FINANCIAL AUDIT 10 DECEMBER 2020

Transport 2020

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

audit office
OF NEW SOUTH WALES

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 **'Transport 2020'**.

Margaret Crawford
Auditor-General
10 December 2020

auditoffice OF NEW SOUTH WALES

contents

Transport 2020

Section one

Transport 2020

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

Executive summary

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

1. Financial reporting

Audit opinion	Unmodified audit opinions issued for the financial statements of all Transport cluster entities.
Quality and timeliness of financial reporting	All cluster agencies met the statutory deadlines for completing the early close and submitting the financial statements. Transport cluster agencies continued to experience some challenges with accounting for land and infrastructure assets. The former Roads and Maritime Services and Sydney Metro recorded prior period corrections to property, plant and equipment balances.
Impact of COVID-19 on passenger revenue and patronage	Total patronage and revenue for public transport decreased by approximately 18 per cent in 2019–20 due to COVID-19. The Transport cluster received additional funding from NSW Treasury during the year to support the reduced revenue and additional costs incurred such as cleaning on all modes of public transport and additional staff to manage physical distancing.
Completion of the CBD and South East Light Rail	The CBD and South East Light Rail project was completed and commenced operations in this financial year. At 30 June 2020, the total cost of the project related to the CBD and South East Light Rail was $3.3 billion. Of this total cost, $2.6 billion was recorded as assets, whilst $700 million was expensed.

2. Audit observations

Internal control	While internal controls issues raised in management letters in the Transport cluster have decreased compared to the prior year, control weaknesses continue to exist in access security for financial systems. We identified 56 management letter findings across the cluster and 43 per cent of all issues were repeat issues. The majority of the repeat issues relate to information technology controls around user access management. There were three high risk issues identified - two related to financial reporting of assets and one for implementation of TAHE (see below).
Agency responses to emergency events	Transport for NSW established the COVID-19 Taskforce in March 2020 to take responsibility for the overall response of planning and coordination for the Transport cluster. It also implemented the COVIDSafe Transport Plan which incorporates guidance on physical distancing, increasing services to support social distancing and cleaning.

RailCorp transition to TAHE

On 1 July 2020, RailCorp was renamed Transport Asset Holding Entity of New South Wales (TAHE) and converted to a for-profit statutory State-Owned Corporation. TAHE is a commercial for-profit Public Trading Entity with the intent to provide a commercial return to its shareholders.

A plan was established by NSW Treasury to transition RailCorp to TAHE which covered the period 1 July 2015 to 1 July 2019. A large portion of the planned arrangements were not implemented by 1 July 2020. As at the time of this report, the TAHE operating model, Statement of Corporate Intent (SCI) and other key plans and commercial agreements are not finalised. The *State Owned Corporations Act 1989* generally requires finalisation of an SCI three months after the commencement of each financial year. However, under the *Transport Administration Act 1988*, TAHE received an extension from the voting shareholders, the Treasurer and Minister for Finance and Small Business, to submit its first SCI by 31 December 2020. In accordance with the original plan, interim commercial access arrangements were supposed to be in place with RailCorp prior to commencement of TAHE.

Under the transitional arrangements, TAHE is continuing to operate in accordance with the asset and safety management plans of RailCorp. The final operating model is expected to include considerations of safety, operational, financial and fiscal risks. This should include a consideration of the potential conflicting objectives of a commercial return, and maintenance and safety measures.

This matter has been included as a high risk finding in our management letter due to the significance of the financial reporting impacts and business risks for TAHE.

Recommendation: TAHE management should:

- establish an operating model in line with the original intent of a commercial return
- finalise commercial agreements with the public rail operators
- confirm forecast financial information to assess valuation of TAHE infrastructure
- finalise asset and safety management plans.

Resolution of the above matters are critical as they may significantly impact the financial reporting arrangements for TAHE for 2020–21, in particular, accounting policies adopted as well as measurement principles of its significant infrastructure asset base.

Completeness and accuracy of contracts registers

Across the Transport cluster, contracts and agreements are maintained by the transport agencies using disparate registers.

Recommendation (repeat): Transport agencies should continue to implement a process to centrally capture all contracts and agreements entered. This will ensure:

- agencies are fully aware of contractual and other obligations
- appropriate assessment of financial reporting implications
- ongoing assessments of accounting standards, in particular AASB 16 ‘Leases’, AASB 15 'Revenue from Contract with Customers', AASB 1058 'Income of Not-for-Profit Entities' and new accounting standard AASB 1059 'Service Concession Arrangements: Grantors' are accurate and complete.

1. Introduction

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

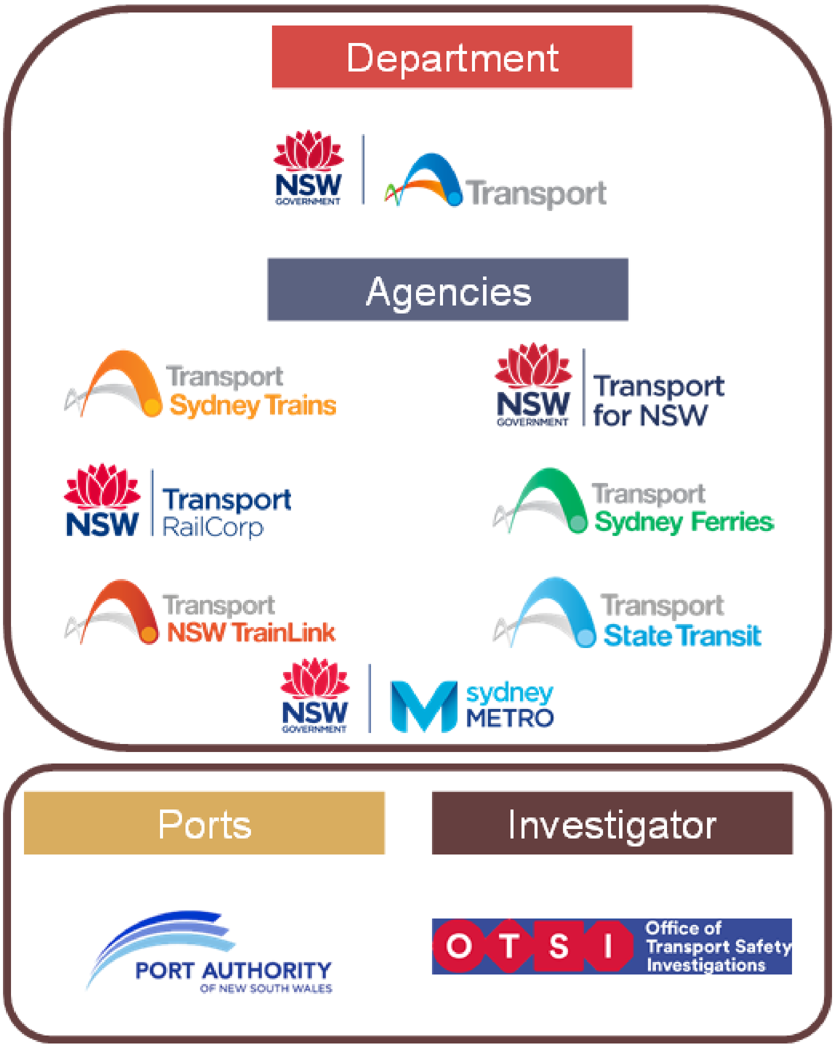
- financial reporting
- audit observations
- the impact of emergencies and the pandemic.

