



FINANCIAL AUDIT

10 DECEMBER 2020

Stronger Communities 2020

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

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.

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In accordance with section 52B of the *Public Finance and Audit Act 1983*, I present a report titled '**Stronger Communities 2020**'.

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

Margaret Crawford

Auditor-General
10 December 2020

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Stronger Communities 2020

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Section one

Stronger Communities 2020

This report analyses the results of our audits of the Stronger Communities cluster agencies for the year ended 30 June 2020.

Executive summary

This report analyses the results of our audits of financial statements of the agencies comprising the Stronger Communities cluster for the year ended 30 June 2020. The table below summarises our key observations.

1. Financial reporting

Quality of financial reporting

Unqualified audit opinions were issued for all agencies' 30 June 2020 financial statements.

Compliance with financial reporting requirements

The Treasury extended the statutory deadline for the submission of the 2019–20 financial statements. For agencies subject to Treasurer's Directions, Treasury required agencies to submit their 30 June 2020 financial statements by 5 August 2020. For other agencies, the deadline was extended to 31 October 2020. All agencies in the cluster met the revised statutory deadlines.

Cluster agencies substantially completed the mandatory early close procedures set by NSW Treasury. However, nine agencies including the Department of Communities and Justice (the department) did not complete one or more mandatory requirements, such as assessing the impact of new and updated accounting standards.

Financial implications of recent emergencies

Emergency events significantly impacted cluster agencies in 2019–20. Our review of seven cluster agencies most affected highlighted some had incurred additional expenditure because of the bushfires and floods. Others lost revenue due to the COVID-19 pandemic.

During the year these agencies collectively received additional funding of \$1.1 billion from the State to respond to:

- increased demand for homeless people seeking temporary accommodation
- additional cleaning requirements
- bushfire recovery efforts
- emergency support for eligible small businesses.

The Sydney Cricket Ground Trust, Venues NSW and Office of Sport lodged insurance claims of \$51.3 million with the Treasury Managed Fund with respect to lost revenues from the pandemic. The losses were mainly due to event cancellations and covered various periods ranging from mid-March to 31 December 2020.

The change in economic conditions caused by the COVID-19 pandemic resulted in the NSW Government cancelling the refurbishment of Stadium Australia it had previously approved in August 2019. Venues NSW wrote off \$16.8 million of redevelopment costs during 2019–20.

Restatement of the Sydney Cricket Ground valuation

The valuation of the Sydney Cricket Ground (the Stadium) included costs of \$28.6 million which were not eligible for capitalisation. The financial statements were restated to reflect the reduction in the value of the Stadium and the asset revaluation reserve.

Unresolved data quality issues in the VS Connect system

The department continues to address significant data quality issues resulting from its implementation of the VS Connect system (the System) in 2019. The issues relate to the completeness and accuracy of the data transferred from the legacy system. The System is used by the department to manage its Victims Support Services (VSS) and for financial reporting purposes.

An independent actuary helps the department estimate its liability for VSS claims. The actuary's valuation at 30 June 2020 was again impacted by the data quality issues. Consequently, the actuary adopted a revised valuation methodology compared to previous years.

Recommendation (repeat issue):

The department should resolve the data quality issues in the VS Connect System before 31 March 2021.

AASB 16 'Leases' resulted in significant changes to agencies' financial position

Cluster agencies implemented three new accounting standards for the first time in 2019–20. Adoption of AASB 16 'Leases' resulted in cluster agencies collectively recognising right-of-use assets and lease liabilities of \$1.7 billion and \$1.1 billion respectively on 1 July 2019.

Significant misstatements in how lease related balances had been calculated were found in 17 of the 29 cluster agencies. The cluster outsources the management of most of its owned and leased property portfolio to Property NSW, but cluster agencies remain responsible for any deliverables under that arrangement. The misstatements were mainly caused by late revisions of key assumptions and issues with the accuracy and completeness of Property NSW's lease information.

2. Audit observations

Internal control deficiencies

Our 2019–20 financial audits identified 191 internal control issues. Of these, two were high risk and almost one-third were repeat findings from previous audits. While repeat findings reduced by 5.7 percentage points in 2019–20, the number remains high.

Recommendation (repeat issue):

Cluster agencies should action recommendations to address internal control weaknesses promptly. Focus should be given to addressing high risk and repeat issues.

Agencies response to recent emergencies

The severity of the recent bushfires and floods meant natural disaster expenses incurred by emergency services agencies rose from \$67.4 million in 2018–19 to \$497 million in 2019–20.

The COVID-19 pandemic presented unprecedented challenges for the cluster. Social distancing and other infection control measures disrupted the traditional means of delivering services. Agencies established committees or response teams to respond to these challenges.

The department introduced measures to minimise the risk of the spread of COVID-19 amongst inmates in custodial settings.

Managing excess annual leave

Managing excess annual leave was a challenge for cluster agencies directly involved in the government's response to the emergency events. Employees in frontline cluster agencies deferred leave plans and many have taken little or no annual leave during the reporting period.

Annual leave liabilities rose at the department, NSW Police Force, Fire and Rescue NSW, Office of the NSW Rural Fire Service, the Legal Aid Commission of New South Wales and the Office of the Director of Public Prosecutions. The combined liabilities increased from \$620 million to \$692 million or 11.6 per cent between 30 June 2019 and 30 June 2020.

Implementation of Machinery of Government (MoG) changes

Administrative Arrangement Orders effective from 1 July 2019, created the department of Communities and Justice and transferred functions and staff, together with associated assets and liabilities into the department from the former departments of Justice and Family and Community Services.

The department continues to establish its governance arrangements following the MoG changes.

Recommendation:

The department should finalise appropriate governance arrangements for its new organisational structure as soon as possible. This includes:

- harmonising policies and procedures to ensure a unified approach across the department
- finalising risk management and monitoring processes across the department
- updating its delegation instruments to reflect the current organisational structure, delegation limits and roles and responsibilities.

Delivery of the Prison Bed Capacity Program

The department continued to expand prison system capacity through the NSW Government's \$3.8 billion Prison Bed Capacity Program. The department reported it spent \$480 million on the Program in 2019–20. Six prison expansion projects were completed during the year, which added 1,660 new and 395 refurbished beds to the NSW prison system.

Data from the department shows the number of adult inmates in the NSW prison system reached a maximum of 14,165 during the year. Operational capacity was 16,096 beds on 19 August 2020.

1. Introduction

This report provides parliament and other users of the financial statements of agencies in the Stronger Communities cluster with the results of our audits, our observations, analysis, conclusions and recommendations.

Agencies in the Stronger Communities cluster were significantly impacted by the bushfires, floods and the COVID-19 pandemic in 2019–20. Our 2019–20 financial audits of the seven cluster agencies most significantly impacted by the recent emergency events considered:

- the financial implications of the emergency events
- changes to agencies' operating models and control environments
- delivery of new or expanded projects, programs or services at short notice.

Our findings on these seven agencies' responses to the recent emergencies are included throughout this report. These agencies are:

- Department of Communities and Justice
- Fire and Rescue NSW
- NSW Police Force
- Office of the NSW Rural Fire Service
- Office of the NSW State Emergency Service
- Sydney Cricket and Sports Ground Trust
- Venues NSW.

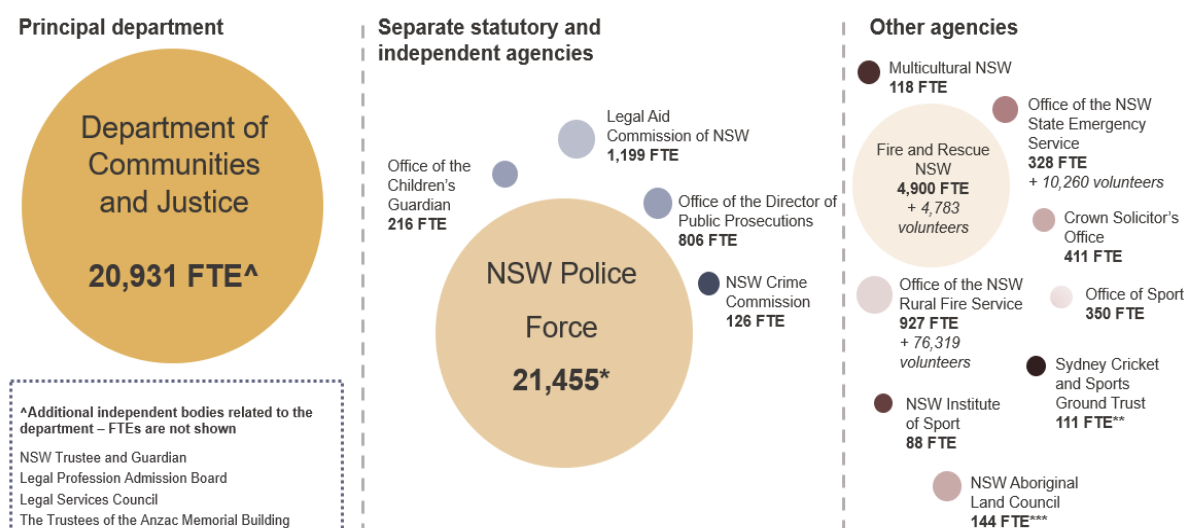
The Department of Communities and Justice is the principal agency of the cluster. The names of all agencies in the Stronger Communities cluster are included in Appendix one.

1.1 Snapshot of the cluster

Department of Communities and Justice	Separate statutory and independent agencies	Other agencies	Cluster total
Total revenue \$13.9 billion	Total revenue \$630 million	Total revenue \$6.7 billion	Total revenue \$21.2 billion
Total expenditure \$13.7 billion	Total expenditure \$632 million	Total expenditure \$6.8 billion	Total expenditure \$21.1 billion
Net result \$170 million	Net result (\$2.0 million)	Net result (\$83 million)	Net result \$85.0 million
Total assets \$9.0 billion	Total assets \$234 million	Total assets \$7.7 billion	Total assets \$16.9 billion
Total liabilities \$1.9 billion	Total liabilities \$204 million	Total liabilities \$2.9 billion	Total liabilities \$5.0 billion
Net assets \$7.1 billion	Net assets \$30 million	Net assets \$4.8 billion	Net assets \$11.9 billion

Source: Agencies 30 June 2020 financial statements, except for the Sydney Cricket and Sports Ground Trust whose financial statements are for the year-ended 29 February 2020 (audited).

The Stronger Communities cluster employed more than 52,000 full time equivalent (FTE) staff at 30 June 2020, as shown below.



^{*} The number for the NSW Police Force represents headcount and not FTE.

^{**} Reflects the FTE number at 29 February 2020, which aligns with the entity's year end date.

^{***} This entity is not part of the cluster but is included for reporting purposes. The FTE number is for the consolidated entity.

