



FINANCIAL AUDIT

20 APRIL 2022

Treasury 2021

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 *Government Sector 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 Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

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 internal controls and governance, and 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, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.



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In accordance with section 52B of the *Government Sector Audit Act 1983*, I present a report titled '**Treasury 2021**'.

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

Margaret Crawford

Auditor-General for New South Wales
20 April 2022

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RECONCILIATION COMMITMENT STATEMENT

The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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Section one

Treasury 2021

This report analyses the results of our audits of the Treasury agencies for the year ended 30 June 2021.

1. Introduction

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

- financial reporting
- audit observations.

NSW Treasury also prepares the consolidated NSW whole of government financial statements (the Total State Sector Accounts), which is reported in the report on [State Finances 2021](#).

1.1 Snapshot of the cluster

Treasury Cluster

As the Government's principal financial and economic adviser, the Treasury Cluster aims to help people access services and infrastructure, underpinned by a strong economic and financial position.

State Outcomes assigned to the Treasury Cluster



A strong, resilient and diverse economy

Driving whole-of-state economic strategy, that supports a competitive business environment, drives productivity, increases real incomes, fosters employment opportunities and makes it easy to do business in New South Wales.



A sustainable fiscal environment enabling delivery of outcomes

Managing whole-of-state financial asset and liability activities while maintaining the State's triple A credit rating, and working towards full funding of the State's Defined Benefits Superannuation liability by 2040.



Stewardship of the public sector performance and financial system

Steward and support sector performance to deliver outcomes for citizens, ensure transparency and accountability and the effective use of public funds.

Key Agencies



Source: NSW Budget papers 2021–22.

1.2 Changes to the cluster

Machinery of Government changes

The Treasury cluster underwent significant Machinery of Government (MoG) changes during 2020–21. MoG refers to how the government organises the structures and functions of the public service. MoG changes are where the government reorganises structures and functions of the public service and they are given effect by Administrative Change Orders.

These changes were implemented through the following:

- Administrative Arrangements (Administrative Changes - Transfer of Staff to Western City and Aerotropolis Authority Staff Agency) Order 2020, issued 14 October 2020 and effective 16 October 2020. This order transferred:
 - a grant program (the City Deal Delivery Office Western City Liveability Program) from the Greater Sydney Commission to the Western City and Aerotropolis Authority
 - persons employed in the Greater Sydney Commission Staff Agency (from Western Sydney City Deal Delivery Office) to the Western City and Aerotropolis Authority Staff Agency
 - persons employed in NSW Treasury (from Western Sydney Investment Attraction Office) to the Western City and Aerotropolis Authority Staff Agency.
- The Western City and Aerotropolis Authority name was changed to Western Parkland City Authority on 11 December 2020 (Schedule 1 of *Statute Law (Miscellaneous Provisions) Act 2020*). The staff agency naming was changed similarly. The change did not affect the structure or financial reporting requirements.
- Administrative Arrangements (Administrative Changes – Miscellaneous) Order 2021, issued 26 March 2021 and effective 29 March 2021. The Order established Investment NSW as a public sector agency in the Department of Premier and Cabinet cluster and transferred to it:
 - functions, activities and persons employed in NSW Treasury, Department of Education, Department of Premier and Cabinet and the Department of Planning, Industry and Environment
 - persons employed in the Destination NSW Staff Agency, and the staff agency was abolished.
- The Order also transferred from the Treasury cluster to Premier and Cabinet Cluster:
 - Destination NSW and the Western Parkland City Authority and its staff agency
 - persons employed in NSW Treasury (Precincts team) to the Greater Sydney Commission Staff Agency.

More recently, an additional Administrative Arrangements (Second Perrottet Ministry-Transitional) Order 2021 was issued on 21 December 2021 providing for an additional MoG change within the Treasury cluster. Effective 1 April 2022, Small Business Commissioner staff will transfer from NSW Treasury to the Department of Customer Service.

Change to the financial reporting of Treasury administered activities

In the 2020–21 financial year, NSW Treasury completed its review of the financial reporting requirements relating to transactions and balances it manages on behalf of the Crown.

The review resulted in most of these transactions and balances being reported by NSW Treasury as 'administered items', given it is responsible for managing (but not controlling) the majority of activities undertaken on behalf of the State. This was to ensure that NSW Treasury's financial statements complied with AASB 1050 'Administered Items'. As a result, the convention of preparing separate Crown Entity financial statements ceased in 2020–21. There was no impact to the State's financial statements from these Crown reforms.

Refer to section 2.4 below for further details.

1.3 Significant accounting issue

Delays in finalising the audit of The Treasury

Significant matters relating to the Government's investment in Transport Asset Holding Entity (TAHE) delayed finalising the audit of NSW Treasury and the Total State Sector Accounts.

NSW Treasury is responsible for preparing the Total State Sector Accounts (TSSA) and the significant matters that delayed the finalisation of the TSSA audit are reported in the report on [State Finances 2021](#). A total of seven recommendations were made, with one extreme risk finding and six high risk findings included in our [State Finances 2021](#) report to parliament.

2. Financial reporting





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





This chapter outlines our audit observations related to the financial reporting of agencies in the Treasury cluster (the cluster) for 2021.

Section highlights

- Unmodified audit opinions were issued on all the cluster agencies 2020–21 financial statements.
- The number of identified monetary misstatements increased from 16 in 2019–20 to 24 in 2020–21.
- Reported corrected monetary misstatements decreased from 15 in 2019–20 to seven with a gross value of \$1.1 billion in 2020–21. The largest corrected misstatement was in NSW Treasury's financial statements resulting in a \$1.0 billion correction to its administered borrowings. The correction was to address an understatement by NSW Treasury which did not recognise a liability for funds raised by NSW Treasury Corporation (TCorp) on its behalf as it applied settlement date accounting rather than trade date when recognising these borrowings. A corresponding receivable from TCorp was also recognised to reflect that funds were to be received on 1 July 2021.
- The number of uncorrected misstatements increased from one in 2019–20 to 17 in 2020–21. Two of the misstatements above \$5 million related to investment valuations within the SAS Trustee Corporation Pooled Fund, two related to premium income overstatements within the Workers Compensation Nominal Insurer, and one related to NSW Treasury administered liabilities and expenses where it recognised a provision for remediation costs when it had no present obligation. A further seven related to investment management funds that were terminated during the year by TCorp.
- Nine agencies that were required to perform early close procedures did not complete a total of 25 mandatory procedures. The most common incomplete early close procedures include inter and intra (cluster) agency balances and transactions not confirmed with the counterparty agency and significant management judgements and assumptions made when estimating transactions and balances not documented.
- To ensure compliance with Australian Accounting Standards, transactions and balances that were formerly reported in the Crown Entity's financial statements are now reported by NSW Treasury as it primarily controls or administers the transactions and balances on behalf of the State.
- icare changed the risk margin applied to measure the Workers Compensation Nominal Insurer's outstanding claims liability. If the risk margin used when valuing its 2019–20 outstanding claims liability had been retained, its net asset deficiency would have worsened compared to the prior year. The change in risk margin aligns the Nominal Insurer's 'probability of adequacy' with the Australian Prudential Regulation Authority's minimum reporting requirements for general insurers.
- The icare Board approved a new approach for remediating pre-injury average weekly earnings underpayments (subject to legal advice, and assessment by a wage remediation expert), on 24 September 2021 and announced on 11 November 2021. The impact of the decision on the Nominal Insurer's financial statements was not assessed by icare as an 'after balance date event' and was not raised with the Audit Office prior to icare finalising its 2021 financial statements on 24 September 2021.

2.1 Cluster financial information 2021

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Principal department				
NSW Treasury	350	218	1,180	1,130
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02				
Alpha Distribution Ministerial Holding Corporation	194	16	19	10
Building Insurers' Guarantee Corporation	53	53	7	56
Electricity Assets Ministerial Holding Corporation	147	53	1	9
Electricity Retained Interest Corporation - Ausgrid	4,976	--	117	1
Electricity Retained Interest Corporation - Endeavour Energy	2,632	--	136	38
Electricity Transmission Ministerial Holding Corporation	195	150	5	4
Epsilon Distribution Ministerial Holding Corporation	41	8	5	3
Insurance and Care NSW	319	306	926	926
Liability Management Ministerial Corporation	297	--	68	--
Lifetime Care and Support Authority of New South Wales	8,406	8,232	1,598	1,128
New South Wales Treasury Corporation	117,231	117,003	225	143
NSW Self Insurance Corporation	15,164	14,297	3,978	2,985
Ports Assets Ministerial Holding Corporation	269	1	60	42
Roads Retained Interest Pty Ltd	6,297	--	--	295
Workers Compensation (Dust Diseases) Authority	2,265	2,265	206	206

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Other cluster agencies not listed in Appendix A of Treasury Direction TD21-02				
Energy Industries Superannuation Scheme Pool A	4,369	4,343	667	667
Energy Industries Superannuation Scheme Pool B	2,078	1,884	335	197
Energy Investment Fund	6,422	42	1,002	--
SAS Trustee Corporation Pooled Fund	46,109	59,352	5,940	4,895
NSW TCorp Investment Management Funds	111,378	768	14,141	199
Workers Compensation Nominal Insurer	19,878	20,131	4,721	4,658
Immaterial agencies	8,993	1,666	668	144

* Includes other gains.

** Includes other losses.

Source: Agencies audited 2020–21 financial statements.

2.2 Quality of financial reporting

Audit opinions

Unqualified audit opinions were issued on agencies' financial statements

Unqualified audit opinions were issued on all cluster agencies' 30 June 2021 financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

Unqualified audit opinions were issued on other information prepared by cluster agencies

Unqualified audit opinions were also issued on information prepared by cluster agencies, other than general purpose financial statements, during 2020–21. These included:

- six audits of special purpose financial reports of NSW Treasury administered funds
- audits of TCorp's description of controls with respect to their design and operating effectiveness over managed asset portfolios and investment management services, and of Commonwealth Guarantee Fee Forms
- an audit on the Energy Industries Superannuation Scheme Pty Limited's compliance with requirements of the Australian Financial Services (AFS) Licence
- audit opinions on seven superannuation entities' Australian Prudential Regulation Authority (APRA) forms and regulatory compliance requirements.

Refer to Appendix five for further details.

The number of identified monetary misstatements increased in 2020–21

The number of monetary misstatements identified during the audit of the financial statements for the cluster increased from 16 in 2019–20 to 24 in 2020–21. A monetary misstatement is an error in the amount recognised in the financial statements initially submitted for audit.

Reported corrected misstatements decreased from 15 in 2019–20 to seven with a gross value of \$1.1 billion in 2020–21. Reported uncorrected misstatements increased from one in 2019–20 to 17 with a gross value of \$168 million in 2020–21. The effect of not correcting these misstatements was immaterial, individually and in aggregate, to the respective agencies' financial statements as a whole. The audit did not consider the uncorrected misstatements significant enough to modify the opinion in the Independent Auditor's Reports.

The table below shows the number and quantum of monetary misstatements for the past two years.

Year ended 30 June	2021		2020	
	✓	!	✓	!
Less than \$50,000	0	2	2	0
\$50,000 to \$249,999	1	4	4	0
\$250,000 to \$999,999	1	3	3	0
\$1 million to \$4,999,999	0	3	1	0
\$5 million and greater	5	5	5	1
Total number of misstatements	7	17	15	1
Key	✓	!		
	Corrected misstatements		Uncorrected misstatements	

Source: Engagement Closing Reports issued by the Audit Office of New South Wales.

Refer to Appendix one for details of corrected and uncorrected monetary misstatements by agency.

Of the seven corrected misstatements, five had a gross value of greater than \$5 million and related to:

Agency	Description of corrected misstatements (i.e. >\$5 million)
NSW Treasury	NSW Treasury had understated its liabilities by \$24.7 million for hotel quarantine costs it was liable for. This correction related to two separate misstatements: <ul style="list-style-type: none"> \$13.1 million because inaccurate data was provided by the entity responsible for administering this package on NSW Treasury's behalf, and which incorrectly did not include GST. \$11.7 million because hotel quarantine costs payable to other states was initially not accrued.
NSW Treasury	NSW Treasury recognised \$1.0 billion in administered financial assets and borrowings for agreements it entered into with the New South Wales Treasury Corporation on behalf of the State of NSW. The correction ensured consistent accounting between the two agencies (refer to Section 2.4 Key accounting issues below).
Insurance and Care NSW (icare) and Workers Compensation Nominal Insurer (Nominal Insurer)	icare's liabilities were understated by \$11 million relating to exit costs, which icare is contractually required to pay after changing its arrangements with scheme agents. As the exit costs incurred by icare will be recovered from the Nominal Insurer, an offsetting receivable from the Nominal Insurer was also recognised. The Nominal Insurer also recognised an additional provision of \$11 million for the payable to icare.

Of the 17 uncorrected misstatements, five had a gross value of greater than \$5 million, and comprised:

Agency	Description of uncorrected misstatements (i.e. >\$5 million)
SAS Trustee Corporation Pooled Fund (the Fund)	The Fund had two instances where the adopted value (within a range of values) of unlisted infrastructure assets were assessed to be understated by \$56 million and \$18 million and should have been at the higher end of the Fund's valuation range.
NSW Treasury	NSW Treasury overstated its administered liabilities and expenses by recognising a \$69.5 million provision for remediation costs relating to Wallerawang ash dams, when it has no present obligation.
Workers Compensation Nominal Insurer (Nominal Insurer)	The Nominal Insurer's premium income was overstated by \$6.8 million, due to the inclusion of premium income for employers with cancelled ABN numbers. There was also an estimated \$8.5 million overstatement of premium income due to errors in 'hindsight adjustment' calculations. Hindsight adjustments are based on the difference between workers compensation insurance premiums paid by employers during the year, and the premiums that should have been paid based on actual wages (declared by employers after year end).

A further seven uncorrected misstatements, ranging from \$80,000 to \$2.8 million, related to investment management funds that were terminated during the year by TCorp. To close the funds as early as possible and minimise costs to the funds, TCorp made a common decision to transfer an amount equal to the estimated net remaining future termination costs out of each Fund, to a separately controlled TCorp account. This enabled TCorp to close the funds, thereby avoiding further custody and investment management fees, while waiting for dividends and final tax positions.

The transferred amounts were recorded in the Funds' financial statements as 'Other operating expenses'. As the costs were not incurred at the point of transfer, they are not expenses within this accounting period under the accounting framework. The effect of not correcting these misstatements was immaterial to the financial statements as a whole. In our management letter, we recommended TCorp consider alternative processes for future terminations, that do not result in financial reporting misstatements.