1.1 Snapshot of the cluster

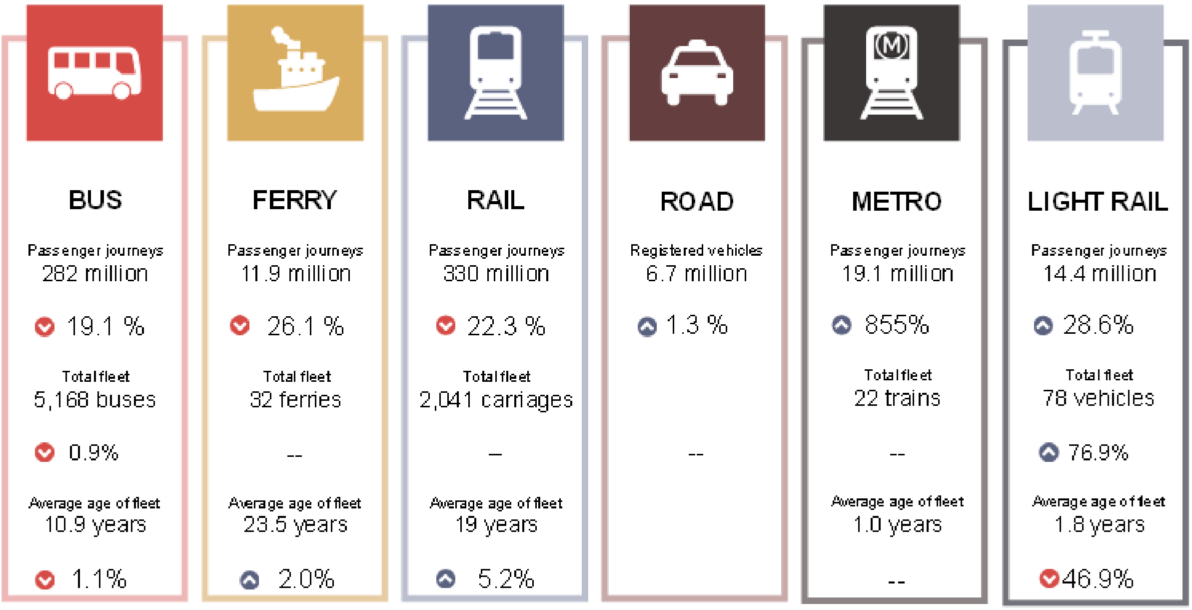
The Transport cluster plans and delivers infrastructure and integrated services across all modes of transport. This includes road, rail, bus, ferry, light rail, cycling and walking.

Transport for NSW is the lead agency in the Transport cluster. It is responsible for the coordination, funding allocation, policy and planning and other delivery functions for transport services.

The Department of Transport controls all transport cluster agencies except the Chief Investigator of the Office of Transport Safety Investigations and the Port Authority of New South Wales.



The following provides a snapshot of the operations of the key modes of transport.



1 Movements are a comparison between 2019–20 and 2018–19.

2 Rail includes Sydney Trains and NSW Trains and excludes Light Rail and Sydney Metro.

3 Light Rail includes Inner West Light Rail, Newcastle Light Rail and CBD and South East Light Rail.

4 Increase in Metro journeys are due to full year of operation. Last year was two months of operations. Increase in Light Rail journeys are due to CBD and South East Light Rail commencing operations this year.

Source: Information from agencies (unaudited).

1.2 Changes to the cluster

Dissolution of the former Roads and Maritime Services

The former Roads and Maritime Services (RMS) was dissolved on 1 December 2019 through the *Transport Administration Amendment (RMS Dissolution) Act 2019*. RMS' assets, rights, liabilities and functions were transferred to Transport for NSW.

The transfer resulted in the recognition of $106 billion in net assets transferred from the former RMS to Transport for NSW at 1 December 2019.

Rail Corporation New South Wales transitioned to the Transport Asset Holding Entity

On 1 July 2020, RailCorp was renamed Transport Asset Holding Entity of New South Wales (TAHE) and converted to a for-profit statutory State-Owned Corporation pursuant to the *Transport Administration Act 1988* and the *State Owned Corporations Act 1989*.

TAHE ceased being a controlled entity of the department at 1 July 2020. This is because the department no longer has:

- power over key relevant activities of TAHE
- exposure to risks and returns from TAHE
- the ability to affect the amount of TAHE's returns.

For further details refer to Section 3.3 'Key Issues' below.

1.3 Service delivery

According to the 2019–20 NSW Budget Papers, the Transport cluster aims to deliver integrated services, manage assets, and improve the transport system to enable the safe, efficient and reliable movement of people and goods.

State outcomes to be delivered by the Transport cluster include:

State Outcome	Description
Accessible transport	Enabling and enhancing the equity and accessibility of the transport system for all customer groups
Safe and reliable travel	Delivering ongoing operation, maintenance and overall performance of transport networks, to ensure journey reliability and customer satisfaction
Successful places	Enhancing liveability and connectivity by delivering city shaping infrastructure projects, activating precincts and expanding network capacity

The cluster was impacted by natural disaster events and the COVID-19 pandemic

In 2019–20, New South Wales was impacted by natural disasters including bushfires and floods. These natural disaster events caused damage to both road and rail infrastructure assets. Across the Transport cluster, the assets impacted were largely road corridor assets such as retaining walls, bridges, signage and safety barriers as well as rail infrastructure.

The COVID-19 pandemic caused unprecedented challenges around the world with its impacts far reaching and creating significant uncertainty. The Transport cluster agencies were not immune from the impacts of COVID-19.

Transport for NSW established the COVID-19 Taskforce in March 2020 to take responsibility for the overall planning response and coordination for the Transport cluster. The objective of the Taskforce was to identify the impacts of the COVID-19 pandemic on transport and develop a response plan to meet the needs of staff and customers.

In 2019–20, Transport implemented its COVIDSafe Transport Plan. This included:

- over 3,300 extra temporary weekly services to public transport
- additional transport staff to assist with coordinating social distancing
- green physical distancing dots rolled out across all public transport modes to show customers where to sit or stand
- increase in frequency, intensity and visibility of cleaning
- improved real time information through apps, social media and transportnsw.info website.

Transport for NSW also extended the use of the open public transport tracking app 'AnyTrip' with other Transport Data to monitor the network in real time. The Transport for NSW COVID-19 Taskforce used this data to assist in operational planning.

As a part of this year's audits, we have considered:

- financial implications of these emergencies at agency and cluster level
- changes to agencies' operating models including processes to enable routine checks and balances
- changes to programs or services developed at short notice.

We have included our findings on cluster agencies' response to recent emergencies throughout the report.

Measuring performance

Transport cluster agencies use a range of measures to monitor and manage the performance of its network and services. These include punctuality, capacity, customer satisfaction and complaints. Transport also use private-sector operators to provide some transport services including buses, light rail, ferries and metro trains. Measuring performance allows it to focus on service outcomes for customers.

Each year, the Audit Office focuses on an area of performance measure for deeper examination to describe the process and data used. In the 2019 Transport report, we reviewed:

- train punctuality
- bus services contracts with private bus operators
- crowding on buses.

This year we reviewed how Transport holds the Sydney Metro operator accountable through the Operations Trains and Systems Deed (the Deed). However, as this is not an audit, the Audit Office does not provide assurance over this data.

Sydney Metro Northwest

Sydney Metro Northwest is a public-private partnership governed by the Deed. The Deed provides for a private-sector operator to provide the operations, trains and systems for the Sydney Metro Northwest.