Source: The information is for agencies with employee related expenses exceeding \$10 million in 2019–20 and is prepared using information supplied by those agencies. The information excludes agencies that have no employees and receive personnel services from other agencies (unaudited).

1.2 Changes to the cluster

Machinery of Government (MoG) refers to how the government organises the structures and functions of the public service. MoG changes occur when the government reorganises these structures and functions. Changes are given effect by Administrative Orders.

Last year's [Auditor-General's Report to Parliament](#) reported significant MoG changes in the cluster. These were affected through Administrative Changes Orders issued on 2 April 2019 and 1 May 2019. The orders, which took effect on 1 July 2019:

- abolished the former Department of Justice, the former Department of Family and Community Services and the former Justice and Family and Community Services clusters
- created the new Department of Communities and Justice (the department) and transferred functions and staff, together with associated assets and liabilities into the new Department from the former departments
- moved functions of the former departments and many of the cluster agencies into the new cluster. Conversely, the MoG changes moved some agencies formerly in the Family and Community Services cluster and Justice cluster elsewhere.

Since 1 July 2019, the department has undergone a further MoG change. The Administrative Arrangements (Administrative Changes – Resilience NSW) Order 2020 effective from 1 May 2020, established Resilience NSW as a public service executive agency related to the Department of Premier and Cabinet in Part 2 of Schedule 1 of the *Government Sector Employment Act 2013*. This Order also transferred functions and staff, together with associated assets and liabilities from the Office of Emergency Management division within the department to Resilience NSW. \$41.6 million of net assets were transferred out of the department and into Resilience NSW.

The Office of the Ageing and Disability Commissioner is a new cluster agency, which was established on 1 July 2019 under the *Ageing and Disability Commissioner Act 2019*. The Ageing and Disability Commissioner is independent and not subject to Ministerial direction and control in exercising its functions.

The Commissioner's functions include:

- investigating allegations of abuse, neglect and exploitation of adults with disability and older people in home and community settings
- providing support to vulnerable adults and their families or carers following an investigation
- reporting and making recommendations to government on systemic issues related to abuse, neglect and exploitation
- raising community awareness of abuse, neglect and exploitation, including how to prevent, identify and respond to matters
- administering the Official Community Visitors program, in relation to disability services and assisted boarding houses.

1.3 Service delivery in the cluster

The Stronger Communities cluster aims to help keep citizens safe and build strong and supportive communities across the state. The government priorities to which the cluster contributes are:

- developing well-connected communities with quality local environments
- breaking the cycle of intergenerational disadvantage.

Impact of emergencies in the cluster

The Stronger Communities cluster was significantly impacted by natural disasters and by the COVID-19 pandemic. The NSW Government responded by increasing funding to agencies in the cluster by \$1.1 billion. Cluster agencies also benefited from services provided by the Australian Defence Forces under the 'Defence Aid to the Civil Community' (DACC) program which provides assistance in emergency situations.

The bushfires in NSW burnt through 5.5 million hectares, damaged or destroyed 11,566 structures including 2,448 homes, and took 26 lives. Expenditure by emergency services agencies increased by \$430 million as they responded to the 2019–20 bushfire and flood emergencies. Leave for many of their employees was cancelled as frontline and support staff at cluster agencies responded to the ongoing emergencies. Employee liabilities at these agencies has increased as a result.

Infection control measures required by State Government Public Health Orders in response to COVID-19 caused cluster agencies to cancel events, close venues, provide rent relief to tenants of leased properties, and write off defaulting debts and perishable inventories. Sydney Cricket Ground Trust and Venues NSW lost revenue from cancelled events, non-renewal of memberships, lost advertising, sponsorship and food and beverage sales. Lost revenues resulted in claims against the Treasury Managed Fund of \$51.3 million.

Changes were made to the way criminal proceedings are conducted to reduce social contact during the COVID-19 health emergency. More trials can be heard by a judge alone, evidence and court appearances can be pre-recorded or via audio visual link.

Physical contact visits in correctional facilities were restricted in favour of video visits during the COVID-19 health emergency.

Emergency events required a mobilisation of manpower and financial resources. Many cluster agencies' responses will continue beyond this financial year. Cluster agency responses to the emergencies are detailed in Section 3.2.

According to the 2019–20 NSW Budget Papers, cluster agencies were budgeted to spend \$17.7 billion

State Outcomes delivered by the cluster in 2019–20 are shown in the table below:

State Outcome	Description	Total budgeted expenditure in 2019–20 (\$ million)
Safer communities	Deliver law enforcement to prevent and investigate crime, maintain social order, promote road safety and emergency services.	4,087
Assist those with a disability to live independently	Support the transition of clients to the National Disability Insurance Scheme and more inclusive communities.	3,129
Disasters and emergencies	Deliver emergency management to enhance response and recovery efforts and build community resilience.	1,695
Resolution of legal disputes	Support the administration of courts and tribunals and delivery of legal services in New South Wales.	1,332
Maintain rights and records	Provide client services, including support for victims and vulnerable people.	519
Inclusive communities and sport and recreation	Deliver community support to increase community participation and promote harmony and cohesion. Improve participation in sport and recreation, support for athletes, and deliver quality venues and facilities.	626
Reduce reoffending	Support and manage adult and juvenile offenders in correctional centres, and in the community.	2,856
Children and families	Support the safety and wellbeing of vulnerable children, young people and families.	2,428
Safe and affordable housing	Provide access to appropriate housing for those in need, including homelessness services.	996

Source: NSW Budget Papers 2019–20.

2. Financial reporting

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

This chapter outlines our audit observations related to the financial reporting of agencies in the Stronger Communities cluster for 2020, including any financial implications from the recent emergency events.

Section highlights

- Unqualified audit opinions were issued for all agencies' 30 June 2020 financial statements. All agencies met the revised statutory deadlines for completing early close procedures and submitting their financial statements.
- Emergency events significantly impacted cluster agencies in 2019–20. Agencies received additional funding of \$1.1 billion to respond to the emergencies.
- Cluster agencies implemented three new accounting standards in 2019–20. Adoption of AASB 16 'Leases' resulted in significant changes to agencies' financial statements.

2.1 Quality of financial reporting

Audit opinions

Unqualified opinions issued on cluster agencies' financial statements

Unqualified audit opinions were issued for all agencies' 30 June 2020 financial statements. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

2.2 Compliance with financial reporting requirements

Statutory deadlines were extended as a result of COVID-19

In 2019–20, cluster agencies were expected to prepare their financial statements under the *Government Sector Finance Act 2018* (GSF Act). However, the GSF Act financial reporting provisions were delayed because of the COVID-19 pandemic. As a result, agencies prepared their financial statements for the 2019–20 financial year in accordance with the *Public Finance and Audit Act 1983* (PF&A Act).

The *COVID-19 Legislation Amendment (Emergency Measures—Treasurer) Act 2020* included amendments to the PF&A Act that deferred the statutory deadlines for agencies to submit their financial statements to the Auditor-General and Treasury.

For agencies subject to Treasurer's Directions, Treasury required agencies to submit their 30 June 2020 financial statements to the Audit Office and Treasury by 5 August 2020. For other agencies, the deadline to submit financial statements to the Audit Office and the relevant Minister was extended to 31 October 2020.

Financial statements were submitted on time and audits have been completed

All cluster agencies' financial statements were submitted for audit by the revised dates. However, extensions to statutory deadlines meant the audits for many agencies commenced later than originally anticipated.

The audits of the financial statements for 22 of the 29 cluster agencies were completed and audit opinions issued by the revised statutory dates.

The department submitted its financial statements to the Audit Office on time, but sought approval from NSW Treasury to delay submission of its lease related balances and note disclosures until 19 August 2020. An extension was granted so the department could validate the completeness and accuracy of lease information for disclosure in their financial statements. The department submitted their revised financial statements to the Audit Office on 19 August 2020.

Cluster agencies substantially completed early close procedures, but improvement is required

Nine¹ cluster agencies including the department did not complete one or more mandatory requirements, including:

- assessing the impact of new and updated accounting standards including the documentation and assessment of significant assumptions and inputs
- assessing the impacts of the GSF Act
- reconciling key account balances and clearing reconciling items
- agreeing and confirming inter agency balances and transactions with counterparties
- resolving prior year management letter and engagement closing report issues.

Early close procedures allow financial reporting issues and risks to be addressed by management and audit early in the financial statement close process. This helps to improve the quality and timeliness of financial reporting.

The table in Appendix one shows the timeliness of financial reporting for cluster agencies.

2.3 Financial implications of recent emergencies

In 2019–20, some cluster agencies incurred significant additional expenditure as a result of bushfires, floods and COVID-19. Some agencies also lost revenue due to the COVID-19 pandemic.

We analysed seven cluster agencies² most significantly impacted by the recent emergency events to understand the financial impacts.

¹ The department, Legal Aid Commission of New South Wales, Office of the Director of Public Prosecutions, Crown Solicitor's Office, New South Wales Institute of Sport, NSW Trustee and Guardian, Office of Sport, Office of the NSW State Emergency Service, Venues NSW.

² The names of the seven cluster agencies are included in Appendix five.

Emergency events have significantly impacted cluster agencies

The emergency events resulted in these agencies collectively recognising:

- additional NSW Government funding of \$1.1 billion
- an increase in natural disaster expenses of \$430 million
- a rise in annual leave liabilities as frontline staff cancelled or deferred leave plans (refer to the 'Audit observations' chapter for more detail)
- impairment losses on right-of-use assets of \$37.3 million due to changes in rental market conditions caused by COVID-19
- insurance claims of \$51.3 million lodged with the Treasury Managed Fund (TMF) in relation to lost revenues from the COVID-19 pandemic
- \$16.8 million of project costs written off because of the government's decision to cancel the Stadium Australia redevelopment project in response to the COVID-19 pandemic
- an increase in borrowings of \$6.5 million from NSW Treasury to help cover interim cash flow requirements
- additional expenditure relating to the COVID-19 quarantine compliance management operations for returning international travellers
- a rise in impairment losses on receivables of \$1.5 million due to rent relief for tenants of leased properties and expected defaults in debts owing from user charges for sporting and special events
- \$236,000 of inventory stock written off due to COVID-19 related event cancellations
- additional costs arising from adjustment to service delivery models, which are detailed in Section 3.2.

Site closures required by State Government Orders in response to COVID-19 negatively impacted revenue for the Sydney Cricket Ground Trust (SCGT) and Venues NSW. This mainly related to sales revenues from events, membership renewals, attendances, advertising, sponsorship and food and beverage sales.

