acceptable timeframe. Focus should be given to employees who have taken little or no leave in the last 12 months.
NSW Police Force workplace injuries	Lost hours due to workplace injuries in NSW Police continue to increase. NSW Police data shows frontline staff took workplace injury leave of 71.3 hours per full time employee in 2017–18, an increase of 32.8 per cent over the last four years.

2. Audit observations

|	
Internal controls and governance	The number of internal controls or governance related issues reported to management and those charged with governance increased to 116 (94 in 2016–17).
	One in three of these were repeat findings from the previous year.
	Recommendation: Audit Office management letter recommendations to address internal control and governance weaknesses should be actioned promptly, with a focus on addressing repeat issues.
Rectification of identified control issues	The Department of Justice continues to resolve IT, payroll and general finance related issues resulting from the implementation of the interrelated Justice SAP and Business Support Centre (BSC) projects in 2016–17. Collectively these issues pose a high risk to the Department's overall control environment. However, individually they are rated as low or moderate risk.
	The Department provides financial, human resources and IT services to other independently governed agencies within the cluster. The internal control environment at these agencies is similarly impacted by the Department's Justice SAP and BSC issues.
Departments valuation of land and buildings	The Department did not complete its asset revaluation before the early close deadline as it received an exemption from NSW Treasury.
	The revaluation results were not robustly reviewed before inclusion in the financial statements. This led to the identification of a $82.7 million audit adjustment relating to finance lease assets which was corrected in the Department's 30 June 2018 financial statements.
	Recommendation: Revaluations should be performed early and completed by the early close procedures deadline. The Department should quality review the revaluation results before including them in the financial statements.
Delays in project implementation	The Department spent $671 million on capital projects in 2017–18, which was $905 million or 57.4 per cent less than budget.
	NSW Police spent $69.0 million or 28.3 per cent less than planned on capital projects. Eleven projects experienced delays in completion ranging from one to six years.
Backlog maintenance	Total backlog maintenance in the Justice cluster is unknown because some agencies assess backlog maintenance, while others do not.
	Recommendation: Cluster agencies should complete a condition based assessment of their assets to identify any maintenance backlog. This will help the cluster provide more reliable and consistent information on assets and their condition.
Maintenance benchmarks	Justice cluster agencies we reviewed do not benchmark the adequacy of their maintenance spend.
	Recommendation: Cluster agencies should consider establishing benchmarks to help assess the adequacy of their maintenance spend.

1. Introduction

This report provides parliament and other users of the Justice cluster agencies' financial statements with the results of our audits, including our observations, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations
- service delivery.

The Justice cluster delivers legal, law enforcement and emergency services across the state and plays the lead role in commemorating the legacy of servicemen and women.

The commentary in this report covers the following cluster agencies.
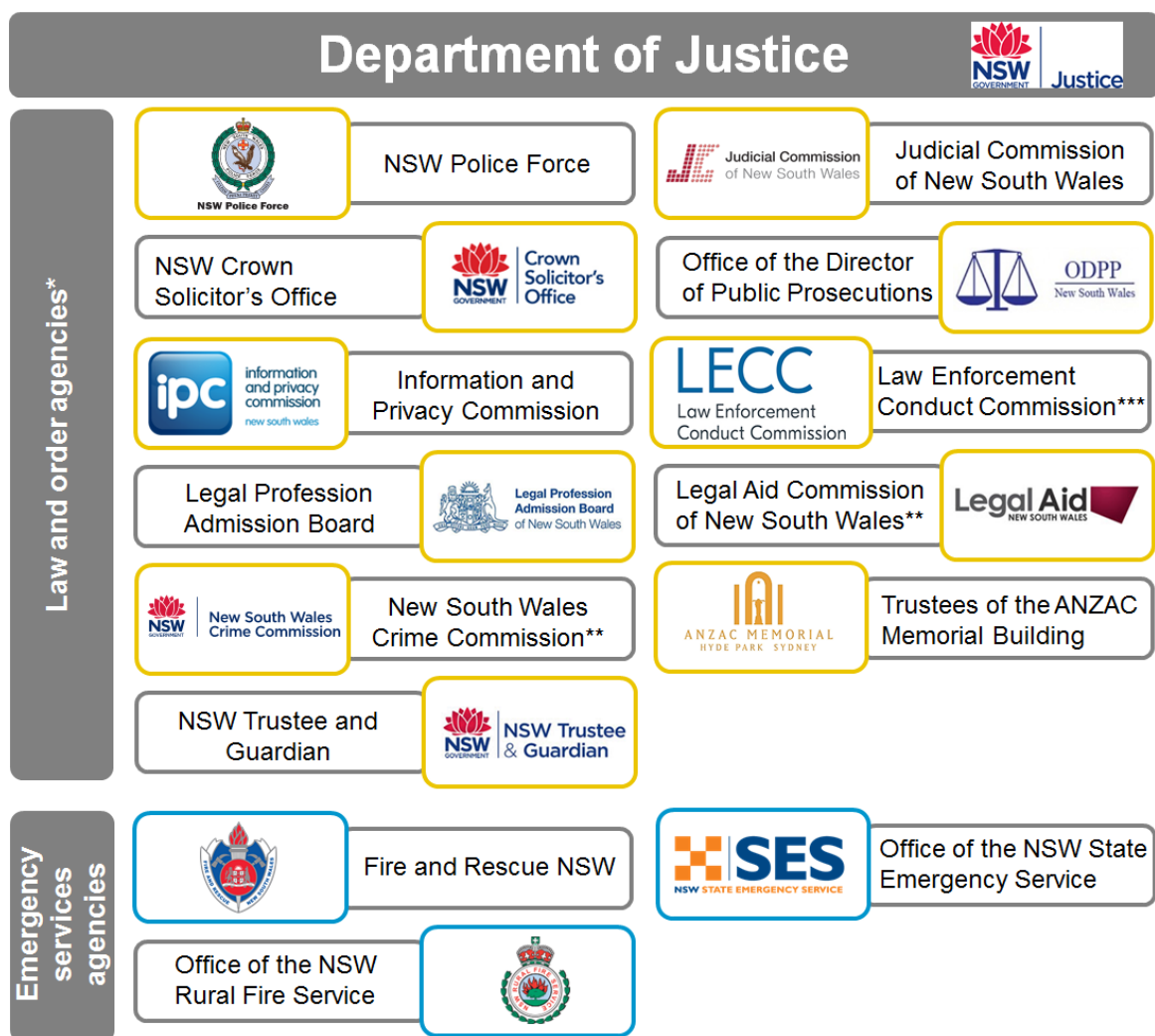
*   The law and order agencies comprise all Justice cluster agencies other than those in the emergency services group.
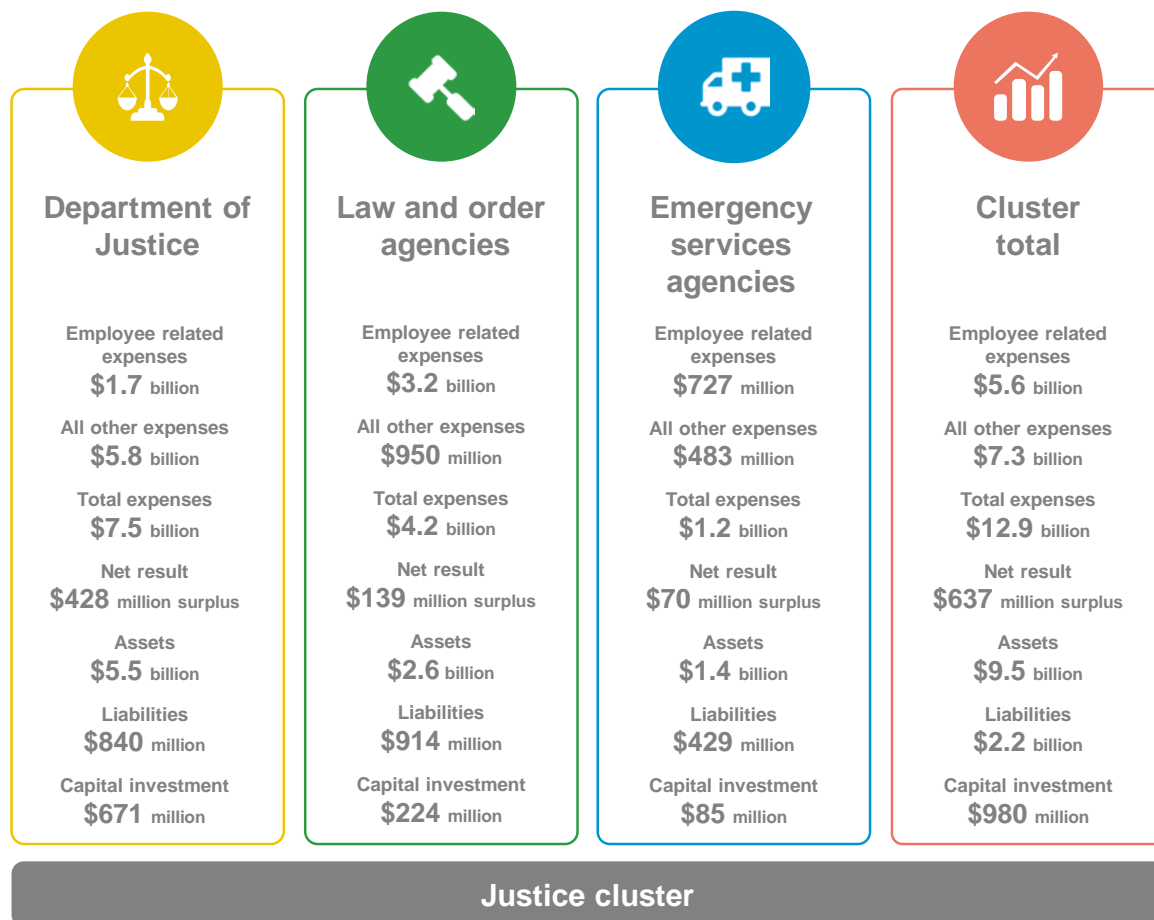
**   Refers to the consolidated entity.

***   The Law Enforcement Conduct Commission was established on 1 July 2017. It was previously known as the Police Integrity Commission.

The Department of Justice (the Department) is the lead agency in the cluster.

1.1 Snapshot of the cluster

The financial results of the Justice cluster for the year ended 30 June 2018 are shown below.

Department of Justice	**Law and order agencies**	**Emergency services agencies**	**Cluster total**
Employee related expenses **$1.7** billion	Employee related expenses **$3.2** billion	Employee related expenses **$727** million	Employee related expenses **$5.6** billion
All other expenses **$5.8** billion	All other expenses **$950** million	All other expenses **$483** million	All other expenses **$7.3** billion
Total expenses **$7.5** billion	Total expenses **$4.2** billion	Total expenses **$1.2** billion	Total expenses **$12.9** billion
Net result **$428** million surplus	Net result **$139** million surplus	Net result **$70** million surplus	Net result **$637** million surplus
Assets **$5.5** billion	Assets **$2.6** billion	Assets **$1.4** billion	Assets **$9.5** billion
Liabilities **$840** million	Liabilities **$914** million	Liabilities **$429** million	Liabilities **$2.2** billion
Capital investment **$671** million	Capital investment **$224** million	Capital investment **$85** million	Capital investment **$980** million

Justice cluster

Source: Agencies financial statements (audited).

1.2 Changes to the cluster

The Justice cluster was impacted by machinery-of-government changes set out in the 'Administrative Arrangements (Administrative Changes - Law Enforcement Conduct Commission) Order 2017'. The Order created the Law Enforcement Conduct Commission effective from 1 July 2017. The Order disbanded the Police Integrity Commission.

⊟ 2. Financial reporting

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

This chapter outlines our audit observations, conclusions and recommendations related to the financial reporting of agencies in the Justice cluster for 2018.

Observation	Conclusions and recommendations
2.1 Quality of financial reporting	
Unqualified audit opinions were issued for all agencies' 30 June 2018 financial statements.	Unqualified audit opinions were issued for all agencies' 30 June 2018 financial statements. However, further actions can be taken by some cluster agencies to enhance quality financial reporting.
2.2 Timeliness of financial reporting	
Mandatory early close procedures were largely completed and all financial statements were submitted and audited within statutory timeframes.	Early close procedures continue to facilitate the timely preparation of financial statements and completion of audits. Agencies can improve the effectiveness of early close procedures by completing revaluations earlier.
2.3 Death and disability schemes	
The cost of the NSW Police Blue Ribbon Insurance Scheme decreased to 5.3 per cent of total NSW Police Officers' remuneration in 2017–18, but remains above the statutory target of 4.6 per cent.	**Recommendation:** NSW Police should estimate the cost of its Blue Ribbon Insurance Scheme for future years, to understand when the statutory target of 4.6 per cent of total NSW Police Officers' remuneration, will be met.
The Fire and Rescue NSW Death and Disability Scheme liability has doubled over the past six years.	The Scheme's liability was $184 million at 30 June 2018, double the $92 million recorded at 30 June 2013. Fire and Rescue NSW projections show the liability could increase to $257 million by 30 June 2022.
2.5 Financial sustainability	
Funding in the criminal and civil justice system is determined in advance through the annual appropriation process. This does not always reflect required expenditure, which is driven by the level of activity.	Various agencies from across the cluster in conjunction with NSW Treasury have commenced work on a new demand funding model for the criminal and civil justice systems.

Observation	Conclusions and recommendations

2.6 Human resources

More than a third of Justice cluster employees continue to have annual leave balances above the state's target. **Almost 4,700 employees took little or no annual leave during 2017–18 compared to 4,394 in the prior year.**	**Recommendation (repeat issue):** Cluster agencies with annual leave balances exceeding the state's target should review their approach to managing leave balances. They should: • regularly (e.g. each month) project annual leave balances to the end of the financial year, and • for employees with projected balances above target, develop and agree leave plans to reduce their balances over an acceptable timeframe. Focus should be given to employees who have taken little or no leave in the last 12 months.

2.7 Workplace Health and Safety

Lost hours due to workplace injuries in NSW Police continue to increase.	NSW Police data shows frontline staff recorded average workplace injury leave of 71.3 hours per full time employee in 2017–18, an increase of 17.6 hours over the last four years. NSW Police attribute the rising injury leave to an ageing workforce.

2.1   Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued for all agencies' financial statements

Unqualified audit opinions were issued for all agencies' 30 June 2018 financial statements. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement. However, there were several changes to some cluster agencies financial statements initially submitted to the Auditor-General for audit.

2.2   Timeliness of financial reporting

All financial statements were submitted and audits completed by statutory deadlines

The table below shows the timeliness of financial reporting across the Justice cluster for the year ending 30 June 2018.