New financial reporting provisions became effective from 1 July 2021

The financial reporting provisions in Division 7.2 of the *Government Sector Finance Act 2018* (GSF Act) commenced on 1 July 2021. GSF Act Agencies prepared their annual GSF financial statements for the 2020–21 financial year under Division 7.2 of the GSF Act.

The cluster also has non-GSF Act agencies, such as the Workers Compensation Nominal Insurer and the investment funds under the management of NSW Treasury Corporation. These entities prepared their annual financial statements for the 2020–21 financial year in accordance with Australian Accounting Standards, without reference to GSF Act.

Agencies exempt from financial reporting in 2020–21

Part 3A Division 2 of the Government Sector Finance Regulation 2018 (GSF Regulation) exempts certain kinds of GSF agencies from reporting as a GSF agency. For 2020–21, the following cluster agencies assessed that they met the reporting exemption criteria under the GSF Regulation and determined that they were not required to prepare annual financial statements:

Exempted agencies	GSF Regulation reference	Basis for reporting exemption
Special purpose staff agency		
SAS Trustee Corporation Staff Agency	Part 3A, Division 2, Section 9F of the GSF Regulation	GSF Regulation prescribes that a GSF agency that comprises solely of persons who are employed to enable another particular GSF agency to exercise its function not to be a reporting GSF agency. This staff agency satisfies this requirement and therefore are exempted from preparing financial statements in 2020–21.
Small agencies		
Buroba Pty Ltd icare Support Solutions Pty Limited - the company was deregistered on 29 January 2021 Ministerial Holding Corporation State Rail Authority Residual Holding Corporation Twenty-four controlled entities of the Electricity Retained Interest Corporation - Ausgrid Twenty-four controlled entities of the Electricity Retained Interest Corporation - Endeavour Energy Valley Commerce Pty Ltd	Part 3A, Division 2, Section 9D of the GSF Regulation	GSF Regulation prescribes a GSF agency meeting all the following requirements not to be a reporting GSF agency: <ul style="list-style-type: none"> the assets, liabilities, income, expenses, commitments and contingent liabilities of the agency are each less than \$5.0 million the total cash or cash equivalents held by the agency is less than \$2.5 million at least 95 per cent of the agency's income is derived from money paid out of the Consolidated Fund or money provided by other GSF agencies the agency does not administer legislation for a Minister by or under which members of the public are regulated. These agencies were assessed against the above criteria, and it was concluded that they met all the requirements. Therefore they were not required to prepare financial statements in 2020–21.

In 2019–20, each of the agencies above were exempted from financial reporting under Schedule 2 of the Public Finance and Audit Regulation 2015.




2.3 Timeliness of financial reporting

Early close procedures

Early close mandatory procedures were submitted on time for all cluster agencies

Cluster agencies met the statutory deadlines for submitting their 2020–21 early close financial statements and other mandatory procedures, except for the 'Not completed' procedures referred to below.

The table below summarises the agencies' completion of the 16 mandatory early close procedures, noting that some procedures are not relevant to all agencies. The 16 procedures are listed in Appendix two.

Agency	Completed 	Not completed 	Not applicable* 
Principal department			
NSW Treasury	11	2	3
NSW Treasury - administered items	6	4	6
Other cluster agencies listed in Appendix A of Treasury Direction TD19-02			
Alpha Distribution Ministerial Holding Corporation	9	3	4
Building Insurers' Guarantee Corporation	12	--	4
Electricity Assets Ministerial Holding Corporation	9	2	5
Electricity Retained Interest Corporation - Ausgrid	8	2	6
Electricity Retained Interest Corporation - Endeavour Energy	8	2	6
Electricity Transmission Ministerial Holding Corporation	9	3	4
Epsilon Distribution Ministerial Holding Corporation	9	3	4
Insurance and Care NSW	12	--	4
Liability Management Ministerial Corporation	9	1	6
Lifetime Care and Support Authority of New South Wales	12	--	4
New South Wales Treasury Corporation	11	--	5
NSW Self Insurance Corporation	12	--	4
Ports Assets Ministerial Holding Corporation	9	3	4
Roads Retained Interest Pty Ltd	11	--	5
Workers Compensation (Dust Diseases) Authority	12	--	4

* Certain mandatory early close procedures are not applicable to agencies. For instance, if an agency did not have changes in accounting policy or a correction of material prior period error, those procedures would be considered as not applicable to the agency.

Source: Reports on early close procedures 2021 issued by the Audit Office of New South Wales.

Agencies need to improve their completion of early close procedures

The following agencies did not perform all required procedures.

Cluster agencies	Description of incomplete early close procedures
Principal department	
NSW Treasury	<ul style="list-style-type: none"> Correction of material prior period errors. The proforma financial statements, including the administered items note disclosure were not updated to reflect the restatement to comparatives arising from the correct application of AASB 1050 'Administered Items' to the balances and transactions of the former Crown Entity. Changes to legislation. Management did not document its assessment of the impact of administrative arrangement orders including how such transfers would be accounted for.
NSW Treasury - administered items	<ul style="list-style-type: none"> Proforma financial statements. Management did not reconcile the March 2021 month-end Prime submission to the proforma financial statements for administered items. This reconciliation was deferred to year-end as management was still in the process of finalising the mapping of NSW Treasury administered items to Prime and to the financial statements. Significant management judgements and assumptions. NSW Treasury's administered items disclosures included several material accounting estimates that involved significant judgements and assumptions, including actuarial valuations. Management did not finalise the following estimations as part of the early close: <ul style="list-style-type: none"> assets and liabilities related to Commonwealth funding agreements expected credit losses on receivables and financial guarantee contracts unfunded superannuation liabilities employee benefits and other provisions (long service leave) Commonwealth redress scheme provision Universities' superannuation provision land remediation provisions. Correction of material prior period errors. The proforma financial statements, including the administered items note disclosure were not updated to reflect the restatement to comparatives arising from the correct application of AASB 1050 'Administered Items' to the balances and transactions of the former Crown Entity. Monthly management reports. Management did not perform variance analysis with meaningful explanations, for actuals versus budget, or year to date actuals versus the previous year.

Cluster agencies	Description of incomplete early close procedures
Other agencies listed in Appendix A of TD19-02	
Alpha Distribution Ministerial Holding Corporation	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close. Significant management judgements and assumptions. Management did not provide documented assessment to support the significant judgements and assumptions used for defined benefits superannuation liabilities and finance lease receivable. Finalise right of use assets and lease liability balances. Management did not ensure that all lease arrangements were accurate and complete as an impairment assessment was not completed for the long term finance lease at early close.
Electricity Assets Ministerial Holding Corporation	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close. Significant management judgements and assumptions. Management did not provide documented assessment to support the significant judgements and assumptions used for the valuation of outstanding claims.
Electricity Retained Interest Corporation - Ausgrid	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close. Significant management judgements and assumptions. Management did not provide documented assessment to support the significant judgements and assumptions used for the valuation of the retained interest in Ausgrid.
Electricity Retained Interest Corporation - Endeavour Energy	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close. Significant management judgements and assumptions. Management did not provide documented assessment to support the significant judgements and assumptions used for the valuation of the retained interest in Endeavour Energy.
Electricity Transmission Ministerial Holding Corporation	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close. Significant management judgements and assumptions. Management did not provide documented assessment to support the significant judgements and assumptions used for defined benefits superannuation liabilities, finance lease receivable and the valuation of outstanding claims. Finalise right of use assets and lease liability balances. Management did not ensure that all lease arrangements were accurate and complete as an impairment assessment was not completed for the long term finance lease at early close.

Cluster agencies	Description of incomplete early close procedures
Epsilon Distribution Ministerial Holding Corporation	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close. Significant management judgements and assumptions. Management did not provide documented assessment to support the significant judgements and assumptions used for defined benefits superannuation liabilities and finance lease receivable. Finalise right of use assets and lease liability balances. Management did not ensure that all lease arrangements were accurate and complete as an impairment assessment was not completed for the long term finance lease at early close.
Liability Management Ministerial Corporation	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close.
Ports Assets Ministerial Holding Corporation	<ul style="list-style-type: none"> Inter and intra (cluster) agency transactions and balances. Management did not agree transactions and balances with other NSW Government entities as part of the early close. Significant management judgements and assumptions. Management did not provide documented assessment to support the significant judgements and assumptions used for its finance lease receivable. Finalise right of use assets and lease liability balances. Management did not ensure that all lease arrangements were accurate and complete as an impairment assessment was not completed for the long term finance lease at early close.

Source: Reports on early close procedures 2021 issued by the Audit Office of New South Wales.

The review of agencies' early close procedures found more work needs to be done to:

- confirm inter and intra (cluster) agency transactions and balances
- appropriately document all significant management judgements and assumptions made when estimating transactions and balances
- correct material prior period errors
- review changes to legislation
- finalise right-of-use assets and lease liability balances.

NSW Treasury introduced early close procedures to improve the quality and timeliness of year-end financial statements. In March 2021, NSW Treasury reissued Treasurer's Direction TD19-02 'Mandatory Early Close as at 31 March each year' (TD19-02) and issued TPP21-01 'Agency Direction for the 2020–21 Mandatory Early Close', requiring GSF agencies listed in Appendix A of TD 19-02 to perform early close procedures and provide the outcomes to the audit team by 26 April 2021.

Year-end financial reporting

NSW Treasury extended financial reporting deadlines

Due to the COVID-19 pandemic, NSW Treasury extended the year-end financial reporting deadline for agencies listed in Appendix A of Treasury Direction TD21-02 'Mandatory Annual Returns to Treasury' (TD21-02) to 2 August 2021.

During May and June 2021, NSW Treasury issued a suite of Treasurer's Directions, Treasury Circular and policy papers for 2020–21 financial reporting requirements and timetables:

- Treasurer's Direction TD21-02 and Treasury Policy Paper TPP21-04 'Agency Direction for the 2020–21 Mandatory Annual Returns to Treasury' require agencies listed in the Appendix A of TD21-02 to submit their 2020–21 financial statements to both NSW Treasury and the Audit Office by 26 July 2021.
- Treasury Circular TC21-04 '2020–21 Mandatory Annual Returns to Treasury for non-GSF agencies' requires NSW public sector agencies not listed in Appendix A of TD21-02 to submit their draft 2020–21 financial statements to NSW Treasury by 26 July 2021.
- Treasurer's Direction TD21-03 'Submission of Annual GSF Financial Statements to the Auditor-General' requires reporting GSF agencies that are not listed in Appendix A of TD21-02 to submit their annual financial statements within six weeks after the year end.

All agencies submitted their financial statements within reporting deadlines

All agencies met the revised or approved reporting deadlines for submitting their 2020–21 financial statements.

On 1 July 2021, the *Public Finance and Audit Act 1983* (PF&A Act) was renamed the *Government Sector Audit Act 1983* (GSA Act). Whilst the PF&A Act required the Auditor-General to audit agencies' financial statements within ten weeks of their receipt, the GSA Act does not specify the statutory deadline for issuing the audit reports.

The table in Appendix three shows the timeliness of the year-end financial reporting for cluster agencies.

2.4 Key accounting issues

NSW Treasury related matters

Significant matters relating to the Government's investment in TAHE delayed finalising the audit of NSW Treasury and the Total State Sector Accounts

Last year's Central Agencies Report to Parliament included a High Risk finding regarding the delays in finalising arrangements to support NSW Treasury's accounting treatment of cash contributions from the General Government Sector (GGS) into the Transport Asset Holding Entity (TAHE), which was also included as a High Risk finding in our management letter to NSW Treasury.

NSW Treasury, in addition to preparing its own departmental financial statements, is also responsible for preparing the Total State Sector Accounts (TSSA), which includes TAHE. Key audit matters related to the accounting for cash contributions to TAHE and Treasury's process responding to the audit's concerns are reported in the report on [State Finances 2021](#).

Financial reporting of Crown Administered items

This year, NSW Treasury completed its review of the financial reporting requirements relating to transactions and balances of the Crown. As a result, the convention of preparing separate Crown Entity financial statements ceased in 2020–21.

Previously, the Crown Entity was considered a government department for financial reporting purposes with key financial assets and liabilities, including the consolidated fund, Crown debt portfolio and superannuation and long service liabilities for certain GGS agencies. The Crown Entity essentially acted as the residual entity for NSW whole-of-government transactions that weren't the responsibility of any other State public sector agency.

To address audit concerns to ensure compliance with Australian Accounting Standards in particular, AASB 1050 'Administered Items', transactions and balances previously included in the Crown Entity's financial statements are now disclosed within the financial statements of the relevant agency that administers the transactions and balances on behalf of the State. Government departments continue to recognise assets, liabilities that they control and the related income and expenses within their financial statements.

The review resulted in most of these transactions and balances being reported by NSW Treasury as 'administered items' given it is responsible for managing the majority of activities undertaken on behalf of the State. There was no financial impact to the State's financial statements from these Crown reforms.

Commentary on the financial reporting of Crown Administered items was also included in the [State Finances 2021](#) NSW Auditor-General's Report to Parliament.

Borrowings of \$1.0 billion were understated by NSW Treasury

NSW Treasury administers borrowings on behalf of the State of NSW and entered into agreements to borrow \$1.0 billion from TCorp. Some of these agreements were entered as early as 17 May 2021 and all were entered into before 30 June 2021. However, NSW Treasury requested that settlement of these additional borrowings be deferred until 1 July 2021.

As TCorp raised the funds in time for settlement date, a financial asset and liability with NSW Treasury was recognised by TCorp on 30 June 2021. NSW Treasury, however, did not recognise any administered borrowings at year end arguing that no party had performed any obligations under the trade deal, which led to inconsistent accounting between the two agencies.

NSW Treasury subsequently corrected the misstatement after the matter was raised by audit, resulting in NSW Treasury recognising \$1.0 billion in administered financial assets and borrowings at 30 June 2021.

Refer to Chapter 3 'Audit observations' for further details.

Prior year error of \$159 million in liabilities for unspent appropriations

For the financial year ended 30 June 2020, some agencies recognised a liability for unspent appropriation money. NSW Treasury has since concluded that such a liability should not be recognised as this money represents consolidated fund money, regardless of it being held as unspent by an agency.

This error resulted in one agency within the Treasury cluster, namely NSW Treasury, restating its 2019–20 comparative figures by \$159 million with a corresponding increase to appropriation revenue.