Insurance claims of \$51.3 million were lodged for lost revenue due to COVID-19

SCGT, Venues NSW and Office of Sport lodged insurance claims of \$29.5 million, \$13.0 million and \$8.8 million respectively with the TMF in relation to lost revenues from the COVID-19 pandemic. SCGT advised its claim is an estimate of lost revenues for the period from mid-March to 31 December 2020. The claims from Venues NSW and Office of Sport covered the period from mid-March to 30 June 2020.

SCGT recognised insurance recoveries of \$140,000 in their financial statements. For Venues NSW and Office of Sport, the claims were not recognised as revenue in 2019–20 as they had not been assessed or confirmed by Treasury at 30 June 2020. If the claims are subsequently confirmed, they will impact these entities' future revenues.

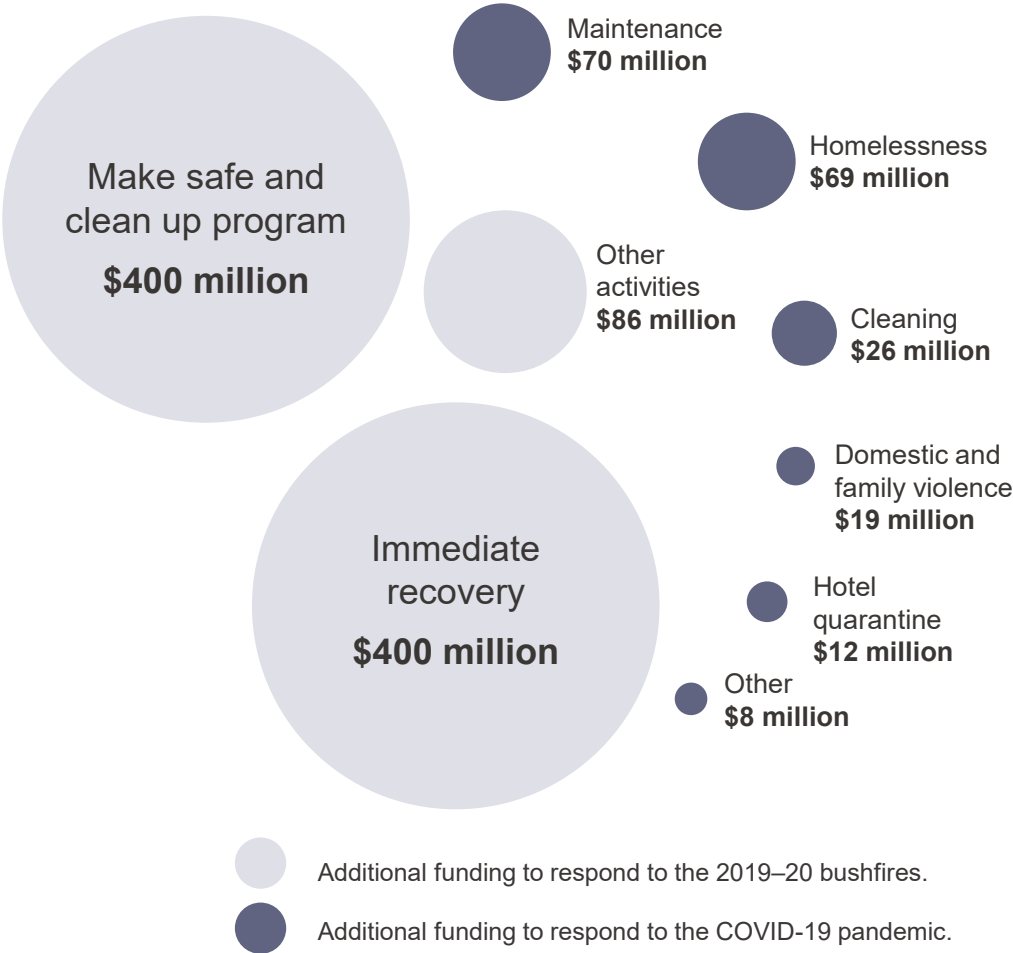
In response to COVID-19 the NSW Government imposed restrictions on the operations of businesses with gatherings of people. Consequently, the operations of the sporting entities were restricted from mid-March to 30 June 2020. Events and activities scheduled to take place during that period were restricted or cancelled. Revenues (excluding grants and contributions) for these entities reduced from \$266 million in 2018–19 to \$193 million in 2019–20.

The agencies advise restrictions on crowd numbers and events in response to COVID-19 will continue into 2020–21. Further insurance claims are expected to be made while these restrictions are still in force.

Agencies received additional funding of \$1.1 billion to respond to emergency events

During 2019–20 the seven cluster agencies³ collectively received additional funding of \$1.1 billion to respond to increased demand for homeless people seeking temporary accommodation, additional cleaning requirements, hotel quarantine, bushfire recovery efforts and small business support.

Additional funding to respond to emergencies



Note: The figures in the graph include the selected agencies referred to in Appendix five.
Source: Audited financial information.

Refer to the ‘Audit observations’ chapter for details on cluster agencies’ response to the bushfires.

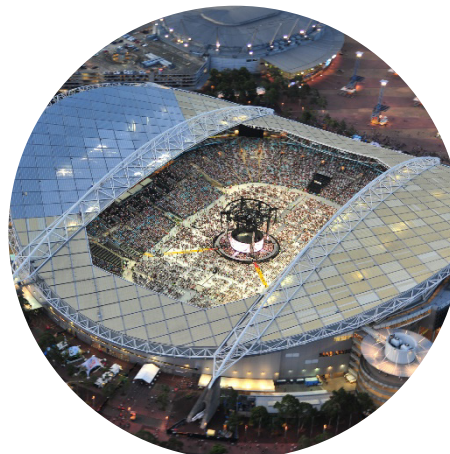
³ The names of the seven cluster agencies are included in Appendix five.

Venues NSW wrote off \$16.8 million due to the cancellation of the Stadium Australia redevelopment

In March 2018, the NSW Premier announced the government will undertake a refurbishment of Stadium Australia (formerly the ANZ Stadium). In August 2019, the NSW Government approved the \$810 million refurbishment of Stadium Australia.

On 1 June 2020, due to the change in economic conditions caused by the COVID-19 pandemic, the NSW Government cancelled the redevelopment project. Consequently, in 2019–20 Venues NSW wrote off \$16.8 million of redevelopment costs (funded by a NSW Government grant).

The cancellation of the project meant Infrastructure NSW paid compensation of \$4.4 million to reimburse the tenderers for their submission costs. Additional lease rentals of \$2.4 million were incurred as Venues NSW entered a three-year property lease in June 2020 to relocate office premises it no longer requires. Venues NSW is currently looking to sublet the surplus premises.



2.4 Key accounting issues

Correction of prior year's reported values

Sydney Cricket Ground's valuation was restated by \$28.6 million

The SCGT carries its assets at fair value and performed a comprehensive valuation of the Sydney Cricket Ground (the Stadium) as at 28 February 2018 to reflect the current cost of replacing the Stadium.

The valuation included costs of \$28.6 million which were not eligible for capitalisation. The financial statements were restated to reflect the reduction in the value of the Stadium and the asset revaluation reserve by \$28.6 million.

Victims Services system

The Victims Services division within the department provides support, information, referrals, counselling and financial support to victims of violent crimes and witnesses to violent crimes in NSW. The VS Connect System (the System) is the case management system used by the department to manage these services. The department uses information in the System for financial reporting purposes.

Data quality issues in the VS connect system continue to be addressed

Recommendation (repeat issue)

The Department of Communities and Justice should resolve the data quality issues in the VS Connect System before 31 March 2021.

Last year's [Auditor-General's Report to Parliament](#) recommended the department resolve the data quality issues in the System before 30 June 2020. The recommendation was made because in November 2018, the former Department of Justice had implemented the System, which included data migrated from the legacy CARES system. There were significant data quality issues relating to the completeness and accuracy of the migrated data. The department continues to address these issues.

Some of the actions it took in 2019–20 included:

- establishing a steering committee and project group to remediate the System
- engaging an external firm to help the department resolve system functionality and data migration issues
- engaging an independent actuary to perform data analysis and reconciliations over the System's data for financial reporting purposes.

The actuary identified further issues in the System's data. For example, payment amounts in the System did not reconcile to the payments made. While the payments made were unaffected, data discrepancies impacted the actuary's valuation. The actuary referred these to the department to resolve during 2020–21.

Poor data quality again impacted valuation of Victims Support Scheme (VSS) claims liabilities at 30 June 2020

An independent actuary helps the department estimate its liability for lodged but not yet paid VSS claims. Data quality issues caused the independent actuary to adopt a revised valuation methodology, compared to that used in previous years. The VSS claims liability recorded in the department's 30 June 2020 financial statements was \$192 million (\$135 million at 30 June 2019).

The department spent \$7.4 million in 2019–20 (\$662,000 in 2018–19) addressing implementation issues. It expects to spend a further \$8.6 million in 2020–21. The department should resolve the data quality issues before 31 March 2021 in order to support the preparation of the 2020–21 financial statements.

Other financial reporting matters

Merger of Venues NSW and Sydney Cricket and Sports Ground Trust

On 23 June 2020, the NSW Government announced Venues NSW and the SCGT would merge into a single, new entity. This entity will combine the operations of both Venues NSW and the SCGT, creating a single organisation for the NSW Government's sporting and entertainment venues.

An Interim Advisory Board was established to oversee the development of the new entity's operating model, with a view to completing the merger before 31 December 2020. The enabling legislation for the new entity was assented by the Governor of NSW on 27 October 2020. The Interim Advisory Board is chaired by the Secretary, Department of Premier and Cabinet and includes existing Board Members from Venues NSW and Trustees from the SCGT.

The Office of the NSW Rural Fire Service received \$400,000 from the NSW Rural Fire Service and Brigades Donation Fund to purchase and distribute equipment to the brigades

The NSW Rural Fire Service and Brigades Donation Fund (the Donations Fund) is a charity registered with the Australian Charities and Not-for-Profit Commission (ACNC). This year, a significant amount of donations was received as the public responded to the severity of the bushfire season, including \$51.3 million raised through a Facebook and Paypal Giving Fund fundraising campaign.

RFS re-assessed whether the Office of the NSW Rural Fire Service (RFS) controls the Donations Fund in accordance with AASB 10 'Consolidated Financial Statements' and concluded there was no control of the Donations Fund. RFS is not a named beneficiary under the Trust Deed and is not exposed to variable returns from the Fund. Therefore, the Fund is not consolidated in the RFS' financial statements, is not a Government Sector Finance Agency and is not audited by the Auditor-General. The Donations Fund's financial reports are audited by an external firm and lodged with the ACNC.

The Donations Fund is a separate entity from RFS, governed by six trustees. As set out in the Trust Deed, the trustees can apply the income or capital of the Fund to benefit the brigades, to:

- meet the costs of purchasing and maintaining fire-fighting equipment and facilities
- provide training and resources
- meet the administrative expenses associated with volunteer-based fire and emergency service activities.