The Deed includes key performance indicators (KPIs) to measure the private-sector operator's performance. Not meeting the KPIs may result in a deduction to the monthly service payments made by Sydney Metro to the private-sector operator. These KPIs include asset functionality such as on-train environment, station environment, lift and escalator access and service quality such as train and station cleanliness, customer satisfaction and complaints management.

Whilst punctuality is not specifically listed as a KPI, information on service availability and timeliness is collected by Sydney Metro to measure customer delays. If the operator fails to meet defined availability and timeliness requirements, a deduction is made to its monthly service payment under the Deed.

As a non-timetabled service, timeliness is measured using end-to-end journey times and headways. A headway is the interval between the time the doors of the metro train were closed and the time the doors of the preceding metro train were closed at a platform.

A train is considered delayed if the end-to-end journey time exceeds 37 minutes or if the headway is:

- over five minutes during peak hours (Monday to Friday, 6:30AM to 10:00AM and 3:00PM to 7:00PM)
- over 11 minutes during non-peak periods.

In 2019–20, the operator of the Sydney Metro Northwest received deductions from its service payments for all four operating quarters totalling $448,000 for not meeting KPIs. The operator also received an availability and/or timeliness deduction from its service payments for 12 out of 12 months. The amount of the availability and timeliness deductions totalled $2.0 million, accounting for 0.7 per cent of total service payments.

The Deed requires the monthly service payment reports to include sufficient information to enable Sydney Metro to confirm the calculation of the Service Payment and is accompanied by a statutory declaration from the private sector operator to certify that the information provided is accurate. Under the Deed, Sydney Metro, is able to monitor and review the operations using real time and read-only access to the private sector operator's service payment monitoring system. Availability and timeliness are measured and self-reported by the operator to Sydney Metro as part of the Deed's reporting obligations. Sydney Metro reviews all monthly calculations performed by the operator and a sample of the underlying source data for accuracy through comparison between required performance and actual performance. Sydney Metro advises there is no independent assurance over the systems and data used to measure timeliness and other KPIs.

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.

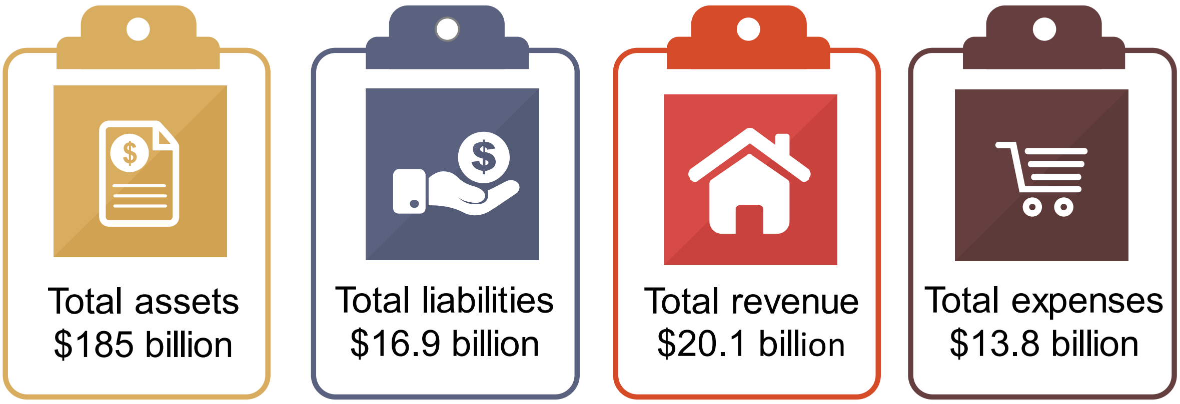
This chapter outlines our audit observations related to the financial reporting of agencies in the Transport cluster for 2020, including any financial implications from the recent emergency events.

Section highlights

- Total patronage and revenue for public transport decreased by approximately 18 per cent in 2019–20 due to COVID-19.
- Unqualified audit opinions were issued on all Transport agencies' financial statements.
- Transport cluster agencies continued to experience challenges with accounting of land and infrastructure assets.

2.1 Financial snapshot

The snapshot below shows the financial positions at 30 June 2020 and the financial results for the year then ended for all agencies comprising the Transport cluster.



Source: Department of Transport and Port Authority of New South Wales audited financial statements.

The patronage and passenger revenue were impacted by the COVID-19 pandemic

Overall patronage decreased by 18.1 per cent from last year to 657 million, while revenue also decreased by 17.7 per cent to $1.3 billion. This is mainly due to the impact of the COVID-19 outbreak.

The most significant decrease in patronage and revenue data was evident for the period 1 April 2020 to 30 June 2020, when the full impact of the pandemic and social distancing measures were occurring. For the period 1 April 2020 to 30 June 2020, patronage decreased by 68.6 per cent from the comparable period to 65.4 million trips, while revenue has decreased by 70.9 per cent to $117 million. Transport advised patronage did not decrease further, as there was an upward trend in patronage and revenue in June 2020 due to the easing of restrictions.

For private operated modes of public transportation, the operators are generally paid a contract payment net of the passenger farebox revenue received. Therefore, Transport bears the risk of losses resulting from the decrease in passenger revenue. Overall, there was an increase in ferry, bus and light rail contract costs of $107 million as a result of reduced patronage.

The table below shows the passenger revenue and patronage by transport mode.

Passenger revenue and patronage by transport mode (year on year)

	Passenger revenue #		Movement	Patronage #		Movement
Year ended 30 June 2020	**2020**	**2019**		**2020**	**2019**	
Mode of public transport	**$m**	**$m**	**%**	**million trips**	**million trips**	**%**
Rail	819	1,030	(20.5)	330	424	(22.3)
Buses*	388	472	(17.8)	282	349	(19.1)
Ferries**	38.3	51.2	(25.2)	11.9	16.1	(26.1)
Light rail***	16.7	13.2	26.5	14.4	11.2	28.6
Metro****	30.6	3.5	774.3	19.1	2.0	855
Total passenger revenue and patronage from public transport	**1,292**	**1,570**	**(17.7)**	**657**	**803**	**(18.1)**

* Passenger revenue for STA and private bus operators.

** Passenger revenue did not include Newcastle Ferries. This is because the Newcastle Integrated Services Contract is an integrated public transport systems contract which includes Newcastle buses, ferries and light rail. The related revenue for ferries is classified within the buses.

*** Passenger revenue did not include the CBD and South East Light Rail in 2019. The CBD and South East Light Rail commenced operations in December 2019.

**** Passenger revenue only included two months of data in 2019 as Sydney Metro began its operations in May 2019.

Source:

Passenger revenue: Financial statements (audited) and information from TfNSW (unaudited).

Patronage: Information from TfNSW (unaudited).

The table below shows the passenger revenue and patronage by transport mode between 1 April 2020 and 30 June 2020, as well as the comparative period.

Passenger revenue and patronage by transport mode (1 April to 30 June)

	Passenger revenue		Movement	Patronage		Movement
Period ended 30 June 2020	**2020**	**2019**		**2020**	**2019**	
Mode of public transport	**$m**	**$m**	**%**	**million trips**	**million trips**	**%**
Rail	71.5	263	(72.8)	31.1	109	(71.3)
Buses*	38.7	119	(67.5)	30.5	89.8	(66.0)
Ferries**	2.0	12.3	(83.7)	0.7	4.0	(82.5)
Light rail***	2.0	3.5	(42.9)	1.6	3.0	(46.7)
Metro****	2.3	3.5	(34.3)	1.5	2.0	(25.0)
Total passenger revenue and patronage from public transport	**117**	**401**	**(70.9)**	**65.4**	**207**	**(68.6)**

* Passenger revenue for STA and private bus operators.

