



FINANCIAL AUDIT

24 NOVEMBER 2022

Premier and Cabinet 2022

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 '**Premier and Cabinet 2022**'.

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

Margaret Crawford

Auditor-General for New South Wales

24 November 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

Premier and Cabinet 2022

This report analyses the results of our audits of the Premier and Cabinet cluster agencies for the year ended 30 June 2022.

1. Introduction

This report provides Parliament and other users of the Premier and Cabinet's financial statements with the results of our audits, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations.

1.1 Snapshot of the cluster

Premier and Cabinet

Supporting the Premier and the Cabinet to deliver the government's objectives, providing policy and advisory guidance for government, bringing the voices of First Nations people into policy making and facilitating stewardship of the public service for the people of NSW.

State outcomes



Effective and coordinated government

Supporting the cluster's strategic direction, coordination and delivery role across government for the people of NSW.



Empowering Aboriginal communities

Empowering Aboriginal communities leads to a transformed relationship between Aboriginal peoples and government, as well as supporting the delivery of policies and practices that support Aboriginal peoples' right to self-determination.



Accountable and responsible government

Supporting good government decision making and upholding government integrity.

Key agencies

Lead agency



Other key agencies



*The Integrity Agencies are the Audit Office of New South Wales, Independent Commission Against Corruption, Law Enforcement Conduct Commission, New South Wales Electoral Commission and Ombudsman's Office.

1.2 Changes to the cluster

Machinery of Government changes

The Premier and Cabinet cluster was subject to Machinery of Government (MoG) changes during 2021–22. The Administrative Arrangements (Second Perrottet Ministry - Transitional) Order 2021, Administrative Arrangements (Second Perrottet Ministry - Allocation of Acts and Agencies) Order 2021 and Administrative Arrangements (Administrative Changes - Miscellaneous) Order 2022 (the Administrative Orders) became effective from 1 April 2022.

The Administrative Orders resulted in the transfer of net assets of \$1 billion from the Department of Premier and Cabinet (the department). The Administrative Orders also established Destination NSW Staff Agency and State Archives and Records Authority of NSW Staff Agency.

The Administrative Orders resulted in the following equity transfers from the department:

- net assets of \$1 billion to the Department of Enterprise, Investment and Trade (DEIT) for Create NSW. This includes persons employed in Create NSW and Create Infrastructure to DEIT
- net assets of \$8.9 million for Heritage NSW to the Department of Planning and Environment
- persons employed in the Historic Houses Trust, and associated employee provisions and offsetting personnel services receivables of \$2.4 million, to the State Archives and Records Authority of New South Wales Staff Agency
- persons employed to enable the State Archives and Records Authority of New South Wales to exercise its functions, and associated employee provisions and offsetting personnel services receivables of \$1.7 million, to the State Archives and Records Authority of New South Wales Staff Agency.

The Administrative Orders resulted in the following staff transfers into the department:

- persons employed in Women NSW, and associated employee liabilities of \$0.1 million, from the Department of Communities and Justice (DCJ)
- persons employed in Office of Community Safety & Cohesion, and associated employee liabilities of \$0.4 million, from DCJ.

The Administrative Orders also resulted in a transfer of several agencies out of the Premier and Cabinet cluster (the cluster). The following table below provides a list of agencies which were transferred out of the cluster and details of their new department they were transferred into from 1 April 2022:

Agency	New department from 1 April 2022
Art Gallery of New South Wales Foundation	Department of Enterprise, Investment and Trade
Art Gallery of New South Wales Trust	Department of Enterprise, Investment and Trade
Art Gallery of New South Wales Trust Staff Agency	Department of Enterprise, Investment and Trade
Australian Museum Trust	Department of Enterprise, Investment and Trade
Australian Museum Trust Staff Agency	Department of Enterprise, Investment and Trade
Corporation Sole 'Minister Administering the <i>Heritage Act 1977</i> '	Department of Planning and Environment
Create NSW	Department of Enterprise, Investment and Trade
Destination NSW	Department of Enterprise, Investment and Trade
Destination NSW Staff Agency	Department of Enterprise, Investment and Trade