Cluster agencies	Timeliness of financial reporting		
	Early close procedures	**Financial statements**	**Audit report**
Principal department			
Department of Justice*	✅	✅	✅
Law and order agencies			
NSW Police Force	✅	✅	✅
Legal Aid Commission of New South Wales	✅	✅	✅
Office of the Director of Public Prosecutions	✅	✅	✅
Judicial Commission of New South Wales	✅	✅	✅
Legal Profession Admission Board	✅	✅	✅

Cluster agencies	Timeliness of financial reporting		
	Early close procedures	Financial statements	Audit report
Crown Solicitor's Office	✅	✅	✅
Information and Privacy Commission	✅	✅	✅
NSW Trustee and Guardian	✅	✅	✅
New South Wales Crime Commission	✅	✅	✅
Law Enforcement Conduct Commission	✅	✅	✅
Trustees of the Anzac Memorial Building	✅	✅	✅
Emergency services agencies			
Fire and Rescue NSW	✅	✅	✅
Office of the NSW Rural Fire Service	✅	✅	✅
Office of the NSW State Emergency Service	✅	✅	✅

Key ✅ Statutory reporting deadline was met   ❗ Statutory reporting deadline was not met

* NSW Treasury exempted the Department from completing its property, plant and equipment revaluation as part of the early close procedures. The exemption was granted on the basis the Department required additional time to review the valuation results relating to Corrective Services' properties.

All cluster agencies' financial statements were submitted and audits completed by the statutory deadlines.

Cluster agencies would benefit from completing additional early close procedures

Justice cluster agencies substantially complied with the mandatory early close requirements set by NSW Treasury. Some agencies can improve the effectiveness of early close procedures by:

- completing revaluations of property, plant and equipment during the early close process
- reconciling inter-agency balances and transactions with other government agencies
- assessing the impact of new and revised accounting standards.

NSW Treasury exempted the Department from completing its property, plant and equipment revaluation as part of the early close on the basis the Department required additional time to review the valuation results relating to Corrective Services' properties.

Early close procedures aim to bring forward year-end activities, such as valuing assets and resolving financial reporting issues, to reduce reporting timeframes and improve quality.

2.3   Financial performance key issues

Law and order

Department of Justice

Restitution debts recovered from convicted criminals have increased by $7.0 million

The Department reports that in 2017–18 they issued 1,262 restitution orders with a value of $9.5 million and recovered $10.8 million from convicted offenders. The amount recovered was $7.0 million more when compared to the prior year. Over the last five years, restitution orders of $61.1 million have been issued compared to recoveries of $28.6 million, implying a recovery rate of 47 per cent of recognised debts (up from 30 per cent in 2016–17).

The table below shows the value of restitution debts raised and the recoveries from offenders over the last five years.

Restitution recoveries from offenders

Year ended 30 June	2018	2017	2016	2015	2014
Restitution recovered from convicted offenders ($m)^	10.8	3.8	4.4	4.9	4.7
Number of new restitution debts raised<	1,262	1,711	1,383	1,220	1,388
Value of new debts raised ($m)^	9.5	12.4	11.3	12.5	15.4
Restitution debts written-off ($m)*	--	--	--	--	43

* Note: Debts are written-off in accordance with Section 17 of the *Limitation Act 1969*, which limits enforcement of judgement debts to 12 years after the judgement.

Source:

^ Department of Justice financial statements (audited).

< Department of Justice (unaudited).

The Department advises the increase in the recovery of restitution debts in 2017–18 is due to recent amendments to the *Fines Act 1996* and *Victims Rights and Support Act 2013,* where restitution debts can now be enforced as court fines. From May 2017, all default restitution debts are transferred to Revenue NSW for enforcement. This function was previously performed by the Department.

The Department also advises the decrease in value of new debts raised since 2014 is consistent with the decrease in amount of financial support available to victims of crime under the *Victims Rights and Support Act 2013.* Prior to the introduction of this Act the amounts awarded were larger in value.

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

The victims' claims reassessment scheme cost more than $100 million

On 2 August 2015, the NSW Attorney General announced that victims of crime, who transitioned between the Victims Compensation Scheme (VCS) and the Victims Support Scheme (VSS), could have their claims reassessed from 1 September 2015. Applicants had to apply to have claims reassessed before 31 August 2016. The Department received 10,039 applications for reassessment, of which it awarded 2,356 claims in 2017–18 (2,957 claims in 2016–17) at a cost of $25.8 million ($39.3 million in 2016–17). Over the life of the scheme, $80.6 million or 6,182 claims were awarded. An additional $21.0 million was incurred in administration costs. The Department advises all applications are now assessed and all claims determined and paid.

The NSW Police Force

The cost of the NSW Police Force Blue Ribbon Insurance Scheme decreased but remains above the statutory target
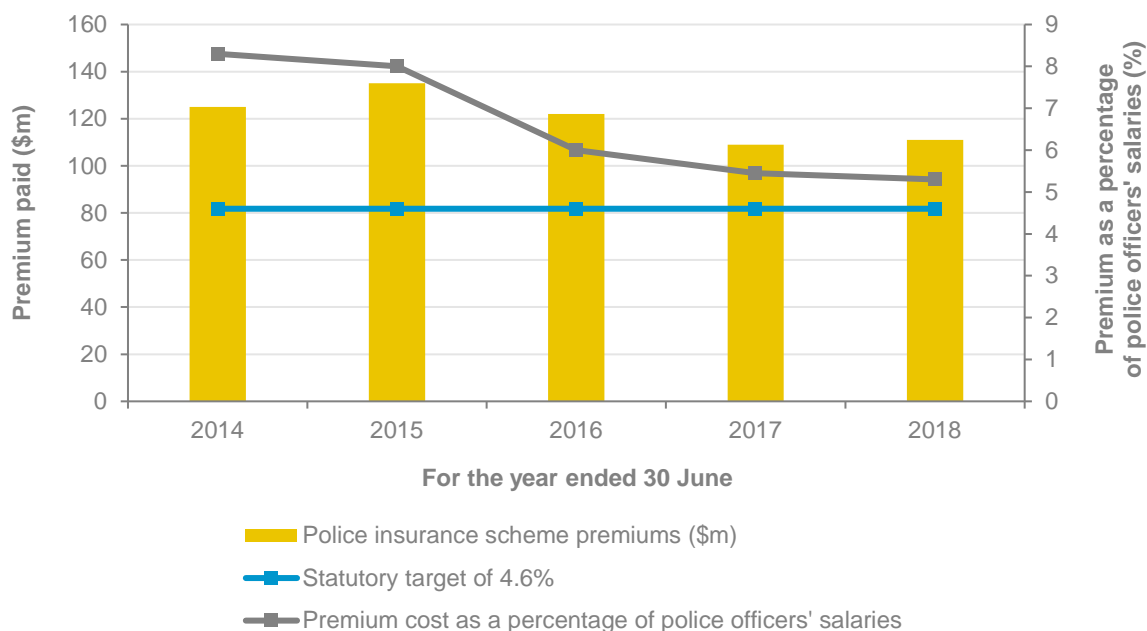
NSW Police data shows the cost of the NSW Police Death and Disability Insurance Scheme (Police Blue Ribbon Scheme) for the year ended 30 June 2018 was 5.3 per cent of total NSW Police Officers' remuneration (5.5 per cent in 2017). This cost remains higher than the statutory target of 4.6 per cent but is lower than the previous year.

The cost of the Police Blue Ribbon Scheme premium increased by 1.8 per cent to $111 million in 2017–18 ($109 million in 2016–17). The increase is due to higher employee costs during the year offset by a slightly lower premium of 7.1 per cent (7.3 per cent in 2016–17).

We recommend NSW Police estimate the scheme costs for future years, to understand when the statutory target of 4.6 per cent of total NSW Police Officers' remuneration, will be met. This information will allow NSW Police to assess the success of its current workforce improvement program and determine whether future program effort needs to be reviewed.

Performance of insurance premium paid against statutory target

For the year ended 30 June

- Police insurance scheme premiums ($m)
- Statutory target of 4.6%
- Premium cost as a percentage of police officers' salaries

Source: NSW Police Force financial statements (audited).

Monitoring the performance of the insurance scheme is important to ensure premiums are kept at a reasonable level and NSW Police can budget to meet the costs. In 2011, a statutory target was determined which requires the cost of the Blue Ribbon Scheme to fall below 4.6 per cent of NSW Police Officers' remuneration.

NSW Police continued its Workforce Improvement program initiatives to prevent and manage worker injuries.

Emergency services
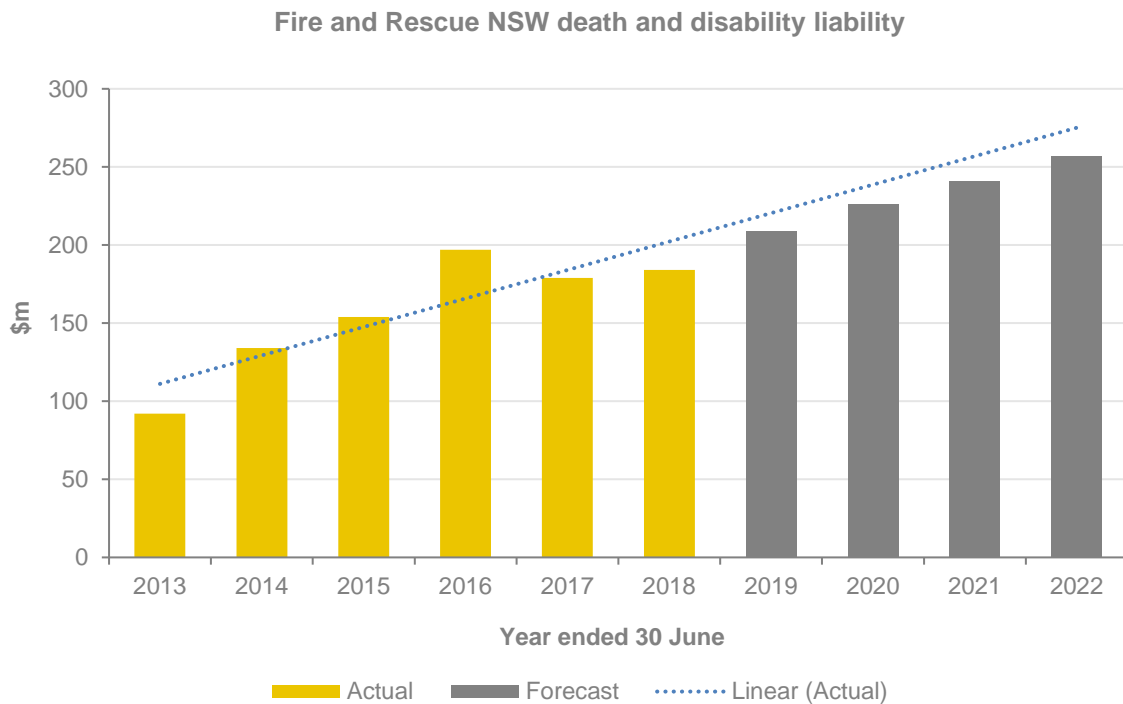
Fire and Rescue NSW Death and Disability Scheme

The death and disability liability has doubled over the past six years

The scheme liability was $184 million at 30 June 2018, double the $92.0 million recorded at 30 June 2013. Fire and Rescue NSW advise that the liability is projected to increase to $257 million by 30 June 2022.

The scheme liability is expected to increase each year as new claims are made and those claims result in pensions, which on average are payable for 15 years. Therefore, the cost of new claims incurred each year exceeds payments for existing claims.

Fire and Rescue NSW's projections over the next four years are shown in the following graph.

Fire and Rescue NSW death and disability liability

Note: The decrease in the liability from 2016 to 2017 is mainly due to a change in the discount rate.
Source: Fire and Rescue NSW (audited from 2013 to 2018 and unaudited from 2019 to 2022).

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

2.4   Key financial information

Cluster agencies recorded a $637 million operating surplus in 2017–18

Cluster agencies recorded a combined operating surplus of $637 million in 2017–18 ($662 million in 2016–17). The financial results included:

- a $567 million surplus ($615 million surplus in 2016–17) in law and order agencies, including the Department
- a $70.0 million surplus ($47.0 million surplus in 2016–17) in emergency services agencies.

Cluster revenue increased by $1.1 billion mainly due to higher government contributions. The Department's appropriations increased by $975 million for both recurrent and capital purposes, mainly to fund the ongoing prison bed capacity program and criminal justice reforms.

Expenditure in the cluster increased from $11.8 billion in 2016–17 to $12.9 billion in 2017–18 mainly due to:

- the Department receiving $1.1 billion in appropriations ($24.5 million in 2016–17) mainly relating to the Emergency Services Levy, which was subsequently passed on to emergency services agencies through grant and subsidy payments. In previous year's, emergency services agencies received this levy directly from local councils, insurance companies and NSW Treasury
- higher base salaries and wages expense of $141 million, due primarily to an increase in the number full time equivalent employees compared to the prior year
- increased natural disaster payments incurred by the Department of $53.9 million
- long service expenses at NSW Police increasing by $48.5 million, due to higher on-cost rates used in the actuarial assessment of long service leave liabilities compared to the prior year.

Expenditure in emergency services agencies rose by $24.0 million, because:

- Fire and Rescue NSW incurred additional costs of $11.6 million on the Death and Disability Scheme
- natural disaster payments at the Office of the NSW Rural Fire Service increased by $22.2 million.

Cluster assets increased from $8.8 billion at 30 June 2017 to $9.5 billion at 30 June 2018 due to a revaluation increase at NSW Police ($126.7 million) offset by a decrease at the Department ($59.5 million) and capital projects of $980 million, including the Department's prison bed capacity program. Total liabilities across the cluster remained steady increasing slightly from $2.1 billion at 30 June 2017 to $2.2 billion at 30 June 2018.

Appendix four summarises key financial information for each agency.

2.5 Financial sustainability

Salaries and wages and other expenditure continue to increase

Activity in the Justice cluster continues to increase, with base salaries and wages increasing by 3.4 per cent and other expenditure by 2.3 per cent compared to the prior year. While base salaries and wages increased by more than the 2.5 per cent pay increase received by Crown employees from 1 July 2017, overall employee related expenses across the cluster was within budget.

The table below shows base salaries and wages and other expenses of cluster agencies for the last three years and the movement between 2017 and 2018.