Insurance related matters

Change in risk margin applied to the Nominal Insurer's outstanding claims liability

In 2020–21, icare changed the risk margin applied to measure the Workers Compensation Nominal Insurer's (Nominal Insurer) outstanding claims liability. The new risk margin meant that the Nominal Insurer applied a probability of adequacy of 75 per cent instead of the previously applied 80 per cent.

The change:

- reduced the value of the Nominal Insurer's outstanding claims liability by \$519 million when it was first applied on 1 July 2020, caused the reported outstanding claims liability to be \$557 million less at 30 June 2021 and consequently the net result was a positive \$63.3 million, instead of a \$494 million loss had the previous risk margin been applied
- was accounted for as a change in estimate, which meant it did not impact prior year results
- aligns the Nominal Insurer's probability of adequacy to Australian Prudential Regulation Authority minimum requirements for private sector general insurers.

The 'probability of adequacy' is a statistical measure of the level of confidence that the outstanding claims provision will be sufficient to pay claims as and when they fall due.

Under AASB 1023 'General Insurance Contracts', insurance entities are required to add a risk margin to the central estimate of their outstanding claims liabilities for the inherent uncertainty in valuing expected future payments. The size of the risk margin reflects each entity's (in this case icare's) risk appetite.

From 1 September 2015 to 30 June 2020, the Nominal Insurer had applied a probability of adequacy of 80 per cent, which reflected icare's assessment of risk in this period. The lower risk margin from 1 July 2020 reflects icare's belief that there is less uncertainty given the amount of time that has passed since legislative reforms to workers compensation, and the conclusion of icare's business transformation program.

Applying the same rules as last year, the Nominal Insurer's capital position worsened

The above change in risk margin improved the Nominal Insurer's net asset position by \$557 million at 30 June 2021. However, if the same accounting rules were applied as last year, the Nominal Insurer's capital position worsened.

The following table shows the Nominal Insurer's accounting ratio at 30 June 2020 and 30 June 2021 (based on the values in its financial statements), and illustrates that this ratio would have fallen at 30 June 2021 if the risk margin and probability of adequacy had not changed.

		Percentage at 30 June		
Ratio	Definition	2020 [^]	2021 [#]	2021 [^]
Accounting ratio	Calculated by dividing reported total assets by total liabilities	98.4	98.7	96.1

[^] Outstanding claims measured using a probability of adequacy of 80 per cent

[#] Outstanding claims measured using a probability of adequacy of 75 per cent.

In 2020–21, icare also changed how it assessed its capital position from using the 'Accounting Ratio' basis to an 'Insurance Ratio'. The insurance ratio uses a (higher) discount rate to measure the Nominal Insurer's outstanding claims liability, based on the expected earnings on Nominal Insurer's assets, rather the 'risk free' rate which is used in the accounting ratio.

The insurance ratio is equivalent to the 'Economic Funding Ratio' referred to in the NSW Government commissioned 'McDougall Review' Report. According to this Report:

An assessment that measured assets and liabilities, and hence financial sustainability, using the Economic Funding ratio rather than the Accounting Funding ratio, would in my view lead to a more realistic appraisal.

The table below shows the Nominal Insurer's insurance ratio at 30 June 2021 compared to icare's target ratio.

Ratio	Definition	Percentage at 30 June	
		2021 [#]	Target
Insurance ratio	Calculated by dividing scheme assets to scheme liabilities, where scheme liabilities are measured using the expected earnings rate on scheme assets.	122	130

Outstanding claims measured using a probability of adequacy of 75 per cent.

As noted in the Audit Observations chapter below, icare is assessing how it can increase the Nominal Insurer's funding ratio so that it can meet the target.

icare's after balance date event procedures were inadequate

Recommendation

icare needs to ensure that the impact of 'after balance date events' on financial statements is appropriately assessed.

The Nominal Insurer's 2020–21 financial statements included a provision of \$11.6 million for past Pre-Injury Average Weekly Earnings (PIAWE) underpayments. The \$11.6 million was estimated after considering the error rate in sampled claims between 2012 and 2019. The financial statements were authorised for issue by icare on 24 September 2021, inclusive of this provision.

In the same 24 September meeting when the financial statements were authorised for issue, the icare Board also approved a 'proactive payment' approach as the basis for remediating PIAWE underpayments, although subject to legal advice and assessment by a wage remediation expert. A proactive payment involves icare paying a pre-defined cohort of injured workers on the assumption that they have been underpaid, rather than waiting for underpayments to be specifically identified (e.g., by file reviews). The Board's decision, which occurred on the same day that it approved the financial statements, meant that the \$11.6 million provision in the financial statements was no longer the 'best estimate' for this provision, and that related financial statement disclosures required updating.

On 11 November 2021 as a result of icare's Board decision on 24 September 2021, icare announced that it would proactively pay \$38 million for historic PIAWE calculation errors. Refer to Chapter 3 'Audit observations' for further details.

Under the Accounting Framework:

- the amount recognised as a provision shall be the best estimate (or 'central estimate' with a risk margin for insurance entities) of the expenditure required to settle the present obligation at the end of the reporting period, and
- where an "after balance date event" has occurred between year-end and when the financial statements are authorised for issue:
 - the amounts in the financial statements should be updated for events that provide evidence of conditions that existed at the end of the reporting period, and
 - disclosures in the financial statements should be included for material new events that are indicative of conditions that arose after the reporting period.

There was no evidence that icare assessed the impact of its 24 September 2021 decision or the possible legal or wage expert outcomes, on the 2020–21 financial statements. Further, icare did not raise the decision with the Audit Office in order to assess any implications for the 2021 financial statements.

An additional \$93.9 million was recognised for past underpayments and higher future claim costs for dust victims

Recommendation

icare needs to improve its operational practices to ensure the correct payment of claims in compliance with legislative requirements. icare also needs to act on a timely basis on received legal advice and amend operational practices to ensure correct payments are made.

The Workers Compensation (Dust Diseases) Authority increased its outstanding claims liability by \$93.9 million at 30 June 2021 to allow for additional payments to injured workers. The increase comprised:

- \$39.3 million to correct historical underpayments to affected workers
- \$54.6 million for higher future claim costs, relating to existing exposures.

The underpayments relate to totally disabled retired workers being incorrectly paid in the first 26 weeks of their entitlements. Under existing legislation, the fortnightly entitlements in this period should be based on their current weekly wage rate, instead of a lower statutory indexed rate. It is estimated that 1,345 workers were incorrectly paid, resulting in underpayments of \$39.3 million. icare advise that underpaid workers will be remediated through compensation payments.

According to an icare Board paper dated 4 June 2021, the Authority sought legal advice on the underpayments issue in 2014, and sought to explain that changes in leadership meant that the advice was not being picked up again until 2020. As a result, the Authority continued to pay at the lower statutory rate until 2020–21.

The Authority has also been overpaying some participants. It is estimated up to 754 workers with an injury before 30 June 1987 have been receiving the same rate of compensation as workers with an injury after 30 June 1987, when their compensation should be 20 per cent lower. In addition, the Authority found it incorrectly paid a dependent allowance for up to 334 individual workers with an injury after 30 June 1987. The icare Board has approved the continuation of current payment practices, while NSW Treasury seeks legislative amendments to preserve entitlements.

icare advises that the incorrect payments arose due to difficulties in interpreting benefit entitlements between the *Workers' Compensation (Dust Diseases) Act 1942* and the *Workers Compensation Act 1987*. They also advise that there have been legislative amendments over the years that have caused ambiguity and complexity in the interpretation of the benefit entitlements.

The Authority provides compensation to workers and their dependents where the worker develops a dust disease after exposure to harmful dust at a NSW workplace.

The NSW Self Insurance Corporation's liability for abuse claims increased

The NSW Self Insurance Corporation's total exposure to abuse claims was \$1.2 billion at 30 June 2021 (\$1.1 billion at 30 June 2020), for unreported and reported claims.

The abuse component within the claims liability was increased by \$116 million for proposed amendments to the *Civil Liability Act 2002*. The amendments remove restrictions to access compensation when the abuse occurred while a child was an offender in custody. The amendments were assented on 18 November 2021.

Last year the NSW Self Insurance Corporation (SiCorp) recognised a liability for unreported abuse claims of \$828 million, which was the first time it had recognised a liability for these claims. Previously SiCorp could not reliably measure the liability for unreported claims because of weaknesses in the quality of icare's claims data and uncertainties arising from legislative changes that existed at the time. In addition to the first time recognition of unreported claims, the Corporation had recognised a liability of \$330 million for reported claims.

While the liability for unreported abuse claims can be measured sufficiently and reliably for financial reporting, its measurement involves significant judgement. The level of judgement means that the valuation of the outstanding claims liability may change significantly and unexpectedly due to changes in assumptions.

The NSW Government funds payments to victims of abuse through:

- the NSW Self Insurance Corporation, which covers civil litigation claims when the abuse occurred within a NSW Government institution through its NSW Treasury Managed Fund, and Pre-Managed Fund Reserve
- the NSW Victims Support Scheme, which is administered by the Department of Communities and Justice and provides counselling, recognition payments and financial assistance for victims of violent crime in NSW
- the National Redress Schemes, of which the NSW Government is a member. The scheme provides redress to people who were abused while in the care of NSW Government institutions, as an alternative to seeking compensation through the courts.

More details are included on page 17 to 19 of the [Stronger Communities 2021](#) NSW Auditor-General's Report to Parliament.




2.5 Key financial statement risks

The table below details our specific audit coverage and response over key areas of financial statements risks that had the potential to impact the financial statements of cluster agencies.

Treasury



NSW Treasury notes that it leads the economic, jobs and investment conversation across NSW. From its position at the centre of government, NSW Treasury notes that it drives the economic development strategy to guide the State's growth for the benefit of the people who live, work and study in NSW.

	Key financial statement risk	Audit response
 <p>Reform of the Crown Entity</p>	<p>NSW Treasury completed its Crown Entity reforms, resulting in transactions and balances formerly reported in the Crown Entity's financial statements, now being reported in the relevant agencies' financial statements. The vast majority are accounted for as administered by NSW Treasury.</p> <p>Our audit risk rating is higher because of the financial significance of these balances and transactions and the significant management judgement used in applying the requirements of AASB 1050 'Administered Items' when determining whether the transactions and balances of the former Crown Entity are administered or controlled items of another agency.</p>	<p>Our audit procedures included reviewing and providing our feedback on 44 position papers outlining management's proposed accounting treatment for the balances and transactions of the former Crown Entity. These assessments were performed to ensure the financial statements comply with relevant accounting standards, particularly AASB 1050 'Administered Items'. We also reviewed the proposed presentation and disclosure of the Crown reporting arrangements and NSW Treasury's administered items in the financial statements.</p>
 <p>Accounting for Commonwealth Funding administered by NSW Treasury on behalf of the state</p>	<p>NSW Treasury administered \$26.3 billion in funding from the Commonwealth in 2020–21. It also recognised \$452 million in deferred revenue at 30 June 2021 in relation to Commonwealth funding agreements.</p> <p>Our audit risk rating is higher due to material monetary misstatements and control deficiencies identified by our audit procedures in 2019–20. There is also an element of management judgement that is applied when determining whether a contract should be accounted for under AASB 15 'Revenue from contracts with customers' or AASB 1058 'Income of Not-for-Profit Entities'.</p>	<p>Our procedures included engaging with the audit teams of significant components responsible for delivering the performance obligations on behalf of the State and reviewing a sample of Commonwealth funding agreements to confirm that the recognition, measurement and presentation principles of the accounting standards have been correctly applied.</p>

	Key financial statement risk	Audit response
 <p>Significant accounting estimates</p>	<p>NSW Treasury administers the following financially significant accounting estimates:</p> <ul style="list-style-type: none"> unfunded superannuation liabilities (2020–21: \$57.2 billion) employee provisions primarily for long service leave (2020–21: \$10.8 billion) provision for Commonwealth redress scheme (2020–21: \$356.2 million) States share of Universities' superannuation liabilities (2020–21: \$1.3 billion). <p>Our audit risk rating is higher due to the financial significance of these accounting estimates and the measurement of these requires the use of significant judgements and assumptions (including actuarial valuations).</p>	<p>With the assistance of actuarial specialists, the audit team reviewed key assumptions and judgements adopted, and performed an overall assessment of the valuation methodologies, key assumptions and models used to value these various liabilities.</p> <p>Other audit procedures performed specific to a particular liability included:</p> <ul style="list-style-type: none"> testing the accuracy and completeness of membership data underlying the valuations of the defined benefit superannuation liabilities reviewing the triennial valuation of long service leave to determine whether the data, assumptions and methodology used were appropriate testing the accuracy and completeness of the nominal data underlying the long service leave valuation reviewing the State's share of NSW universities' unfunded superannuation liabilities for reasonableness and comparing it with audited data from the superannuation fund.
 <p>Accounting for stimulus packages and additional funding received during the year</p>	<p>NSW Treasury is responsible for delivering several financially significant stimulus packages in 2020–21, including packages relating to the quarantine of incoming international travellers and small business recovery grants.</p> <p>Our audit risk rating is higher due to the financial significance of these packages and the use of significant judgements when determining whether to account for these packages as administered or controlled activities of NSW Treasury.</p>	<p>Our audit procedures included obtaining an understanding of the key controls at both NSW Treasury and the agencies responsible for administering these packages on behalf of NSW Treasury. This included assessing the design and implementation of these key controls. We also reviewed assessments of the accounting for any new funding received during the year for compliance with applicable accounting standards, including performing substantive testing over revenue and corresponding expenses, such as grant payments.</p>
 <p>Accounting for Administered Borrowings – \$75.1 billion</p>	<p>Our audit risk rating is higher due to the financial significance of administered borrowings and the level of management judgement required when determining the timing of recognition of these borrowings.</p> <p>NSW Treasury administered \$75.1 billion in borrowings on behalf of the State at 30 June 2021. In 2020–21, we were advised NSW Treasury entered into agreements to borrow \$1 billion from New South Wales Treasury Corporation (TCorp). Some of these agreements were entered as early as 17 May 2021, with all planned for settlement on 1 July 2021.</p>	<p>Our audit procedures included reviewing an accounting position paper supporting the recognition of borrowings based on settlement date, including assessing whether the timing of recognition of the \$1 billion in borrowings aligned with the requirements of Australian Accounting Standards.</p>


Roads Retained Interest Pty Ltd

The Corporation was established to hold the State's 49 per cent retained interest in WestConnex Group. The Corporation's function is to provide the effective stewardship and oversight of the retained interest for which it is responsible, for the purpose of protecting value and seeking to maximise returns to the State.