** Passenger revenue did not include Newcastle Ferries. This is because the Newcastle Integrated Services Contract is an integrated public transport systems contract which includes Newcastle buses, ferries and light rail. The related revenue for ferries is classified within the buses.

*** Passenger revenue did not include the CBD and South East Light Rail in 2019. The CBD and South East Light Rail commenced operations in December 2019.

**** Passenger revenue only included two months of data in 2019 as Sydney Metro began its operations in May 2019.

Source: Information from TfNSW (unaudited). The information compares actual data for the period 1 April 2020 to 30 June 2020 (period when Transport's COVIDSafe Transport Plan was effective during 2019–20) and the comparable period in 2018–19.

Cluster agencies received stimulus funding to help with the impact of the natural disasters and the COVID-19 pandemic

In addition to the impact on passenger revenue, there were other financial impacts of COVID-19 on the Transport cluster, including:

- additional cleaning costs for train, bus, ferries, light rail, metro, stations, stops, wharves and depots
- more services commenced from 1 June 2020 to temporarily increase capacity for physical distancing
- additional staffing to manage physical distancing
- other decrease in revenue such as airport line station access fees, toll revenue and rent in government owned premises.

The bushfires and floods also had a financial impact due to damaged road and rail infrastructure. The cost of repairs included $57.4 million for road infrastructure repairs, $18.6 million for rail infrastructure burnt between Mount Victoria and Lithgow and approximately $8.7 million for rail infrastructure impacted by the floods and landslide at Leura. Some of these costs are expected to be recovered through insurance claims.

In response to the natural disasters and the COVID-19 pandemic, Transport for NSW received stimulus funding through additional appropriations and grants. This support included:

- approved funding from NSW Treasury of $129 million for COVID-19 cleaning, of which $76.7 million was drawn down and spent
- payments of $1.3 million in assistance to taxi operators negatively impacted by COVID-19 public health orders
- $86.5 million in grant revenue from the Office of Environmental Management for natural disaster local council recoveries in 2019–20 (2018–19: $74.2 million)
- $88.5 million grant revenue for natural disaster expenditure funding from Resilience NSW.

2.2 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued on all agencies' financial statements

Unqualified audit opinions were issued on all 30 June 2020 financial statements. Sufficient audit evidence was obtained to conclude the financial statements were free from material misstatement.

The number of monetary misstatements identified increased in 2019–20

In 2019–20, there continued to be issues with accounting of land and infrastructure asset at some agencies, resulting in the correction of prior period errors. These are outlined in further detail under Key accounting issues.

The number of monetary misstatements identified during the audit of the financial statements for the Transport cluster increased by 15 from 12 to 27 for the year ended 30 June 2020. A misstatement is an error in the amount recognised in the financial statements initially submitted for audit.

Reported corrected misstatements increased from eight in 2018–19 to 22 misstatements with a gross value of $1.8 billion in 2019–20. Reportable uncorrected misstatements increased from four in 2018–19 to five misstatements with a gross value of $22.3 million in 2019–20.

Of the 22 corrected misstatements, 17 had a gross value of greater than $5.0 million and primarily related to:

- valuation of assets with a gross value of $1.1 billion
- implementation of new accounting standards with a gross value of $248 million
- capitalisation of CBD and South East Light Rail with a gross value of $142 million
- other asset accounting issues with a gross value of $224 million.

Of the five uncorrected misstatements, two had a gross value of greater than $5.0 million, which comprise:

- 1 relating to the accounting for leases of $5.6 million
- 1 relating to the understatement of land acquired for future road works of $6.5 million.

The table below shows the number of misstatements and the quantum of the misstatements.

Number of misstatements

Year ended 30 June	2020		2019		2018	
	Corrected	Uncorrected	Corrected	Uncorrected	Corrected	Uncorrected
Less than $50,000	--	--	--	--	--	--
$50,000 to $249,999	--	--	--	--	--	2
$250,000 to $999,999	1	--	--	1	--	2
$1 million to $4,999,999	4	3	1	2	--	2
$5 million and greater	17	2	7	1	2	1
Total number of misstatements	22	5	8	4	2	7

Corrected misstatements. Uncorrected misstatements.
Source: Engagement Closing Reports issued by the Audit Office.

2.3 Timeliness of financial reporting

All agencies in the Transport cluster completed early close procedures and submitted year-end financial statements on time

The year-end timetable prescribed in TPP 20-05 'Agency Direction for the 2019–20 Mandatory Annual Returns to Treasury (TPP 20–05)', which superseded TPP 19–05 applied to all agencies in the Transport cluster. Treasury revised the year-end timetable for 2019–20, extending the usual submission dates by up to two weeks as a result of disruptions caused by the COVID-19 pandemic.

The table below details the timeliness of financial reporting for each agency in the Transport cluster for 2019–20.

	Timeliness of financial reporting		
Cluster agencies	**Early close procedures**	**Financial statements**	**Audit report**
Cluster lead entity			
Department of Transport	N/A*	✓	✓
Transport for New South Wales**	✓	✓	✓
Transport services providers			
NSW Trains	✓	✓	✓
Former Rail Corporation New South Wales (now Transport Asset Holding Entity)	✓	✓	✓
Sydney Trains	✓	✓	✓
State Transit Authority of NSW	✓	✓	✓
Sydney Ferries	✓	✓	✓
Sydney Metro	✓	✓	✓
Other agencies			
Chief Investigator of the Office of Transport Safety Investigations	N/A*	N/A***	N/A***
Transport Service of New South Wales	✓	✓	✓
Port Authority of New South Wales	✓	✓	✓
Residual Transport Corporation	N/A*	N/A***	N/A***

Key ✓ Statutory reporting deadline was met ! Statutory reporting deadline was not met

* Entities were not listed in the requirements of TD 19-02 Mandatory Early Close as at 31 March each year for 2019–20.

** The former RMS was dissolved on 1 December 2019 and transferred to Transport for NSW. A completion audit was performed for the former RMS for the period 1 July 2019 to 30 November 2019.

*** The Public Finance and Audit Amendment (Financial Reporting and Auditing Exclusions) Regulation 2019 provided relief to the Office of Transport Safety Investigations and Residual Transport Corporation from financial reporting requirements for 2019–20.

2.4 Key accounting issues

Accounting for assets

Prior period correction of road assets for the former Roads and Maritime Services - retaining walls and culverts

The former Roads and Maritime Services (RMS) previously performed a full valuation of its roads and bridges as part of the former RMS's 30 June 2018 financial statements. During the valuation process in the current year, management identified irregularities in the data used to value its retaining walls and culverts (stormwater drainage products).

Data used to value retaining walls was predominantly sourced from RMS's Road Slope Management System (RSMS). The retaining wall information captured in RSMS was not a complete and reliable record of retaining walls across the road network.

Furthermore, culvert values were duplicated, resulting in overstatement of $290 million.

Management recognised the decreases in fair value as a retrospective correction of a prior period error at 1 July 2018, which reduced previously reported road assets by $976 million. At 30 June 2019, the impact of the misstatement was an overstatement in road assets pertaining to retaining walls and duplicate culverts at 30 June 2019 of $1.1 billion.

Prior period land transfer at Sydney Metro

As part of the 30 June 2020 valuation process, management identified several parcels of land transferred to Sydney Metro in 2018–19 that were not recorded in its financial statements at 30 June 2020.