Agency	New department from 1 April 2022
Foundation for the Historic Houses Trust of New South Wales	Department of Enterprise, Investment and Trade
Foundation for the Historic Houses Trust of New South Wales Limited	Department of Enterprise, Investment and Trade
Greater Sydney Commission	Department of Transport
Greater Sydney Commission Staff Agency	Department of Transport
Heritage Council of NSW (small agency exemption)	Department of Planning and Environment
Historic Houses Trust of New South Wales	Department of Enterprise, Investment and Trade
Infrastructure NSW	Department of Transport
Infrastructure NSW Staff Agency	Department of Transport
Investment NSW	Department of Enterprise, Investment and Trade
Jobs for NSW Fund	Department of Enterprise, Investment and Trade
Library Council of New South Wales	Department of Enterprise, Investment and Trade
Library Council of New South Wales Staff Agency	Department of Enterprise, Investment and Trade
National Art School	Department of Enterprise, Investment and Trade
Resilience NSW	Department of Communities and Justice
State Archives and Records Authority of New South Wales	Department of Enterprise, Investment and Trade
State Archives and Records Authority of New South Wales Staff Agency	Department of Enterprise, Investment and Trade
State Library of New South Wales Foundation	Department of Enterprise, Investment and Trade
Sydney Opera House Trust	Department of Enterprise, Investment and Trade
Sydney Opera House Trust Staff Agency	Department of Enterprise, Investment and Trade
The Australian Institute of Asian Culture and Visual Arts Limited (VisAsia)	Department of Enterprise, Investment and Trade
The Brett Whiteley Foundation	Department of Enterprise, Investment and Trade
Trustees of the Museum of Applied Arts and Sciences	Department of Enterprise, Investment and Trade
Western Parkland City Authority	Department of Enterprise, Investment and Trade
Western Parkland City Authority Staff Agency	Department of Enterprise, Investment and Trade

2. Financial reporting





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

This chapter outlines our audit observations related to the financial reporting of agencies in the Premier and Cabinet cluster for 2022.

Section highlights

- Unqualified audit opinions were issued on all the cluster agencies 2021–22 financial statements.
- There were two corrected misstatements greater than \$5 million.
- Changes to accommodation arrangements managed by Property NSW on behalf of the department resulted in the collective de-recognition of approximately \$167.3 million in right of use assets and corresponding lease liabilities totalling \$225.1 million from the balance sheets of these agencies.

2.1 Cluster financial information 2022

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Principal department				
Department of Premier and Cabinet	269	62	2,907	2,733
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02				
Parliamentary Counsel's Office	3	2	10	9
Public Service Commission	7	6	33	35
Independent Commission Against Corruption***	14	15	29	30
Law Enforcement Conduct Commission***	9	8	22	22
New South Wales Electoral Commission***	64	44	163	163
Ombudsman's Office***	11	11	27	26

* Include other gains.

** Include other losses.

*** Independent Integrity agencies within the cluster

Source: Agencies audited 2021–22 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 2022 financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

The number of identified monetary misstatements decreased in 2021–22

The number of monetary misstatements identified during the audits of cluster agencies' financial statements decreased from 17 in 2020–21 to 15 in 2021–22. A monetary misstatement is an error in amount recognised in the financial statements initially submitted for audit.

Reported corrected misstatements decreased from 10 in 2020–21 to six with a gross value of \$56.6 million in 2021–22. Reported uncorrected misstatements increased from seven in 2020–21 to nine with a gross value of \$2 million in 2021–22. The 2020–21 misstatements exclude the misstatements for agencies transferred out of the cluster due to the Administrative Orders.