	Key financial statement risk	Audit response
 <p>Announced sale of investment in WestConnex</p>	<p>Our audit risk rating is higher because the impacts of the sale process up to the signing date of the Independent Auditor's Report must be disclosed in the financial statements.</p>	<p>Our audit procedures assessed the sale of WestConnex (WCX) against the held for sale criteria in Australian Accounting Standards, and the disclosure of the sale in the financial statements including subsequent events.</p> <p>We also considered the appropriateness of the going concern basis used to prepare the financial statements.</p>
 <p>Investment in associate-equity accounting for retained interest in WestConnex \$6.3 billion</p>	<p>Our audit risk rating is higher because the value of the retained interest is material and management judgement is required in determining whether there is any objective evidence the retained interest is impaired.</p>	<p>Our audit procedures assessed the valuation of Roads Retained Interest Pty Ltd's investment in its associate including a review of management's impairment assessment (including the impacts of COVID-19 on the WCX business). We also reviewed the results of the audit over WCX's financial statements.</p>


Electricity Assets Ministerial Holding Corporation

The Electricity Assets Ministerial Holding Corporation (EAMHC) was established on 5 June 2012 by the *Electricity Generator Assets (Authorised Transactions) Act 2012* (the Act). The Act authorises and provides for the transfer of the State's electricity generator assets to the private sector and between public sector agencies.

	Key financial statement risk	Audit response
 <p>EAMHC - Valuation of outstanding claims liability of \$56.6 million</p>	<p>Our audit risk rating is higher because the provision for outstanding claims is material to the financial statements and management makes significant judgements and assumptions as part of the valuation process, including the impacts of COVID-19 on the outstanding claims liability. We also identified data quality issues in the valuation data supplied in 2019–20.</p>	<p>We engaged a qualified actuary to assist with our review of the outstanding claims liability. We reviewed the appropriateness of the methods and valuation models used, including the reasonableness of judgements, key assumptions and reported values.</p> <p>We also reviewed the quality of data used for the valuation.</p> <p>We considered the impact of COVID-19 on the valuation. While we did not identify any significant impact we note the COVID-19 pandemic remains a source of estimation uncertainty.</p>


Electricity Retained Interest Corporation - Ausgrid

The Electricity Retained Interest Corporation - Ausgrid, was established under the *Electricity Retained Interest Corporations Act 2015 No 6* (the Act) to provide for the effective stewardship and oversight of the retained interest of the State in Ausgrid's network assets under the *Electricity Network Assets (Authorised Transactions) Act 2015* and for which it is responsible for the purpose of protecting value and seeking to maximise returns to the State.

	Key financial statement risk	Audit response
 <p>Valuation of retained interest of \$5 billion</p>	<p>Our audit risk rating is higher because the value of the retained interest is material and the significant judgements and assumptions as part of the valuation process.</p>	<p>Our audit procedures assessed the fair value assessment, including the valuation report prepared by management's independent valuer, and evaluated the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.</p> <p>We also confirmed the value of the retained interest against Ausgrid's audited financial statements for the year ended 30 June 2021.</p>


Electricity Retained Interest Corporation - Endeavour Energy

The Electricity Retained Interest Corporation - Endeavour, The Corporation was set up under the *Electricity Retained Interest Corporations Act 2015 No 6* (the Act) to provide for the effective stewardship and oversight of the retained interest of the State in Endeavour's Energy distribution network business under the *Electricity Network Assets (Authorised Transactions) Act 2015* and for which it is responsible for the purpose of protecting value and seeking to maximise returns to the State.

	Key financial statement risk	Audit response
 <p>Valuation of retained interest of \$2.6 billion</p>	<p>Our audit risk rating is higher because the value of the retained interest is material and the significant judgements and assumptions as part of the valuation process.</p>	<p>Our audit procedures assessed the fair value assessment, including the valuation report prepared by management's independent valuer, and evaluated the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.</p> <p>We also confirmed the value of the retained interest against Endeavour Energy's audited financial statements for the year ended 30 June 2021.</p>


New South Wales Treasury Corporation

New South Wales Treasury Corporation ('the Corporation') provides financial services for the New South Wales Government, public authorities and other public bodies of New South Wales.

	Key financial statement risk	Audit response
 <p>Valuation of Financial Instruments - comprising financial assets and liabilities of \$116 billion and \$117 billion respectively</p>	<p>Our audit risk rating is higher due to the:</p> <ul style="list-style-type: none"> significance of financial assets and financial liabilities in the Balance Sheet impact small changes in inputs and assumptions can have on the fair values of financial assets and financial liabilities significant judgements used to value offshore foreign currency borrowings where there is limited trading activity, and client loans directly funded by these borrowings (Level 3 financial instruments). 	<p>Our audit procedures involved reviewing the valuation models applied to different categories of financial instruments and comparing key valuation inputs against independent market data (including the key inputs and assumptions management used for 'Level 3' financial instruments).</p> <p>We tested the effectiveness of key operational and information technology controls supporting the valuation of financial instruments and reperformed fair value calculations for a selection of financial instruments.</p> <p>For 30 June 2021 we obtained external confirmations from counterparties confirming the existence and completeness of amounts reported on Balance Sheet and evaluated the adequacy of financial statement disclosures against the requirements of applicable Australian Accounting Standards.</p>

Workers Compensation Nominal Insurer (Nominal Insurer)

The Nominal Insurer was established under the *Workers Compensation Act 1987* and commenced operations on 1 July 2005. The NSW Workers Insurance Scheme is a not-for-profit entity that operates as a licensed workers compensation insurer. The Nominal Insurer is not, and does not, represent NSW (the state) or any authority of the state. The Scheme is not consolidated as part of the NSW Total State Sector Accounts. The *Workers Compensation Act 1987* requires the Auditor-General to inspect and audit the accounts and records of financial transactions of, or relating to, the Nominal Insurer.

	Key financial statement risk	Audit response
 <p>Valuation of claims liability \$18.6 billion</p>	<p>Our audit risk is higher because:</p> <ul style="list-style-type: none"> the valuation involves significant judgement in determining the timing and value of expected future payments for claims incurred and related costs to settle the claims the Scheme engages actuarial specialists to model and develop assumptions to estimate the outstanding claims liability the level of judgement means that the valuation may change significantly and unexpectedly due to changes in assumptions. 	<p>We engaged a qualified independent actuary to assist with our review of the outstanding claims liability.</p> <p>We reviewed the appropriateness of the methods and valuation models used by management and management's actuary to calculate the value of the outstanding claims liability. We assessed the reasonableness of judgements, key assumptions and reported values.</p> <p>We also considered the requirements of applicable Australian Accounting Standards (including those relating to financial statement disclosures), industry practice, underlying claims exposure and the potential impact of the COVID-19 pandemic on the outstanding claims liability.</p>



Valuation of investments of \$2.4 billion classified under level 3 of the fair value hierarchy

Key financial statement risk

Our audit risk rating is **higher** because:

- Level 3 investments require an additional level of judgement using non-observable market data and complex models which increase the subjectivity of the valuation
- the COVID-19 pandemic has increased uncertainty around the valuation of these investments
- small changes in assumptions may significantly alter the valuation outcome.

Audit response

We performed additional audit procedures over these investments; in particular we reviewed the relevant investment models (including their mathematical accuracy) and assumptions including, where appropriate, discount rates and terminal values. For unit trust investments, we reviewed a sample of valuation statements and considered the capabilities and objectivity of the investment manager providing the valuation, as well as the pricing frequency and liquidity of trust units.

We reviewed methodologies used by investment managers in determining the COVID-19 impact on investment values.

We also assessed the adequacy of the related financial statement disclosures against the requirements of applicable Australian Accounting Standards.



Operation of information technology (IT) systems and controls

Our audit risk rating is **higher** because the volume of transactions processed by the IT systems relies on effective IT controls for successful financial reporting.

We engaged information technology audit specialists to assist us with assessing the critical IT controls in these systems, including access controls, data change controls and the business / accounting rules embedded in these systems.

For technology services provided by third parties we reviewed system and organisation control (SOC) reports from the third party's auditor confirming the design and operating effectiveness of controls.

We undertook additional procedures on information sourced from IT systems where control design or effectiveness exceptions were identified.



Outsourced claims activities

Our audit risk rating is **higher** because:



- outsourced claims managers are responsible for a substantial component of the end-to-end claims management and payment process
- an effective control environment is important in ensuring the completeness and accuracy of claims data used to value the outstanding claims liability.

We tested the key reconciliations performed by the claims managers, agreeing amounts back to the Nominal Insurer's financial systems for 30 June 2021 and the claim database used by the Scheme's actuary.

We performed additional audit procedures required by Australian Auditing Standard ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation, which included obtaining an understanding of relevant claim processes, testing key controls and reconciliations, and performing sample testing on key claim fields back to supporting evidence.


NSW Self Insurance Corporation (Insurance for NSW)

Insurance for NSW was established under the *NSW Self Insurance Corporation Act 2004*. It has responsibility for the direction, control and management of a range of funds including the NSW Treasury Managed Fund. All of the funds are listed in section 3 of this report.

	Key financial statement risk	Audit response
 <p>Valuation of claims liability of \$13.2 billion</p>	<p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> the provision for outstanding claims is material to the financial statements management with the assistance of specialist actuaries make significant judgements and assumptions as part of the valuation process, including the timing and value of expected future claims payments and related costs of settlement. 	<p>We engaged a qualified independent actuary to assist with our review of the outstanding claims liability.</p> <p>We reviewed the appropriateness of the methods and valuation models used by management and management's actuary to calculate the value of the outstanding claims liability. We assessed the reasonableness of management's judgements, key assumptions and reported values.</p> <p>We also considered the requirements of applicable Australian Accounting Standards (including those relating to financial statement disclosures), underlying claims exposure and the potential impacts of the COVID-19 pandemic (including business interruption, event cancellation claims costs and changes to the building cycle) on the outstanding claims liability.</p> <p>As a result of proposed changes to the <i>Civil Liability Act 2002</i> we also assessed management's estimate of the potential impacts on the valuation of the liability.</p>
 <p>Outsourced claims activities</p>	<p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> outsourced claims managers are responsible for processing material transactions relating to claims and policyholder data which is used to value outstanding claims liabilities an effective control environment is important in ensuring the completeness and accuracy of claims data. 	<p>We tested the key reconciliations performed by the claims managers, agreeing amounts back to Insurance for NSW's financial systems for 30 June 2021.</p> <p>We performed additional audit procedures required by Australian Auditing Standard ASA 402 Auditing Considerations Relating to an Entity Using a Service Organisation, which included obtaining an understanding of relevant claim processes, testing key controls and reconciliations, and performing sample testing on key claim fields back to supporting evidence.</p>


Lifetime Care and Support Authority of New South Wales

The Lifetime Care and Support Authority of New South Wales (the Authority) was established under the *Motor Accidents (Lifetime Care and Support) Act 2006*. The Authority NSW Workers Insurance Scheme is a not-for-profit entity that monitors the operation of the scheme which pays for treatment, rehabilitation and care for people severely injured in a motor accident in NSW.

	Key financial statement risk	Audit response
 <p>Valuation of outstanding claims liability of \$8.2 billion</p>	<p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> the provision for outstanding claims is material to the financial statements management with the assistance of specialist actuaries make significant judgements and assumptions as part of the valuation process, including the timing and value of expected future claims payments. 	<p>We engaged a qualified independent actuary to assist with our review of the outstanding claims liability.</p> <p>We reviewed the appropriateness of the methods and valuation models used by management and management's actuary to calculate the value of the outstanding claims liability. We assessed the reasonableness of management's judgements, key assumptions and reported values.</p> <p>We also considered the requirements of applicable Australian Accounting Standards (including those relating to financial statement disclosures), industry practice, underlying claims exposure and the potential impact of the COVID-19 on the outstanding claims liability).</p>

SAS Trustee Corporation Pooled Fund

SAS Trustee Corporation Pooled Fund (the Fund) is the NSW Government's largest defined benefit superannuation fund with over 93,000 members and \$46.1 billion in assets at 30 June 2021.

	Key financial statement risk	Audit response
 <p>Valuation of unquoted investment assets of \$16.5 billion</p>	<p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> the high level of judgement and estimation involved in the valuation approach, including determination of future cash flows, discount rates and other assumptions, with limited comparable market information available complexities in applying the requirements of AASB 13 'Fair Value Measurement' financial significance of the assets valued, which are a key driver of the Fund's net asset value and total return. 	<p>Our audit procedures involved reviewing the independent valuation reports and compared assumptions applied to ranges for comparable infrastructure and property investments, and tested the mathematical accuracy of the valuation models. For 30 June 2021 we obtained valuation statements provided by external investment managers in respect of unit trusts and hedge funds, and independent assurance reports prepared for the existence and valuation of certain unitised investments.</p> <p>With the assistance of a valuation specialist, for those investments with higher risk characteristics we assessed the reasonableness of managements judgements and valuation inputs against industry information/indices of comparable market transactions and determined whether the methodologies used were consistent with methods commonly used by market participants for those types of investments.</p>



Valuation of
defined benefit
member
liabilities of
\$58.9 billion

Key financial statement risk

- Our audit risk rating is **higher** due to:
- the high level of judgement and estimation involved in the valuation approach, including determination of discount rates, salary inflation, mortality and other assumptions
 - the financial significance of the member liabilities, which impact the estimate of required future contributions and investment returns to fund future outflows
 - the sensitivity of the defined benefit liabilities balance to small changes in any of the valuation inputs.

Audit response

With the assistance of actuarial specialist, key audit procedures included assessing the accuracy and completeness of member data included in the assessment, the appropriateness of the methodology used and the key assumptions and judgements adopted and the sufficiency and appropriateness of management's actuarial assessment against the requirements of applicable Australian Accounting Standards.

Energy Industries Superannuation Scheme Pool B

Energy Industries Superannuation Scheme Pool B is a defined benefit superannuation fund with over 2,400 members and \$2.1 billion in assets at 30 June 2021.



Valuation of
defined benefit
liabilities of
\$1.1 billion

Key financial statement risk

- Our audit risk rating is **higher** due to the:
- financial significance of defined benefit member liabilities to Pool B
 - extent of significant judgements underpinning key assumptions used in the actuarial assessment process
 - judgement and complexities associated with the application of AASB 1056 'Superannuation Entities'.

Audit response

With the assistance of actuarial specialist, key audit procedures included assessing the accuracy and completeness of member data included in the assessment, the appropriateness of the methodology used and the key assumptions and judgements adopted and the sufficiency and appropriateness of management's actuarial assessment against the requirements of applicable Australian Accounting Standards.