Management engaged internal and external experts to perform a review of the completeness of its land holdings. As a result, a retrospective correction of a prior period error due to understated land holdings of $17.5 million was reported in Sydney Metro's financial statements at 30 June 2019.

Capital expenditure and third party works at Sydney Metro

As part of the construction of the metro rail infrastructure, Sydney Metro entered into agreements with third parties such as local councils and utility providers to construct other assets including roads, footpaths, bridges and utility assets. The agreements state that at practical completion these assets will be transferred from Sydney Metro to the relevant local council or utility provider.

The cost of constructing these assets was initially recognised as part of the work in progress assets in Sydney Metro's financial statements. Management reviewed its capital works in progress at 30 June 2020 and identified $10.0 million of capital works constructed on behalf of third parties, over which control was transferred in 2018–19. The loss of control over the assets was retrospectively corrected as a prior period error in Sydney Metro's financial statements at 30 June 2019.

Major capital projects

The capital budget for the Transport cluster was $16.6 billion for the year ended 30 June 2020 ($14.7 billion in 2018–19). This is 60.0 per cent of the total capital budget for New South Wales of $27.7 billion. The Transport cluster is involved in several significant infrastructure projects including CBD and South East Light Rail, WestConnex and Sydney Metro City and Southwest.

Many of the Transport cluster infrastructure projects are constructed under public-private partnership arrangements. This means during construction these assets do not form part of the balance sheet of the transport agencies. The assets are only recognised on the transport agencies' financial statements at the completion of the project. Current significant projects constructed under such arrangements include WestConnex and Sydney Metro City and Southwest. Accordingly, the total project costs are not part of the audited financial statements until project completion.

We conducted a performance audit of the WestConnex business case review process in 2014 and currently conducting another performance audit on WestConnex. This audit will review the effectiveness of responsible agencies in assessing and justifying major scope changes to WestConnex and is expected to be tabled in March 2021.

CBD and South East Light Rail

The CBD and South East Light Rail project was completed and commenced operations this year

The CBD and South East Light Rail is a 12-kilometre light rail network for Sydney. The first passenger service Stage 1 (Randwick to Circular Quay) opened to the public on 14 December 2019 and Stage 2 (Kingsford to Circular Quay) opened to the public on 3 April 2020.

The original budget for construction work of $1.6 billion was revised to $2.1 billion in 2014. The original completion date was March 2019.

In June 2020, we tabled a follow up performance audit report on the CBD and South East Light Rail project. The report noted as at March 2020 the total cost of the project would exceed $3.1 billion, which was above the revised cost of $2.9 billion published in November 2019. At that time, Transport for NSW were still in the process of finalising the total cost of the project. As part of this process Transport for NSW identified and reported further costs of $180 million in relation to the construction of the CBD and South East Light Rail.

At 30 June 2020, the total cost of the project related to the CBD and South East Light Rail was $3.3 billion. Of this total cost, $2.6 billion was recorded as assets, whilst the following amounts were expensed or written off:

- $355 million relating to third party assets that were transferred to councils and utility providers as Transport for NSW do not control these assets
- $345 million relating to fair value adjustments.

The total cost of the project also includes $54.3 million paid in total throughout the project to small businesses as part of the Small Business Assistance Program. The Small Business Assistance Program was established to assist some small businesses on the light rail alignment impacted by the delays in construction.

As the CBD and South East Light Rail was constructed under a public-private partnership arrangement, this was the first time the total costs were recorded in Transport for NSW's financial statements. Transport for NSW also recognised a related financial liability of $1.9 billion at 30 June 2020 to recognise the obligation to pay for the project over time.

2.5 New accounting standards

Implementation of new accounting standards

Three new accounting standards were implemented in 2019–20 by the Transport cluster

Changes in accounting standards can materially impact the financial statements. It is important that agencies have appropriate systems, processes and resources to implement the new accounting standards.

Our audits found that agencies in the Transport cluster have largely made the necessary modifications to systems and processes to implement new accounting standards in 2019–20.

Each agency is unique and implementing the new standards is not straightforward as many new principles apply. Transport agencies spent significant effort and resources to implement these new accounting standards. Management judgement is needed to interpret how the principles will impact their specific agency. As a result, agencies face the following risks and challenges:

- having the required technical skills
- having accurate data and complete contract registers to assess the impacts
- correctly and consistently interpreting the new requirements
- adequately planning and preparing for their application
- implementing new systems and processes to capture the information needed to meet the new reporting obligations.

The Transport cluster implemented three new accounting standards (AASB 16 'Leases', AASB 15 'Revenue from contracts with customers' and AASB 1058 'Income of Not-for-Profit Entities') for their 2019–20 financial statements.

AASB 16 'Leases' changed how Transport cluster agencies treat operating leases in 2019–20

AASB 16 became effective for all NSW public sector agencies from 1 July 2019. AASB 16 changes how lessees treat operating leases for financial reporting. Previously leased assets and lease liabilities under operating leases were not recognised in the financial statements, even though the entity had control of the asset and was committed to making those future lease payments. Lease obligations were merely recorded as a commitment in the notes to the entity's financial statements. 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 (ROU) asset and a corresponding lease liability. It also changes the timing and pattern of expenses recorded in the Statement of Comprehensive Income by recognising the 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.

On 1 July 2019, the Transport cluster agencies collectively recognised right of use assets of $3.4 billion and corresponding lease liabilities of $3.4 billion on adoption of AASB 16.

- Sydney Trains accounting for 66.2 per cent of right of use assets and 62.2 per cent lease liabilities recognised respectively. These represent leases for rolling stock, office spaces, motor and heavy vehicles.
- Transport for NSW accounting for 33.3 per cent of right of use assets and 37.3 per cent lease liabilities recognised respectively. These represent leases for buses, properties, land, equipment and motor vehicles.

AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' changed how Transport 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 department and cluster agencies adopted the modified retrospective approach to transition to AASB 15 and AASB 1058. This method does not require the restatement of prior period financial statement figures. Instead, the cumulative effect of applying the standards on prior periods is presented as an adjustment to opening retained earnings at 1 July 2019.

The new revenue standard largely impacted Transport for NSW, with the agency accounting for a $280 million contract liability representing the obligations for receipt of proceeds for performance obligations not met at 30 June 2020. These include licence fees, toll revenue received in advance as well as revenue received for projects where milestones have not yet been met.

Preparedness for further new accounting standards

The Transport cluster will implement one new Accounting Standard, AASB 1059 'Service Concession Arrangements: Grantors', in 2020–21. The standard is relevant for public sector agencies that are grantors in an arrangement where an operator provides public services related to a service concession asset on behalf of the grantor.

The impact of the standard is expected to be significant across the Transport cluster. This is because transport agencies often engage operators to provide many of the public transport services on their behalf. The Transport cluster includes many privately financed projects, where a private sector company constructs and then operates the service for a set amount of time. Such arrangements include the Metro Northwest and City and Southwest, toll road assets, CBD and South East Light Rail, Inner West Light Rail as well as the Airport Link railway line assets.

AASB 1059 sets out how to account for such service concession arrangements. Agencies across the cluster are progressing in their implementation of the new standards. They have:

- performed a detailed assessment of the impact of the new standards on their financial statements, existing systems and processes
- assessed the terms and conditions of existing arrangements with private sector operators to assess whether they fall within the scope of AASB 1059
- disclosed the impact of the new standards in the 2019–20 financial statements based on preliminary assessments.

AASB 1059 will result in agencies recognising service concession assets and liabilities in their financial statements. In some cases, this standard will require agencies to recognise assets and liabilities that were not previously recorded on the balance sheet.