During the year, the RFS received \$0.4 million (2019: nil) from the Donations Fund to purchase and distribute equipment to the brigades. The RFS purchases the equipment on behalf of the brigades to ensure it meets safety standards and to take advantage of the RFS's purchasing power. The RFS itself does not benefit from these funds, as the purchased equipment is distributed to the brigades.

2.5 Implementation of new accounting standards

Cluster agencies implemented three new accounting standards for the first time in their 2019–20 financial statements. These impacted the financial position and operating results of agencies across the cluster. Agencies will implement another new accounting standard from 1 July 2020.

AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' changed how the department and cluster agencies report income in 2019–20

AASB 15 and AASB 1058 became effective for all NSW public sector agencies from 1 July 2019.

The introduction of AASB 15 and AASB 1058 required the department and cluster agencies to reassess the way they accounted for revenue, depending on whether it arises from contracts for sales of goods and services, grants and other contributions. Revenue from contracts for services is now recognised only when performance obligations have been satisfied.

The adoption of new accounting standards meant the department and cluster agencies had to review their existing revenue contracts and adjust how they had previously been accounted for. The department and cluster agencies were not required to restate their prior period financial statement figures. Instead, they adjusted the \$28.2 million impact of the new standards against retained earnings at 1 July 2019.

AASB 16 'Leases' changed how the department and cluster agencies treat operating leases in 2019–20

AASB 16 became effective for all NSW public sector agencies from 1 July 2019. On 1 July 2019, the department and cluster agencies collectively recognised right-of-use assets of \$1.7 billion (including finance leased assets of \$480 million reclassified from property, plant and equipment) and lease liabilities of \$1.1 billion on adoption of AASB 16.

AASB 16 changed how lessees treat operating leases for financial reporting. Under AASB 16, operating leases are now recorded, with a few exceptions, in an entity's Statement of Financial Position through the recognition of a right-of-use asset and a corresponding lease liability. It also changes the timing and pattern of expenses recorded in the Statement of Comprehensive Income by recognising depreciation on the asset and the financing cost of the lease.

AASB 16 requires different and more extensive disclosures about an entity's leasing activities. The objective of the disclosures is to provide users of financial statements with a basis to assess the effect of leasing activities on an entity's financial position, performance and cash flows.

Oversight of lease information provided by Property NSW needs to be significantly improved

Property NSW (PNSW) is the lead agency responsible for managing most of the cluster's owned and leased property portfolio. PNSW compiled information for agencies based on its lease database. Difficulties in determining reliability of PNSW lease data required agencies to validate the completeness and accuracy of that information for the purposes of their financial statements.

After cluster agencies submitted their financial statements for audit, misstatements were found in how lease related balances had been calculated in 17 of the 29 agencies. Cluster agencies' financial statements contained net errors of \$18.4 million relating to lease liabilities and \$15.5 million for right-of-use assets. The misstatements were mainly caused by late revisions of key assumptions and issues with the accuracy and completeness of PNSW's lease information.

While agencies rely on the control environment and lease information provided by PNSW, responsibility for the completeness and accuracy of the balances reside with the preparers of the financial statements. Inadequate scrutiny and oversight over these balances can elevate the risk of error leading to misstatement or material disclosure omissions in the financial statements.

Cluster agencies need to ensure the accuracy of all relevant lease contract data, including future market rent reviews, fixed rate increases, non-lease components and lease incentives. This will help ensure right-of-use asset and liability values are correctly calculated and reported in their financial statements.

Further information on the issues regarding leases managed by PNSW are included in the following Reports to Parliament '[Report on State Finances 2020](#)' and '[Planning, Industry and Environment 2020](#)'.

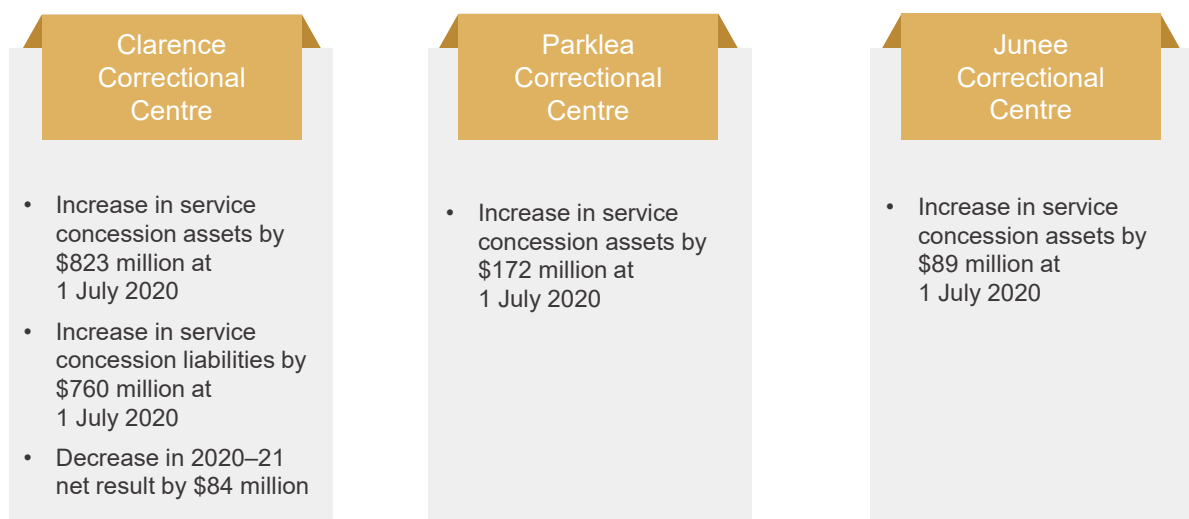
AASB 1059 'Service Concession Arrangements: Grantors' will apply from 1 July 2020

AASB 1059 is effective for NSW public sector entities for the 2020–21 financial year.

A service concession arrangement typically involves a private sector operator designing, constructing or upgrading assets used to provide public services, and operating and maintaining those assets for a specified period of time. In return, the private sector operator is compensated by the public-sector entity.

Impact assessments performed by cluster agencies show many of them have no arrangements with private sector operators that are likely to fall within the scope of AASB 1059. For these agencies, there will be little or no impact on their 2020–21 financial statements from adopting AASB 1059. However, the department's estimates of the impacts of the new standard are shown in the diagram below.

Department's estimated impact from adopting AASB 1059 in 2020–21



Source: Department of Communities and Justice audited 30 June 2020 financial statements.

2.6 Financial performance key issues

Demand funding

A demand funding model for the criminal and civil justice system is expected to be implemented during 2020–21

The Justice component of the cluster is integrated with key service delivery inter-dependencies. Ensuring communities are safe requires both upstream and downstream agencies to be appropriately resourced.

Funding in the criminal and civil justice system is determined in advance through the annual appropriation process. This does not always reflect the expenditure that will be required, which is driven by the level of activity.

To help address this issue, a new demand funding model for the criminal and civil justice system is being developed by various agencies from across the cluster in conjunction with NSW Treasury. Cluster agencies advise:

- the NSW Government in September 2019, endorsed the Stronger Communities cluster adopting a demand funding model from 2020–21 onwards
- piloting of the model is subject to resolution of the Stronger Communities' budget when the 2020–21 state budget is enacted
- the demand funding model is being used in the interim, to inform Estimates Review Committee decisions, business cases and impact assessments related to the cluster
- use of the model has allowed more transparency in identifying the cost of service delivery in the criminal justice system.

The [2016 Auditor-General's Report to Parliament](#) recommended that, in making decisions about cluster resources, the activities of the interrelated components of the criminal justice system should be considered.

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 Stronger Communities cluster
- assessment of how well cluster agencies adapted their systems, policies and procedures, and governance arrangements in response to recent emergencies
- review of how the cluster agencies managed the increased risks associated with new programs aimed at stemming the spread of COVID-19 and stimulating the economy.

Section highlights

- Almost one-third of internal control issues reported were repeat findings. Cluster agencies should address these issues more promptly.
- The severity of the recent bushfires and floods meant natural disaster expenses incurred by emergency services agencies increased by \$430 million in 2019–20.
- The department continues to establish its governance arrangements following Machinery of Government changes effective 1 July 2019.

3.1 Internal control deficiencies

Management letter findings

Effective internal controls reduce the risk of fraud and error and help agencies operate efficiently and effectively and to comply with relevant laws, standards and policies. Our audits do not review every control every year. We select a range of measures, and report on those that present the most significant risks that agencies should mitigate. We report on deficiencies in internal controls, matters of governance interest and unresolved issues identified to management and those charged with governance. We do this through our management letters, which include our observations, related implications, recommendations and risk ratings.

Almost one-third of internal control issues reported were repeat findings

The 2019–20 financial audits of cluster agencies identified 191 (157 in 2018–19) internal control issues, of which 61 (59) or 31.9 per cent (37.6 per cent) were repeat findings from previous financial audits. While repeat findings have reduced by 5.7 percentage points in 2019–20, the number remains high.

Recommendation (repeat issue)

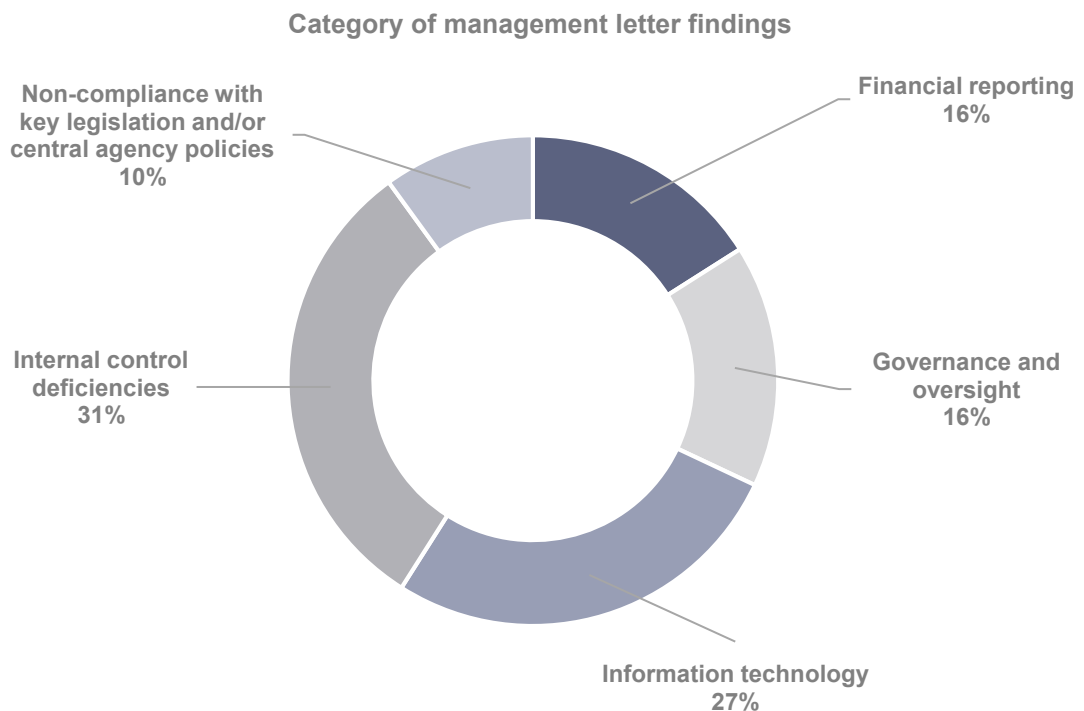
Cluster agencies should action recommendations to address internal control weaknesses promptly. Focus should be given to addressing high risk and repeat issues.