Energy Investment Fund

The Energy Investment Fund is a trust which invests in equities, unlisted unit trusts, fixed interest securities, money market securities, derivatives and cash and cash equivalents in accordance with its constitution.



Valuation of
investments of
\$6.0 billion

Key financial statement risk

- Our audit risk rating is **higher** because:
- investments are financially significant to the Fund
 - extent of significant judgements underpinning key assumptions used in the valuation process
 - judgement and complexities associated with the application of AASB 13 'Fair Value Measurement' requirements.

Audit response

- Key audit procedures included:
- assessed the sufficiency and appropriateness of the fair value assessment against the requirements of applicable Australian Accounting Standards
 - examined and agreed independent pricing to test the valuation of investments
 - agreed valuation amounts to external confirmations, including audited financial statements of investments
 - assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.

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 Treasury cluster.

Section highlights

- The 2020–21 audits identified one new Extreme Risk and 11 High Risk findings. The extreme risk finding related to the incomplete provision and timely access to information to the Total State Sector Accounts (TSSA) audit and the accounting for the General Government Sector's investment in TAHE. Findings related to the TSSA audit are reported in the report on [State Finances 2021](#). Of the 11 high risk findings, two were repeat findings relating to cross cluster payments and authorisation to spend deemed funds. High risk repeat findings need to be addressed with greater priority.
- There were 21 moderate risk findings reported to management in 2020–21, ten of which were repeat findings. The most common repeat finding related to claims processing, information technology user access administration. Repeat findings, particularly those that relate to data protection, need greater prioritisation and should be implemented on a timely basis.
- icare is in the process of implementing organisational reform in response to findings in recent external reviews. These reviews identified 151 recommendations for icare to improve in the areas of risk and governance, performance, and culture and accountability. All of the recommendations were accepted by icare and are expected to be addressed through their 'Improvement Program'. A number of the observations referred to in this report were also identified in the external reviews.
- The Nominal Insurer's four week return-to-work rate fell from 68 per cent at 30 June 2020 to 64 per cent at 30 June 2021 and was at 63 per cent at 30 September 2021. This is below icare's target of 70 per cent.
- The Nominal Insurer overpaid, and underpaid claims to policyholders due to claims processing weaknesses. There was also insufficient documentation to support key inputs to weekly benefit payments, thereby further increasing the risk of claims being overpaid, and underpaid.
- The Home Building Compensation Fund's net liability position reduced from \$746 million at 30 June 2020 to \$534 million at 30 June 2021 due to increases in premium rates and increased building activity from stimulus measures.
- The Nominal Insurer's provision for errors in pre-injury average weekly earnings decreased from \$21.0 million at 30 June 2020, to \$11.6 million at 30 June 2021. The provision was not reassessed for icare's decision to proactively remediate PIAWE underpayments.
- The NSW Self Insurance Corporation also recognised a \$12.8 million provision at 30 June 2021 to remediate past underpayments.

Findings reported to management

The number of findings reported to management has decreased, but 30 per cent of all issues were repeat issues and these need greater focus and prioritisation






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













In 2020–21, there were 57 findings raised across the cluster (71 in 2019–20), 30 per cent of which were repeat issues (32 per cent in 2019–20).

The most common repeat issues related to claims processing and information technology user access administration.

A delay in implementing audit recommendations increases the risk of intentional and accidental errors in processing information, 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 below describes the common issues identified across the cluster by category and risk rating.

Risk rating	Issue
Information technology	
 Moderate: 4 new, 2 repeat	The financial audits identified the need for agencies to improve information technology processes and controls that support the integrity of financial data used to prepare agencies' financial statements. Of particular concern are issues associated with: <ul style="list-style-type: none">poor user access administration and monitoring of privileged user activitieslack of disaster recovery planning.
 Low: 6 new, 4 repeat	
Internal control deficiencies or improvements	
 High: 1 repeat	The financial audits identified internal control weaknesses across key business processes, including: <ul style="list-style-type: none">lack of controls to ensure cluster expenditure does not exceed a Minister's appropriation authority received under the annual Appropriations Act and the GSF Actinadequate procurement controls including purchase orders not being used and policy documents not stipulating thresholds which require minimum quotations or tendersinadequate claim processing controls leading to documentation not kept to support claims, and errors in payments.
 Moderate: 5 new, 7 repeat	
 Low: 9 new	
High risk issues are discussed later in this chapter.	

Risk rating	Issue
Financial reporting	
 High: 2 new  Moderate: 2 new, 1 repeat  Low: 2 new	<p>The financial audits identified opportunities for agencies to strengthen financial reporting, including:</p> <ul style="list-style-type: none"> • need to review significant judgements, and continue to assess whether assets are controlled • grants being incorrectly accounted for leading to errors • provisions not including costs to settle the obligation and errors in the accuracy and completeness of underlying data used in valuations. <p>High risk issues are discussed later in this chapter.</p>
Governance and oversight	
 Extreme: 1 new  High: 7 new  Low: 1 new	<p>The financial audits identified the need for agencies to improve governance and oversight processes, including:</p> <ul style="list-style-type: none"> • documentation was inadequate and key documents were either not provided to the Audit Office, or were not provided on a timely basis, or their existence was not made known to the Audit Office • inconsistencies in the GSF Act and GSA Act relating to statutory timeframes • numerous versions of working papers were submitted all of which contained errors, omissions and/or poor logic • no formal policy or benchmark on expected investment returns from other government sectors • addressing significant uncertainty relating to access fees to be paid by rail operators raised in the Total State Sector Accounts audit opinion • the sector classification of certain Public Non-Financial Corporations needs to be confirmed with the Australian Bureau of Statistics • external consultants were used extensively to advise government agencies on matters related to TAHE • there is no state-wide policy about borrowings which provides guidance around performance obligations arising under trades between government agencies. <p>Extreme and high risk issues are discussed later in this chapter and in the report on State Finances 2021.</p>
Non-compliance with key legislation and/or central agency policies	
 High: 1 repeat  Low: 1 new, 1 repeat	<p>The financial audits identified the need for agencies to improve its compliance with key legislation and central agency policies, including:</p> <ul style="list-style-type: none"> • non-compliance with the GSA Act and expenditure of public monies not supported by authorised delegations or spent for an authorised and valid purpose • input tax credits were not always claimed correctly. <p>High risk issues are discussed later in this chapter.</p>
 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.	
<p>Note: Management letter findings are based either on final management letters issued to agencies, or draft letters where findings have been agreed with management.</p>	

The number of moderate risk findings decreased from prior year

There were 21 moderate risk findings reported in 2020–21, representing a 30 per cent decrease from 2019–20. Of these, ten were repeat findings, and 11 were new issues.

Moderate risk repeat findings include:

- claims processing weaknesses including claim payment errors, and inadequate documentation to support calculations and evidence claims were reviewed by someone with appropriate delegation
- inadequate review of user access and higher risks of unintended or unauthorised system access
- controls assurance reports from an outsourced service provider did not cover the services it provided to the government agency
- failure to review procurement contracts register to ensure it is accurate and complete
- ongoing control deficiencies with grant application and approval processes
- key policies including delegations not being reviewed in a number of years and do not incorporate new requirements from more recent legislation
- quality review processes failing to identify material classification errors associated with grant funding.

NSW Treasury related matters

Accounting for the Government's investment in Transport Asset Holding Entity

A total of seven recommendations were made with respect to NSW Treasury's processes to prepare the NSW Government's consolidated whole of government accounts - the TSSA. This included one extreme risk finding and six high risk findings. The extreme finding related to NSW Treasury needing to significantly improve its processes to ensure all key information is identified and shared with the Audit Office on a timely basis. Other high-risk findings were identified which resulted in the following recommendations for NSW Treasury:

- establishing a policy to determine the minimum expected rate of return on the GGS equity injections in other public sectors entities and report on the performance of these GGS investments in the TSSA, including how much and what type of returns the government is obtaining from its investments compared to its targeted return
- facilitate revised commercial agreements to reflect access and license fees that were agreed in the 18 December 2021 Heads of Agreement between Transport for NSW, TAHE and the operators Sydney Trains and NSW Trains
- with TAHE, prepare robust projections and business plans to support GGS investment returns beyond FY2031.
- liaising with the ABS to re-confirm the classification of TAHE, NSW Trains and Sydney Trains as entities within the PNFC sector
- monitoring the risk that control of TAHE assets could change in future reporting periods and the implications on the TSSA
- consider whether there is sufficient competent oversight of its use of consultants and assess the risk of an over dependence on consultants at the cost of internal capability.

More details on the recommendations to NSW Treasury relating to its accounting for the GGS investment in TAHE are included on pages 7 to 24 of the [State Finances 2021](#) NSW Auditor-General's Report to Parliament.

Borrowings of \$1.0 billion were understated by NSW Treasury

NSW Treasury, a GGS agency, made agreements to borrow \$1.0 billion from New South Wales Treasury Corporation (TCorp), a PFC sector agency. Some of these agreements were entered as early as 17 May 2021 and all agreements for borrowings were entered into before 30 June 2021. However, NSW Treasury requested that settlement of those additional borrowings be deferred until 1 July 2021.

As TCorp raised the funds before 30 June 2021, it recognised a financial asset and liability to NSW Treasury on 30 June 2021. Despite TCorp having raised the funds by 30 June 2021 under the mutually agreed trade deal, NSW Treasury did not recognise any borrowings at year end on the basis that it requested the settlement date and receipt of cash to be deferred to past the balance sheet date. This led to an understatement of debt liabilities of \$1.0 billion by NSW Treasury, and an inconsistent accounting treatment between the two agencies. NSW Treasury subsequently corrected the misstatement after the matter was raised by the audit, resulting in the GGS recognising \$1.0 billion in financial assets and borrowings at 30 June 2021.

More detail on these inconsistencies is on page 37 of the [State Finances 2021](#) NSW Auditor-General's Report to Parliament. We recommended NSW Treasury seek develop a state-wide accounting policy for borrowings which ensure correct and consistent accounting treatment between agencies and sectors.

Inconsistencies exist in the GSF Act and GSA Act related to key statutory timeframes

There are inconsistencies between key statutory reporting timeframes imposed on the Treasurer and Auditor-General for the Consolidated State Financial Statements (the Statements) in the *Government Sector Finance Act 2018* (GSF Act) and *Government Sector Audit Act 1983* (GSA Act). Ambiguity in the statutory reporting timeframes could impact on the future timely provision of this information to Parliament. More detail on these inconsistencies is on page 54 of the [State Finances 2021](#) NSW Auditor-General's Report to Parliament. We recommended NSW Treasury seek legislative amendments in Parliament to resolve these inconsistencies.

NSW Treasury lacks a framework to monitor and provide assurance to ministers that they are in compliance with their appropriation authority

In July 2021, NSW Treasury highlighted a potential issue associated with certain cross-cluster payments which was based on advice received from the Crown Solicitor in January 2021. After being made aware of the issue, the Audit Office obtained its own advice on matters related to the appropriations framework under relevant state legislation. In the advice to the Audit Office, the Crown Solicitor advised that an agency is not subject to its own legally appropriated expenditure limit (assuming it is not subject to any annual spending limit imposed through an instrument of delegation or a budget control authority issued by the Treasurer under section 5.1 of the GSF Act). In effect, because responsible Ministers are given appropriations, these legal expenditure limits, rest in aggregate, with the principal department and agencies the Minister is responsible for. It is not possible for an individual agency to monitor or determine at what 'point in time' expenditure has been incurred in excess of the Minister's appropriation authority and there is currently no framework to monitor this.

Further detail on this matter is on pages 54 to 56 of the [State Finances 2021](#) NSW Auditor-General's Report to Parliament. In this report, we recommended that NSW Treasury:

- ensure a framework exists to monitor and provide assurance to Ministers that expenditure incurred across a financial year by agencies under the relevant Minister's coordination does not exceed the appropriation authority conferred by the annual Appropriations Act and the GSF Act
- assess how the requirement to prepare a Summary of Compliance under Australian Accounting Standards impacts relevant principal departments and cluster agencies financial statement disclosures.

Agencies have again spent monies without an authorised delegation

In the State Finances NSW Auditor-General's Report to Parliament for 2020 and 2021 we reported instances where agencies spent money received from an annual appropriation and/or deemed appropriation money without an authorised delegation from the relevant Minister(s) as required by sections 4.6(1) and 5.5(3) of the GSF Act. Further detail on this matter is on pages 56 to 57 of the [State Finances 2021](#) NSW Auditor-General's Report to Parliament. In this report, we recommended NSW Treasury promptly improve the guidance it provides agencies to ensure that expenditure of public monies is properly supported by authorised delegations.

Control deficiencies at NSW Treasury's service providers

NSW Treasury's business processes and information technology services were provided by Infosys, Unisys and the Department of Customer Service during 2020–21. Together this constitutes the GovConnect environment.

The GovConnect information technology general controls (ITGC) were qualified in 2020–21. The key controls over user access, system changes and batch process failed in all ITGC reports. Most of these deviations were not mitigated or sufficiently mitigated to address the risk of unauthorised user access.

In response to the internal control qualifications, the audit teams performed data analytics over payroll and accounts payable to obtain reasonable assurance that these control deficiencies did not materially impact on relevant agencies' financial statements.

Refer to the [Customer Service 2021](#) NSW Auditor-General's Report to Parliament for further details.

Insurance related matters

icare is in the process of implementing organisational reform in response to findings in recent external reviews. These reviews have identified 151 recommendations for icare to improve in the areas of risk and governance, performance, and culture and accountability. The reviews include the April 2021 McDougall Review, and the February 2021 'Independent Review of icare governance, accountability and culture' which was recommended by SIRA in the Dore Report.

All of these recommendations were accepted by icare and are expected to be addressed through their 'Improvement Program'. As at February 2022, icare report that 21 have been addressed, 139 are in progress, and 15 still to commence.

A number of the observations referred to in this report were also identified in the above reviews and are expected to be actioned as part of the improvement program.

Workers Compensation Nominal Insurer (the Nominal Insurer)

The Nominal Insurer's net asset deficiency at 30 June 2021

Last year's Central Agencies Report to Parliament reported that the Workers Compensation Nominal Insurer (the Nominal Insurer), the NSW Self Insurance Corporation and the Lifetime Care and Support Authority of New South Wales all had negative net assets at 30 June 2020. After strong investment returns in 2020–21, only the Nominal Insurer continued to have negative net assets at 30 June 2021.