With such arrangements, much of the asset management information is held with the private sector operators and there may be challenges obtaining the information required to implement the standard.

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 Transport cluster
- assessment of how well cluster agencies adapted their systems, policies and procedures, and governance arrangements in response to recent emergencies.

Section highlights

- While there was a decrease in findings on internal controls across the Transport cluster, 43 per cent of all issues were repeat issues. Many repeat issues related to information technology controls around user access management.
- RailCorp transitioned to TAHE on 1 July 2020. TAHE's operating model and commercial arrangements with public rail operators has not been finalised despite government original plans to be operating from 1 July 2019. TAHE management should finalise its operating model and commercial agreements with public rail operators as they may significantly impact the financial reporting arrangements for TAHE for 2020–21.
- Completeness and accuracy of contracts registers remains an ongoing issue for the Transport cluster.

3.1 Internal control deficiencies

Management letter findings

While overall issues in the Transport cluster have decreased, weaknesses continue to exist in access security for financial systems

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. The Audit Office reports deficiencies in internal controls, matters of governance interest and unresolved issues identified during our audits to management and those charged with governance of the agencies. The Audit Office does this through management letters, which include observations, related implications, recommendations and risk ratings.

In 2019–20 there were 56 management letter findings raised across the cluster (73 in 2018–19). 43 per cent of all issues were repeat issues (29 per cent in 2018–19). The majority of the repeat issues relate to information technology controls around user access management.

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

Category	Risk rating	Issue
Information technology	Moderate: 3 new, 6 repeat Low: 3 new, 3 repeat	The financial audits identified 15 deficiencies in information technology (IT) processes and controls that support the integrity of financial data used to prepare agencies' financial statements, including: • user access management • privileged user activities. Repeat management letter findings related mainly to user access management.
Operational	Moderate: 5 new, 3 repeat Low: 9 new, 2 repeat	The financial audits identified internal control weaknesses across key business processes, including: • management of contracts and agreement register • asset management processes • payroll processes • outdated bank signatories.
Financial reporting	High: 3 new, 0 repeat Moderate: 4 new, 2 repeat Low: 2 new, 2 repeat	The financial audit identified opportunities for agencies to strengthen financial reporting, including: • valuation of assets • fair value assessment of completed capital projects • payroll processes. One high risk issue is related to the finalisation of the TAHE operating model and related commercial arrangements. Refer to Section 3.3 below for further details. The two other high risk issues are related to: • completeness of Sydney Metro land holdings register • monitoring and accounting of project construction costs performed by Sydney Metro on behalf of third parties such as utility providers and local councils. Refer to Section 2.4 above for further details on the errors at Sydney Metro relating to these high risk issues.
Compliance with key legislation and/or policies	Moderate: 0 new, 3 repeat Low: 3 new, 3 repeat	The financial audits identified compliance matters, including: • incomplete probation procedures • gifts and benefits register • process improvements related to the *Government Sector Finance Act 2018*.

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

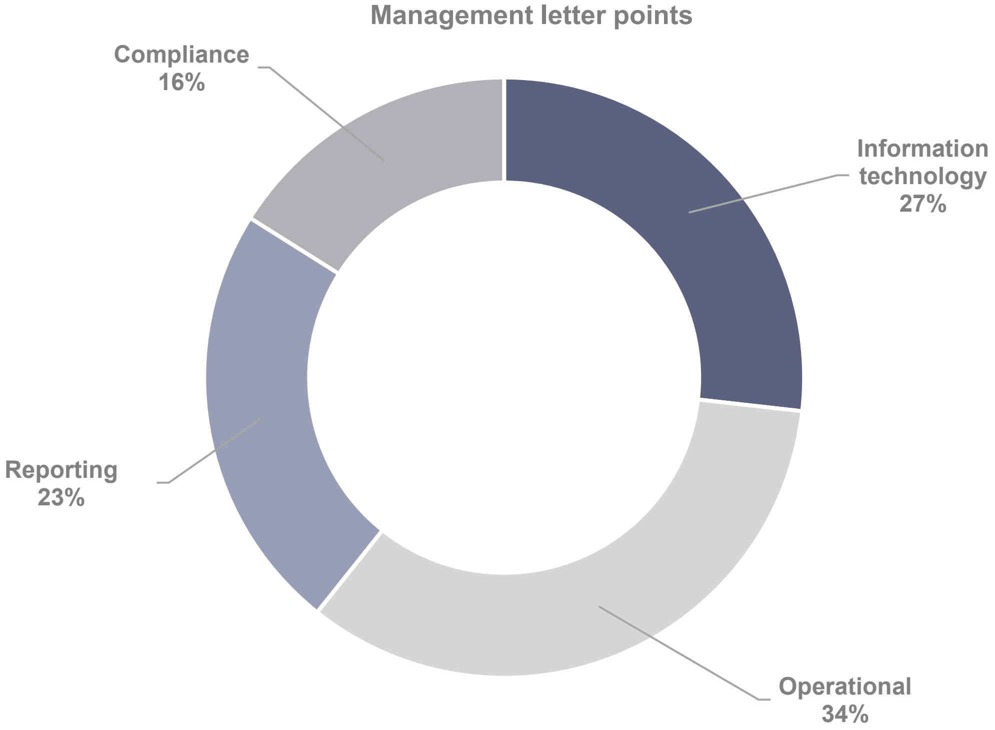
High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.

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.

The graph below shows 27 per cent of reported deficiencies were related to information technology. The remaining matters were split between non-compliance with key legislation and/or policies (16 per cent), operational (34 per cent) and financial reporting (23 per cent).



Source: Audit Office 2020 management letters.

The management letter points categorised under operational related mainly to weaknesses in management of contracts and agreement registers, asset management processes and payroll processes.

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.

Information technology system outage

The State Transit Authority's business continuity planning process was tested in a cyber security attack

On 11 June 2020, State Transit Authority's (STA) management detected a ransomware cyber security attack on the critical IT infrastructure of STA. The IT systems were taken offline to stop the spread of the ransomware. STA enacted its Business Continuity Process to continue their business operations without the systems. STA advised its systems were recovered within three days.

The audit team performed additional audit procedures to confirm there were no material impacts on STA's financial statements. This was raised as an internal control deficiency in the management letter to address the cybersecurity risk.

An Audit Office compliance review on Cybersecurity is scheduled for 2020–21 which will examine whether NSW Government Departments and Public Service Agencies are complying with the NSW Cybersecurity Policy. The policy mandates a number of requirements that are a minimum that all agencies must implement. In addition, agencies must assess their level of cyber maturity.

The Audit Office is currently conducting a performance audit on Managing cyber risk at Sydney Trains which includes consideration of Transport for NSW cybersecurity as well. The aim of the audit is to assess how effectively Sydney Trains identify and manage its cybersecurity risks.

3.2 Agency response to recent emergencies

Transport for NSW established a COVID-19 Taskforce and COVIDSafe Transport Plan

Transport for NSW established the COVID-19 Taskforce in March 2020 to take responsibility for the overall planning response and coordination for the Transport cluster. The COVIDSafe Transport Plan incorporates guidance on physical distancing, active transport options, boosting parking, increasing services, increasing cleaning and giving customer's information to plan their travel.