Cluster agencies	Salary and wages*				Other expenditure			
Year ended 30 June	2018	2017	2016	Movement 2017 to 2018	2018	2017	2016	Movement 2017 to 2018
	$'000	$'000	$'000	%	$'000	$'000	$'000	%
Principal department								
Department of Justice	1,368,942	1,321,375	1,232,764	3.6	1,194,600	1,171,614	1,235,699	2.0
Law and order agencies								
NSW Police Force	2,047,347	1,980,727	1,981,149	3.4	649,468	629,357	621,512	3.2
Legal Aid Commission of New South Wales**	106,329	99,148	92,534	7.2	191,038	180,637	166,724	5.8
Office of the Director of Public Prosecutions	95,517	88,939	80,460	7.4	35,626	31,182	28,466	14.3
Judicial Commission of New South Wales	3,954	3,981	3,867	(0.7)	2,217	1,675	1,464	32.4
Legal Profession Admission Board	1,140	1,244	1,167	(8.4)	894	944	755	(5.3)
Crown Solicitor's Office	34,086	32,996	31,512	3.3	14,260	11,900	10,836	19.8
Information and Privacy Commission	2,857	2,821	3,169	1.3	2,197	2,348	1,858	(6.4)
NSW Trustee and Guardian	41,712	43,209	52,789	(3.5)	28,094	29,611	26,451	(5.1)
New South Wales Crime Commission**	13,536	14,356	13,854	(5.7)	9,644	9,023	7,090	6.9
Law Enforcement Conduct Commission***	12,277	--	--	--	5,958	--	--	--
Police Integrity Commission***	--	8,879	10,389	--	--	5,825.0	4,182	--
Trustees of the Anzac Memorial Building	835	603	769	38.5	966	1,068	1,313	(9.6)
Total	**2,359,590**	**2,276,903**	**2,271,659**	**3.6**	**940,362**	**903,570**	**870,651**	**4.1**

Cluster agencies	Salary and wages*				Other expenditure			
Year ended 30 June	2018	2017	2016	Movement 2017 to 2018	2018	2017	2016	Movement 2017 to 2018
	$'000	$'000	$'000	%	$'000	$'000	$'000	%
Emergency services agencies								
Fire and Rescue NSW	435,435	427,880	414,996	1.8	155,874	156,341	148,386	(0.3)
Office of the NSW Rural Fire Service	88,971	85,349	81,111	4.2	264,387	255,002	229,415	3.7
Office of the NSW State Emergency Service	34,452	34,872	30,849	(1.2)	60,882	69,748	54,795	(12.7)
Total	**558,858**	**548,101**	**526,956**	**2.0**	**481,143**	**481,091**	**432,596**	**--**
Total for cluster	**4,287,390**	**4,146,379**	**4,031,379**	**3.4**	**2,616,105**	**2,556,275**	**2,538,946**	**2.3**

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

**   Refers to the consolidated entity.

***   The Law Enforcement Conduct Commission commenced on 1 July 2017. It replaced the former Police Integrity Commission. Also refers to the consolidated entity.

Source: Agencies financial statements (audited).

In response to the Department's prison bed capacity program and criminal justice reforms, staffing levels in the Department and the Legal Aid Commission of New South Wales have increased. Staffing levels at the Office of the Director of Public Prosecutions have also increased in response to the criminal justice reforms.

Salaries and wages continued to fall at NSW Trustee and Guardian as there have been redundancies over the past two years associated with operational changes. On average, the number of full time equivalent positions in the NSW Crime Commission was lower compared to the prior year following redundancies in 2016–17.

Staffing levels at the Office of the NSW Rural Fire Service increased when compared to the prior year. The increase in salary and wages was within the Office's approved budget.

NSW Police's salaries and wages for the year ended 30 June 2018 increased largely due to the 2.5 per cent pay increase awarded to Crown employees from 1 July 2017. NSW Police advise it undertook a major restructure throughout 2017–18, with amalgamations of Local Area of Commands, rank restructures and reviews of activities, which are likely to achieve annual savings in 2018–19 and forward years of $14.4 million.

'Other expenditure' increased at the Judicial Commission of New South Wales because its Conduct Division incurred costs of $531,000 investigating three complaints against judicial officers in 2017–18 (nil in 2016–17). At the Crown Solicitors Office, expenses increased due to a rise in the number of contract staff to support multiple accommodation and information technology initiatives.

A new demand funding model is being considered for the criminal and civil justice systems

The 2016 Auditor-General's Report to Parliament recommended that, in making decisions about Justice cluster resources, the Department should consider the activities of the interrelated components of the criminal justice system.

Funding in the criminal and civil justice system is determined in advance through the annual appropriation process. This does not always reflect required expenditure, which is driven by the level of activity. The actual costs incurred by downstream agencies are also heavily influenced by upstream factors such as policing activity and sentencing by judicial officers.

Where funding does not meet demand, added pressure is placed on downstream agencies which tend to respond by reducing non-core services to meet budget constraints.

The Department is addressing this issue by:

- working on a new demand funding model for the criminal and civil justice systems
- developing dashboards to track activity and performance across the cluster
- undertaking justice impact assessments to identify the system-wide impacts of new policy proposals
- building cost models for major functions across the cluster.

Work on the new funding model is being undertaken by various agencies from across the cluster in conjunction with NSW Treasury.

2.6 Human resources

Managing annual leave

More than a third of Justice cluster employees continue to have annual leave balances above the state's target

Reducing annual leave to meet the state target continues to be challenging for the Justice cluster. Justice cluster data shows at 30 June 2018, 14,746 (14,877 at 30 June 2017) or 36.6 per cent (37.6 per cent) of full time equivalent employees (FTE) had balances exceeding the state's target.

Front line staff in NSW Police and the Department represented 70.4 per cent of the cluster's leave balances which were above the state's target at 30 June 2018. The Department and NSW Police are the highest employers of frontline staff in the cluster.

The Corrective Services NSW division of the Department continues to be impacted by increasing inmate numbers in the NSW prison system. This reduces the opportunity for frontline staff to take annual leave.

Some employees accrue 20 days annual leave each year, while others are entitled to additional days. The higher entitlement recognises some staff need more leave due to the nature or location of their work.

The table below shows the number of employees with annual leave balances above the state's target, over a three-year period and the movement between 2017 and 2018.

Cluster agencies	Staff with annual leave >30 days	Staff with annual leave >30 days	Staff with annual leave >30 days	Staff numbers
Year ended 30 June	2018	2017	2016	Movement 2017 to 2018
Principal department				
Department of Justice	3,448	3,507	3,684	(59)
Law and order agencies				
NSW Police Force	7,989	8,438	8,904	(449)
Office of the Director of Public Prosecutions	125	120	158	5
NSW Trustee and Guardian	93	98	109	(5)
Legal Aid Commission of New South Wales	112	78	103	34
Crown Solicitor's Office	47	35	54	12
Other law and order agencies	13	22	21	(9)
Total	**8,379**	**8,791**	**9,349**	**(412)**

Cluster agencies	Staff with annual leave >30 days	Staff with annual leave >30 days	Staff with annual leave >30 days	Staff numbers
Year ended 30 June	**2018**	**2017**	**2016**	**Movement 2017 to 2018**
Emergency services agencies				
Fire and Rescue NSW	2,619	2,435	2,392	184
Office of the NSW Rural Fire Service	243	85	74	158
Office of the NSW State Emergency Service	57	59	24	(2)
Total	**2,919**	**2,579**	**2,490**	**340**
Total for cluster	**14,746**	**14,877**	**15,523**	**(131)**

Source: Provided by agencies (unaudited).

At 30 June 2018, Fire and Rescue NSW had the highest percentage of employees with balances exceeding the target (58.4 per cent), followed by NSW Police (39.7 per cent) and the Department (29.9 per cent).

The implications of excessive leave balances include:

- possible work health and safety issues
- disruptions to service delivery when key employees take lengthy periods of leave
- employee fraud remaining undetected
- an increasing financial liability over time as salaries increase.

Most cluster agencies report they monitor current and projected leave balances monthly. The 2017–18 audits identified some agencies where employees did not have formally documented leave plans to reduce balances to acceptable levels. We noted a greater proportion of employees with excess leave balances at these agencies.

Treasury Circular TC16/03 'Managing Accrued Recreation Leave Balances' requires agencies to manage accrued employee recreation leave balances to a maximum of 30 days or less on an ongoing basis, within the constraints of relevant industrial instruments and legislation.

Many employees took little or no annual leave during 2017–18

The number of cluster employees that took less than five days annual leave during the year increased from 4,394 in 2016–17 to 4,693 in 2017–18, an increase of 6.8 per cent. Last year's Auditor-General's Report to Parliament recommended cluster agencies monitor employees who have taken little or no leave in the last 12 months.

The health and wellbeing of staff can be adversely affected if staff do not take sufficient leave.

Sick leave

Sick leave taken by Justice cluster employees decreased by 1.8 per cent

Justice cluster data shows that sick leave across the cluster decreased by 1.8 per cent (1.3 hours) per FTE in 2017–18. The total cost of sick leave was $135 million in 2017–18 ($121 million in 2016–17).

Effectively managing sick leave is challenging for many agencies. Each FTE employee in the cluster took an average of 71.0 hours sick leave in 2017–18 (72.3 hours in 2016–17). This is more than the 2016–17 public sector average of 64.1 hours per FTE employee referred to in the Public Service Commission's 'State of the NSW Public Sector Report 2017'.

Sick leave taken by administrative staff at NSW Police and the Department increased

NSW Police data shows that sick leave taken by their administrative employees increased 10.4 per cent (7.4 hours) per FTE employee compared to the prior year.

Administrative employees' sick leave increased in the Department by 6.5 per cent (3.5 hours) over the same period.

The table below shows sick leave taken by administrative staff in the Department and NSW Police, which are the biggest employer agencies in the Justice cluster.

Average sick leave hours per FTE

Year ended 30 June	2018	2017	2016	2015
Department of Justice	57.7	54.2	62.8	53.4
NSW Police Force	78.5	71.1	65.9	70.0

Source: Provided by agencies (unaudited).

Sick leave taken by frontline staff in NSW Police increased by 7.1 per cent

NSW Police data shows that sick leave taken by their frontline staff increased by 7.1 per cent (4.3 hours) per FTE employee from the prior year.

Average sick leave hours per FTE

Year ended 30 June	2018	2017	2016	2015
Department of Justice	82.0	87.8	99.2	98.4
NSW Police Force	65.0	60.7	61.7	56.8

Source: Provided by agencies (unaudited).

Data from the Department shows sick leave taken by the Department's frontline staff, mainly custodial officers within the Corrective Services NSW and Juvenile Justice divisions, has decreased 16.7 per cent (16.4 hours) per FTE employee since 2015. However, in 2017–18 it was 27.9 per cent more than the 2016–17 public sector average of 64.1 hours.

Sick leave taken by employees at Fire and Rescue NSW decreased by more than 13 per cent, but remains above the public sector average

Emergency services data shows that in 2017–18, average sick leave rose by 11.5 per cent at the Office of the NSW Rural Fire Service, 13.3 per cent at the Office of the NSW State Emergency Service, but fell by 13.2 per cent at Fire and Rescue NSW. While average sick leave rose at the Office of the NSW Rural Fire Service and the Office of the NSW State Emergency Service, it remains below the 2016–17 public sector average of 64.1 hours.

On average emergency services employees took 9.0 hours less sick leave in 2017–18 than in the previous year. The average sick leave taken per FTE employee was 81.4 hours in 2017–18 (90.4 hours in 2016–17).

Average sick leave hours per FTE

Year ended 30 June	2018	2017	2016	2015
Fire and Rescue NSW	87.5	100.8	95.8	101.9
Office of the NSW Rural Fire Service	57.2	51.3	52.9	56.2
Office of the NSW State Emergency Service	63.8	56.3	54.9	53.4

Source: Provided by agencies (unaudited).

TC14/13 'Managing Sick Leave Policy' allows agencies to adopt a range of strategies that suit the workplace to help address genuine illness and sick leave abuse by employees. The strategies include:

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

2.7   Workplace Health and Safety

Workers' compensation claims in the cluster continue to rise

Justice cluster data shows agencies paid $234 million in workers compensation insurance premiums in 2017–18 ($234 million in 2016–17) despite the number of claims rising over the past three years.

Workers' compensation claims increased across the cluster by 225 claims (4.9 per cent) in 2017–18. The largest increase was at NSW Police where claims increased by 217 (7.1 per cent).

Number of workers' compensation claims

Year ended 30 June	2018	2017	2016
Principal department			
Department of Justice	733	697	686
Law and order agencies			
NSW Police Force	3,287	3,070	2,917
Other law and order agencies	33	43	21
Total	**3,320**	**3,113**	**2,938**

Number of workers' compensation claims

Year ended 30 June	2018	2017	2016
Emergency services agencies			
Fire and Rescue NSW	473	422	413
Office of the NSW Rural Fire Service*	211	263	248
Office of the NSW State Emergency Service**	90	107	119
Total	**774**	**792**	**780**
Total for cluster	**4,827**	**4,602**	**4,404**

* The number of workers' compensation claims include 155 claims relating to volunteer workers (214 claims in 2016–17 and 187 claims in 2015–16).

** The number of workers' compensation claims include 83 claims relating to volunteer workers (91 claims in 2016–17 and 109 claims in 2015–16).

Source: Provided by agencies (unaudited).

Employee injury rates in the Corrective Services NSW division, which includes prison officers, is the highest in the Department. The division's claims represent 74.8 per cent of all Department claims in 2017–18 (67.6 per cent in 2016–17). The most common cause of claims for prison officers is injuries sustained while forcefully dealing with and restraining inmates, during physical training exercises or while responding to incidents.

Workers' compensation claims for the Department

Year ended 30 June	2018	2017	2016	2015
Corrective Services NSW division	548	471	471	338
Juvenile Justice division	101	153	148	164
Other divisions	84	73	67	92
Total number of claims	**733**	**697**	**686**	**594**

Source: Department of Justice (unaudited).

The Department advised it is implementing the following initiatives to reduce workplace injuries to prison officers:

- a three-year Safety, Health and Wellbeing Strategy
- commencing development of a new Safety Management System
- continuing with its Employee Assistance Program which offers support services in areas of mental and physical health and provides assistance to individuals following traumatic events
- continuing its Peer Support Program
- continuing the delivery of its risk management and health and safety representative training, including resilience and hyper vigilance training in targeted areas.

Parliamentary inquiry into bullying, harassment and discrimination

A parliamentary committee held an inquiry into bullying, harassment and discrimination within emergency services agencies, including Fire and Rescue NSW, Office of the NSW Rural Fire Service, Office of the NSW State Emergency Service and NSW Police. The Committee handed down its report in July 2018 and noted 'the committee was shocked by the many cases presented to us and by the seriousness of the allegations, which at times seemed to go unnoticed by the agency itself'.