The Nominal Insurer's negative net assets of \$252.9 million at 30 June 2021 (\$316.2 million at 30 June 2020) means that it still does not hold sufficient capital to meet the estimated present value of its future payment obligations, when measured in accordance with the accounting framework. The financial statements continued to be prepared on a going concern basis because the future payment obligations are not all due for settlement within the next 12 months.

As noted in section 2.4 'Key accounting issues', icare changed from an 'Accounting Ratio', to an 'Insurance Ratio', to assess the Nominal Insurer's capital position from 2020–21. The insurance ratio uses a (higher) discount rate based on the expected earnings rate on the Nominal Insurer's assets, rather the 'risk free' rate which is used for financial reporting.

Last year's Report to Parliament also noted that the deterioration in the value of the Nominal Insurer's net assets has resulted in its funding ratio at 30 June 2020 being outside of the 'target operating zone' set by the Board of icare. The Insurance Ratio at 30 June 2021 is 122 per cent, which is less than icare's target operating zone of over 130 per cent.

icare is assessing how it can increase the Nominal Insurer's funding ratio, and advises that actions taken to date include the execution of the Nominal Insurer Improvement Program (the Improvement Program) and an increase in premium rates.

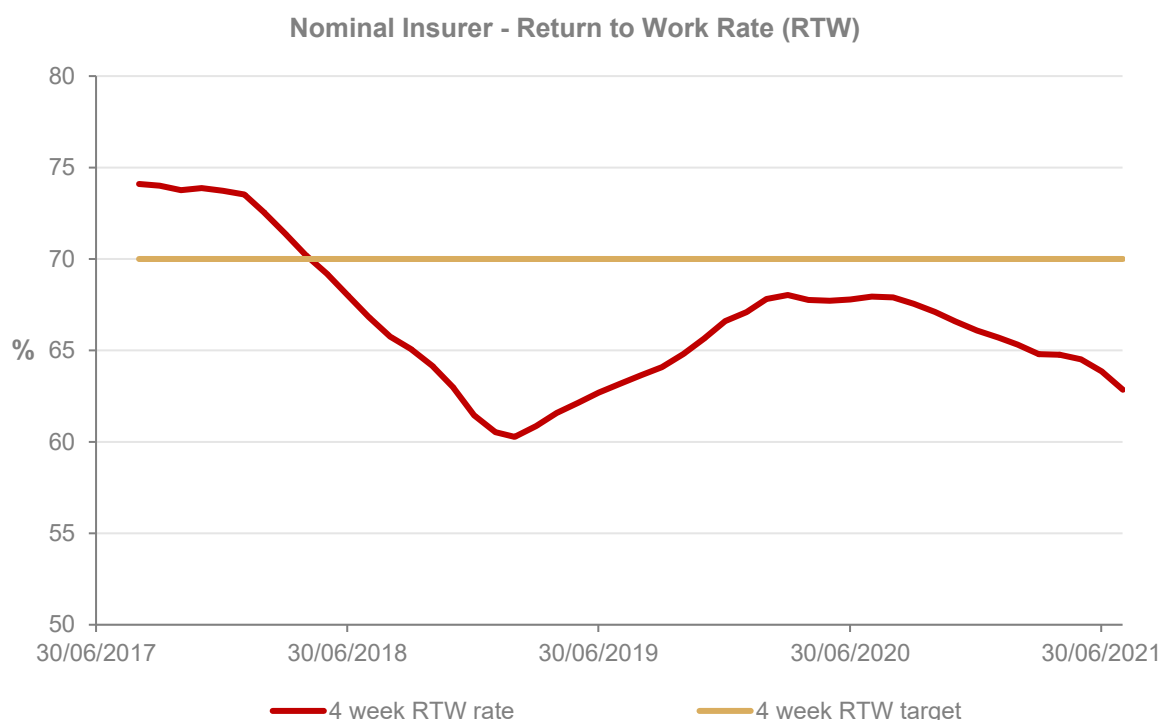
icare were given approval by the State Insurance Regulatory Authority (SIRA) to increase workers compensation premium rates from 1.4 per cent to 1.44 per cent of wages (2.9 per cent) for the 2021–22 policy year. icare advises that their pricing strategy for workers compensation premiums is for 'modest increases over the medium term'.

Return-to-work rates have worsened

Last year's Central Agencies Report to Parliament noted that the Nominal Insurer has experienced deteriorating return-to-work rates since late 2017. According to data published by SIRA, the Nominal Insurer's monthly four week return-to-work rate has continued to decline, falling from 68 per cent at 30 June 2020 to 64 per cent at 30 June 2021, and down to 63 per cent at 30 September 2021.

A key assumption when measuring the Nominal Insurer's outstanding claims liability, is the amount of time that injured workers will remain on benefits (i.e. continuance rates). This assumption is significantly aligned with return-to-work rate measures. At 30 June 2021, the liability was increased by \$296 million due to changes in continuance rate assumptions, with workers expected to remain on benefits longer. This change is consistent with the fall in four week return-to-work rates.

The four week return-to-work rate trend since August 2017 is shown in the graph below.



Source: State Insurance Regulatory Authority - Four week RTW rate (unaudited; data as at July 2021); icare - Four week RTW target (unaudited).

The graph shows that the four week return-to-work rate was as high as 74 per cent at 31 August 2017, but fell to as low as 60 per cent at 28 February 2019. The February 2019 low was due to operational disruptions which arose after claims processing was transferred from five scheme agents to a single agent, and the implementation of the Guidewire system. The operational issues have now been largely resolved, with the four week return-to-work increasing to 68 per cent over the 12 months to February 2020. The graph also shows the four week return-to-work rate has consistently been below icare's 70 per cent target in recent years.

The primary drivers for the decline in return-to-work rates, and increase in continuance rates in 2020–21 include:

- an increasing number of psychological injury claims being reported, which on average remain on benefits for longer relative to physical injury claims
- less severe physical and psychological injury claimants (Whole Person Injury score between zero to ten per cent) staying on benefits for longer
- the impacts of COVID-19 lockdowns which have resulted in both operational impacts to claims handling processes and increased barriers to claimants returning to work. The impact of the latest COVID-19 Delta outbreak can be observed through the reduction in the return-to-work rate from 65 per cent as at 31 May 2021 to 64 per cent at 30 June 2021, and down to 63 per cent at 30 September 2021.

Return-to-work rates are one measure of the effectiveness of the scheme. They measure the proportion of injured workers who had returned to work after having time off work following a work-related injury. Falling return-to-work rates may indicate injured workers are not receiving the treatment and support needed to enable them to return-to-work. They may also indicate a shift in the mix of claims with a large proportion of psychological claims with longer injury periods.

Overpayment and underpayment of claims to policyholders

Recommendation

icare needs to ensure it has sufficient controls in place over claim payments, including an effective quality assurance program, to minimise claim payment errors.

The audit team found errors in claim payments which led to injured workers being overpaid. Some of the contributing factors were:

- data entry errors leading to incorrect pre-injury average weekly earnings (PIAWE) calculations
- PIAWE amounts not agreeing to source documentation
- claims paid outside the certificate of capacity which the nominated treating doctor completes and is used to indicate when a worker can return to work
- medical payments above the fee schedule published by SIRA.

Claims for compensation by injured workers are the most significant expense of the Nominal Insurer. In 2020–21, the Nominal Insurer paid \$2.9 billion in claim payments (\$2.5 billion in 2019–20). Overpayments may be indicative of internal control breakdowns and weaknesses, which increase the risk of fraud and error, and are a form of wastage.

An effective quality assurance (QA) framework should identify claim payment errors so they can be corrected, and ensure that learnings are applied to future claims. icare is revising its QA framework and making systems enhancements as part of the Nominal Insurer Improvement Program. This Program captures icare's responses to recommendations from recent independent reviews including the SIRA commissioned review by Ms Janet Dore, and the NSW Government commissioned review by The Hon. Robert McDougall QC.

The Audit Office previously reported that icare has a project to identify PIAWE calculation errors and claim underpayments that occurred between 2012 to 2019. The above errors are not captured by this project.

Insufficient documentation to support claims

Recommendation

icare should ensure that documentation to support PIAWE calculations is appropriately maintained, and that the minimum documentation requirements are set out in a policy.

The audit team found insufficient documentation was retained to support pre-injury average weekly earnings (PIAWE) calculations including:

- missing calculation workbooks to support calculated PIAWE
- file notes used to support PIAWE rather than calculation workbooks
- comments noted in the system with amounts to be used as PIAWE were not supported with documentation
- PIAWE calculations documented on file could not be opened.

PIAWE calculations are used to determine weekly benefit payments to injured workers. The absence of appropriate information to support PIAWE calculations reduces the effectiveness of secondary review procedures, thereby increasing the risk of claims being over and underpaid and not identified.

PIAWE is the weekly average of the gross earnings received by a worker at the time of the injury and is based on the sum paid for things such as earning for hours worked, allowances and loadings. PIAWE calculations can be complex because of the different pay and conditions in industrial arrangements.

Unfunded liabilities within the Home Building Compensation Fund

Last year's Central Agencies Report to Parliament, reported that there were unfunded liabilities within the Home Building Compensation Fund (HBCF). HBCF's net asset deficiency improved from \$746 million at 30 June 2020 to \$534 million at 30 June 2021 primarily due to increases in premium rates and building activity.

HBCF's premium income is linked to building activity. Measures by the Australian Government to stimulate building activity, such as the HomeBuilder grant program, resulted in an increase in premium income.

The deficiency can be split into two portfolios:

- \$382 million in liabilities relating to the pre-reform portfolio. NSW Treasury has provided a guarantee to fund cash short falls in this portfolio.
- \$152 million in unfunded liabilities relating to the post-reform portfolio, which aims to be self-sustaining. This is funded by HBCF written policies using risk-based pricing of premiums approved by SIRA and is not supported by a NSW Treasury funding guarantee.

The pre-reform portfolio relates to policies issued before 1 July 2018, the premiums for which were set too low to meet claims and operating costs (refer below). NSW Treasury has guaranteed to fund cash short falls associated with these policies, and accordingly paid the HBCF \$13.5 million in 2020–21, \$12.2 million in 2019–20 and \$28.5 million in 2018–19.

While the post-reform portfolio aims to be self-sustaining, there were also unfunded liabilities of \$152 million relating to this portfolio at 30 June 2021 (\$147 million at 30 June 2020). The post-reform portfolio is not expected to be sustainably priced until 1 July 2022, or to be fully funded until 2029. According to icare, 'sustainable pricing' should be achieved with an 'uncertainty margin' of 15 per cent, which it then expects to deliver surpluses over time.

Prior to 1 July 2010, home warranty insurance was provided by approved private sector insurers, through the home warranty insurance scheme. After private sector insurers withdrew from the scheme following the global financial crisis, the NSW Government announced that it would be the sole provider of home warranty insurance, from 1 July 2010 onwards. The NSW Government set premiums at subsidised rates from 1 July 2010 until 1 July 2018, until reforms took effect from 1 July 2018 onwards. These reforms aim for premiums and other charges to be set so that HBCF can operating sustainably.

The HBCF provides consumer protection to homeowners undertaking residential building projects in NSW where the contracted builder, due to certain circumstances, defaults under the contract. SiCorp became the manager of the scheme from 1 July 2010 and is the sole provider for this type of insurance.

Insurance and Care NSW (icare)

There were changes in Pre-Injury Average Weekly Earnings (PIAWE) provisions as remediation projects continue

Last year's Central Agencies Report to Parliament reported that icare had identified errors in the PIAWE calculations that resulted in underpayments of workers compensation benefits paid to members, and that the Nominal Insurer's financial statements included a provision of \$21 million to remedy past PIAWE underpayments.

Following further investigation, the provision in the Nominal Insurer's financial statements was reduced from \$21 million at 30 June 2020, to \$11.6 million at 30 June 2021. In 2020–21, icare paid \$0.6 million for past PIAWE underpayments within the Nominal Insurer.

As noted in section 2.4 above, the \$11.6 million provision was estimated after considering the error rate in sampled claims between 2012 and 2019. However on 24 September 2021, in the same meeting when the financial statements were authorised for issue, the icare Board approved a 'proactive payment' approach for remediating PIAWE underpayments, although subject to legal advice and assessment by a wage remediation expert. A proactive payment involves icare paying a pre-defined cohort of injured workers on the assumption that they have been underpaid, rather than waiting for underpayments to be first identified by file reviews.

The decision by the Board to move to a proactive payment approach meant that the methodology for estimating the \$11.6 million provision in the financial statements, might no longer be appropriate. It also highlighted weaknesses in icare's after balance date event assessment procedures (refer section 2.4 above). This weakness also includes that the Board decision was not discussed with the Audit Office prior to the financial statements being signed.

On 11 November 2021, icare announced that it would proactively pay \$38 million in total to 53,000 injured workers effected for historic PIAWE calculation errors. According to the announcement:

- the payment is directed to those most vulnerable and where there's likely to have been a financial impact
- the payment scheme does not limit injured workers from requesting a further review.

The impact of this announcement on the Nominal Insurer will be considered further as part of the 2021–22 financial audit.

A remediation provision of \$12.8 million at 30 June 2021 (nil at 30 June 2020) was also recognised within the NSW Self Insurance Corporation's financial statements, to remediate similar past underpayments to workers within the Treasury Managed Fund.

In 2019–20 icare commenced a project to review historical PIAWE calculations for the period 2012–19. The rationale for the review, was that the 2012 changes to the *Workers Compensation Act 1987*, meant the PIAWE calculation was more comprehensive than before, and required detailed information from injured workers to be received, assessed and processed within a legislative timeframe of seven days. This resulted in the calculation being susceptible to incomplete data, untimely receipt of data, incorrect application or interpretations of the legislation or transcription issues and error.

icare systems continue to have user access control weaknesses

The audit team continued to find information technology user access control weaknesses. These include:

- instances where user access were not cancelled (revoked) in a timely manner at the network and application layer. This was raised in 2018–19 and the same issues continue to be found
- icare's identity access management tool not explicitly certifying the appropriateness of the specific level or type of access of users. This is a repeat finding. This increases the risk of users not having access rights appropriate for their positions, such as the ability to change records instead of read-only
- weaknesses in user access management where documentation was not retained, or sufficiently documented for new users given access to systems during the year
- inappropriate privileged access.

icare implemented 'Right Access Right Time', a project to improve user access management related issues. The project will take 18 months to complete and is expected to be completed in 2022–23.

Inadequate user access controls increase the risk of inappropriate or invalid access to systems going undetected. This in turn could enable unauthorised (and undetected) activities within systems, such as privacy breaches or possibly fraud.

icare reviewed its service fee allocation charges to schemes

Last year's Central Agencies 2020 Report to Parliament reported that icare had not been able to demonstrate that its allocation of service costs to the schemes, reflected the actual costs incurred by each scheme.