A delay in implementing audit recommendations increases the risk of errors in processing information, when producing management reports and generating financial statements. This can impair decision-making, affect service delivery and expose agencies to fraud, financial loss and reputational damage. Poor controls may also mean agency staff are less likely to follow internal policies, inadvertently causing the agency not to comply with legislation, regulation and central agency policies.

The table in Appendix two shows the management letter findings for each cluster agency.

Deficiencies in internal controls (including IT controls) account for 58 per cent of all management letter findings



The graph below shows 31 per cent of reported deficiencies related to internal controls with a further 27 per cent relating to deficient information technology controls. The balance of our management letter findings related to deficiencies in governance and oversight (16 per cent), financial reporting (16 per cent) and non-compliance with key legislation and/or central agency policies (ten per cent).



Source: Audit Office management letters.

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

Category	Risk rating	Issue
Information technology	 Moderate: 18 new, 12 repeat  Low: 14 new, 7 repeat	Moderate and low risk issues included: <ul style="list-style-type: none"> • user access administration • password security policies and parameters • monitoring privileged user activities • development, review and testing of system disaster recovery plans and business continuity plans.
Internal control deficiencies	 High: 2 new  Moderate: 15 new, 11 repeat  Low: 23 new, 9 repeat	The two high-risk matters related to the New South Wales Institute of Sport. Our audit found: <ul style="list-style-type: none"> • the Institute had not reconciled all its key account balances as part of its early close procedures at 31 March 2020 • responsibilities for the performance of key accounting functions were not clear between the Institute and its shared services provider, the Office of Sport. <p>Other moderate and low risk issues included:</p> <ul style="list-style-type: none"> • not clearing inter-agency transactions and balances that have already been settled • purchase orders raised after the invoice date • incomplete plant and equipment stocktakes • not reconciling key account balances and clearing reconciling items • delays in capitalising completed capital works projects.
Financial reporting	 Moderate: 15 new, 4 repeat  Low: 10 new, 2 repeat	Moderate and low risk issues included: <ul style="list-style-type: none"> • insufficient evidence to support agencies' impact assessments for new accounting standards, including the documentation and assessment of significant assumptions and inputs • inadequate scrutiny and oversight of lease information provided by PNSW • data quality issues in the VSS system • not recording or incorrectly recording restoration liabilities • fully depreciated assets still in use without a reassessment of their useful lives.
Governance and oversight	 Moderate: 12 new, 3 Repeat  Low: 10 new, 6 repeat	Moderate and low risk issues included: <ul style="list-style-type: none"> • outdated policies and procedures • financial delegation instruments not reviewed to ensure their currency • key requirements specified in NSW Procurement Board Directions not captured in agency procurement policies • incomplete contracts registers • lack of gifts and benefits registers.

Category	Risk rating	Issue
Non-compliance with key legislation and/or central agency policies	 Moderate: 8 new, 3 repeat  Low: 3 new, 4 repeat	Moderate and low risk issues included: <ul style="list-style-type: none"> management of excessive annual leave balances insufficient delegations to spend deemed appropriation money per the <i>Government Sector Finance Act and Regulation 2018</i>.



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 on interim and final management letters issued to agencies, or draft letters where findings have been agreed with management.

3.2 Agency responses to recent emergencies

We analysed seven⁴ cluster agencies at the forefront of the government's response to the recent emergency events and reviewed the effect of the emergencies on their service delivery.

Agencies' response to COVID-19

COVID-19 disrupted the way services are delivered

The COVID-19 pandemic presented unprecedented challenges for the Stronger Communities cluster. Social distancing and other infection control measures have disrupted the traditional means of delivering services. Some of the key responses included:

- revised operating practices in relation to policing, operation of the courts and correctional centres, and management of offenders in the community to deliver services in a COVID safe way
- reduced number of offenders on remand and in prison consistent with criminal justice changes intended to minimise the risk of COVID-19 transmission in correctional centres
- suspension of key activities such as in person contact visits to inmates in correctional centres to prevent virus entry into closed environments
- reduced or significantly changed service delivery in face-to-face services to clients
- event cancellations and crowd restrictions at sporting venues
- increased COVID-19 cleaning to comply with guidelines
- changes to workplace and workforce arrangements to manage staff working remotely.

⁴ The names of the seven cluster agencies are included in Appendix five.

Agencies responded to the challenges presented by COVID-19

All seven cluster agencies established committees or response teams to oversee and address the challenges presented by COVID-19. Key actions taken by the seven agencies we reviewed to respond to the outbreak of COVID-19 include:

- developing alternate service delivery options such as audio-visual link technology to support court appearances and family visits for inmates in prison, child protection and housing
- developing procedures for the safe movement of inmates and face to face contact with vulnerable citizens
- enforcing COVID-19 restrictions and oversight of hotel quarantine operations by the NSW Police Force
- supporting public housing and Aboriginal Housing Office tenants by excluding additional COVID-19 payments from Centrelink in the calculation of rental subsidies
- ensuring appropriate infection control procedures such as social distancing, additional cleaning, hygiene supplies and additional signage and communication
- working from home arrangements for administrative and non-frontline operational staff
- moving some administration activities to remote delivery and closing some buildings and facilities
- implementing additional information technology to allow people to work remotely.

Response to homelessness in reaction to COVID-19

Individuals experiencing homelessness are generally more likely to develop serious health conditions, compared to individuals with stable housing. People sleeping rough are highly vulnerable to COVID-19 due to a high rate of underlying respiratory and other physical and mental health issues. In addition, crowded accommodation increases the risk of transmission of COVID-19 for people experiencing homelessness.

In March 2020, the NSW Government announced \$34.3 million in funding to prevent homelessness as a response to the COVID-19 pandemic. Of this, \$14.0 million was ear-marked to support more people with temporary accommodation, including accommodating rough sleepers and individuals in large congregate homelessness shelters in hotels. The funding was provided over two years, with \$8.3 million allocated for 2019–20 and \$26.0 million for 2020–21. The department advised the 2019–20 allocation was fully expended.

COVID-19 required an immediate response for homeless individuals

The department established a taskforce to implement its COVID-19 response for people sleeping rough or in temporary accommodation. The taskforce included representation from the department, NSW Health, Specialist Homelessness Services, other Non-Government Organisations, Community Housing Providers, Aboriginal representatives and people with lived experience of homelessness.

Several initiatives were introduced including:

- increased assertive outreach to rough sleepers
- adjustments to temporary accommodation policy settings to increase entitlements and remove annual caps
- securing rooms in hotels, motels and serviced apartments in metropolitan Sydney to respond to the increased demand for temporary accommodation.

The department spent in excess of \$29.0 million on temporary accommodation between late March and the end of June 2020. From 1 April to 30 June 2020, these funds delivered over 131,000 nights of accommodation to over 13,000 individuals. This included over 38,000 nights of temporary accommodation for nearly 2,200 people who were sleeping rough.

New program aims to support rough sleepers into stable accommodation

In June 2020, the government announced funding of \$36.1 million to establish the 'Together Home' program. The program commenced on 1 July 2020 and will operate for two years. An additional \$29.0 million to expand the program was announced in November 2020 as part of the 2020–21 NSW Budget.

This project aims to support people who have been sleeping rough during COVID-19 into stable accommodation linked with wrap-around supports by:

- rapidly rehousing people sleeping rough and facilitating pathways into longer term housing
- providing access to culturally appropriate health, mental health and wellbeing services
- building connections with family, community and culture
- supporting daily living and self-management skills
- providing structured activities including social groups, education or employment.

Funding is provided to Community Housing Providers to head lease housing on behalf of people experiencing homelessness who have recently been in temporary accommodation as part of the COVID-19 response. Community Housing Providers also engage Specialist Homelessness Services, community organisations and health providers to support the clients.

A performance audit is being conducted on the department's homelessness response

The Audit Office is conducting a performance audit on the department's [responses to homelessness](#). The performance audit will examine whether the department's response to COVID-19 effectively supported people experiencing homelessness.

The performance audit will also consider whether actions in the NSW Homelessness Strategy are effectively implemented and producing outcomes in reducing homelessness. Current NSW Government efforts to address homelessness in the State are guided by the NSW Homelessness Strategy 2018–23, which is administered by the department.

The performance audit report is expected to be tabled in parliament in the second quarter of 2021.

Corrective Services NSW's response to COVID-19

Managing infection control amongst inmates was a significant risk to the department

Corrective Services NSW, a division of the department, established a central Command Post to co-ordinate the response to COVID-19.

Some of the measures implemented included:

- suspending physical contact visits to adult correctional facilities and youth justice detention centres and introducing video visits. 48,533 video visits had been to inmates and detainees up to 30 June 2020
- compulsory temperature testing for all persons entering correctional centres with staff denied entry if exhibiting cold or flu-like symptoms
- implementing a 14-day quarantine period and COVID-19 testing for any new inmates entering the system
- setting up dedicated isolation hubs in existing facilities across the State for any confirmed cases of COVID-19
- minimising inmate movements and transfers
- establishing a temporary hospital at the Metropolitan Remand and Reception Centre to manage inmates who become acutely unwell due to COVID-19
- establishing a COVID liaison officer in every correctional centre to coordinate information to staff, enhanced cleaning regimes and managing personal protective equipment stocks.

Agencies' response to natural disasters

The 2019–20 bushfires in New South Wales were unprecedented in their extent and intensity, causing widespread damage in both Northern and Southern NSW. Following on from the bushfires, in February 2020 torrential rain fell on parts of NSW causing widespread flooding.

Natural disaster expenditure increased significantly due to the severity of the 2019–20 bushfires and floods

The 2019–20 bushfires and floods had a devastating impact on many communities. The scale of the government's response to these events was significant, and substantial expenditure and resources were directed by emergency service agencies to respond to these emergencies.