The report made 27 recommendations spanning across the emergency service agencies and central government.

The key recommendation from the inquiry is to establish an independent, external complaints management oversight body for workplace bullying, harassment and discrimination across all emergency services agencies.

Another key theme in this inquiry was the mental health and wellbeing of first responders. The Committee noted that emergency services workers have a much higher risk of developing mental health illnesses given the nature of their work and their heightened exposure to traumatic events. The committee made several recommendations to make employee mental health a priority action. Those recommendations included establishing a specialist 24/7 telephone trauma counselling service for emergency service workers.

The government response to the report is due on 24 January 2019.

For details, refer to the Parliament of New South Wales website.

NSW Police Force

Lost hours due to workplace injuries in NSW Police continue to increase

NSW Police data shows frontline staff recorded average workplace injury leave of 71.3 hours per FTE employee in 2017–18 (65.6 hours in 2016–17), a 17.6 hour (32.8 per cent) increase over the last four years.

Work place injury lost leave per frontline FTE (hours)

Year ended 30 June	2018	2017	2016	2015
NSW Police *	71.3	65.6	57.9	53.7

*   Relates to workplace injury excluding all other sick leave.
Source: NSW Police Force (unaudited).

The total cost of workplace injury leave in 2017–18 was $39.4 million ($34.6 million). On average, workplace injury leave per frontline FTE cost $2,412 in 2017–18 ($2,130 in 2016–17) an increase of 13.2 per cent.

NSW Police lost 129.5 hours per FTE employee in 2017–18 (118.7 hours in 2016–17) for sick leave and workplace injury leave across frontline and administrative staff. The total cost of sick and work place injury leave for frontline and administrative staff was $107 million in 2017–18 ($96.7 million in 2016–17). NSW Police attribute the rising sick and injury leave to an ageing workforce.

3. Audit observations

Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. They are essential for quality and timely decision making.

This chapter outlines our observations and insights from:

- our financial statement audits of agencies in the Justice cluster for 2018
- the areas of focus identified in the Audit Office annual work program.

The Audit Office Annual Work Program provides a summary of all audits to be conducted within the proposed time period as well as detailed information on the areas of focus for each of the NSW Government clusters.

Observation	Conclusions and recommendations
3.1 Internal controls and governance	
The number of internal controls or governance related issues reported increased to 116 (94 in 2016–17). **One in three were repeat issues.**	Delays in implementing audit recommendations can prolong the risk of fraud and error. **Recommendation:** Audit Office management letter recommendations to address internal control and governance weaknesses should be actioned promptly, with a focus on addressing repeat issues.
3.2 Audit Office annual work program	
The Department continues to resolve IT, payroll and general finance related issues resulting from the implementation of the interrelated Justice SAP and Business Support Centre projects in 2016–17.	During the year, the Department continued to make progress in stabilising its internal control environment, however more effort is required to ensure controls are operating as intended. Internal control issues continue to collectively pose a high risk to the Department's overall control environment. However, individually they are rated as low or moderate risk. The Department provides financial, human resources and IT services to other independently governed agencies within the cluster. The internal control environment at these agencies is similarly impacted by the Department's Justice SAP and BSC issues.
The Department received an exemption from NSW Treasury from completing its asset revaluation as part of early close. **The revaluation results were not robustly reviewed before their inclusion in the financial statements.**	While all revaluation matters were resolved and corrected, completing the revaluation process earlier would enable more timely review, identification and resolution of matters. **Recommendation:** Revaluations should be performed early and completed by the early close procedures deadline. The Department should quality review the revaluation results before including them in the financial statements.
Capital projects at the Department and NSW Police were underspent against their budgets.	The Department spent $671 million on capital projects in 2017–18, which was $905 million or 57.4 per cent less than budget. Similarly, NSW Police spent $69.0 million or 28.3 per cent less than planned on capital projects. Eleven projects experienced delays in completion ranging from one to six years.

Observation	Conclusions and recommendations
3.3 Managing maintenance	
Total backlog maintenance in the Justice cluster is unknown because some agencies assess backlog maintenance, while others do not.	When the backlog maintenance is unknown it is difficult for agencies to develop an accurate and effective maintenance plan that focuses on areas of highest need. It also means agencies' maintenance plans are reactive rather than preventative. **Recommendation:** Cluster agencies should complete a condition based assessment of their assets to identify any maintenance backlog. This will help the cluster provide more reliable and consistent information on assets and their condition.
Justice cluster agencies we reviewed do not benchmark the adequacy of their maintenance spend.	**Recommendation:** Cluster agencies should consider establishing benchmarks to help assess the adequacy of their maintenance spend.

3.1 Internal controls and governance

One in three internal control and governance issues reported were repeat issues

The 2017–18 financial audits of cluster agencies reported 116 (94 in 2016–17) internal control or governance related issues, of which 35 per cent were repeat findings from previous financial audits. Management of the relevant agencies responded to these findings and have agreed to implement additional controls to address the deficiencies identified.

A delay in implementing audit recommendations can prolong the risk of fraud and error. It also impacts on the quality of financial information and the effectiveness of decision making and exposes an agency to the risk of financial loss. Audit Office management letter recommendations to address internal control and governance weaknesses should be actioned promptly, with a focus on addressing repeat issues.

We report deficiencies in internal controls, matters of governance interest and unresolved issues identified during our audits to management and those charged with governance. We do this through our Management letters, which include our observations, related implications, recommendations and risk ratings.

The table below provides information on 2017–18 Management letter findings for Justice cluster agencies by risk rating.
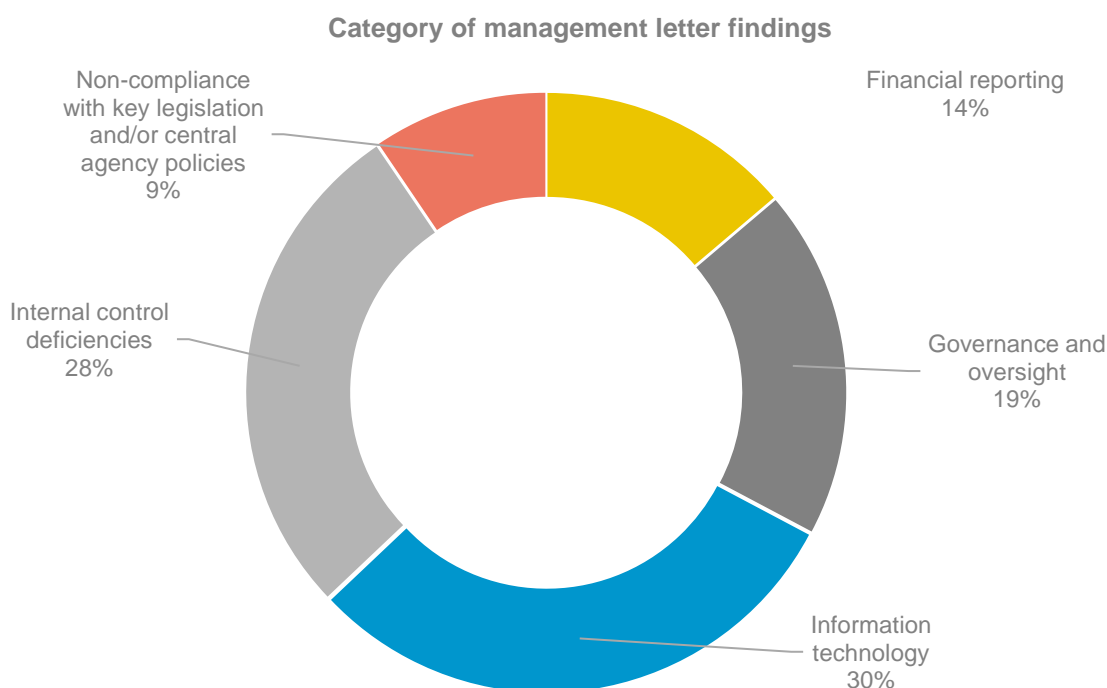
	Management letter findings				
	Extreme	**High**	**Moderate**	**Low**	**Repeat^**
Principal department					
Department of Justice	--	--	17	14	9
Law and order agencies					
NSW Police Force	--	--	3	3	3
Law Enforcement Conduct Commission	--	--	--	2	1
Legal Aid Commission of New South Wales	--	--	1	--	1
Office of the Director of Public Prosecutions	--	--	--	4	2
Judicial Commission of New South Wales	--	--	2	1	2
Legal Profession Admission Board	--	--	2	2	2

	Extreme	High	Moderate	Low	Repeat^
Crown Solicitor's Office	--	--	5	2	2
Information and Privacy Commission	--	--	1	1	2
NSW Trustee and Guardian	--	--	2	3	3
New South Wales Crime Commission	--	--	--	4	--
Trustees of the Anzac Memorial Building	--	--	1	1	--
Total	**--**	**--**	**17**	**23**	**18**
Emergency services agencies					
Fire and Rescue NSW	--	--	12	11	10
Office of the NSW Rural Fire Service	--	--	4	5	2
Office of the NSW State Emergency Service	--	--	5	8	2
Total	**--**	**--**	**21**	**24**	**14**
Total for cluster	**--**	**--**	**55**	**61**	**41**

^ Repeat issues are included in the extreme, high, moderate or low management letter findings.

Note: Management letter findings are based either on final management letters issued to agencies, or draft letters where findings have been agreed with management.

The graph below shows that 30 per cent of reported deficiencies were information technology related. The rest were split between internal control deficiencies (28 per cent), governance and oversight (19 per cent), financial reporting (14 per cent) and non-compliance with key legislation and/or central agency polices (9 per cent).

Category of management letter findings

Source: Audit Office management letters.

Rectifying certain IT deficiencies can take longer than rectifying other control deficiencies. IT fixes may require program changes, system testing and interruptions to services, However, until they are addressed, vulnerabilities may be exploited by internal and external parties and pose a threat to agencies.

The table below describes the common issues identified in the cluster by category and risk rating.

Category	Risk rating	Issue
Information technology	🟡 Moderate: 15 new, 10 repeat ✅ Low: 7 new, 3 repeat	The financial audits identified opportunities for agencies to improve information technology (IT) processes and controls that support the integrity of financial data used to prepare agencies' financial statements. The audits noted issues associated with: • user access administration • privileged user activities • security management.
Internal control deficiencies	🟡 Moderate: 3 new, 6 repeat ✅ Low: 17 new, 6 repeat	The financial audits identified internal control weaknesses across key business processes, including: • inadequate review of master data changes such as employee details • duplicate payments • incomplete plant and equipment stocktakes • delays in capitalising completed capital works.
Financial reporting	🟡 Moderate: 7 new ✅ Low: 7 new, 2 repeat	The financial audits identified opportunities for agencies to strengthen financial reporting, including: • completeness of accruals • accuracy of long service leave balances.
Governance and oversight	🟡 Moderate: 5 new, 4 repeat ✅ Low: 9 new, 4 repeat	The financial audits identified opportunities for agencies to improve governance and oversight processes, including issues associated with: • lack of quality assurance processes over the revaluation of property, plant and equipment • outdated policies and procedures • the lack of project and contract registers • service level agreements being outdated, signed late or do not exist.
Non-compliance with key legislation and/or central agency policies	🟡 Moderate: 3 new, 2 repeat ✅ Low: 2 new, 4 repeat	The financial audits identified breaches of Treasury Circular TC16/03 'Managing Accrued Recreation Leave Balances'.

🔴 High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

🟡 Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

✅ Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

Note: Management letter findings are based either on final management letters issued to agencies, or draft letters where findings have been agreed with management.

3.2 Audit Office annual work program

Each year our financial audits examine a small number of specific topics across agencies. We determine which topics to consider by looking for opportunities to improve public-sector accountability, governance and administration. We also consider the risks and challenges to reporting the true financial position and performance of the state and how these may be addressed during our audits.

Risks and challenges that may impact on financial reporting of Justice cluster agencies this year include:

- rectification of identified control issues
- valuation of land and buildings
- project management.

Rectification of identified control issues

More effort is required to ensure the Department's controls are operating as intended

Last year's Auditor-General's Report to Parliament recommended the Department reinstate controls over financial information as soon as possible. The recommendation was made because there were significant IT, payroll and general finance related issues resulting from the Department's implementation of the interrelated Justice SAP and Business Support Centre (BSC) projects in 2016–17.

During the year, the Department continued to make progress in stabilising its internal control environment, however more effort is required to ensure controls are operating as intended. Further issues were identified in 2017–18, including:

- roles and responsibilities not being assigned properly in the SAP system
- privileged user access not being effectively managed in the SAP system
- ineffective processes for recording, reconciling and settling inter-agency transactions and balances
- concerns over the accuracy of long service leave balances.

The issues are collectively considered to be high risk in the context of the Department's overall control environment. However, individually they are rated as low or moderate risk.

The Department provides financial, human resources and IT services to other independently governed agencies within the cluster. The internal control environment at these agencies is similarly impacted by the Department's Justice SAP and BSC issues.

Actions the Department took in 2017–18 in resolving implementation issues included:

- addressing the remaining underlying SAP system issues
- up-skilling internal resources including the BSC
- introducing more structured payroll processes
- realigning the Goulburn and Parramatta Payroll team responsibilities, including establishing and up-skilling a specialist superannuation, workers compensation and post pay reconciliation team
- engaging an external accounting firm to help investigate and resolve issues relating to key account reconciliations.

Future initiatives planned by the Department include:

- completing a capability assessment of internal resources and addressing skill gaps
- identifying and resolving policy and procedural issues to drive consistent service delivery
- establishing best practice business processes and procedures to assist the BSC support team
- improving system change management.

The Department reports it spent $17.0 million in 2017–18 ($2.0 million in 2016–17) addressing the implementation issues.

Valuation of land and buildings

Department of Justice

The Department can improve the timeliness of its asset valuations

As referred to in the financial reporting chapter, the Department did not complete its revaluation of property, plant and equipment by the early close deadline as it received an exemption from NSW Treasury. The draft revaluation results were provided to the Audit Office after 30 June 2018. The main reason for the delay was the significant analysis and investigation required by management and the valuer to ensure completeness and accuracy of the assets recorded.

In future, revaluations should be performed early and completed by the early close procedures deadline.

Early close procedures are designed to improve the quality and timeliness of financial reporting. Completing revaluations early in the financial reporting process helps ensure a smoother year-end process and more effective resolution of issues.

Asset valuations are inherently complex. The Department has a large, geographically dispersed asset base, consisting of over 2,200 land, building and infrastructure assets. Significant resources, judgement and estimation techniques are required to determine fair values.