In response, icare updated its cost allocation process in 2020–21 to use more quantifiable inputs to measure the effort each support service cost centre spends on each scheme. They also obtained legal advice which confirmed the approach to allocating service fees was not inconsistent with the *Workers Compensation Act 1987*.

While the audit team reviewed the updated cost allocation process and found that the amount charged to each scheme could be supported, instances were identified where the inputs were not correct. The audit recommended that icare:

- ensure the new methodology is embedded correctly, by confirming that the most up to date inputs are used in the model
- assess the reasonableness of the allocation of costs to the schemes (and especially the smaller schemes) by reviewing and explaining material movements in service fees compared to prior periods.

Costs are incurred by icare as the 'service entity' of the statutory schemes it administers, and then subsequently recovered from the schemes through 'service fees'.

Government Information (Public Access) Act 2009 (GIPA) non-compliance

During 2020–21 icare self-identified 13 instances where contracts were not published on the NSW Government's eTendering website within 45 days of contracts becoming effective, in breach of GIPA. The contracts were subsequently uploaded.

Last year's report noted that icare had identified 417 contracts, that should have been included on the NSW Government's eTendering website, but were not. A final upload of these contracts occurred on 20 August 2020.

To address the non-compliance, icare has been implementing a procurement improvement program to address deficiencies reported in various internal and external reviews. The first phase of the program was completed in 2020–21 and was designed to remediate historical GIPA non-compliance including those self-identified breaches mentioned above. The program is expected to be completed in 2021–22.

All applicable icare staff completed conflict of interest declarations in 2020–21

Conflict of interest declarations were completed by all senior executive and applicable icare staff in 2020–21.

Last year's Central Agencies 2020 Report to Parliament reported that icare had inadequate conflict of interest practices in icare's procurement processes, and that 19.6 per cent of senior executive and applicable staff did not complete a conflict of interest declaration in 2019–20.

In response, icare updated its conflicts of interest policy and guidelines in November 2020, implemented training and awareness programs, a quarterly attestation process and conflict of interest assurance program. The assurance program aims to test all high risk declarations every six months, and medium risk declarations every 12 months, to ensure they were being managed in accordance with the agreed strategies. During the year, the testing rate of declarations was above 80 per cent.

Superannuation related matters

EISS Trustee's disclosure of conflicts of interests and procurement process requires improvement

Energy Industries Superannuation Scheme Pty Limited (EISS Trustee) is the trustee for the Energy Industries Superannuation Scheme's two superannuation funds – Pool A and B.

We identified opportunities for improvements over the Trustee's processes for identifying and disclosing all actual or perceived conflicts of interests, and employees' relationships with sponsorships and community engagement transactions.

The Trustee's approval process for procurement could be enhanced, including the need to ensure probity controls around procurement process are in place, sufficiently assessed and documented.

We had to perform additional audit procedures to obtain reasonable assurance that these control deficiencies did not materially impact Energy Industries Superannuation Scheme Pty Limited's financial statements.

Section two

Appendices

Appendix one – Misstatements in financial statements submitted for audit

	2020–21			2019–20		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Cluster lead entity						
NSW Treasury	--	2	2	--	2	2
Treasury cluster (other)						
Alpha Distribution Ministerial Holding Corporation	--	--	--	--	--	--
Electricity Assets Ministerial Holding Corporation	--	--	--	--	--	--
Electricity Retained Interest Corporation - Ausgrid	--	--	--	--	--	--
Electricity Retained Interest Corporation - Endeavour	--	--	--	--	--	--
Twenty-four controlled entities of the Electricity Retained Interest Corporation - Ausgrid^	--	--	--	--	--	--
Twenty-four controlled entities of the Electricity Retained Interest Corporation - Endeavour^	N/A	N/A	N/A	N/A	N/A	N/A
Electricity Transmission Ministerial Holding Corporation	--	--	--	--	1	1
Epsilon Distribution Ministerial Holding Corporation Pty Ltd	--	--	--	--	1	1
ERIC Alpha Holdings Pty Ltd	--	--	--	--	--	--
ERIC Epsilon Holdings Pty Ltd	--	--	--	--	--	--
Generator Property Management Pty Ltd	--	1	1	--	1	1
ICNSW Australian Equities Fund	--	--	--	--	--	--
ICNSW International Equities Hedged Fund	1	--	1	--	--	--
ICNSW International Equities Fund (Unhedged)	1	--	1	--	--	--

	2020–21			2019–20		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Insurer's Guarantee Fund Investment Trust	--	--	--	--	--	--
Liability Management Ministerial Corporation	--	--	--	--	--	--
Long Service Corporation Investment Fund	--	--	--	--	--	--
Ministerial Holding Corporation^	N/A	N/A	N/A	N/A	N/A	N/A
45 NSW TCorp Investment Management Funds	5	--	5	--	--	--
New South Wales Treasury Corporation	--	--	--	--	--	--
NSW Generations (Debt Retirement) Fund Investment Trust	--	--	--	--	--	--
NSW Infrastructure Future Fund	--	--	--	--	--	--
Parliamentary Contributory Superannuation Fund	--	--	--	--	--	--
Port Botany Lessor Pty Limited	--	--	--	--	--	--
Port Kembla Lessor Pty Limited	--	--	--	--	--	--
Port of Newcastle Lessor Pty Limited	--	--	--	--	--	--
Ports Assets Ministerial Holding Corporation	--	--	--	--	--	--
Roads Retained Interest Pty Ltd	--	--	--	--	--	--
State Rail Authority Residual Holding Corporation^	--	--	--	--	--	--
NSW Treasury Administered (former Crown Entity)	1	1	2	--	3	3
Treasury Managed Fund Investment Portfolio	--	--	--	--	--	--

	2020–21			2019–20		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Treasury cluster (Insurance and Compensation) excluding Nominal Insurer						
Building Insurers' Guarantee Corporation	--	--	--	--	--	--
Home Building Compensation Authority	--	--	--	--	--	--
icare Support Solutions Pty Limited^	N/A	N/A	N/A	N/A	N/A	N/A
Insurance and Care NSW	1	1	2	--	--	--
Lifetime Care and Support Authority of New South Wales	--	--	--	--	--	--
NSW Self Insurance Corporation	--	--	--	--	--	--
Sporting Injuries Compensation Authority	1	--	1	--	--	--
Workers Compensation (Dust Diseases) Authority	--	--	--	--	--	--
Treasury cluster (superannuation)						
Buroba Pty Ltd^	N/A	N/A	N/A	N/A	N/A	N/A
Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund (Fund)	--	--	--	--	--	--
EIF Pty Limited	--	--	--	--	--	--
Energy Industries Superannuation Scheme Pool A	--	--	--	--	--	--
Energy Industries Superannuation Scheme Pool B	--	--	--	--	--	--
Energy Industries Superannuation Scheme Pty Limited	--	--	--	--	2	2
Energy Investment Fund	--	--	--	--	1	1
LGSS Pty Limited	2	--	2	--	--	--
Macquarie University Professorial Superannuation Scheme	--	--	--	--	1	1
NSW Fire Brigades Superannuation Pty Ltd	--	--	--	--	--	--
Parliamentary Contributory Superannuation Fund	--	--	--	--	--	--
Parliamentary Contributory Superannuation Fund (Trustees)	--	--	--	--	--	--

	2020–21			2019–20		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
SAS Trustee Corporation - Pooled Fund	2	--	2	--	--	--
SAS Trustee Corporation (Trustee)	1	--	1	--	2	2
SAS Trustee Corporation Staff Agency^	N/A	N/A	N/A	N/A	N/A	N/A
University of Sydney Professorial Superannuation System	--	1	1	--	1	1
Valley Commerce Pty Limited^	N/A	N/A	N/A	N/A	N/A	N/A
Treasury cluster (Workers Compensation Nominal Insurer)						
Workers Compensation Nominal Insurer	2	1	3	1	--	1
Total	17	7	24	1	15	16

^ Agency is exempt from financial reporting.

Source: Engagement Closing Reports issued to cluster agencies.

Appendix two – Early close procedures

No.	Procedure	Description
1	Proforma financial statements	Complete proforma financial statements and ensure management has endorsed the statements and reviewed the supporting working papers. Reconcile the March 2021 month-end Prime submission to the proforma financial statements and provide explanations for variances exceeding \$5 million.
2	Fair value assessment of property, plant and equipment	Perform and document an annual assessment of the fair value of property, plant and equipment (PPE), their useful lives and residual values, and the reasons why the carrying value was not materially different to the fair value. This assessment is performed between comprehensive revaluations.
3	Revaluation of property, plant and equipment	Complete the comprehensive revaluation of property, plant and equipment (PPE) by early close.
4	Inter and intra (cluster) agency transactions and balances	Agree and confirm all inter and intra (cluster) agency balances and transactions with the counterparty agency.
5	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.
6	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.
7	Changes in accounting policy	Review and agree changes in accounting policy with the Principal Cluster Agency.
8	Finalise right-of-use assets and lease liability balances	Ensure that all lease arrangements are accurate and complete.
9	Finalise assessment of all revenue contracts	Ensure revenue is accurate and complete and has been correctly accounted for under AASB 15 'Revenue from Contracts with Customers' or AASB 1058 'Income of Not-for-Profit Entities'.
10	Correction of material prior period errors	Confirm there are no changes to the 2019–20 closing balances except for adjustments for AASB 1059 'Service Concession Arrangements: Grantor' and TPP06-08 'Accounting for Privately Financed Projects'. Proposed changes are accompanied by journals, explanations and proposed disclosures.
11	Monthly management reports	Perform variance analysis with meaningful explanations for actuals versus budget, and year-to-date actuals for the previous year.
12	Changes to legislation	Identify and document changes to legislation affecting agency structures and/or financial reporting requirements.
13	Delegations	Ensure all material transactions are supported by appropriate delegations.

No.	Procedure	Description
14	Prior year Management Letter and Engagement Closing Report issues	Agreed action plans are in place to address prior year Management Letter and Engagement Closing Report issues. Explanations are provided for any unresolved issues(s).
15	Complete Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements	Complete and return the 'Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements' for all new and amended Commonwealth Funding Agreements entered or amended during the 2020–21 financial year.
16	New and updated accounting standards	Supporting workpapers evidencing how management has considered the requirements of new and updated accounting standards.

Appendix three – Timeliness of financial reporting

Cluster agencies	Financial statements submission	Date audit report was issued
Cluster lead entity		
NSW Treasury	✓	24 December 2021
Treasury cluster (other)		
Alpha Distribution Ministerial Holding Corporation	✓	18 October 2021
Electricity Assets Ministerial Holding Corporation	✓	12 October 2021
Electricity Retained Interest Corporation - Ausgrid	✓	27 September 2021
Electricity Retained Interest Corporation - Endeavour	✓	30 September 2021
Electricity Transmission Ministerial Holding Corporation	✓	18 October 2021
Epsilon Distribution Ministerial Holding Corporation Pty Ltd	✓	18 October 2021
ERIC Alpha Holdings Pty Ltd	✓	27 September 2021
ERIC Epsilon Holdings Pty Ltd	✓	30 September 2021
Generator Property Management Pty Ltd	✓	21 October 2021
ICNSW Australian Equities Fund	✓	8 October 2021
ICNSW International Equities Hedged Fund	✓	8 October 2021
ICNSW International Equities Fund (Unhedged)	✓	8 October 2021
Insurer's Guarantee Fund Investment Trust	✓	8 October 2021
Liability Management Ministerial Corporation	✓	13 September 2021
Long Service Corporation Investment Fund	✓	8 October 2021
Ministerial Holding Corporation	N/A	N/A - Exempt from financial reporting
45 NSW TCorp Investment Management Funds	✓	8 October 2021
New South Wales Treasury Corporation	✓	1 September 2021
NSW Generations (Debt Retirement) Fund Investment Trust	✓	8 October 2021
NSW Infrastructure Future Fund	✓	8 October 2021
Parliamentary Contributory Superannuation Fund	✓	30 September 2021
Port Botany Lessor Pty Limited	✓	13 September 2021
Port Kembla Lessor Pty Limited	✓	13 September 2021

Cluster agencies	Financial statements submission	Date audit report was issued
Port of Newcastle Lessor Pty Limited	✓	13 September 2021
Ports Assets Ministerial Holding Corporation	✓	13 September 2021
Roads Retained Interest Pty Ltd	✓	16 September 2021
State Rail Authority Residual Holding Corporation	N/A	N/A - Exempt from financial reporting
Treasury Managed Fund Investment Portfolio	✓	8 October 2021
Treasury cluster (Insurance and Compensation) excluding Nominal Insurer		
Building Insurers' Guarantee Corporation	✓	29 September 2021
Home Building Compensation Authority	✓	29 September 2021
icare Support Solutions Pty Limited	N/A	N/A - The company was deregistered during the year
Insurance and Care NSW	✓	29 September 2021
Lifetime Care and Support Authority of New South Wales	✓	29 September 2021
NSW Self Insurance Corporation	✓	29 September 2021
Sporting Injuries Compensation Authority	✓	29 September 2021
Workers Compensation (Dust Diseases) Authority	✓	29 September 2021
Treasury cluster (superannuation)		
Buroba Pty Ltd	N/A	N/A - Exempt from financial reporting
Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund (Fund)	✓	24 September 2021
EIF Pty Limited	✓	24 September 2021
Energy Industries Superannuation Scheme Pool A	✓	24 September 2021
Energy Industries Superannuation Scheme Pool B	✓	24 September 2021
Energy Industries Superannuation Scheme Pty Limited	✓	24 September 2021
Energy Investment Fund	✓	24 September 2021
LGSS Pty Limited	✓	22 September 2021
Macquarie University Professorial Superannuation Scheme	✓	22 September 2021
NSW Fire Brigades Superannuation Pty Ltd	✓	24 September 2021
Parliamentary Contributory Superannuation Fund	✓	30 September 2021
Parliamentary Contributory Superannuation Fund (Trustees)	✓	30 September 2021
SAS Trustee Corporation - Pooled Fund	✓	12 October 2021

Cluster agencies	Financial statements submission	Date audit report was issued
SAS Trustee Corporation (Trustee)	✓	12 October 2021
University of Sydney Professorial Superannuation System	✓	29 March 2021
Valley Commerce Pty Limited	N/A	N/A - Exempt from financial reporting
Treasury cluster (Workers Compensation Nominal Insurer)		
Workers Compensation Nominal Insurer	✓	29 September 2021

- ✓ Original reporting deadline, including NSW Treasury's revised reporting deadline was met.
- NSW Treasury's approved extension timeframe was met.
- ! NSW Treasury's reporting deadline was not met.