NSW Procurement released the 'COVID-19 Emergency procurement procedure' to allow agencies to expedite the procurement of critical goods and services during the COVID-19 pandemic. Emergency procurement is embedded in the Procurement Policy Framework for each Transport cluster agency. Procurement support officers across Transport agencies were nominated to ensure appropriate use of emergency procurement provisions, along with centralised reporting of all emergency procurement to the NSW Procurement Board. This was supported by guidance issued to all Transport agencies in March 2020 to address COVID-19 emergency procurement provisions. The main emergency procurement incurred in the Transport cluster related to cleaning and sanitising supplies and personal protective equipment.

Transport cluster agencies were required to review existing business continuity plans as a result of these recent emergencies. The Business Resilience team at Transport for NSW reviewed existing plans for suitability for the COVID-19 impacts. We note that the recent emergencies provided an opportunity for agencies to update and refine their business continuity and disaster recovery plans.

For additional assurance, Transport for NSW engaged external consultants to:

- provide public transport network simulation modelling and analysis to identify hotspots and network impacts
- review the Transport for NSW COVID-19 Taskforce
- provide cybersecurity services and penetration testing to the COVID-19 Taskforce
- model the spread of COVID-19 on Sydney public transport networks and the effectiveness of preventive measures
- achieve a better understanding of commuter volumes, density, movement and behaviour in and around key train stations and interchanges
- facilitate resilience workshops for the COVID-19 Taskforce.

3.3 Key issues

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 agencies in the Transport cluster include:

- accounting of assets (covered under Financial reporting)
- RailCorp's transition to TAHE
- completeness and accuracy of contracts registers.

RailCorp transition to TAHE

TAHE's operating model and commercial arrangements with public rail operators has not been finalised despite government original plans to be operating from 1 July 2019

On 1 July 2020, RailCorp was renamed Transport Asset Holding Entity of New South Wales (TAHE) and converted to a for-profit statutory State-Owned Corporation pursuant to the *Transport Administration Act 1988* and the *State Owned Corporations Act 1989*. The establishment of TAHE was announced by the NSW Government in the 2015–16 State Budget. TAHE is a commercial for-profit Public Trading Entity with the intent to provide a commercial return to its shareholders.

Prior to 1 July 2015, the government paid grants to RailCorp to deliver its capital program. These grant payments were recorded as an expense to the State Budget. From 1 July 2015, funding for RailCorp's capital projects was provided by equity injections which from that point were no longer recorded as an expense to the State Budget. The change, as explained in the 2015–16 State Budget, was due to the expectation that RailCorp will transition to TAHE, which will over time provide a commercial return. That Budget also highlighted how the accounting change improves the General Government Sector budget result each year, typically by as much as $1.2 billion to $1.9 billion.

A plan was established by NSW Treasury to transition RailCorp to TAHE. This plan extended over a four-year period commencing from 1 July 2015 to 1 July 2019, the latter date represented when TAHE was expected to be fully operational as the owner of all NSW public sector transport assets. The plan recognised that establishment and implementation of TAHE required some lead time given the need to draft legislation, develop the full commercial model and appoint a governing board.

The enactment of the Transport Administration Act resulted in the creation of TAHE on 1 July 2020, 12 months after its originally planned operational date. A large portion of the planned arrangements were not implemented by 1 July 2020. At the time of this report, the TAHE operating model and Statement of Corporate Intent (SCI) are not finalised. The *State Owned Corporations Act 1989* generally requires finalisation of an SCI three months after the commencement of each financial year. However, under the *Transport Administration Act 1988*, TAHE received an extension from the voting shareholders, the Treasurer and the Minister for Finance and Small Business, to submit its first SCI by 31 December 2020. Key commercial arrangements such as access arrangements between TAHE and the rail operators have not been finalised. TAHE has not established commercial arrangements with the public rail operators Sydney Trains and NSW Trains to provide them access to the rail network and heavy rail assets. In accordance with the original plan, interim commercial access arrangements were supposed to be in place with RailCorp prior to commencement of TAHE. However, current legacy arrangements from RailCorp have transitioned to TAHE, where no network access fees are paid by these rail operators. Maintenance expenses for the TAHE rail assets continue to be paid by the public rail operators.

Finalisation of the commercial arrangements and related financial forecast information is critical as this will impact the valuation of the TAHE infrastructure assets with a potential impairment of the asset value. In the absence of commercial arrangements with the public rail operators, there is a lack of evidence to demonstrate TAHE's ability to create a commercial return in the long term, which was the original intent and led to the changes in the Budget's accounting treatment from being an expense in the budget to an equity injection.

As of 1 July 2020, TAHE appears to be essentially carrying over the same activities of RailCorp, with the exception of a newly appointed TAHE board and executive management team on 1 July 2020. The Board consists of three independent members and the Secretary of Transport for NSW.

Under the transitional arrangements, TAHE is continuing to operate in accordance with the asset and safety management plans of RailCorp. The final operating model is expected to include considerations of safety, operational, financial and fiscal risks. This should include a consideration of the potential conflicting objectives of a commercial return, and maintenance and safety measures.

Finalisation of these arrangements, the accounting for further cash injections and the fair value of TAHE assets will be a key area of audit focus in 2020–21.

This matter has been included as a high risk finding in our management letter due to the significance of the financial reporting impacts and business risks for TAHE.

Recommendation

TAHE management should:

- **establish an operating model in line with the original intent of a commercial return**
- **finalise commercial agreements with the public rail operators**
- **confirm forecast financial information to assess valuation of TAHE infrastructure**
- **finalise asset and safety management plans.**

Resolution of the above matters are critical as they may significantly impact the financial reporting arrangements for TAHE in 2020–21, in particular, accounting policies adopted as well as measurement principles of its significant infrastructure asset base.

Completeness and accuracy of contracts registers

There remains no centralised processes to record all significant contracts and agreements in a register across the Transport cluster

Across the Transport cluster, contracts and agreements continue to be maintained by the transport agencies using disparate registers due to procurement being decentralised in each agency.

In 2018–19, we reported that not all contracts and agreements entered into by transport agencies were captured in the contract registers. Our audit in 2019–20 identified that this continues to be the practice. Furthermore, we also identified in some cases key details of contracts and agreements on the registers were missing.

There are significant contracts and agreements in the Transport cluster given the large number of infrastructure projects. More specifically, Transport agencies have many agreements with private sector companies and other government agencies for project construction and integrated developments which may involve multiple parties. Absence of a complete and accurate register increases the risk that agencies may not be aware of all contractual and other obligations. There is a risk financial statements may be misstated if the financial impacts of certain contracts and agreements are not considered.

As identified above in Financial Reporting, the Transport cluster implemented three new accounting standards (AASB 16 'Leases', AASB 15 'Revenue from Contracts with Customers', AASB 1058 'Income of Not-for-Profit Entities') for their 2019–20 financial statements, and one new accounting standard (AASB 1059 'Service Concession Arrangements: Grantors') for their 2020–21 financial statements.

Agencies must perform detailed assessments of their contracts and agreements to comply with the new accounting standards. A lack of a complete register of all contracts and agreements increases the risk that agencies may not be able to fully comply with the new accounting standards.

Recommendation (repeat)

Transport agencies should continue to implement a process to centrally capture all contracts and agreements entered. This will ensure:

- **agencies are fully aware of contractual and other obligations**
- **appropriate assessment of financial reporting implications**
- **ongoing assessments of accounting standards, in particular AASB 16 'Leases', AASB 15 'Revenue from Contract with Customers', AASB 1058 'Income of Not-for-Profit Entities' and new accounting standard AASB 1059 'Service Concession Arrangements: Grantors' are accurate and complete.**

Section two

Appendices

Appendix one – List of 2020 recommendations

The table below lists the recommendations made in this report.