Revaluations must be supported by adequate quality assurance processes

Inadequate quality assurance processes led to the identification of a $82.7 million audit adjustment relating to finance lease assets. This was corrected in the Department's 30 June 2018 financial statements.

Management are ultimately responsible for the revaluation process. Prior to signing off on a revaluation, management should ensure they have performed adequate quality assurance procedures over the external valuers' report, including:

- ensuring all assets are identified, recorded and reconciled before being provided to the valuer and the valuation methodology is agreed and documented
- conducting a robust review of the report, including challenging the valuer's findings, assumptions, methodologies and sources
- ensuring the external valuer's findings are consistent with the agency's assets and circumstances and are suitable for the assets reviewed
- reviewing significant movements in individual asset values since the previous revaluation and interrogating the results with scepticism
- reconciling the valuers' report to the fixed asset register and financial statements
- preparing work papers setting out management's proposed accounting treatments, judgements and assumptions
- ensuring sufficient documentation exists to evidence their involvement in the revaluation process.

Some of these issues are similar to those identified in the Department's previous revaluation in 2015. The 'Volume Seven 2015 Auditor-General's Report to Parliament, Law and Order' reported observations and recommendations relating to the timeliness and level of quality review performed over the 2015 revaluation.

The Department's next comprehensive revaluation is expected to be performed in 2020–21. Its forward work program should capture lessons learned from the recent revaluation to ensure the findings are not repeated.

The Auditor-General's 'Report on State Finances 2018' includes other important matters agencies should consider when planning and conducting asset valuations.

Project management

Agencies across the cluster spent $980 million on capital investment in 2017–18 ($726 million in 2016–17). High volumes of capital spending can present challenges to agencies in delivering projects on time, to budget and at sufficient quality, whilst managing project risk. Investments included the construction of new correctional centres, court houses and police stations and the purchase of plant and equipment and intangibles such as software.

Department of Justice

Delays in project implementation led to a capital underspend of $905 million against budget

The Department spent $671 million on capital projects in 2017–18, which was $905 million, or 57.4 per cent less than budgeted. The Department advised the underspend was mainly due to delays in implementing the prison bed capacity reform program. The Department obtained NSW Treasury's approval to carry forward most of the unused capital funds into future years.

The Department relies on manual processes to manage its capital projects

The Department does not have an Enterprise Asset Management (EAM) system and generally relies on manual processes to manage its projects. For example:

- key project information, such as approved budgets, approved variations to budget, forecasts and actual spend are not maintained centrally
- monthly capital project reports comparing actuals to budget, at a program and individual project level are manually prepared.

These manual processes may not enable the Department to optimally manage their capital projects. This increases the risk of incorrect decision making, financial reporting misstatements and ineffective governance and oversight processes.

The Department advised:

- it aims to develop a 20-year Cluster Infrastructure Strategy, through the State Infrastructure Strategy 2018, including a long-term asset investment strategy and possible EAM system implementation
- it is in the process of completing an asset review, including:
  – a baseline asset condition and capacity assessment
  – a review of the role of digital technology in asset management and service delivery
  – an end-to-end assessment of system pressure points
  – identification of opportunities for co-located services
- future business cases for investment decisions, including an EAM system will be based upon the baseline asset conditions and management strategy throughout 2019–20
- the Justice Infrastructure and Assets (JIA) unit recently implemented a project record management system to centrally manage its commercial and financial project related information. JIA plan to implement this system across projects previously managed by the former Property and Asset Services group within the Department.

The Department does not have an enterprise wide project methodology and framework

An internal review conducted by the Department during 2017–18 found weaknesses in its project management practices. Key findings include:

- lack of an enterprise wide project methodology
- no consistent project governance framework
- project managers often having limited experience and qualifications in delivering projects
- manual project reporting
- reallocation of project funding to non-project related expenses.

The review made recommendations, including:

- implementing an externally recognised project methodology
- developing a consistent project governance framework
- standardising project reporting tools.

Law and order

Eleven capital projects at NSW Police totalling $333 million are delayed by a year or more

Data from NSW Police shows it has 16 capital projects currently in progress each with a budget of $10.0 million or more. These projects primarily relate to information, communication and technology projects, a hazardous materials management program and the building of new Police stations. The reported revised budgeted cost of these projects is $455 million, which is $58.0 million greater than originally planned. NSW Police attribute most of the increase to changes in scope and tenders received with costs higher than originally planned.

Eleven of these capital projects totalling $333 million have experienced delays in completion dates ranging from one to six years. NSW Police advise:

- the delays are mainly due to design and contractor performance issues and scope changes to original business cases
- the Deniliquin Police Station project is currently six years behind the original completion date due to a significant lapse of time between the preparation and approval of the original and final business cases.

Total budgeted capital expenditure for 2017–18 was $244 million. Actual expenditure was $175 million, 28.3 per cent less than planned.

NSW Trustee and Guardian wrote off an additional $3.9 million of project costs in 2017–18

NSW Trustee and Guardian ceased work on their new client management system (TAGS) during the year, writing off $3.9 million in development costs. Additional development costs of $1.1 million were written-off in 2014–15, resulting in total project write-offs of $5.0 million. The budget for the project was $5.0 million in 2012–13, but this had increased to $17.6 million by 2016–17.

Before ceasing work on TAGS, three of seven planned modules and two client portals were implemented with varying degrees of completion, and project costs of over $11.0 million (before write-off) had been incurred.

Management commissioned an external review of TAGS during the year, which found:

- significant short-comings with the governance and management of the project, including inadequate risk management, and monitoring of project costs
- a lack of clarity over the project scope, with expected benefits being unclear and not monitored
- unclear responsibilities for project deliverables.

Many of the issues noted with the TAGS implementation project are similar to those detailed in our 2017 Auditor-General's Report to Parliament on the Department of Justice's SAP implementation.

Emergency services

The revised cost of the Fire and Rescue NSW training facility is $9.4 million more than originally budgeted

Fire and Rescue NSW is relocating its training academy to a new purpose built leased facility. In addition to the leased facility, it planned to construct additional buildings and facilities to be used in training exercises. The original budget for those works was $8.9 million and is estimated to have more than doubled to $18.3 million in July 2018.

The cost overruns are reported to have arisen from changes to the scope of the planned works from the original business case and cost variations from estimates.

3.3 Managing maintenance

Justice cluster agencies spent $146 million on maintenance expenses in 2017–18 ($146 million in 2016–17). We reviewed asset maintenance at a selection of agencies, representing almost 80 per cent of the cluster's total maintenance expenditure in 2017–18.

Some cluster agencies do not have a current asset maintenance plan

The NSW Treasury 'Total Asset Management Guideline - Asset Maintenance Strategic Planning' requires budget dependent agencies to develop asset maintenance strategic plans. Maintenance planning plays a key role in optimising the economic life and operating performance of existing assets.

Two cluster agencies we reviewed do not have a current asset maintenance plan. In one agency, we found a maintenance plan does not exist whilst in another the plan is more than two years old.

Effective maintenance planning helps agencies to:

- quantify and budget asset maintenance costs
- support service delivery at the lowest possible long-term cost
- reduce service disruptions and losses due to asset failure
- identify and respond to risks posed by its assets.

Agencies advise this issue is being addressed as part of the Justice Cluster State Infrastructure Strategy referred to earlier in this chapter.

Policy framework

We reviewed whether the selected agencies have a clear policy on what constitutes maintenance, enhancement and operating expenses.

Cluster agencies have maintenance policies in place but some can be improved

Cluster agencies have maintenance policies in place but some can be improved by including more specific guidance on what constitutes maintenance, enhancement and operating expenses. The absence of specific guidance increases the risk of:

- incorrectly classifying maintenance expenditure in the financial statements
- inappropriately capitalising costs during various stages of a project
- routine maintenance activities may be treated as capital expenses.

The NSW Treasury 'Guidelines for the Capitalisation of Expenditure on Property, Plant and Equipment' provides guidance on the appropriate accounting treatment of capital and maintenance expenditure.

Backlog maintenance

The extent of backlog maintenance is unknown

Total backlog maintenance in the Justice cluster is unknown because some agencies assess backlog maintenance while others do not. This makes it difficult for agencies to develop an accurate and effective maintenance plan that focuses on areas of highest need. It also means agencies' maintenance plans are reactive rather than preventative.

The graph below shows that 39.0 per cent of the expenditure incurred on maintenance in 2017–18 was unplanned (36.7 per cent in 2016–17).

Planned and unplanned maintenance expense
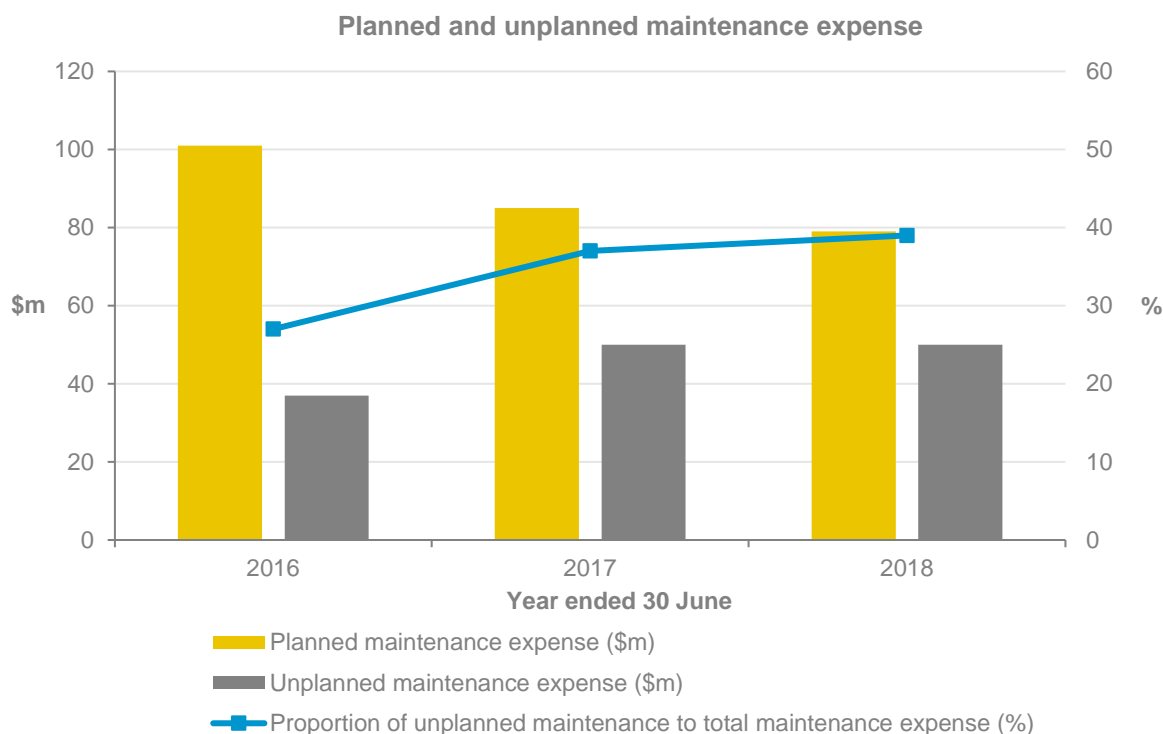
Note: The figures in the graph include the reviewed agencies only and not all agencies in the cluster. The same agencies were reviewed across all three years.
Source: Provided by agencies (unaudited).

Cluster agencies should complete a condition based assessment of their assets to identify any maintenance backlog. This will help the cluster provide more reliable and consistent information on assets and their condition.

Maintenance budgets

Maintenance budgets do not always reflect actual maintenance needs

All agencies reviewed have an approved maintenance expense budget in 2017–18. However, given the backlog maintenance is unknown and a current asset maintenance plan does not always exist, most agencies set their budget using the prior year's actual spend rather than actual maintenance needs.

Agency data shows the cluster agencies we reviewed have spent $52.7 million or 15.1 per cent more on maintenance expenses over the past three years, than budgeted.

Actual maintenance spend compared to budget*

Year ended 30 June	2018	2017	2016
Actual maintenance expense ($'000)	129,052	134,908	138,393
Budgeted maintenance expense ($'000)	121,945	125,188	102,473
Over spend on maintenance budget ($'000)	7,107	9,720	35,920
Percentage of actual spend to budget (%)	**105.8**	**107.8**	**135.1**

* The figures in the table include the reviewed agencies only and not all agencies in the cluster. The same agencies were reviewed across all three years.

Source: Provided by agencies (unaudited).

By not setting asset maintenance budgets based on actual maintenance needs, agencies risk:

- not being able to meet required service delivery outcomes
- incurring higher future maintenance costs because of greater asset deterioration
- experiencing workplace health and safety issues
- not complying with relevant legislative requirements.

Agencies do not benchmark their maintenance expenditure

The Justice cluster agencies we reviewed do not benchmark the adequacy of their maintenance spend. Actual maintenance expenditure in 2017–18 was 1.3 per cent of the gross replacement cost of the asset base (1.4 per cent in 2016–17).

Cluster agencies should consider establishing benchmarks to help assess the adequacy of their maintenance spend.

4. Service delivery

Government outcomes can be achieved through effective delivery of the right mix of services, whether from the public, private or not-for-profit sectors. Service delivery reform will be most successful if there is clear accountability for service delivery outcomes, decisions are aligned to strategic direction and performance is monitored and evaluated.

The Justice cluster is an integrated cluster with key service delivery inter-dependencies. Achieving state priorities and ensuring communities are safe requires both upstream and downstream agencies to be appropriately resourced. This is a delicate balance. Increases in frontline policing can subsequently impact the court system as more offences are identified. More convictions can in turn increase prison overcrowding and limit the opportunities for inmate rehabilitation. Failure to successfully rehabilitate prisoners and prevent reoffending could impact future police resourcing.

This chapter outlines certain service delivery outcomes for 2017–18. The data on activity levels and performance is provided by Cluster agencies. The Audit Office does not have a specific mandate to audit performance information. Accordingly, the information in this chapter is unaudited.

We report this information on service delivery to provide additional context to understand the operations of the Justice cluster and to collate and present service information on law and order and emergency services agencies in one report.

In our recent performance audit, Progress and measurement of the Premier's Priorities, we identified 12 limitations of performance measurement and performance data. We recommended the Department of Premier and Cabinet ensure that processes to check and verify data are in place for all agency data sources.

4.1 Measuring and reporting on performance

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

Premier and State Priorities

The Justice cluster is the lead cluster delivering the following NSW Premier and per cent priorities:

- to reduce the proportion of domestic violence perpetrators reoffending within 12 months by 25 per cent by 2019
- for local government areas to have stable or falling reported violent crime rates by 2019
- to reduce adult reoffending by five per cent by 2019
- to reduce road fatalities by at least 30 per cent from 2011 levels by 2021 - this is a collaborative priority between the NSW Police Force and partner agencies.