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

Year ended 30 June	2022		2021*	
	✓	!	✓	!
Less than \$50,000	1	6	1	1
\$50,000 to \$249,999	--	2	5	1
\$250,000 to \$999,999	2	--	1	2
\$1 million to \$4,999,999	1	1	3	2
\$5 million and greater	2	--	--	1
Total number of misstatements	6	9	10	7
Key	✓	!	Corrected misstatements Uncorrected misstatements	

* The count of misstatements excludes agencies that were transferred out of the cluster as a result of Machinery of Government changes in 2021–22.

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

The table below shows the number of corrected and uncorrected monetary misstatements for the past two years by cluster agency.

	2021–22			2020–21		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Department of Premier and Cabinet	1	3	4	4	2	6
Parliamentary Counsel's Office	4	--	4	--	--	--
Public Service Commission	--	--	--	--	1	1
Independent Commission Against Corruption	3	1	4	1	2	3
Law Enforcement Conduct Commission	1	--	1	--	--	--
New South Wales Electoral Commission	--	1	1	2	2	4
Ombudsman's Office	--	1	1	--	3	3

Agencies concluded the effect of not correcting the misstatement was immaterial, individually and in aggregate to their financial statements as a whole.
Source: Engagement Closing Reports issued by the Audit Office of New South Wales

Of the six corrected monetary misstatements, two had a gross value of greater than \$5 million and related to the following:

Agency	Description of corrected misstatements > \$5 million
Department of Premier and Cabinet	<ul style="list-style-type: none"> A right-of-use asset of \$44.3 million and corresponding lease liability of \$35.5 million were transferred to DEIT in relation to a head lease agreement with Dexus for the Theatre Royal as part of the equity transfer which occurred on 1 April 2022. It was later identified that in addition to the head lease, a sublease arrangement was also executed during November 2021. At that time, the department was of the view that the sublease arrangement should not be recognised due to factors not known at the time. During the audit phase it was determined that the final sublease variation was signed in November 2021 and an occupancy certificate issued for tenants to occupy the premises, indicating the sublease should have been recognised. The net impact of the misstatement to de-recognise the existing right-of-use asset for the head lease and the recognition of the sublease had resulted in a decrease to both the equity transfer and net result of \$38.4 million. Recognition of fair value movement of land and buildings for Government House totalling \$14.8 million. This was reflective of the cumulative movement in indices since the previous comprehensive revaluation.

Of the nine uncorrected monetary misstatements, none had a gross value of greater than \$5 million.

Four agencies were exempted from financial reporting in 2021–22

Part 3A Division 2 of the Government Sector Finance Regulation 2018 (GSF Regulation) prescribes certain kinds of GSF agencies not to be a reporting GSF agency. For 2021–22, the following cluster agencies have assessed and determined they met the reporting exemption criteria under the GSF Regulation, and therefore were not required to prepare annual financial statements:

Exempted agencies	GSF Regulation reference	Basis for reporting exemption
Special purpose staff agencies		
New South Wales Electoral Commission 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.
Office of the Law Enforcement Conduct Commission Staff Agency		These two staff agencies satisfy this requirement and therefore were exempt from preparing financial statements in 2021–22.
Small agencies		
Aboriginal Languages Trust	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:
Office of the Inspector of Law Enforcement Conduct Commission		<ul style="list-style-type: none"> the assets, liabilities, income, expense, commitments and contingent liabilities of the agency are each less than \$5 million the total cash or cash equivalent held by the agency is less than \$2.5 million at least 95% 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 two small agencies satisfy these requirements and therefore were exempt from preparing financial statements in 2021–22.

In 2020–21, the above cluster agencies were also exempted from financial reporting in accordance with Part 3A Division 2 of the GSF Regulation.

2.3 Timeliness of financial reporting




Early close procedures

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

NSW Treasury introduced early close procedures to improve the quality and timeliness of year-end financial statements. In April 2022, NSW Treasury reissued Treasurer's Direction TD19-02 'Mandatory Early Close as at 31 March each year' (TD19-02) and released Treasury Policy and Guidelines TPG22-11 'Agency Direction for the 2021–22 Mandatory Early Close'. These pronouncements require the GSF agencies listed in Appendix A of TD19-02 to perform the mandatory early close procedures and provide the outcomes to the audit team by 27 April 2022. The 17 mandatory procedures are listed in Appendix one.