3. Audit observations

TAHE's operating model and commercial arrangements with public rail operators has not been finalised by the TAHE commencement date	TAHE management should: • establish an operating model in line with the original intent of a commercial return • finalise commercial agreements with the public rail operators • confirm forecast financial information to assess valuation of TAHE infrastructure • finalise asset and safety management plans. Resolution of the above matters are critical as they may significantly impact the financial reporting arrangements for TAHE in 2020–21, in particular, accounting policies adopted as well as measurement principles of its significant infrastructure asset base.	High risk
There remains no centralised processes to record all significant contracts and agreements in a register across the Transport cluster (repeat)	Transport agencies should continue to implement a process to centrally capture all contracts and agreements entered. This will ensure: • agencies are fully aware of contractual and other obligations • appropriate assessment of financial reporting implications • ongoing assessments of accounting standards, in particular AASB 16 'Leases', AASB 15 'Revenue from Contract with Customers', AASB 1058 'Income of Not-for-Profit Entities' and new accounting standard AASB 1059 'Service Concession Arrangements: Grantors' are accurate and complete.	Medium risk

Key — **Low risks** — **Medium risks** — **High risks**

Appendix two – Status of 2019, 2018 and 2017 recommendations

Recommendation	Current status
The cluster lead entity should:	
Ensure consistent accounting policies are applied across its controlled entities.	The Department of Transport is currently conducting a cluster-wide working group to review the consistency of accounting policies applied to key known matters and explore the potential for alignment.
Implement measures to prevent the loss of revenue from passengers tapping off with negative Opal cards.	Changes were made to the airport stations to prevent customers with high negative balances exiting and to increase the minimum top up values for new cards at these stations. As a result of the new measures, the total value of negative balance Opal cards during the year decreased by 57 per cent to $1.3 million (2018–19: $2.9 million). The introduction of contactless payment options also does not carry the same negative exit risk.
Develop target measures on crowding for bus operators in all contract regions and publish the results.	Transport for NSW has key performance indicators in its contracts with bus operators which requires the operator to notify the agency of overcrowded routes. The results are published through transport apps which convert open data on loading available from Transport for NSW into publicly accessible information. However, crowding target measures have not been established.
Rail Corporation New South Wales and Sydney Trains:	
The transparency of operations of signalling priorities with operators be improved with the creation of TAHE and the operation of the new Rail Operations Centre (ROC) in 2018.	The enactment of the Transport Administration Act resulted in the creation of TAHE on 1 July 2020. A revised operations protocol was made effective from 1 January 2018. The protocol continues to be based around ensuring the least number of passengers are impacted by any issues on the network.

Recommendation	Current status	
NSW Trains and Chief Investigator of the Office of Transport Safety Investigations should:		
Continue to focus on strategies to improve financial sustainability and less reliance on the NSW Government funding.	NSW Trains continues to require a letter of financial support along with Sydney Trains and Rail Corporation for the year ended 30 June 2020. The agency advised that management has implemented budget control measures, regional pricing reviews, benchmarking and outsourcing to improve cost recovery. OTSI does not generate revenue and is reliant on NSW Government funding.	Partially addressed
The Transport cluster agencies should:		
Consult agency finance teams on major business decisions and commercial transactions to assess their accounting impacts at the time of their execution, rather than at the end of a financial year and resolve all key accounting issues such as valuations as part of the early close procedures.	While the timeliness of financial reporting improved, the number of monetary misstatements identified during the audit of the financial statements for the Transport cluster increased this year. Similar issues were also raised around prior period errors due to: • acquisition of land assets • transfer of loss of control over third-party assets.	Partially addressed
Implement a process to centrally capture all significant contracts and agreements entered. This will ensure: • agencies are fully aware of contractual and other obligations • appropriate assessment of financial reporting implications • assessment of new accounting standards, in particular AASB 16 'Leases', AASB 15 'Revenue from Contract with Customers', AASB 1058 'Income of Not-for-Profit Entities ' and AASB 1059 'Service Concession Arrangements: Grantors' are accurate and complete.	As highlighted in our repeat recommendation above in Appendix one, there remains no centralised processes to record all significant contracts and agreements in a register across the Transport cluster.	Partially addressed
Remove user access for terminated staff on a timely basis and ensure all user reviews are completed so access rights are appropriate.	There were further user access issues across the cluster identified as part of our 2019–20 audits.	Partially addressed
Continue reviewing the effectiveness of approaches to managing excessive annual leave.	Natural disasters and COVID-19 have impacted on the Transport cluster agencies' ability to reduce excessive annual leave to the desired levels. Agencies continue to actively monitor annual leave balances and leave management principles have been developed to manage excessive leave.	Partially addressed

Key Fully addressed | Partially addressed | Not addressed

Appendix three – Management letter findings

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

	Management letter findings				
	Extreme	**High**	**Moderate**	**Low**	**Repeat^**
Cluster lead entity					
Department of Transport	--	--	--	--	--
Transport for New South Wales	--	--	12	10	9
Transport service providers					
NSW Trains	--	--	2	4	5
Rail Corporation New South Wales	--	1	1	1	2
Sydney Trains	--	--	2	1	2
State Transit Authority	--	--	3	4	3
Sydney Ferries	--	--	1	--	--
Sydney Metro	--	2	4	1	1
Other agencies					
Chief Investigator of the Office of Transport Safety Investigations*	--	--	--	--	--
Transport Service of New South Wales	--	--	--	1	--
Port Authority of New South Wales	--	--	1	5	2

Note: Repeat management letter findings have been classified with the 'Extreme', 'High', 'Moderate' and 'Low' columns and form part of their total.

* Treasury granted Chief Investigator of the Office of Transport Safety Investigations and Residual Transport Corporation an exemption from the requirements to prepare financial statements.

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue *		Total expense **	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Cluster lead entity								
Department of Transport	--	--	--	--	1	1	1	1
Transport for NSW***	121,689	11,535	7,461	2,288	19,508	18,603	16,681	17,985
Transport service providers								
NSW Trains	121	186	361	367	832	803	880	850
Rail Corporation New South Wales	40,816	33,820	2,923	2,932	309	307	1,827	1,655
Sydney Trains	3,149	3,342	3,687	3,617	3,516	3,547	3,778	3,779
State Transit Authority	89	110	294	314	450	476	451	488
Sydney Ferries	157	154	8	4	12	17	14	32
Sydney Metro	18,143	15,866	2,082	2,263	3,007	2,983	796	996
Former Road and Maritime Services****	108,939	104,654	2,620	2,509	3,916	9,087	1,775	4,609
Other agencies								
Transport Service of NSW	544	517	544	517	2,109	2,015	2,109	1,986
Port Authority of New South Wales	610	595	286	273	178	176	167	158

* Total revenue includes other gain and gain on disposal which are shown separately on the financial statements.

** Total expense includes other loss, loss on disposal and income tax expense which are shown separately on the financial statements.

*** 2020 financial data for Transport for NSW includes the impact of the transfer of the assets, rights, liabilities and functions of the former RMS at 1 December 2019, and its financial results for the period 1 December 2019 to 30 June 2020.

**** 2020 financial data for the former RMS represents total assets and total liabilities at 30 November 2019 and total revenue and total expenses for the period 1 July 2019 to 30 November 2019, prior to its dissolution.

Note: Treasury granted Chief Investigator of the Office of Transport Safety Investigations and Residual Transport Corporation an exemption from the requirements to prepare financial statements.

Professional people with purpose

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

Pride in purpose

Curious and open-minded

Valuing people

Contagious integrity

Courage (even when it's uncomfortable)

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