Targets have been established to measure the government's progress in achieving each priority.

The rate of domestic violence reoffending remains above the Premier's target

Data from the NSW Bureau of Crime Statistics and Research (BOCSAR) shows that the rate of reoffence by perpetrators of domestic violence decreased slightly between 2015–16 and 2016–17 but is 4.6 percentage points higher than the NSW Premier's Priority target of 10.7 per cent.

Domestic violence re-offending rates

Year ended 30 June	Target 2019* %	Actual 2017 %	Actual 2016 %	Actual 2015 %	Actual 2014 %	Actual 2013 %
Rate of domestic violence perpetrators reoffending within 12 months	≤ 10.7	15.3	15.5	15.9	14.8	14.9

* The 2019 Premier's Priority target was increased from 9.2 per cent to 10.7 per cent during 2015–16. The target is based on the offending cohort from the 2019 calendar year, reported in 2021.

Source: BOCSAR (unaudited).

The 2016–17 state Budget allocated whole-of-government funding of $300 million over four years to help support the Premier's Priority to address and reduce domestic and family violence reoffending. This included $44.0 million to the Justice cluster to hold perpetrators to account under the Premier's Priority. Measures include GPS tracking of high risk offenders, behavioural change programs for higher-risk perpetrators and establishment of NSW Police Domestic Violence High Risk Offender Teams across the state. In the 2017–18 state budget, the commitment to the whole-of-government specialist domestic and family violence response was extended to $350 million over four years.

Local Government Area violent crime trends have worsened during the year and are now below the State Priority target

BOCSAR crime statistics show that Local Government Areas (LGA's) with stable or falling rates of violent crime decreased to 96.0 per cent at 30 June 2018 (98.6 per cent at 30 June 2017). This is now below the State Priority target of 98.0 per cent of LGA's with stable or falling rates of violent crime by 2019.

The rate of adult reoffending is not on track to meet the target

The State Priority to reduce adult reoffending targets a five per cent reduction in reoffending by 2019. Department data indicates that it is not on track to meet this target.

Since 2012, the rate of prisoners reconvicted for offences committed within 12 months following release from custody has increased by 3.7 percentage points. Similarly, the rate of offenders reconvicted for offences committed within 12 months following a non-custodial penalty has increased by 3.6 percentage points.

Reconviction rates for offences committed within 12 months

Year ended 31 December	2016	2015	2014	2013	2012
Percentage of prisoner reconviction after release from custody	38.4	39.5	36.7	36.0	34.7
Percentage of offender reconviction following a non-custodial penalty	19.5	18.9	17.5	16.4	15.9

Note: Results for reoffending are reported in calendar years and are not available for 18 months to allow for sufficient follow up time. The most recent reporting period is the calendar year 31 December 2016.

Source: Department (unaudited).

The Department advises that a broad range of factors influence reoffending. For example, police activity targeting offenders with existing convictions may result in an increased number of arrests and reconvictions and an increase in the reoffending rate. Similarly, increased compliance monitoring by Community Corrections officers can have the same effect.

The Department's strategy to reduce reoffending is supported by a funding package of $330 million from the NSW Government until 30 June 2020. Reforms being implemented under the strategy include:

- maximising opportunities for supervision of community-based offenders and more flexibility to tailor the conditions and interventions of a sentence to the individual
- early intervention for priority offenders
- improved custodial case management
- improved exit planning and reintegration support.

The impact of these initiatives on reoffending rates will not be known for several years.

New South Wales' road fatalities per 100,000 people exceeded the 2017–18 target

Statistics from the NSW Centre for Road Safety shows that New South Wales' road fatalities increased from 4.6 deaths to 4.9 deaths per 100,000 people in 2017–18. This is slightly above the State Priority target to reduce road fatalities by at least 30 per cent from 2011 levels by 2021.

NSW road fatalities

Year ended 30 June	Target 2018	Actual 2018	Actual 2017	Actual 2016	Actual 2015
Road fatalities (per 100,000 population)	≤ 4.2	4.9	4.6	5.1	4.0

Source: NSW Centre for Road Safety (unaudited).

NSW Police report they are working with partner agencies to enable the free flow of traffic and promote road safety through education, innovation and targeted enforcement.

NSW Police advise it spent $157 million in 2017–18 ($153 million in 2016–17) on Police Patrol to reduce road fatalities, an increase of 5.7 per cent over the last two years.

NSW Police Patrol cost to reduce road fatalities

Year ended 30 June	2018 $m	2017 $m	2016 $m
Amount spent on Police Patrol to reduce road fatalities	156.9	153.2	148.5

Source: NSW Police Force (unaudited).

4.2 Other measures of performance

Department of Justice

Courts and Tribunal Services

Demand for criminal and civil justice trials is rising in New South Wales

Data from BOCSAR shows the number of finalised court appearances across all NSW courts has increased by 17.1 per cent since 2012–13, to 141,024 appearances in 2016–17.

Finalised court appearances
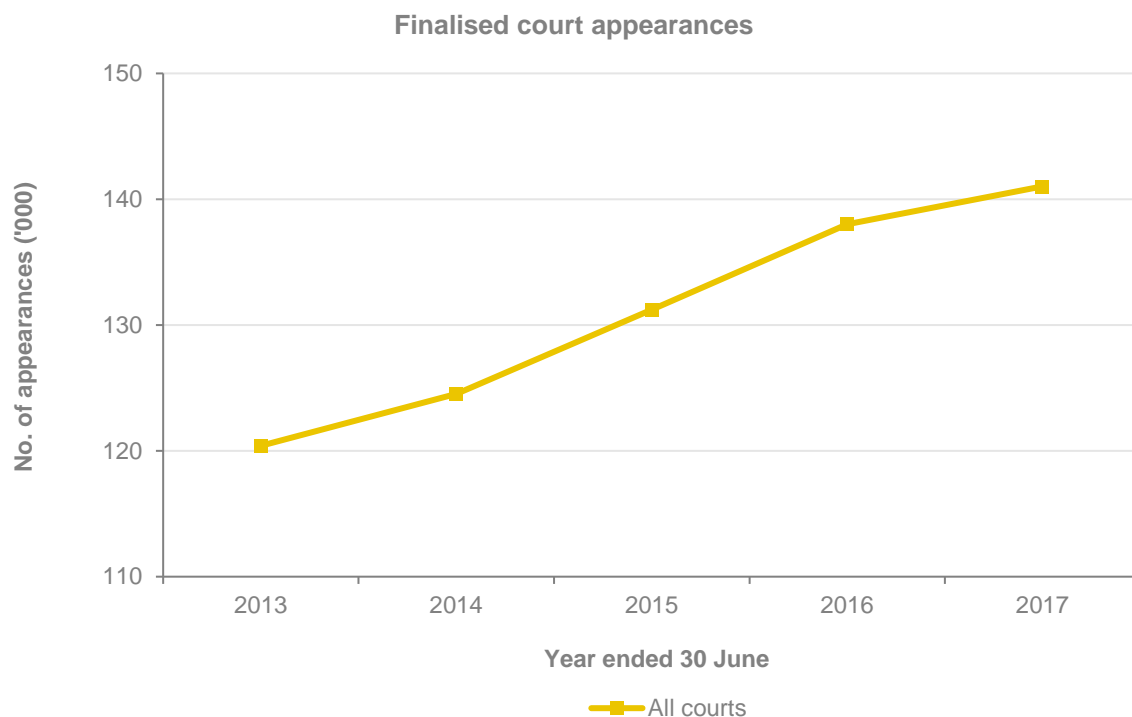
Source: BOCSAR (unaudited).

The NSW Supreme and District Court are taking longer to finalise cases

BOCSAR statistics show that between 2012–13 and 2016–17, the median days from arrest to finalisation increased in the NSW District Court for both sentencing (24.4 per cent) and case trials (23.7 per cent).

Arrest to finalisation (median days)

| Year ended 30 June	2017	2016	2015	2014	2013
Supreme Court	840	788	775	849	824
District Court, finalised by trial	716	713	658	595	579
District Court, finalised by sentence	484	444	437	411	389
Local Court	82	82	81	79	80

Source: BOCSAR (unaudited).

The time from arrest to finalisation ranged from around three months in the local court to over two years in the Supreme Court in 2016–17.

In 2018–19, the NSW Government has allocated funding of $29.5 million to implement Early Appropriate Guilty Pleas (EAGP) reform to deliver swifter and more certain justice, and to reduce court delays and stress for victims. A further $10.0 million has been allocated to the Legal Aid Commission to fund the costs of private practitioners who conduct EAGP work on behalf of representing defendants who are receiving a grant of legal aid.

A matter is considered finalised at the date on which all criminal charges laid against a defendant or all matters pertaining to a civil case, are formally completed by the court and the matter ceases to be an active unit of work to be dealt with by the court.

The backlog of cases in the NSW District Court has reduced, but remains high

Department data shows there were 2,031 pending case trials in the District Court at 30 June 2018, a reduction of 3.7 per cent from the 2,110 cases at 30 June 2017. The age of cases also declined. The Department reports 451 of the pending trials are older than 12 months (453 at 30 June 2017), of which 105 trials are older than 24 months (116 trials at 30 June 2017).

District Courts pending caseload
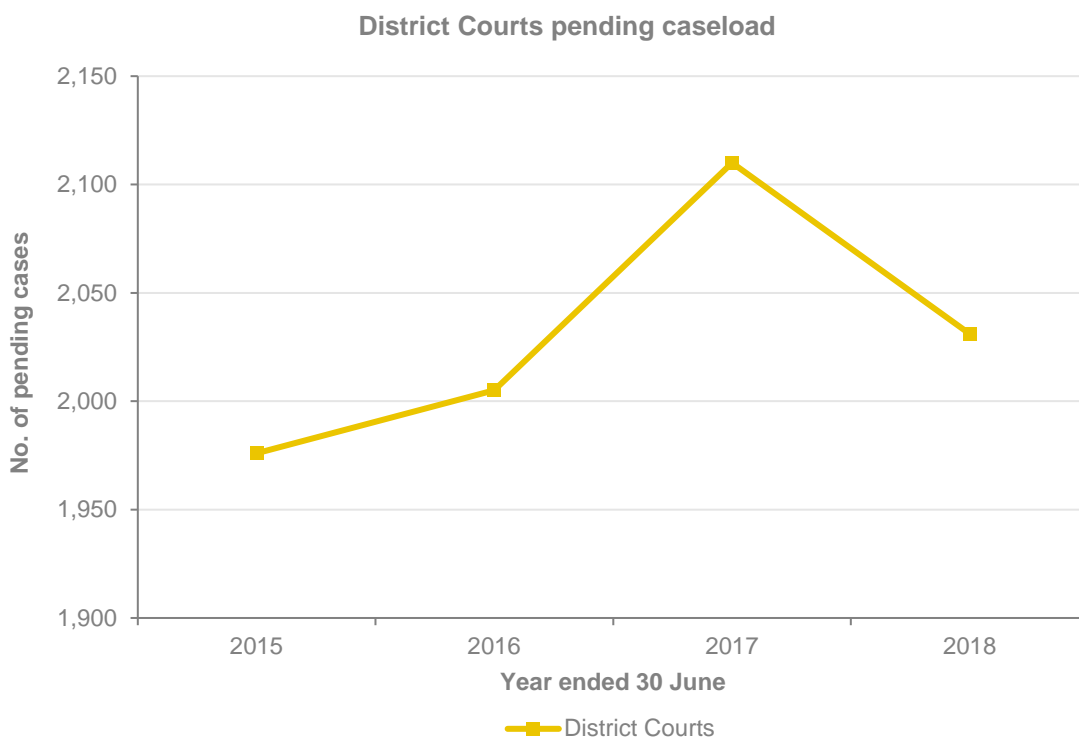
Source: Department of Justice (unaudited).

Pending cases represent the difference between registered trials and finalised trial cases each year. According to national benchmarks, no more than ten per cent of pending cases should be more than 12 months old. Twenty-two per cent, 451 of the 2,031 cases pending in the NSW District Court at 30 June 2018 are older than 12 months. This is more than double the national benchmark and one percentage point higher than the same time last year.

The Department attributes the decrease in pending cases in 2017–18 to an increase in finalisations which outpaced registrations by 79 matters, partial slowing in trial registrations at the end of 2017 and special call overs providing over 130 additional finalisations. Call overs target region specific backlogs by reviewing pending trial matters and engaging in conferencing between the parties to resolve the matter by alternate means to a trial.

According to the Productivity Commissions Report on Government Services 2018, the net recurrent expenditure per finalisation, criminal and civil, in NSW District/County courts was $5,159 in 2016–17 ($4,717 in 2015–16).

Since 2015–16 the NSW Government has allocated funding of $59.0 million to address the District Court backlog. In 2018–19, the NSW Government has allocated an additional $27.1 million to continue efforts to address the backlog. The Department advises the funding will provide additional resources, including 200 additional sitting weeks to the judicial calendar. Other initiatives include:

- more call overs scheduled for regional centres and Sydney in 2018–19
- additional public defender resources
- extending pre-trial conferencing and readiness hearings to all trials of ten days or more.

In April 2018, the Attorney General also announced a criminal justice reform package of $93.0 million that includes:

- encouraging offenders to enter Early Appropriate Guilty Pleas, to help ease pressure on the District Court's backlog of criminal cases
- senior lawyers to manage serious criminal cases from start to finish
- mandatory criminal case conferencing between parties to resolve matters before they are committed to a higher court
- expanding the network of audio-visual link facilities in prisons and legal aid offices to support the increased demand for case conferencing.

The District Court Backlog Program provides additional capacity to the system, but does not address demand drivers that are outside the control of the Department. The Department advises it is working with the Chief Judge of the District Court and a working group to address issues causing the current backlog.

The NSW Audit Office plans to conduct a performance audit on criminal court efficiency in 2019–20.

Additional funding has increased sitting days in the District Court

The Department reports that sitting days in the District Court for criminal cases increased by 5.9 per cent from 11,061 days in 2016–17 to 11,713 days in 2017–18. Since 2015–16 the increase has been 15.3 per cent, coinciding with the period of additional NSW Government funding referred to above.