Cluster agencies met the statutory deadline for submitting their 2021–22 early close financial statements and other mandatory procedures.


The table below summarises the agencies' completion of the 17 mandatory early close procedures noting that some procedures are not relevant to all agencies. The mandatory early close procedures and the details of the non-applicable procedures are listed in Appendix one.

Agency	Completed 	Not completed 	Not applicable 
Principal department			
Department of Premier and Cabinet	11	2	4
Other cluster agencies			
Parliamentary Counsel's Office	10	--	7
Public Service Commission	11	--	6
Independent Commission Against Corruption	12	--	5
Law Enforcement Conduct Commission	11	--	6
New South Wales Electoral Commission	11	--	6
Ombudsman's Office	12	--	5

Source: Reports on early close procedures 2022 issued by the Audit Office of New South Wales.

Agencies need to improve their completion of early close procedures

The following agency did not complete all mandatory early close procedures:

Agency	Not completed 	Description of incomplete early close procedures
Principal department		
Department of Premier and Cabinet	2	<ul style="list-style-type: none">• Fair value assessment of property, plant and equipment The department holds Heritage and Cultural assets of \$8.5 million which were last comprehensively revalued in 2017–18. In our Annual Engagement Plan, we highlighted the requirement to assess for any material movements in indicators of fair value. Management did not complete its annual fair value assessment in time for early close.• Prior year Management Letter and Engagement Closing Report issues Management did not provide an update on the status of prior year management letter and engagement closing report issues in time for early close.

Source: Report on early close procedures 2022 issued by the Audit Office of New South Wales.

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

- complete all revaluation of property, plant and equipment in a timely manner
- close off matters raised in prior year management letter and engagement closing reports.

Year-end financial reporting

NSW Treasury required all agencies to submit their financial statements by 1 August 2022

In June 2022, NSW Treasury issued a suite of Treasurer's Directions and Treasury Policy and Guidelines for 2021–22 financial reporting requirements and timetables:

- Treasurer's Direction TD21-02 'Mandatory Annual Returns to Treasury' (TD21-02) and Treasury Policy and Guidelines TPG22-16 'Agency Direction for the 2021–22 Mandatory Annual Returns to Treasury' require agencies listed in the Appendix A of TD21-02 to submit their 2021–22 financial statements to both NSW Treasury and the Audit Office by 1 August 2022
- Treasury Policy and Guidelines TPG22-17 'Agency guidelines for the 2021–22 Mandatory Annual Returns to Treasury for NSW public sector agencies that are not included in TD21-02' requires NSW public sector agencies not listed in Appendix A of TD21-02 to submit their draft 2021–22 financial statements to NSW Treasury by 1 August 2022
- 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 for audit within six weeks after the year end.

Financial statements were submitted on time for all cluster agencies

Cluster agencies met the reporting deadlines for submitting their 2021–22 year-end financial statements.

The *Government Sector Audit Act 1983* does not specify the statutory deadline for issuing the audit reports. At the date of this report, the audits of all cluster agencies financial statements have been completed.

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

Timeliness of financial reporting

Cluster agencies	2021–22 Financial statements submission	Date audit report was issued
Department of Premier and Cabinet - cluster lead	✓	20 October 2022
Parliamentary Counsel's Office	✓	28 September 2022
Public Service Commission	✓	20 October 2022
Independent Commission Against Corruption	✓	26 September 2022
Law Enforcement Conduct Commission	✓	27 September 2022
New South Wales Electoral Commission	✓	7 September 2022
Ombudsman's Office	✓	29 September 2022



Treasury's reporting deadline was met.



Treasury's approved extension timeframe was met.



Treasury's reporting deadline was not met.