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Principal department								
NSW Treasury	350	403	218	476	1,180	964	1,130	1,081
Treasury cluster (other)								
Alpha Distribution Ministerial Holding Corporation	194	184	16	35	19	19	10	10
Electricity Assets Ministerial Holding Corporation	147	158	53	57	1	2	9	7
Electricity Retained Interest Corporation - Ausgrid	4,976	3,624	--	--	117	96	1	1
Electricity Retained Interest Corporation – Endeavour	2,632	1,921	--	--	136	119	38	92
Twenty-four controlled entities of the Electricity Retained Interest Corporation - Ausgrid^	--	--	--	--	--	--	--	--
Twenty-four controlled entities of the Electricity Retained Interest Corporation - Endeavo ur^	--	--	--	--	--	--	--	--
Electricity Transmission Ministerial Holding Corporation	195	192	150	233	5	6	4	5
Epsilon Distribution Ministerial Holding Corporation Pty Ltd	41	39	8	22	5	5	3	3
ERIC Alpha Holdings Pty Ltd***	4,976	3,624	--	--	116	95	--	--
ERIC Epsilon Holdings Pty Ltd***	2,632	1,921	--	--	135	118	37	91
Generator Property Management Pty Ltd	36	15	18	18	24	1	3	12
ICNSW Australian Equities Fund	--	1,449	--	3	30	(45)	1	7

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
ICNSW International Equities Hedged Fund	--	245	--	--	40	--	--	--
ICNSW International Equities Fund (Unhedged)	--	3,566	--	5	551	145	19	21
Insurer's Guarantee Fund Investment Trust	223	208	--	--	21	5	--	--
Liability Management Ministerial Corporation	297	230	--	--	68	23	--	--
Long Service Corporation Investment Fund	2,055	1,781	--	--	175	47	1	1
Ministerial Holding Corporation^	--	--	--	--	--	--	--	--
45 NSW TCorp Investment Management Funds	66,920	51,652	646	101	8,207	(14)	144	133
New South Wales Treasury Corporation	117,231	99,716	117,003	99,476	225	181	143	129
NSW Generations (Debt Retirement) Fund Investment Trust	15,263	11,272	48	5	1,912	(36)	8	8
NSW Infrastructure Future Fund	12,086	13,916	60	72	996	322	14	15
Parliamentary Contributory Superannuation Fund	366	326	--	--	56	5	--	--
Port Botany Lessor Pty Limited	212	201	--	3	45	42	31	30
Port Kembla Lessor Pty Limited	23	22	--	1	8	7	6	6
Port of Newcastle Lessor Pty Limited	33	31	--	--	7	6	5	4
Ports Assets Ministerial Holding Corporation	269	255	1	4	60	56	42	40
Roads Retained Interest Pty Ltd	6,297	6,323	--	--	--	--	295	76
State Rail Authority Residual Holding Corporation^	--	--	--	--	--	--	--	--
Treasury Managed Fund Investment Portfolio	12,797	9,431	10	1	1,937	45	10	7

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Treasury cluster (Insurance and Compensation) excluding Nominal Insurer								
Building Insurers' Guarantee Corporation	53	53	53	4	7	7	56	(2)
Home Building Compensation Authority	617	486	1,151	1,232	147	128	(64)	237
icare Support Solutions Pty Limited^	--	--	--	--	--	--	--	--
Insurance and Care NSW	319	271	306	258	926	789	926	789
Lifetime Care and Support Authority of New South Wales	8,406	7,067	8,232	7,365	1,598	541	1,128	1,418
NSW Self Insurance Corporation	15,164	13,201	14,297	13,327	3,978	3,691	2,985	4,435
Sporting Injuries Compensation Authority	6	6	2	2	1	1	--	--
Workers Compensation (Dust Diseases) Authority	2,265	2,089	2,265	2,089	206	79	206	79
Treasury cluster (superannuation)								
Buroba Pty Ltd^	--	--	--	--	--	--	--	--
Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund (Fund)	3	5	2	4	1	1	1	1
EIF Pty Limited	--	--	--	--	--	--	--	--
Energy Industries Superannuation Scheme Pool A	4,369	3,774	4,343	3,751	667	168	667	168
Energy Industries Superannuation Scheme Pool B	2,078	1,875	1,884	1,816	335	46	197	119
Energy Industries Superannuation Scheme Pty Limited	19	8	19	8	42	40	42	40
Energy Investment Fund	6,422	5,593	42	19	1,002	162	--	337
LGSS Pty Limited	13	13	13	13	41	38	41	38
Macquarie University Professorial	11	11	11	11	2	1	2	1

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Superannuation Scheme								
NSW Fire Brigades Superannuation Pty Ltd	--	--	--	--	--	--	--	--
Parliamentary Contributory Superannuation Fund	368	329	415	437	60	6	1	21
Parliamentary Contributory Superannuation Fund (Trustees)	--	--	--	--	--	--	--	--
SAS Trustee Corporation - Pooled Fund	46,109	44,664	59,352	58,952	5,940	955	4,895	2,594
SAS Trustee Corporation (Trustee)*	13	15	13	15	37	38	38	38
SAS Trustee Corporation Staff Agency^	--	--	--	--	--	--	--	--
University of Sydney Professorial Superannuation System	31	33	21	23	1	5	1	1
Valley Commerce Pty Limited^	--	--	--	--	--	--	--	--
Treasury cluster (Workers Compensation Nominal Insurer)								
Workers Compensation Nominal Insurer	19,878	19,196	20,131	19,512	4,721	3,331	4,658	5,226

* Include other gains.

** Include other losses.

^ Agency is exempt from financial reporting.

Source: Agencies audited 2020–21 financial statements.

Appendix five – Acquittals and other opinions

In addition to audits on agencies' general purpose financial statements, the following other audits were completed during 2020–21:

Agency	Nature of engagement
Electricity Retained Interest Corporation – Ausgrid Fund	An audit conducted to provide reasonable assurance that the 2020–21 special purpose financial report of the Fund was, in all material respects, fairly stated and that payments made from the Fund were made in accordance with the <i>Electricity Retained Interest Corporations Act 2015</i> .
Electricity Retained Interest Corporation – Endeavour Fund	An audit conducted to provide reasonable assurance that the 2020–21 special purpose financial report of the Fund was, in all material respects, fairly stated and that payments made from the Fund were made in accordance with the <i>Electricity Retained Interest Corporations Act 2015</i> .
NSW Generations (Community Services and Facilities) Fund	An audit conducted to provide reasonable assurance that the FY2021 special purpose financial report of the Fund was, in all material respects, fairly stated and that payments made from the Fund were made in accordance with the <i>NSW Generations Funds Act 2018</i> .
NSW Generations (Debt Retirement) Fund	An audit conducted to provide reasonable assurance that the FY2021 special purpose financial report of the Fund was, in all material respects, fairly stated and that payments made from the Fund were made in accordance with the <i>NSW Generations Funds Act 2018</i> .
Restart NSW Fund	An audit conducted to provide reasonable assurance that the 2020–21 special purpose financial report of the Fund was, in all material respects, fairly stated and that payments made from the Fund were made in accordance with the <i>Restart NSW Fund Act 2011</i> .
Social and Affordable Housing NSW Fund	An audit conducted to provide reasonable assurance that the 2020–21 special purpose financial report of the Fund was, in all material respects, fairly stated and that payments made from the Fund were made in accordance with the <i>Social and Affordable Housing NSW Fund Act 2016</i> .
New South Wales Treasury Corporation (TCorp)	<p>An audit conducted to provide reasonable assurance over TCorp's description of controls, their design and operating effectiveness over managed asset portfolios</p> <p>An audit conducted to provide reasonable assurance over TCorp's description of controls, their design and operating effectiveness over investment management services</p> <p>An audit to provide reasonable assurance over TCorp's Commonwealth Guarantee Fee Forms for the period from 1 July 2020 to 30 June 2021, that they had been prepared in accordance with the 'Australian Government Guarantee of State and Territory Borrowing Scheme Rules'.</p>
Energy Industries Superannuation Scheme Pty Limited	<p>An audit conducted to determine if:</p> <ul style="list-style-type: none"> the financial statements give a true and fair view of the financial performance and financial position of the Licensee and comply with Australian Accounting Standards internal controls operating effectiveness of internal controls used by the Licensee to comply with Divisions 2, 3, 4, 4A, 5 and 6 of Part 7.8 of the <i>Corporations Act 2001</i>, Division 7 of Part 7.8 other than section 991A (the 'specified internal controls') of the <i>Corporations Act 2001</i> the operation and control of each account required by sections 981B and 982B of the <i>Corporations Act 2001</i> to be maintained by the Licensee (the required accounts) that we received all necessary records, information and explanations from the Licensee under regulation 7.8.13 of the Corporations Regulations 2001.

Agency	Nature of engagement
Energy Industries Superannuation Scheme Pool A	<p>A reasonable assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> the relevant APRA reporting forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, trustee of Pool A has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms trustee's compliance with the following applicable provisions under the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act), Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations), APRA reporting standards, <i>Corporations Act 2001</i> (Corporations Act) and Corporations Regulations 2001 (Corporations Regulations) the requirement to maintain an operational risk reserve and trustee capital at the required target amount in accordance with its ORFR strategy.
Energy Industries Superannuation Scheme Pool B	<p>A reasonable assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> the relevant APRA reporting forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, trustee of Pool B has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms trustee's compliance with the following applicable provisions under the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act), Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations), APRA reporting standards, <i>Corporations Act 2001</i> (Corporations Act) and Corporations Regulations 2001 (Corporations Regulations) the requirement to maintain an operational risk reserve and trustee capital at the required target amount in accordance with its ORFR strategy.
Energy Industries Superannuation Scheme Pool A	<p>A limited assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> anything has come to our attention that APRA reporting forms are not prepared, in all material respects, in accordance with the APRA reporting standards the trustee's systems, procedures and internal controls are designed to ensure that the trustee has complied with all applicable prudential requirements the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards compliance with the Risk Management Framework.
Energy Industries Superannuation Scheme Pool B	<p>A limited assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> the trustee's systems, procedures and internal controls are designed to ensure that the trustee has complied with all applicable prudential requirements the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards compliance with the Risk Management Framework.
The Macquarie University Professorial Superannuation Scheme	<p>A reasonable assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> the relevant APRA reporting forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, trustee of the Scheme has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms trustee's compliance with the following applicable provisions under the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act), Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations), APRA reporting standards, <i>Corporations Act 2001</i> (Corporations Act) and Corporations Regulations 2001 (Corporations Regulations) the requirement to maintain an operational risk reserve and trustee capital at the required target amount in accordance with its ORFR strategy.

Agency	Nature of engagement
The Macquarie University Professorial Superannuation Scheme	<p>A limited assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> the trustee's systems, procedures and internal controls are designed to ensure that the trustee has complied with all applicable prudential requirements the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards.
The University of Sydney Professorial Superannuation System	<p>A reasonable assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> the relevant APRA reporting forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, trustee of the System has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms trustee's compliance with the following applicable provisions under the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act), <i>Superannuation Industry (Supervision) Regulations 1994</i> (SIS Regulations), APRA reporting standards, <i>Corporations Act 2001</i> (Corporations Act) and <i>Corporations Regulations 2001</i> (Corporations Regulations) the requirement to maintain an operational risk reserve and trustee capital at the required target amount in accordance with its ORFR strategy.
The University of Sydney Professorial Superannuation System	<p>A limited assurance audit conducted to determine if:</p> <ul style="list-style-type: none"> the trustee's systems, procedures and internal controls are designed to ensure that the trustee has complied with all applicable prudential requirements the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards.
SAS Trustee Corporation Pooled Fund	<p>An Independent Auditor's Reasonable Assurance Report on APRA Reporting Forms for the year ended 30 June 2021. Audit conducted to determine if:</p> <ul style="list-style-type: none"> the relevant APRA reporting forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, the financial position of the Fund as at 30 June 2021 and its performance for the year then ended or accounting records with regard to other information that was not directly derived from the financial statements the Trustee of the Fund has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms.
SAS Trustee Corporation Pooled Fund	<p>An Independent Auditor's Limited Assurance Report on APRA Controls and Compliance for the year ended 30 June 2021. Audit conducted to determine if the Trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards.</p>
Parliamentary Contributory Superannuation Fund	<p>An Independent Auditor's Reasonable Assurance Report on APRA Reporting Forms for the year ended 30 June 2021. Audit conducted to determine if:</p> <ul style="list-style-type: none"> the relevant APRA reporting forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, the financial position of the Fund as at 30 June 2021 and its performance for the year then ended or accounting records with regard to other information that was not directly derived from the financial statements the Trustees of the Fund has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms.
Parliamentary Contributory Superannuation Fund	<p>An Independent Auditor's Limited Assurance Report on APRA Controls and Compliance for the year ended 30 June 2021. Audit conducted to determine if the Trustees' systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards.</p>

Agency	Nature of engagement
The Crown Employees (NSW Fire Brigades Firefighting Staff, Death and Disability) Superannuation Fund	<p>An Independent Auditor's Reasonable Assurance Report on APRA Reporting Forms and on Compliance for the year ended 30 June 2021. Audit conducted to determine if:</p> <ul style="list-style-type: none"> the relevant APRA reporting forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, the financial position of the Fund as at 30 June 2021 and its performance for the year then ended or accounting records with regard to other information that was not directly derived from the financial statements the Trustee of the Fund has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms trustee's compliance with the applicable provisions under the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act), Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations), APRA reporting standards, <i>Corporations Act 2001</i> (Corporations Act) and Corporations Regulations 2001 (Corporations Regulations) the requirement to maintain an operational risk reserve and trustee capital at the required target amount in accordance with its ORFR strategy.
The Crown Employees (NSW Fire Brigades Firefighting Staff, Death and Disability) Superannuation Fund	<p>An Independent Auditor's Limited Assurance Report on APRA Reporting Forms and on Controls and Compliance for the year ended 30 June 2021. Audit conducted to determine if:</p> <ul style="list-style-type: none"> anything has come to our attention that APRA reporting forms are not prepared, in all material respects, in accordance with the APRA reporting standards the Trustee's systems, procedures and internal controls are designed to ensure that the trustee has complied with all applicable prudential requirements the Trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards compliance with the Risk Management Framework.

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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