Natural disaster expenditure incurred by the RFS, Fire and Rescue NSW and Office of the NSW State Emergency Service (SES) increased significantly from \$67.4 million in 2018–19 to \$497 million in 2019–20. Ninety-two per cent of this expenditure was incurred by the RFS, due to the unprecedented scale of the 2019–20 bushfire season.

One-hundred and sixty-seven natural disasters were declared in 2019–20, (91 in 2018–19). Natural disasters are declared for events such as bushfires, floods or storms that cause significant damage or loss of life, where the associated recovery costs exceed \$240,000.

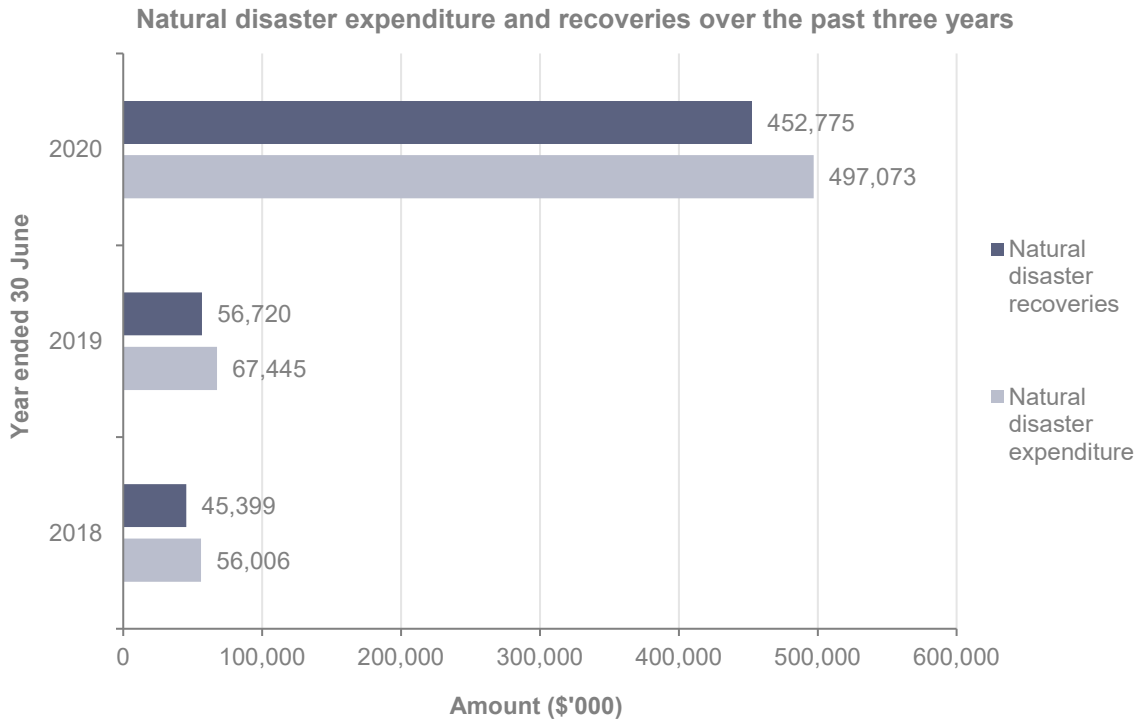
Local government areas (LGA) impacted by natural disaster declarations

Year ended 30 June	2020	2019	2018
LGA included in bushfire declarations	57	29	36
LGA included in floods and storms declarations	110	62	18
Total LGA included in natural disaster declarations	167	91	54

Source: Resilience NSW website (unaudited).

Declaration of natural disasters enable emergency service agencies to apply to recover costs associated with these disasters from Resilience NSW (the department prior to 1 May 2020). Resilience NSW now administers the NSW Disaster Assistance Arrangements. The state can recover some of these costs from the Australian Government if the criteria in the Disaster Recovery Funding Arrangements 2018 are met.

Over the past three years, the RFS, Fire and Rescue NSW and SES spent \$621 million on natural disasters and recouped \$555 million from State and Commonwealth Governments.



Source: Audited financial statements of the RFS, Fire and Rescue NSW and SES.

Natural disaster expenditure exceeds the amount recovered as some of the expenditure is not claimable. This is due to:

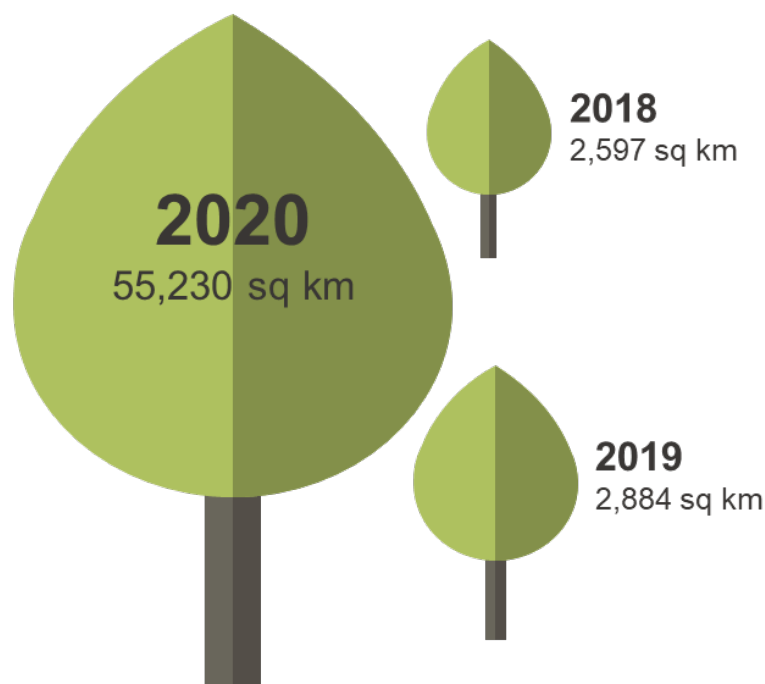
- natural disaster mitigation activities not being directly related to a declared disaster event
- expenditure being below the threshold set for declaration of natural disasters
- funding for certain core resourcing is provided by government directly to the agencies
- some costs being recoverable from other entities.

Significant expenditure and resources were applied by the RFS and SES to respond to emergency events in 2019–20

RFS response to emergency events

RFS reports that the 2019–20 bushfire season was the worst NSW has ever experienced, with 55,230 square kilometres of land burnt, 11,566 structures damaged or destroyed, and 26 lives lost.

New South Wales land area burnt year end 30 June



Source: Unaudited annual reports of the RFS for 2017–18, 2018–19 and 2019–20.

Structures damaged or destroyed in bushfires

Year ended 30 June	2020	2019	2018
Habitable structures destroyed	2,476	37	74
Habitable structures damaged	1,034	27	63
Other structures destroyed	5,843	147	98
Other structures damaged	2,213	54	36
Total damaged or destroyed	11,566	265	271

Source: Unaudited annual reports of the RFS for 2017–18, 2018–19 and 2019–20.

In 2019–20, the RFS made 43 declarations (2018–19: 15 declarations) under section 44 of the *Rural Fires Act 1997*. Section 44 declarations are made in response to larger scale bushfire events. The Commissioner of the RFS takes charge to control or suppress bushfires, when they are beyond the capacity of the local firefighting authority.

There was a significant increase in expenditure incurred to respond to the severity of the 2019–20 bushfire season. The largest increase in dollar terms was from aircraft hired for aerial firefighting.

Expenditure incurred by the RFS	2020 \$'000	2019 \$'000	Increase %
Aircraft hire for aerial firefighting	255,510	42,553	↑ 500
Heavy plant costs, and machinery and equipment hire to support the ground firefighting effort	76,922	3,715	↑ 1,971
Meals and accommodation for volunteer firefighters	27,282	2,182	↑ 1,150
Overtime and additional staff to address natural disasters	22,467	7,579	↑ 196
Other costs of addressing natural disasters	74,469	5,305	↑ 1,304

Source: Audited financial statements of the RFS.

SES response to emergency events

In 2019–20, the SES also incurred more expenditure to respond to emergency events. There were 110 (2018–19: 62) LGAs impacted by flood and storm declarations. While the SES is primarily responsible for flood and storm events, it also assists other emergency service agencies in a variety of different roles.

















Expenditure incurred by the SES	2020 \$'000	2019 \$'000	Increase %
Repairs to properties affected by natural disasters	4,577	2,721	↑ 68
Overtime and additional staff to address natural disasters	2,854	1,315	↑ 117
Other consumables	2,363	1,283	↑ 84
Catering and counselling for volunteers	1,120	473	↑ 137
Other costs of addressing natural disasters	651	319	↑ 104

Source: Audited financial statements of the SES.

Volunteer services

The RFS and SES are volunteer-based organisations. During 2019–20, the number of volunteers for both organisations increased by seven per cent. In comparison, shifts/deployments were increased to deal with requests for assistance, which increased by 136 per cent. For the volunteers who were deployed, they experienced more frequent or longer deployments to respond to emergency events during 2019–20.

Volunteer numbers compared to shifts and requests for assistance

Year ended 30 June	 = 10,000 RFS volunteers  = 10,000 RFS shifts / deployments  = 10,000 SES volunteers  = 10,000 SES requests for assistance			Number
2018				72,491
				62,370
				9,110
				18,040
2019				71,234
				62,933
				9,493
				36,474
2020				76,319
				186,000*
				10,260
				48,162

* In 2020, the RFS was supported by personnel from Fire and Rescue NSW, National Parks and Wildlife Service, Forestry Corporation of NSW, SES, NSW Police Force, as well as Australian Defence Force, interstate and overseas resources.

Source: Unaudited annual reports of the RFS and SES for 2017–18, 2018–19 and 2019–20.

RFS and SES do not recognise volunteer services in their financial statements

As referred to in the 'Financial reporting' chapter, AASB 1058 'Income of Not-for-Profit Entities' became effective for all NSW public sector agencies from 1 July 2019. AASB 1058 requires the recognition of volunteer services received if the following criteria are met:

- the fair value of the services can be reliably measured
- the services would have been purchased if they had not been donated.

The RFS and SES do not recognise volunteer services in their financial statements as they are legislatively unable to purchase the services donated to them. Both agencies have indicated that alternate services would not be purchased if volunteer numbers fluctuate.

Other responses to emergency events

Establishment of Bushfire Housing Assistance Response Team

In January 2020, the department established the Bushfire Housing Assistance Response Team (the Response Team) to provide housing assistance to people temporarily or permanently displaced by the 2019–20 bushfires across the South Coast and Southern NSW. The fires destroyed over 1,600 homes across the region and a further 650 were damaged, leaving many households displaced or without a home.