2.4 Key accounting issues

Intra-government property leases managed by Property NSW

The changes in office accommodation arrangement with Property NSW resulted in derecognition of right-of-use assets and lease liabilities

Property NSW (PNSW) is responsible for managing most of the state government agencies leased real estate property portfolio. During 2021–22, PNSW made some changes to its intra-government lease arrangements, including rewriting the standard client acceptance letter (CAL) to include a 'Relocation and substitution right' clause. This clause allows PNSW to relocate agencies to other locations and remove their right to control the use of the identified accommodations. As a result, the new CALs no longer constitute a lease under AASB 16 'Leases'. The changes became effective from 30 June 2022.

The Department of Premier and Cabinet, Public Service Commission and Parliamentary Counsel's Office accepted the changes to their office accommodation arrangements with PNSW. This has resulted in:

- the derecognition of \$167.3 million of right-of-use assets (ROU assets)
- the derecognition of \$225.1 million of lease liabilities
- \$47.8 million of other gains/losses.

Going forward, these agencies will recognise the office accommodation payments as expenses in the Statement of Comprehensive Income. Agencies will continue to recognise the fit-outs and make good provisions.

Agencies have included appropriate disclosures in their year-end financial statements, detailing the accounting policies, significant judgments made and impact of the derecognition of the ROU assets and lease liabilities at 30 June 2022.

The following agencies did not exercise the option to accept the changes to their office accommodation arrangements with PNSW:

- New South Wales Electoral Commission
- Ombudsman's Office
- Independent Commission Against Corruption
- Law Enforcement Conduct Commission.

These agencies will continue to record ROU assets and lease liabilities arising from the original CAL as the existing arrangements still constitute a lease under AASB 16 'Leases'.

Machinery of Government practices

Confirmations were not obtained in writing with receiving agencies for material equity transfers

The Administrative Orders were effective from 1 April 2022 and resulted in the following equity transfers out of the department:

- net assets of \$1 billion transferred out to the Department of Enterprise, Investment and Trade for Create NSW
- net assets of \$8.9 million transferred out to the Department of Planning and Environment for Heritage NSW
- employee provisions and offsetting personnel services receivables of \$1.7 million to the State Archives and Records Authority for State Archives and Records Authority personnel services
- employee provisions and offsetting personnel services receivables of \$2.4 million to the State Archives and Records Authority for Historic Houses Trust personnel services.



Whilst confirmations were obtained for those entities transferring to the department, inter-entity confirmations were not agreed in writing with receiving agencies before the financial statements were submitted for audit. This increased the risk of disagreements and delays to reporting timeframes between agencies on the closing balances of assets and liabilities transferred.

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 significant cluster agencies.


Department of Premier and Cabinet

Department of Premier and Cabinet supports the cluster's strategic direction, coordination and delivery role across government for the people of NSW.

	Key financial statement risk	Audit response
 <p>Machinery of Government changes - \$1.02 billion</p>	<p>Machinery of Government changes</p> <p>The Administrative Orders were effective from 1 April 2022 and resulted in the transfer of net assets of \$1 billion out of the department.</p> <p>A number of staff and associated employee provisions and offsetting personnel services receivables were also transferred from the department. Our audit risk rating is higher because the financial statements may be misstated due to:</p> <ul style="list-style-type: none"> • completeness and accuracy of transfer of assets and liabilities at fair value, including employee leave liabilities • migration of financial data for functions/activities transferred out and in • disruption and gaps in internal control environments due to staffing, process and system changes • unclear roles and responsibilities • staff incurring expenditure without the proper delegation. 	<p>Our audit procedures included obtaining an understanding of how assets, liabilities and how financial data will be migrated out of the department's key systems; assessing the reasonableness of the fair value of assets and liabilities transferred out of and into the department; obtaining inter-entity confirmations and sign-offs for transferred / split functions, funds and activities and reviewing delegation instruments to ensure these are up to date and reflect the department's structure.</p>
	<p></p> <p>Grants and contributions - \$2.38 billion</p> <p>Grants and subsidies expenditure</p> <p>In 2021–22 the department's grants and subsidies expenses totalled \$2.4 billion (\$2.1 billion in prior year). Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> • the grants and subsidies are financially significant • the grants program has a diverse number of recipients including NSW Government agencies, NSW local councils and non-government organisations. 	<p>Our audit procedures tested for accuracy, validity, compliance with conditions and presentation and disclosure to ensure that they are in accordance with the relevant Australian Accounting Standards and applicable Treasury policies and procedures.</p>