District Court sitting days
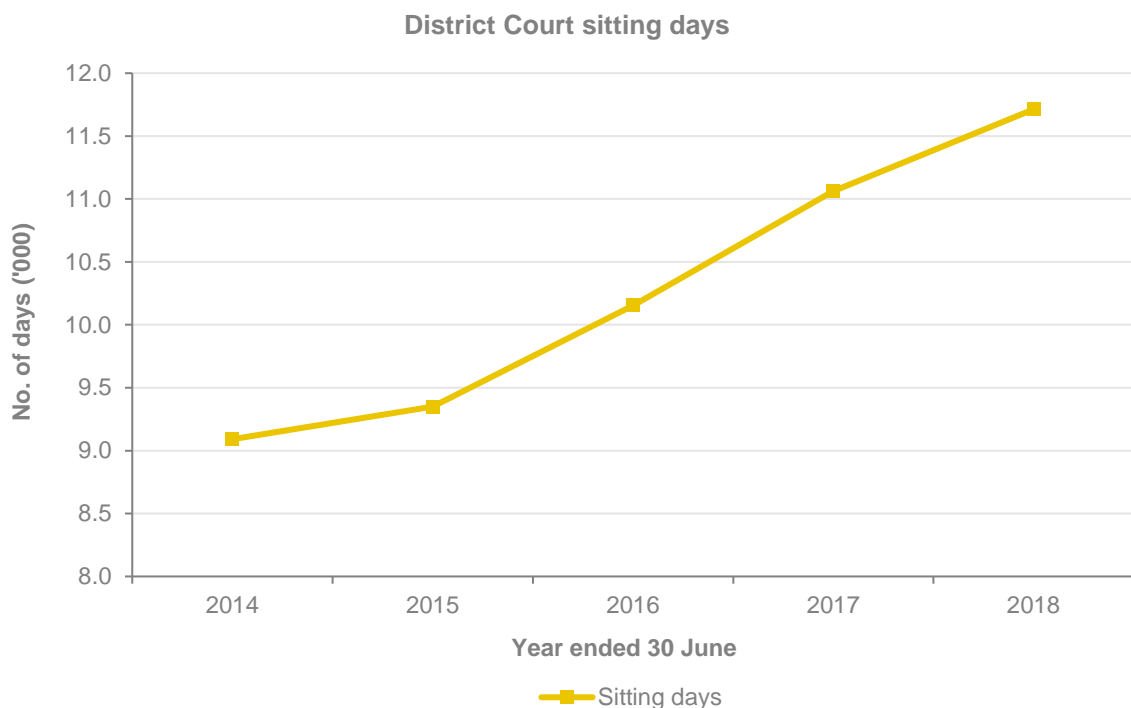
Source: Department of Justice (unaudited).

Corrective Services NSW

The number of adult inmates in NSW continues to rise and is the highest on record

Department data shows the number of adult inmates in NSW reached a maximum of 13,772 in 2017–18 (13,265 in 2016–17), the highest on record. The 3.8 per cent growth is due to an increase in inmates both on remand and who have been sentenced. Over the 12 months to June 2018 BOCSAR data shows:

- the number of inmates on remand grew by 4.5 per cent, from 4,309 to 4,502
- the number of sentenced inmates rose by 3.9 per cent, from 8,783 to 9,128.

BOCSAR forecasts the inmate population will increase to almost 14,200 by June 2019.

BOCSAR data shows the female inmate population in NSW rose by 6.6 per cent in the 12 months to June 2018. This continues a rising trend with the daily average number of females in custody growing by 48.8 per cent over the past four years (30 June 2018: 1,067, 30 June 2014: 717). Over the same period, the daily average combined male and female inmate population rose from 10,447 to 13,373 or 28 per cent.

The NSW prison system remained overcrowded in 2017–18 and is close to operational capacity

Department data indicates the NSW prison system is close to operational capacity. As referred to above, the inmate population reached a maximum of 13,772 in 2017–18 compared to an operational capacity of 14,057 beds on 17 August 2018 (13,402 beds on 27 August 2017). This equates to an operational vacancy rate of 2.0 per cent.

The Commissioner of Corrective Services NSW has previously referred to a 5.0 per cent operational capacity buffer as the target spare capacity, to enable the efficient and effective management of the inmate population. The operational vacancy rate of 2.0 per cent on 17 August 2018 is significantly less than the 5.0 per cent target, but reflects an increase since 27 August 2017 (1.0 per cent).

Inmate numbers and prison capacity

Year ended 30 June	2018	2017	2016	2015	2014
Total daily average number, all prisons	13,373	12,931	12,305	11,011	10,447
Total daily average operational capacity, all prisons	14,057*	14,106	13,290	12,103	11,403
Maximum daily population, all prisons	13,772	13,265	12,737	11,878	11,021

* Between February and May 2018, a total of 379 beds were temporarily removed from the prison system to enable bed modifications and upgrades. Following completion of the works, 358 beds are forecast to be returned to the system between October 2018 and February 2019.
Source: Department of Justice (unaudited).

While the daily average prison population continued to increase in 2017–18, the rate of increase decreased from 5.1 per cent in 2016–17 to 3.4 per cent in 2017–18.

Operational capacity is the total number of beds within the correctional system to which an offender can be permanently assigned or allocated. While operational bed capacity can be changed, for example, by installing more beds in existing cells, operating close to capacity makes it difficult to maintain program and service levels.

The Department has strategies to manage fluctuations in the prison population

Prison system capacity is being expanded through the $3.6 billion Prison Bed Capacity Program (the PBC Program). The PBC Program comprises the construction of rapid build prisons, prison expansions, recommissioning of correctional centres and the delivery of Immediate Future Needs beds. At 30 June 2018, the PBC Program has delivered a total of 2,770 beds.

The Department reports it spent $456 million on the PBC Program in 2017–18. Five prison expansion projects were completed during the year, adding 1,044 beds to the NSW prison system.

This included completion of two rapid build prisons in Cessnock and Wellington, which each delivered 400 beds.

Approved PBC Program projects are expected to add another 3,304 beds by 2020–21. In addition, the new Clarence Correctional Centre at Grafton, which is being delivered through a Public Private Partnership, is expected to add a further 1,700 beds in 2019–20.

Data from the Department shows that under the PBC Program, 1,591 Immediate Future Needs beds have been delivered at a cost of $37.0 million. Immediate Future Needs beds are temporary short-term beds that double or triple the number of beds in existing inmate cells. This also included:

- recommissioning the Berrima correctional centre adding 75 beds
- repurposing the Illawarra Reintegration Centre adding 60 beds.

The double up and triple up beds will be decommissioned as fit-for-purpose, medium-term beds become operational.

To address longer term prison capacity needs, the Department recently developed the Corrective Services Infrastructure Strategy (2018-38). The strategy outlines short, medium and longer-term initiatives to manage fluctuations in inmate numbers.

The NSW Audit Office is conducting a performance audit on managing growth in the NSW prison population. The audit will assess the efficiency and effectiveness of the Department's immediate, short, medium and longer-term responses to growth in the prison population and providing prison capacity. The report is expected to be tabled in parliament in the second quarter of 2019.

The NSW prison system is expected to remain near capacity for at least another 12 months

If the inmate population continues to increase at the 2017–18 rate of 3.4 per cent per annum, the NSW prison system will remain at or near capacity for at least another 12 months.

Average inmate numbers and prison operational capacity

Year ended 30 June	2019	2020	2021
Forecast average daily number of inmates[#]	13,828	14,298	14,784
Expected operational capacity based on existing prison capacity investment plans[^]	14,747	18,621	19,061
Forecast surplus/(shortfall) in operational capacity	919	4,323	4,277
Forecast operational capacity occupancy rate (%)	93.8	76.8	77.6

\#   Based on the average daily number of adult inmates in the NSW prison system in 2017–18, increased by 3.4 per cent per annum (i.e. the 2017–18 inmate population growth rate).

^   Based on the average daily operational capacity of prisons in 2017–18 (14,057 beds) plus expected additional capacity from capital investment.

Source: Prepared using information provided by the Department of Justice (unaudited).

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

Department data shows the number of remand receptions continues to increase, reaching 14,877 in 2017–18. Of this number, 8,109 or 54.5 per cent were held on remand for 30 days or more, an increase of 31.0 per cent since 2014.

Annual remand receptions

Year ended 30 June	2018	2017	2016	2015	2014
Remand receptions	14,877	14,645	13,623	12,136	12,488
On remand 30 days or more	8,109	8,089	7,796	6,428	6,188
Percentage on remand 30 days or more	54.5	55.2	57.2	53	49.6

Source: Department of Justice (unaudited).

As most intensive custodial programs target only sentenced inmates, time on remand can negatively impact efforts to reduce rates of re-offending. Inmates who spend long periods on remand have fewer opportunities to participate in rehabilitation programs, especially when sentences are backdated.

Inmates awaiting trial in the District Court cost an estimated $84.8 million in 2017–18

The Department reports that at 30 June 2018, 1,216 inmates (1,129 inmates at 30 June 2017) were on remand awaiting trial in the District Court. Longer remand periods can contribute to prison overcrowding and are costly. Based on the latest net recurrent expenditure for secure inmates from the Productivity Commission of $191 per person per day, this costs the state an estimated $232,256 per day or $84.8 million in 2017–18 ($75.4 million in 2016–17).

According to the Department, court delays have other unintended consequences, such as unnecessary hardship for victims and the accused. Delays also undermine confidence in the justice system, increase case costs and increase the risk witnesses forget evidence or cannot be contacted.

The net operating cost per adult inmate increased by 5.2 per cent in 2017–18

Department data shows that the annual net operating cost per adult inmate increased by $3,306 or 5.2 per cent to $66,421 ($63,115) between 2016–17 and 2017–18. This equates to an annual net operating cost of $888 million in 2017–18.

Annual recurrent cost per prisoner and average inmate numbers

Year ended 30 June	2018	2017	2016	2015	2014
Annual cost per prisoner, all prisons ($)	66,421	63,115	60,973	66,698	67,865
Daily average inmate number, all prisons^	13,373	12,931	12,305	11,011	10,447

^   Note: The measurement basis for this indicator changed in 2015–16 (the exclusion of prisoner health costs) which means results for 2015–16 onwards are not directly comparable to previous years.

Source: Department of Justice (unaudited).

The Department attributes the increase in costs in 2017–18 to additional staff associated with the numerous reform programs underway in Corrective Services NSW to manage inmate growth, improve community safety and reduce reoffending, and normal inflation.

Juvenile Justice

The annual cost of a juvenile detainee increased for the first time in three years

Department data shows the average annual cost per juvenile detainee increased for the first time in three years, from $335,840 in 2016–17 to $338,403 in 2017–18 (0.8 per cent increase).

Juvenile detainees

Year ended 30 June	2018	2017	2016	2015	2014
Average annual cost per juvenile detainee ($)	338,403	335,840	348,401	355,444	293,223
Number of juvenile detainees in custody	286	273	292	286	314

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

Source: Department of Justice (unaudited).

The Department advise the Juvenile Justice division is continuing to map and analyse its operating costs with the aim of achieving cost effective, sustainable and scalable service delivery into the future.

This work is coinciding with an increased emphasis on best practice custodial services for juvenile offenders, including embedding trauma informed practice and providing rehabilitative interventions.

The average daily cost of supervising a juvenile offender with a custodial sentence (2017: $1,344) is significantly higher than an offender with a community-based sentence (2017: $138) as shown in the graph below.

Average daily cost of supervising juveniles under custodial and community based sentences

— Average daily cost per juvenile under a community based sentence

— Average daily cost per juvenile under a custodial sentence
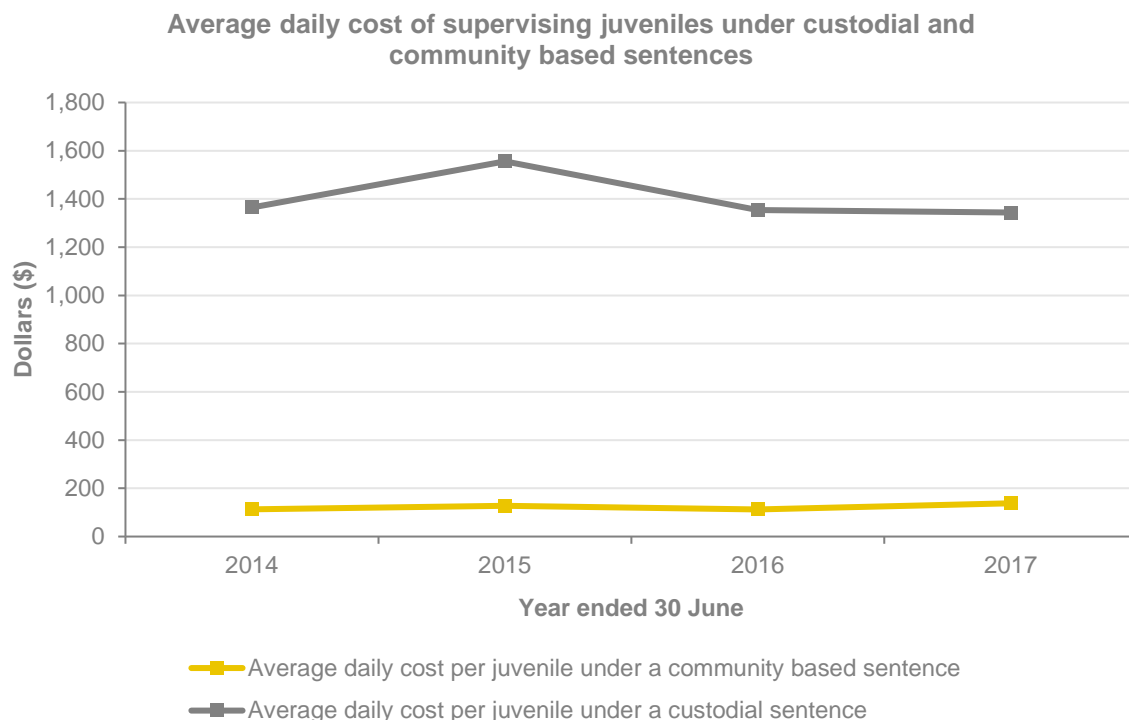
Source: Productivity Commissions Report on Government Services 2018 (unaudited).

### Each juvenile detainee cost $271,982 more than an adult inmate in 2017–18

The data above shows that the average annual cost of a juvenile detainee is significantly higher than that of an adult inmate. The Department attributes this to:

- the relative size of the juvenile justice system - as the size of the centre or service system reduces, the per detainee cost increases
- juvenile justice centres having smaller accommodation unit sizes, restricting the ability to apply alternative staffing formations
- higher supervision levels to meet duty of care responsibilities and child protection requirements
- more staff for out of room activities to re-engage juveniles in education and support their rehabilitation and re-entry to the community
- the cost of providing specialist programs to address offending behaviour
- more frequent night checks, juveniles every 20 minutes, adults every four hours.