The Response Team assisted people to apply for and access housing assistance including:

- temporary accommodation in a motel, hotel or holiday park
- private rental bond loan, advance rent and rental subsidies
- securing rental accommodation in the private market
- access to social housing where required.

Departmental statistics show the Response Team supported 363 clients during the period from mid-January to mid-June 2020. This included achieving a housing outcome for nearly 200 clients.

Establishment of NSW Disaster Recovery Office

The NSW Disaster Recovery Office (the Office) was established in January 2020. The Office brought together resources from the NSW Police Force, Australian Defence Force and other NSW Government agencies to prioritise the immediate needs of communities.

The immediate recovery priorities were the:

- restoration of utilities, telecommunications and water supply
- clearance and opening of arterial, regional and local sealed roads
- provision of community welfare services including accommodation, health and welfare, and financial support to impacted persons and communities
- safe remediation and disposal of debris and waste materials
- timely completion of impact assessments to inform future strategies and actions.

When Resilience NSW was formed on 1 May 2020 the Disaster Recovery Office became part of this new executive agency.

3.3 Managing annual leave

Managing excess annual leave was a challenge for agencies within the cluster that were integral to supporting responses to recent emergency events. Agencies and their staff continued to deliver key services in uncertain times and in a disrupted work environment. Increasing numbers of employees in frontline cluster agencies have deferred leave plans and have taken little or no annual leave. This response is understandable, but as the emergencies subside it is important those staff, particularly those in frontline roles, take leave for their health and wellbeing.

We reviewed the annual leave balances at six key agencies in the cluster. These agencies were the department, NSW Police Force, Fire and Rescue NSW, Office of the NSW Rural Fire Service, the Legal Aid Commission of New South Wales and the Office of the Director of Public Prosecutions. All six agencies reported an increase in annual leave liabilities in 2019–20. Between 2019 and 2020, annual leave liabilities at the six agencies increased from \$620 million to \$692 million, a rise of 11.6 per cent.

In the longer term it will be important for cluster agencies to again commence managing leave balances to avoid the risks associated with excessive leave balances, including managing health aspects.

3.4 Agency implementation of MoG changes

Our 'Introduction' chapter noted that the department was impacted by three Administrative Arrangement Orders in 2019–20. The former departments of Justice and Family and Community Services had commenced preparing for the MoG changes to transition to the newly formed Department in the last quarter of 2018–19, in readiness for the 1 July 2019 transition date.

Recommendation

The department should finalise appropriate governance arrangements for its new organisational structure as soon as possible. This includes:

- **harmonising policies and procedures to ensure a unified approach across the department**
- **finalising risk management and monitoring processes across the department**
- **updating its delegation instruments to reflect the current organisational structure, delegation limits and roles and responsibilities.**

The department continues to establish its governance arrangements

The department continues to establish its governance arrangements following the MoG changes effective 1 July 2019. These arrangements include:

- harmonising policies and procedures to ensure a unified approach across the department such as the code of conduct, conflict of interest policy, legislative compliance framework and fraud and corruption framework and policy
- finalising risk management and monitoring processes across the department
- commencing system integration projects
- updating delegation instruments to reflect the department's new organisational structure, delegation limits and roles and responsibilities. The department advised its delegation instruments have been updated to reflect the new organisational structure, subject to approval. In the meantime, the department continues to use delegation instruments that existed under the former departments.

Where governance arrangements are not finalised, there is an increased risk of:

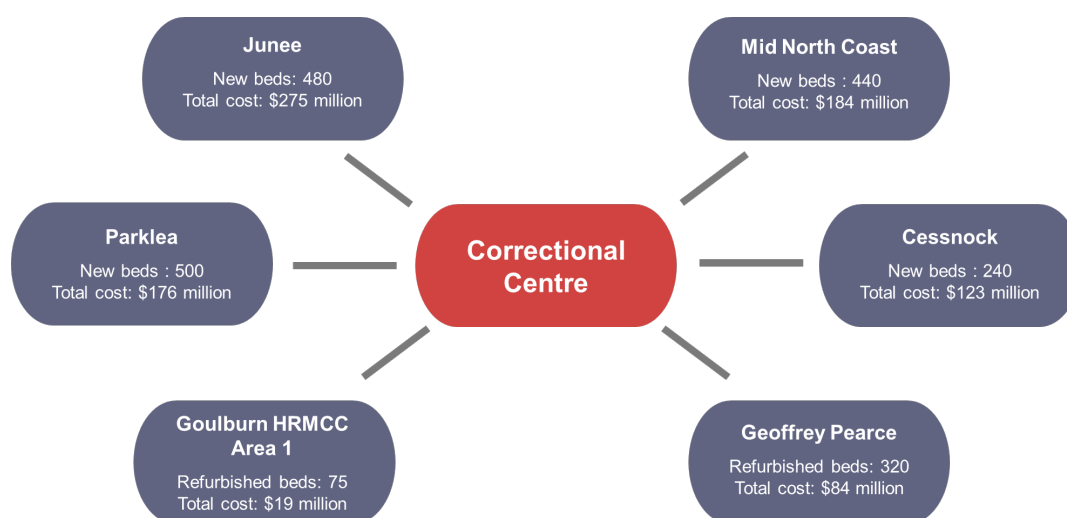
- disruption to internal control environments due to staffing, process and system changes
- failure to build a cohesive culture compromising ability to achieve priorities
- impacts to service delivery due to unclear roles and responsibilities
- enterprise risks not being appropriately managed
- staff inappropriately approving transactions, spending money unlawfully, or financially over-committing the agency.

3.5 Delivery of the Prison Bed Capacity Program

The department spent \$480 million on the Prison Bed Capacity Program in 2019–20

The department continued to expand the prison system capacity through the NSW Government's \$3.8 billion Prison Bed Capacity Program (the PBC Program), which was first announced in June 2016. At 30 June 2020, the PBC Program had delivered a total of 5,166 beds (3,506 beds at 30 June 2019). The PBC Program comprises the construction of rapid build prisons, prison expansions, recommissioning of correctional centres and the delivery of Immediate Future Needs beds.

The department reported it spent \$480 million on the PBC Program in 2019–20 (\$781 million in 2018–19). The graph below shows the six prison expansion projects that were completed during the year, which added 1,660 new and 395 refurbished beds to the NSW prison system.



Source: Department of Communities and Justice (unaudited).

One thousand nine hundred beds in the NSW prison system were allocated to manage inmates in the event of a COVID-19 outbreak

Departmental data shows the inmate population reached a maximum of 14,165 in 2019–20 compared to an operational capacity of 16,096 beds on 19 August 2020 (14,626 beds on 31 August 2019). Corrective Services NSW advised the operational capacity includes 1,900 beds allocated across the system for the management of inmates in the event of a COVID-19 outbreak. These beds are not available to be used for the general inmate population.

Inmate numbers and prison capacity

Year ended 30 June	2020	2019	2018	2017	2016
Total daily average inmate number, all prisons	13,264	13,495	13,373	12,931	12,305
Total daily average operational capacity, all prisons	15,096	14,243**	14,057*	14,106	13,290
Maximum daily population, all prisons	14,165	13,798	13,772	13,265	12,737

* 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, 246 beds were returned to the system between October 2018 and July 2019.

** Excludes beds temporarily removed from the prison system to enable bed upgrades.

Source: Department of Communities and Justice (unaudited).

The daily average prison population decreased by 1.7 per cent in 2019–20. Data from the [NSW Bureau of Crime Statistics and Research](#) (BOCSAR) show the size of the NSW adult prison population decreased substantially from mid-March to mid-May 2020 by 1,508 people or 10.7 per cent. BOCSAR notes the timing of the changes to remand admissions and discharges, and sentence receptions are consistent with criminal justice changes intended to minimise the risk of COVID-19 transmission.

Despite this, the department's current inmate population forecasts indicate a shortfall in bed capacity by 2025. The department is currently working with key stakeholders to develop options for long term capacity in the Greater Sydney area.

Operational capacity is the total number of commissioned beds within the correctional system to which an offender can be permanently assigned or allocated. Operational bed capacity can be changed, for example, by installing more beds in existing cells.

Over 600 beds have been removed from the NSW prison system since 1 July 2019

In September 2019, the NSW Government announced the Prison Bed Capacity Adjustment Program. The program allows Corrective Services NSW to adjust prison capacity by retiring high risk and obsolete infrastructure as new infrastructure under the PBC Program come online.

In 2019–20, 317 beds were removed from the network through the closure of prisons at Berrima (75 beds), Unanderra (66 beds), Ivanhoe (50 beds) and Brewarrina (30 beds) and the repurposing of Kariong Correctional Centre (96 beds). Grafton Correctional Centre was closed in August 2020, which removed a further 270 beds from the network.

The decommissioning of 1,798 operationally obsolete and high-risk beds will be completed in 2020–21. Another 113 beds will be removed through the repurposing of Emu Plains Correctional Centre.

Section two

Appendices

Appendix one – Timeliness of financial reporting by agency

The table below shows the timeliness of financial reporting for cluster agencies.

Cluster agencies	Timeliness of financial reporting		
	Early close procedures	Financial statements	Audit report
Principal department			
Department of Communities and Justice*	✓	✓	✓
Statutory and independent agencies			
Judicial Commission of New South Wales**	✓	✓	! 1
Legal Aid Commission of New South Wales	✓	✓	✓
New South Wales Crime Commission	✓	✓	✓
Office of the Ageing and Disability Commissioner	N/A	✓	✓
Office of the Children's Guardian	✓	✓	✓
Office of the Director of Public Prosecutions	✓	✓	✓
Other agencies			
Combat Sports Authority of NSW	N/A	✓	! 2
Crown Solicitor's Office	✓	✓	✓
Fire and Rescue NSW	✓	✓	✓
Home Purchase Assistance Fund	N/A	✓	✓
John Williams Memorial Charitable Trust	N/A	✓	✓
Legal Profession Admission Board	N/A	✓	✓
Legal Services Council	N/A	✓	✓
Multicultural NSW	✓	✓	✓
New South Wales Aboriginal Land Council**	N/A	✓	! 3
NSWALC Resources Pty Limited**	N/A	✓	! 3
NSWALC Properties Pty Ltd**	N/A	✓	! 3
NSWALC Housing Ltd**	N/A	✓	! 4
NSWALC Employment and Training Ltd**	N/A	✓	! 5
New South Wales Institute of Sport	✓	✓	✓
NSW Police Force	✓	✓	✓
NSW Trustee and Guardian	✓	✓	✓

Timeliness of financial reporting			
Cluster agencies	Early close procedures	Financial statements	Audit report
Office of Sport	✓	✓	✓
Office of the NSW Rural Fire Service	✓	✓	✓
Office of the NSW State Emergency Service	✓	✓	✓
Sydney Cricket and Sports Ground Trust	N/A	✓	✓
The Trustees of the Anzac Memorial Building	N/A	✓	✓
Venues NSW	✓	✓	✓

Key
 **Statutory reporting deadline was met**
 **Statutory reporting deadline was not met**

* The department submitted its financial statements to the Audit Office on time but sought approval from NSW Treasury to delay submission of its lease related balances and note disclosures until 19 August 2020. An extension was granted so the department could validate the completeness and accuracy of lease information for disclosure in their financial statements. The department submitted their revised financial statements to the Audit Office on 19 August 2020.