Parliamentary Counsel's Office

The Parliamentary Counsel's Office (PCO) is responsible for drafting and providing access to most of the legislation for New South Wales. It drafts all Bills for Acts required for introduction into Parliament. It also drafts a wide range of statutory instruments, including regulations, rules, proclamations, orders and environmental planning instruments (EPIs). It also manages the NSW legislation website, which provides public access to legislation.

	Key financial statement risk	Audit response
 <p>New ADAPT System Project - \$559,836</p>	<p>New ADAPT System Project</p> <p>The PCO is implementing a new IT system (i.e. ADAPT) to enhance the way it drafts and publishes legislation. As the project progresses, PCO is capitalising relevant costs as an intangible 'work in progress' asset.</p> <p>The 2022 financial statements recorded a work in progress asset of \$559,836 related to this project.</p> <p>Our audit risk rating is higher for this balance, because of the judgement involved with determining which progress costs should be capitalised under the accounting framework, and how they should be valued.</p>	<p>Our audit procedures included understanding the status of the project and how current year developments have been recorded in the financial statements, assessing the accounting treatment of project costs against the accounting framework, reviewing the internal controls around the approval, recording and monitoring of project costs and assessing the adequacy of related financial statement disclosures against the requirements of the accounting framework.</p>


Public Service Commission

The Public Service Commission (PSC) is a public service agency that exists to support the Commissioner in the execution of their statutory functions. The Public Service Commissioner is an independent statutory office holder appointed by the Governor under the *Government Sector Employment Act 2013* (NSW).

	Key financial statement risk	Audit response
 <p>Deemed appropriations</p>	<p>Deemed appropriations</p> <p>In July 2021, NSW Treasury highlighted a potential issue on certain cross-cluster payments based on advice from the Crown Solicitor.</p> <p>Cross-cluster payments such as intra-government transactions and cross-cluster grants between GSF agencies that do not have a Special Deposits Account, working account or a statutory special purpose fund do not meet the definition of a 'deemed appropriation' under the GSF Act. These transactions may result in a breach in existing appropriation authorisation limit as there was no corresponding increase in the responsible minister's appropriated expenditure limits for the additional cross-cluster payments received.</p> <p>Our audit risk rating is higher because the issue was not fully resolved last year and there remained uncertainty on how this matter may have impacted the total spending authority included in the summary of compliance disclosure in PSC's financial statements.</p>	<p>Our audit procedures included the review of the financial statement disclosure, which provides that the Premier who is the responsible minister for the PSC is taken to have been given an appropriation out of the Consolidated Fund under the authority s4.7 of the <i>Government Sector Finance Act 2018</i>, at the time the Public Service Commission receives or recovers any deemed appropriation money, for an amount equivalent to the money that is received or recovered by the Public Service Commission.</p> <p>PSC obtained approval for a Special Deposits Account for 2022–23.</p>


Independent Commission Against Corruption

The Independent Commission Against Corruption (ICAC) was established by the NSW Government in 1988 in response to growing community concern about the integrity of public administration in NSW. ICAC's principal functions are to investigate and expose corrupt conduct in the NSW public sector, actively prevent corruption through advice and assistance and to educate the NSW community and public sector about corruption and its effects.

	Key financial statement risk	Audit response
 Capital projects	Capital projects ICAC undertook a number of significant capital projects in financial year 2021–22, such as the upgrade of the hearing room, works on cybersecurity upgrade and IT projects (storage and physical security). Our audit risk rating is higher because the accounting treatment of capital project costs could be inconsistent with relevant Australian Accounting Standards and applicable Treasury policies and procedures.	Our audit procedures included assessing whether the capital expenditure was valid, how costs were classified between expenses and assets, recording of costs into separate identifiable assets in the asset register, timeliness of asset additions to the asset register, ensuring replaced assets were removed from the asset register, the process for capitalising work in progress and ensuring financial statements included all relevant disclosures in accordance with the Australian Accounting Standards.