The NSW Police Force

The NSW Police Force is now operating at full strength

NSW Police Force data shows that its authorised strength increased 0.2 per cent in 2017–18 to 16,784 (16,744 in 2016–17). With 16,788 police officers at 30 June 2018, it is operating at its authorised strength (99.4 per cent in 2016–17).

Actual and authorised strength of the NSW Police Force
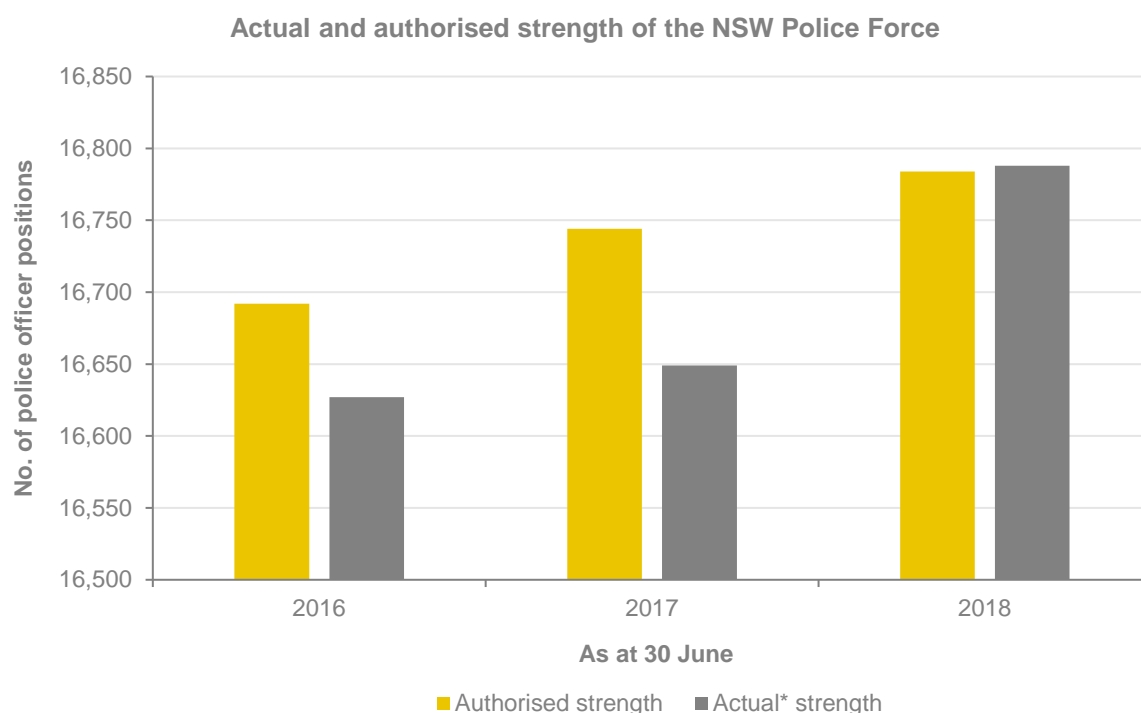
Note: 'Strength' is defined as the number of police officer positions.

*   'Actual' includes all NSW Police Force employees including secondments.

Source: NSW Police Force (unaudited).

NSW Police monitors police numbers, which fluctuate throughout the year due to natural attrition, attestations from the NSW Police Academy, separations, transfers and promotions.

NSW Police's employee related expenses for the year ended 30 June 2018 was $2.8 billion, exceeding Treasury's allocation by $25.0 million, or 0.9 per cent. Management attribute the variance mainly to Police staff progressing to higher increments within their ranks, the impact of year-end adjustments to employee related provisions and redundancy costs related to the restructure within NSW Police, specifically impacting administration staff.

NSW Trustee and Guardian

Returns on equity and property funds were equal to or slightly below, and cash and fixed interest above or equal to, their respective benchmarks

NSW Trustee and Guardian data shows funds exposed to domestic and international equities and property continued to perform strongly, with returns in the range of 12.2 to 13.6 per cent in 2017–18. Overall, returns for three of the four portfolios invested in these sectors were slightly below their respective industry benchmarks.

About 71 per cent (71 per cent at 30 June 2017) of the $2.9 billion of funds under management at 30 June 2018 ($2.9 billion at 30 June 2017) is exposed to cash or fixed interest based returns. These portfolios achieved returns of between 2.1 and 3.0 per cent in 2017–18, reflecting ongoing low interest rates. The returns were above or equal to their respective benchmarks.

NSW Trustee and Guardian Fund investment returns

Year ended 30 June 2018	One year client returns %	One year benchmark return %	One year difference return %	Five year client returns %	Five year benchmark return %	Five year difference return %
Financial management portfolios						
Access Fund	2.2	1.7	0.5	2.2	1.8	0.4
Australian Cash	2.1	1.7	0.4	2.1	1.8	0.3
Australian Cash Plus	2.3	1.7	0.6	2.5	1.8	0.7
Australian Fixed Interest	3.0	3.0	--	3.9	4.0	(0.1)
Australian Shares	13.0	13.1	(0.1)	9.6	9.4	0.2
Australian Listed Property Securities	12.8	13.1	(0.3)	11.6	11.5	0.1
International Bond	1.6	1.8	(0.2)	4.5	4.5	--
International Share	12.2	12.2	--	13.4	12.8	0.6
Trustee portfolios						
Primary Portfolio	2.3	1.7	0.6	2.2	1.5	0.7
Growth Portfolio	13.6	13.8	(0.2)	11.0	11.0	--

Note: The following standard industry benchmarks are used for each fund: Access Fund, Australian Cash, Australian Cash Plus (Bloomberg AusBond Bank Bill Index), Australian Fixed Interest (Bloomberg AusBond Composite 0+ Yr Index), Australian Shares (S&P/ASX 300 Accumulation), Australian Listed Property Securities (S&P/ASX 300 Property Trust Accumulation), International Bond (Bloomberg Barclays Capital Global Aggregate Index, hedged into AUD), International Share (80 per cent MSCI World excluding Australia, hedged into AUD/ 20 per cent MSCI World exclusion Australia, with net dividends re-invested), Primary (Bloomberg AusBond Bank Bill Index), Growth (70 per cent ASX 300 Accumulation/ 30 per cent MSCI World excluding Australia, with net dividends re-invested). Benchmark and client returns are net of the NSW Trustee and Guardian's investment management fee.

Source: NSW Trustee and Guardian (unaudited).

NSW Trustee and Guardian advises it invests client funds across a range of funds to spread risk and provide opportunities for short or long-term investment returns and security. A fund performance report is provided for each investment class.

Emergency services

Demand for emergency services fell 4.2 per cent in 2017–18

Emergency Services data shows total demand for emergency services fell 4.2 per cent to 172,031 incidents in 2017–18 (179,537 in 2016–17). This was due to significantly less wet weather-related incidents such as storms and floods, partially offset by more fire related events due to the comparatively drier weather.

Natural disaster expenditure increased by 25.6 per cent in 2017–18

Natural disaster expenditure incurred by the Office of the Rural Fire Service and the Office of the State Emergency Service increased from $44.6 million in 2016–17 to $56.0 million in 2017–18. There were 25 natural disasters declared in 2017–18 compared to 19 in the prior year.

Natural disaster expenses, recoveries and declarations

Year ended 30 June	2018	2017
Natural disaster expenditure ('$000)*	56,006	44,600
Natural disaster recoveries ('$000)*	45,399	30,637
Bushfire declarations^	21	13
Floods and storms declarations^	4	6

Source:

*   Financial statements of Fire and Rescue NSW, Office of the NSW Rural Fire Service and Office of the NSW State Emergency Service (audited).

^   Office of Emergency Management website.

Over the last two years, emergency services agencies have spent $101 million on natural disasters and recouped $76.0 million from the NSW and Australian Governments.

Natural disasters are declared events such as bushfires, floods or storms that cause significant damage or loss of life. They are declared when damage to public assets and associated recovery costs exceed $240,000. Declaration of natural disasters allows emergency service agencies to apply to recover costs associated with the disaster from the Department of Justice, which administers the NSW Disaster Assistance Arrangements. The state can recover some of these costs from the Australian Government if the criteria in the Natural Disaster Relief and Recovery Arrangements Determination are met.

Section two

Appendices

Appendix one – List of 2018 recommendations

The table below lists the recommendations made in this report.

1. Financial reporting

1.1 Cost of the NSW Police Blue Ribbon Insurance Scheme	NSW Police should estimate the cost of its Blue Ribbon Insurance Scheme for future years, to understand when the statutory target of 4.6 per cent of total NSW Police Officers' remuneration, will be met.	✅
1.2 Annual leave balances (repeat issue)	Cluster agencies with annual leave balances exceeding the state's target should review their approach to managing leave balances. They should: • regularly (e.g. each month) project annual leave balances to the end of the financial year, and • for employees with projected balances above target, develop and agree leave plans to reduce their balances over an acceptable timeframe. Focus should be given to employees who have taken little or no leave in the last 12 months.	⊖

2. Audit observations

2.1 Addressing internal control and governance issues	Audit Office management letter recommendations to address internal control and governance weaknesses should be actioned promptly, with a focus on addressing repeat issues.	⊖
2.2 Asset revaluations	Revaluations should be performed early and completed by the early close procedures deadline. The Department should quality review the revaluation results before including them in the financial statements.	⊖
2.3 Backlog maintenance	Cluster agencies should complete a condition based assessment of their assets to identify any maintenance backlog. This will help the cluster provide more reliable and consistent information on assets and their condition.	⊖
2.4 Maintenance benchmarks	Cluster agencies should consider establishing benchmarks to help assess the adequacy of their maintenance spend.	✅

Key	✅ **Low risk**	⊖ **Medium risk**	❗ **High risk**

Appendix two – Status of 2017 recommendations

Recommendation	Current status	
The Department should:		
Reinstate controls over financial information as soon as possible.	During the year, the Department continued to make progress in stabilising its internal control environment, however more effort is required to ensure controls are operating as intended. Further issues were identified in 2017–18. Refer to the Audit Observations chapter for details.	➖
Reassess the sufficiency and effectiveness of measures aimed at reducing reoffending, including the recently announced initiatives, if the State Priority target is to be met by 2019.	During the year, the Department assessed the sufficiency and effectiveness of measures aimed at reducing reoffending. The Department advises: • the Corrective Services NSW division has reanalysed the expected impact of the strategies to reduce reoffending on the State Priority targets. Based on this analysis, Corrective Services NSW is of the view the current strategies will be effective in shifting the rate of reoffending, among the offender cohort released from custody, towards the target • there are significant challenges in achieving the target for the offender cohort who receive non-custodial sentences. Corrective Services NSW only manage a small proportion, approximately 20 per cent, of this cohort. This means any impact of Corrective Services NSW initiatives will be diluted when the overall rate of reoffending is reported.	✅
Cluster agencies should:		
Regularly (e.g. each month) project annual leave balances to the end of the financial year, and for employees with projected balances above the state target, develop and agree leave plans to reduce their balances over an acceptable timeframe. Particularly focus on employees who have taken little or no leave in the last 12 months.	More than a third of employees continue to have annual leave balances above the state's 30-day target. At 30 June 2018, 14,746 (14,877 at 30 June 2017) or 36.6 per cent (37.6 per cent) of full time equivalent employees had balances exceeding the target. Most cluster agencies report they monitor current and projected leave balances monthly. The 2017–18 audits identified some agencies where employees did not have formally documented leave plans to reduce balances to acceptable levels. The number of employees that took less than five days annual leave during the year increased from 4,394 in 2016–17 to 4,693 in 2017–18, an increase of 6.8 per cent. Refer to the Financial Reporting chapter for details.	➖
Office of the NSW Rural Fire Service should:		
Recognise and value its inventories as soon as practicable.	The recommendation has been actioned. The Office of the NSW Rural Fire Service recognised inventories of $15.0 million in its 30 June 2018 financial statements for the first time.	✅

Key	✅ Fully addressed	➖ Partially addressed	❗ Not addressed

Appendix three – Cluster agencies

Agency
Principal department
Department of Justice
Law and order agencies
NSW Police Force
Crown Solicitor's Office
Information and Privacy Commission
Legal Aid Commission of New South Wales
Legal Aid Commission Staff Agency
Legal Profession Admission Board
New South Wales Crime Commission
New South Wales Crime Commission Staff Agency
NSW Trustee and Guardian
Judicial Commission of New South Wales
Office of the Director of Public Prosecutions
Law Enforcement Conduct Commission
Office of the Law Enforcement Conduct Commission
The Trustees of the Anzac Memorial Building
Emergency services agencies
Fire and Rescue NSW
Office of the NSW Rural Fire Service
Office of the NSW State Emergency Service
Bush Fire Coordinating Committee
State Rescue Board

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue		Total expense	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Principal department								
Department of Justice	5,519	5,141	840	834	7,973	6,995	7,545	6,695
Law and order agencies								
NSW Police Force	2,159	2,028	785	788	3,583	3,591	3,481	3,324
Crown Solicitor's Office	70	61	27	23	65	61	55	51
Information and Privacy Commission	2	2	1	1	6	6	6	6
Legal Aid Commission of New South Wales*	87	84	36	32	320	308	319	306
Legal Profession Admission Board	11	9	4	4	3	3	2	2
New South Wales Crime Commission*	7	7	2	2	27	26	27	27
NSW Trustee and Guardian	164	154	28	34	93	99	84	65
Judicial Commission of New South Wales	2	2	1	1	7	7	7	6
Office of the Director of Public Prosecutions	17	16	19	18	150	137	151	138
Law Enforcement Conduct Commission**	6	--	2	--	21	--	21	--
Police Integrity Commission**	--	5	--	2	--	23	--	21
Trustees of the Anzac Memorial Building	80	56	9	--	19	2	2	3
Total	**2,605**	**2,424**	**914**	**905**	**4,294**	**4,263**	**4,155**	**3,949**
Emergency services agencies								
Fire and Rescue NSW	1,008	973	338	318	742	718	737	717
Office of the NSW Rural Fire Service	270	193	70	62	425	383	371	358
Office of the NSW State Emergency Service	122	113	21	23	113	132	102	111
Total	**1,400**	**1,279**	**429**	**403**	**1,280**	**1,233**	**1,210**	**1,186**
Total for Justice Cluster	**9,524**	**8,844**	**2,183**	**2,142**	**13,547**	**12,491**	**12,910**	**11,830**

*   Consolidated financial statements.

**   The Police Integrity Commission was disbanded and replaced by the Law Enforcement Conduct Commission effective from 1 July 2017.

Source: Financial statements (audited).

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.

auditoffice
OF NEW SOUTH WALES

audit.nsw.gov.au

audit.nsw.gov.au