** This entity is not part of the cluster but is included for reporting purposes.

N/A This entity is not required to perform early close procedures.

1 The audit report was issued 16 days after the revised statutory date.

2 The audit report was issued 32 days after the revised statutory date.

3 The audit report was issued nine days after the revised statutory date.

4 The audit report was issued ten days after the revised statutory date.

5 The audit report was issued eight days after the revised statutory date.

Appendix two – Management letter findings by agency

The table below lists the management letter findings for each cluster agency.

Management letter findings					
Cluster agencies	Extreme	High	Moderate	Low	Repeat^
Principal department					
Department of Communities and Justice	--	--	9	26	18
Statutory and independent agencies					
Judicial Commission of New South Wales*	--	--	1	--	--
Legal Aid Commission of New South Wales	--	--	6	3	1
New South Wales Crime Commission	--	--	--	1	--
Office of the Ageing and Disability Commissioner	--	--	--	--	--
Office of the Children's Guardian	--	--	--	1	--
Office of the Director of Public Prosecutions	--	--	3	2	0
Other agencies					
Combat Sports Authority of NSW	--	--	--	--	--
Crown Solicitor's Office	--	--	11	8	6
Fire and Rescue NSW	--	--	4	4	5
Home Purchase Assistance Fund	--	--	--	--	--
John Williams Memorial Charitable Trust	--	--	--	--	--
Legal Profession Admission Board	--	--	2	--	--
Legal Services Council	--	--	2	--	1
Multicultural NSW	--	--	1	1	--
New South Wales Aboriginal Land Council*	--	--	10	5	11
NSWALC Resources Pty Limited*	--	--	--	--	--
NSWALC Properties Pty Ltd*	--	--	--	--	--
NSWALC Housing Ltd*	--	--	2	--	--
NSWALC Employment and Training Ltd*	--	--	2	--	--
New South Wales Institute of Sport	--	2	5	2	1
NSW Police Force	--	--	6	5	1
NSW Trustee and Guardian	--	--	9	4	3
Office of Sport	--	--	10	8	4
Office of the NSW Rural Fire Service	--	--	2	4	1
Office of the NSW State Emergency Service	--	--	4	8	4
Sydney Cricket and Sports Ground Trust	--	--	6	1	1

Management letter findings

Cluster agencies	Extreme	High	Moderate	Low	Repeat [^]
The Trustees of the Anzac Memorial Building	--	--	3	--	2
Venues NSW	--	--	3	5	2
Total for cluster	--	2	101	88	61

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

^{*} This entity is not part of the cluster but is included for reporting purposes.

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

Appendix three – List of 2020 recommendations

The table below lists the recommendations made in this report.

1. Financial reporting

Data quality issues (repeat issue)

The Department of Communities and Justice should resolve the data quality issues in the VS Connect System before 31 March 2021.



2. Audit observations

Addressing internal control weaknesses (repeat issue)

Cluster agencies should action recommendations to address internal control weaknesses promptly. Focus should be given to addressing high risk and repeat issues.



Finalising governance arrangements

The department should finalise appropriate governance arrangements for its new organisational structure as soon as possible. This includes:



- harmonising policies and procedures to ensure a unified approach across the department
- finalising risk management and monitoring processes across the department
- updating its delegation instruments to reflect the current organisational structure, delegation limits and roles and responsibilities.

Key



Low risks



Medium risks







High risks

Appendix four – Status of 2019 recommendations

The table below lists the recommendations made in the [Stronger Communities 2019](#) Auditor-General's Report to Parliament.

Recommendation	Current status
The department should:	
<ul style="list-style-type: none"> resolve the data quality issues in the new VS Connect System before 30 June 2020 capture and apply lessons learned from recent project implementations, including LifeLink, Justice SAP and VS Connect, in any relevant future implementations. 	<p>The department continues to address the data quality issues in the VS Connect System.</p> <p>The prior year recommendation has been raised as a repeat issue this year. Refer to the 'Financial reporting' chapter for details.</p>
Cluster agencies should:	
Finalise their plans to implement the new accounting standards as soon as possible.	<p>Cluster agencies implemented three new accounting standards for the first time in their 2019–20 financial statements:</p> <ul style="list-style-type: none"> AASB 15 'Revenue from Contracts with Customers' AASB 1058 'Income of Not-for-Profit Entities' AASB 16 'Leases'. <p>The new accounting standards impacted the financial position and operating results of agencies across the cluster.</p> <p>Refer to the 'Financial reporting' chapter for details.</p>
<p>Further review their approach to managing annual leave balances where leave balances exceed the State's target. Strategies agencies should consider implementing include:</p> <ul style="list-style-type: none"> regularly (e.g. each month) projecting annual leave balances to the end of the financial year for employees with projected balances above the target, developing and agreeing leave plans to reduce their balances over an acceptable timeframe focusing on employees who have taken little or no leave in the last 12 months. 	<p>Managing excess annual leave was a challenge for agencies within the cluster that were integral to supporting responses to recent emergency events.</p> <p>We reviewed the annual leave balances at six key agencies in the cluster. These agencies were the department, NSW Police Force, Fire and Rescue NSW, Office of the NSW Rural Fire Service, the Legal Aid Commission of New South Wales and the Office of the Director of Public Prosecutions. All six agencies reported an increase in annual leave liabilities in 2019–20. All six agencies reported an increase in annual leave liabilities in 2019–20.</p> <p>Refer to the 'Financial reporting' chapter for details.</p>
Cluster agencies should action recommendations to address internal control weaknesses promptly. Particular focus should be given to addressing high risk and repeat issues.	<p>Our 2019–20 cluster audits identified 191 internal control issues, of which 61 or 31.9 per cent were repeat findings from previous financial audits. While the percentage of repeat findings improved by 5.7 percentage points in 2019–20 the number remains high.</p> <p>The prior year recommendation has been raised as a repeat issue this year. Refer to the 'Audit observations' chapter for details.</p>

Recommendation	Current status
Office of the NSW Rural Fire Service should:	
Revise its inventory policy to ensure compliance with AASB 102 'Inventories' and for the annual stocktake to involve a count of all inventory items held at warehouses, stores and caches.	<p>Last year's Auditor-General's Report to Parliament  reported a high-risk matter regarding the management of inventories held for distribution at the RFS. The estimated value of inventories not brought to account in the prior year was material, and an adjustment was made to the financial statements.</p> <p>This year, the RFS updated their inventory policy and processes, which resulted in inventory of \$13.3 million being brought to account for the first time.</p>
Key	 Fully addressed  Partially addressed  Not addressed

Appendix five – Selected agencies for review of response to emergency events

Agency
Department of Communities and Justice
Fire and Rescue NSW
NSW Police Force
Office of the NSW Rural Fire Service
Office of the NSW State Emergency Service
Sydney Cricket and Sports Ground Trust
Venues NSW

Appendix six – Financial data

	Total assets		Total liabilities		Total revenue [^]		Total expense [^]	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Principal departments								
Department of Communities and Justice	8,955	N/A	1,873	N/A	13,906	N/A	13,736	N/A
Department of Family and Community Services	N/A	1,911	N/A	406	N/A	3,922	N/A	3,973
Department of Justice	N/A	6,140	N/A	875	N/A	8,719	N/A	8,142
Separate statutory and independent agencies								
Judicial Commission of New South Wales	6	2	6	1	6	8	6	8
Legal Aid Commission of New South Wales*	144	69	111	43	379	349	372	375
New South Wales Crime Commission*	12	5	12	2	26	25	29	27
Office of the Ageing and Disability Commissioner	1	#	--	#	7	#	6	#
Office of the Children's Guardian	19	15	10	5	47	48	47	41
Office of the Director of Public Prosecutions	52	16	65	22	165	166	172	169
Other agencies								
Combat Sports Authority of NSW	--	--	--	--	1	2	1	2
Crown Solicitor's Office	117	71	71	25	73	71	70	64
Fire and Rescue NSW	1,254	1,230	538	500	805	808	861	815
Home Purchase Assistance Fund	190	214	--	--	2	5	8	8
John Williams Memorial Charitable Trust	11	11	--	--	--	--	--	--
Legal Profession Admission Board	14	11	3	1	3	3	3	2
Legal Services Council	1	1	1	--	2	2	2	1
Multicultural NSW*	6	4	5	5	31	25	30	25
New South Wales Aboriginal Land Council**	670	708	34	6	26	49	75	51
New South Wales Institute of Sport*	8	5	5	3	21	21	21	22
NSW Police Force	2,794	2,184	1,445	823	3,973	3,738	4,005	3,775

	Total assets		Total liabilities		Total revenue [^]		Total expense [^]	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
NSW Trustee and Guardian	187	178	49	35	83	93	90	87
Office of Sport	290	249	29	23	390	326	356	304
Office of the NSW Rural Fire Service	409	240	140	90	989	521	870	552
Office of the NSW State Emergency Service	188	144	54	19	127	132	118	108
Sydney Cricket and Sports Ground Trust <	687	748	227	208	84	110	136	176
The Trustees of the Anzac Memorial Building	98	92	5	8	11	7	6	5
Venues NSW	805	974	271	327	85	238	137	141
Total for Stronger Communities cluster	16,918	15,222	4,954	3,427	21,242	19,388	21,157	18,873

[^] Includes gains/(losses) on disposal, impairment losses on financial instruments and other gains/(losses).

N/A As a result of the MoG changes referred to in the 'Introduction' chapter, the Department of Family and Community Services and Department of Justice (former departments) were abolished and functions transferred to the new Department of Communities and Justice effective 1 July 2019. Therefore, for the former departments there is no 2019–20 financial data. Similarly, there is no comparative information in respect of 2018–19 for the Department of Communities and Justice.

* Consolidated financial statements.

** Consolidated financial statements. Includes NSWALC Resources Pty Ltd, NSWALC Properties Pty Ltd, NSWALC Housing Ltd, NSWALC Employment and Training Ltd.

The entity was established on 1 July 2019. Therefore, there is no 2019–20 financial data.

< Year end 29 February 2020.

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.

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Pride in purpose
Curious and open-minded
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Courage (even when it's uncomfortable)

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