Law Enforcement Conduct Commission

The Law Enforcement Conduct Commission (LECC) detects, oversights, investigates and exposes misconduct and maladministration within the NSW Police Force and the NSW Crime Commission. LECC provides independent oversight and review of investigations by the NSW Police Force of misconduct matters concerning the conduct of its members and the NSW Crime Commission concerning its officers. It uses its investigative powers to identify and deal with cases of misconduct and maladministration in these agencies.

	Key financial statement risk	Audit response
 Funding from Digital Restart Fund - \$500,000	Funding from Digital Restart Fund LECC was approved to receive approximately \$500,000 from the Digital Restart Fund (DRF) over a period of three years to upgrade their cyber security systems. LECC expected to receive approximately \$340,000 this year for this upgrade. Our audit risk rating is higher because LECC may not correctly account for the revenue received under accounting standards.	Our audit procedures included reviewing the accounting treatment of the funding received and the performance obligations attached to the project to ensure that they are in accordance with the relevant Australian Accounting Standards and applicable Treasury policies and procedures.


New South Wales Electoral Commission

The New South Wales Electoral Commission (Electoral Commission) is legislated to conduct, regulate, and report on general elections and by-elections for the Parliament of New South Wales. They also provide electoral services to local governments.

	Key financial statement risk	Audit response
 <p>Impairment of iVote system - \$1.7 million</p>	<p>The Electoral Commission uses the iVote system to allow eligible voters to cast their votes online or over the telephone. It was first implemented in 2011 but has had various upgrades over the last ten years. At 30 June 2021, the book value of iVote was \$2.5 million with a useful life of four years, expecting to be fully depreciated by March 2023.</p> <p>During the December 2021 local government elections, a number of voters were unable to cast their votes due to a technical failure within the iVote system. The NSW Supreme Court subsequently found that this technical failure had a material impact on election results for three Councils. The iVote system was not used for the February 2022 by-elections and will not be used for the 2023 State general election.</p> <p>Our audit risk rating is higher because given the technical failures within the system, there is a risk there could be a material impairment. Determination as to whether there is an impairment relating to an intangible asset involves significant judgement about the value in use for these assets.</p>	<p>Our audit procedures included evaluating the impairment assessments and calculations performed by the Electoral Commission.</p>

Ombudsman's Office

The Ombudsman's Office, led by the NSW Ombudsman, is an independent and impartial integrity agency which watches over most NSW public sector agencies and some community service providers. They help to ensure these organisations and their staff do their jobs properly and meet their responsibilities to the community.

	Key financial statement risk	Audit response
 <p>Change of functions in the Office</p>	<p>The Ombudsman's Office made some structural changes following various legislative amendments, including through the <i>Mandatory Disease Testing Act 2021</i> and <i>Public Interest Disclosures Act 2022</i>. The Office received \$213,764 from the Treasury relating to redundancies for two full time equivalent staff employed as part of the former function reviewing the deaths of persons with disability in NSW.</p> <p>Our audit risk rating is higher because during a period of change there is an increased risk of breakdown in controls, for example, reviews and reconciliations not occurring in a timely manner or staff approving transactions outside of their delegations.</p>	<p>Our audit procedures included reviewing the updated delegations manual and review management's accounting treatment of the redundancy of employees.</p>

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 Premier and Cabinet cluster.

Section highlights

- The 2021–22 audits identified four moderate risk issues across the cluster.
- Three out of the four moderate risk issues were repeat issues.
- The repeat issues related to password and security configuration and a lack of updated procurement policies and procedures.

3.1 Findings reported to management

The number of findings reported to management has decreased, and 40% were repeat issues

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 2021–22, there were ten findings raised across the cluster (75 in 2020–21). Forty per cent of all issues were repeat issues (24% in 2020–21). The decrease in findings is largely due to the Administrative Orders, which transferred 33 agencies out of the cluster to other departments during 2021–22. Of the 75 findings in 2020–21, 59 findings related to agencies that were transferred out by the Administrative Orders.

The most common repeat issues related to weaknesses in controls over financial reporting.

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	
<div> <div>—</div> <div>Moderate: 1 repeat</div> </div> <div> <div>✓</div> <div>Low: 1 new</div> </div>	<p>The financial audits identified deficiencies in 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:</p> <ul style="list-style-type: none"> password and security configuration insufficient testing of IT disaster recovery plans.
Internal control deficiencies	
<div> <div>—</div> <div>Moderate: 1 repeat</div> </div> <div> <div>✓</div> <div>Low: 1 new</div> </div>	<p>The financial audits identified internal control deficiencies across key business processes, including:</p> <ul style="list-style-type: none"> lack of updated procurement policies and procedures key management personnel declarations.
Financial reporting	
<div> <div>—</div> <div>Moderate: 1 new, 1 repeat</div> </div> <div> <div>✓</div> <div>Low: 1 new, 1 repeat</div> </div>	<p>The financial audits identified deficiencies in financial reporting, including:</p> <ul style="list-style-type: none"> management of cash held in agencies' bank accounts obtaining formal confirmations for equity transfers.
Governance and oversight	
<div> <div>✓</div> <div>Low: 2 new</div> </div>	<p>The financial audits identified deficiencies in governance and oversight processes, including:</p> <ul style="list-style-type: none"> outdated policies and procedures in relation to the application and use of purchasing cards, backups, cost recovery, legislative compliance, code of ethics and conduct and acceptable use review of purchasing card transactions

- ✗

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

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

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

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

The number of moderate-risk findings decreased from prior year

Four moderate-risk findings were reported in 2021–22, representing a 91% decrease from 2020–21. Of these, three were repeat findings. As previously discussed, the decrease in findings is largely due to the Administrative Orders, which transferred 33 agencies out of the cluster to other departments during 2021–22.

Moderate risk findings mainly related to:

- password and security configuration
- lack of updated procurement policies and procedures
- obtaining formal confirmations for equity transfers.

Section two

Appendices

Appendix one – Early close procedures

No.	Procedure	Description
1	Proforma financial statements	Complete proforma financial statements and ensure management has reviewed the statements and the supporting working papers.
2	Fair value assessment of property, plant and equipment	Perform and document an annual assessment of the fair value of property, plant and equipment, 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 by early close.
4	Update employee annual leave provisions	Reconcile and calculate annual leave provisions. The balances calculated for the early close 31 March financial statements must be rolled forward with adjustments for monthly accruals and actual payments as part of the 30 June financial statements.
5	Inter and intra (cluster) agency transactions and balances	Agree and confirm all inter and intra (cluster) agency balances and transactions with the counterparty agency.
6	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.
7	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.
8	Reconcile March 2022 month-end Prime submission to the proforma financial statements	Reconcile the March 2022 month-end Prime submission to the proforma financial statements and provide explanations for variances above \$5 million.
9	Changes in accounting policy	Review and agree changes in accounting policy with the principal cluster agency.
10	Finalise right-of-use assets and lease liability balances	Ensure that all lease arrangements are accurate and complete.
11	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'.
12	Correction of material prior period errors	Confirm there are no changes to the 2020–21 closing balances. Proposed changes are accompanied by journals, explanations and proposed disclosures.
13	Monthly management reports	Perform variance analysis with meaningful explanations for actuals versus budget, and year-to-date actuals for the previous year.
14	Accounting treatment for restructures and discontinued/abolished agencies	Identify and document the accounting treatment for changes to agency structures resulting from legislative or other changes.
15	Delegations	Ensure all material transactions are supported by appropriate delegations.

No.	Procedure	Description
16	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).
17	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 2021–22 financial year.

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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