



FINANCIAL AUDIT

30 NOVEMBER 2022

Customer Service 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 '**Customer Service 2022**'.

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

Margaret Crawford

Auditor-General for New South Wales
30 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

Customer Service 2022

This report analyses the results of our audits of the Customer Service agencies for the year ended 30 June 2022.

1. Introduction

This report provides Parliament and other users of the Customer Service cluster'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

Customer Service

Planning, prioritising, funding and driving digital transformation and customer service across every cluster in the NSW Government.

State outcomes



Excellence in customer service

Focusing the cluster's efforts towards a customer-centred approach across the NSW Government, resulting in better customer experiences and easier transactions.



Digital leadership and innovation in government services

Investing in innovation and technology to increase and improve digital availability, reliability and security of NSW Government platforms, information and services.



Fair, secure and efficient markets

Delivering a regulatory framework that promotes safety, simplicity, efficiency and regulatory requirements that meets the evolving expectations of businesses and customers.

Key agencies

Lead agency



Other key agencies



Source: NSW Budget Papers 2022–23.

1.2 Changes to the cluster

Administrative arrangements orders resulted in transfer of agencies, business divisions and a special deposit account

In 2021–22, 'Administrative Arrangements (Second Perrottet Ministry–Transitional) Order 2021', the 'Administrative Arrangements (Second Perrottet Ministry–Allocation of Acts and Agencies) Order 2021' and the 'Administrative arrangements (Administrative Changes–Miscellaneous) Order 2022' resulted in the transfer of the following:

- agencies, business divisions and a special deposit account from the department of Customer Service (the department) to the Department of Enterprise, Investment and Trade (DEIT):
 - Independent Liquor and Gaming Authority
 - Greyhound Welfare and Integrity Commission
 - Liquor and Gaming NSW, a division of the department
 - Responsible Gambling Fund, a special deposit account
- business divisions from NSW Treasury:
 - Office of Small Business Commissioner to the department
 - NSW Business Connect to Service NSW.

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 Customer Service cluster (the cluster) for 2022.

Section highlights

- Unqualified audit opinions were issued on the financial statements of cluster agencies.
- Reported corrected misstatements decreased from 33 in 2020–21 to 30 with a gross value of \$406 million in 2021–22 (\$418.9 million in 2020–21). Reported uncorrected misstatements decreased from 13 in 2020–21 to nine with a gross value of \$31.8 million in 2021–22 (\$78 million).
- Seven of nine cluster agencies did not submit or complete certain mandatory early close procedures on time.
- Service NSW's late resolution of the accounting of \$256 million revenue from administering COVID-19 and flood grant programs resulted in misstatements and delays in financial reporting and audit.
- The Department of Customer Service corrected prior period errors retrospectively related to the valuation of a service concession asset (land titling database) which reduced the prior year comparative for service concession asset by \$33.3 million in the financial statements.

2.1 Cluster financial information 2022

Agency	Total Assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Principal department				
Department of Customer Service	1,998.1	2,923.2	2,231.3	2,022.4
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02				
Long Service Corporation	2,112.6	1,605.9	78.5	97.7
New South Wales Government Telecommunications Authority	804.7	234.7	293.7	181.3
State Insurance Regulatory Authority	486.6	292.6	624.7	551.7
Service NSW	215.2	157.1	887.7	913.6
Digital Restart Fund ***	240.7	--	655.5	624.3
Rental Bond Board	194.9	0.6	65.1	77.1

Agency	Total Assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
Independent Pricing and Regulatory Tribunal	6.0	4.7	32.3	32.0
Office of the Independent Review Officer	8.6	8.6	90.1	90.1
Information and Privacy Commission	2.1	0.9	8.2	7.2
Immaterial agencies	8.3	4.3	3.0	2.2

* Include other gains.

** Include other losses.

*** A special deposit account (SDA) that prepares a special purpose financial report on a cash basis.

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 cluster agencies' 30 June 2022 financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

An 'other matter' was included in the Rental Bond Board's audit opinion

'Other matter' paragraphs are included in an agency's independent auditor's report for matters that have not been explicitly presented or disclosed by the agency in its certified financial statements. Whilst they do not constitute a qualification, they do highlight matters that are, in our judgement, relevant to Parliament's understanding of the audit.

An 'other matter' paragraph was included in the independent auditor's reports for the Rental Bond Board because the Rental Bond Board paid \$4.6 million in operating expenses from the Rental Bond Interest Account without an authorised delegation from the Commissioner for Fair Trading. The Rental Bond Board did not comply with section 186 of the *Residential Tenancies Act 2010* and section 5.5 of the *Government Sector Finance Act 2018*.

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 46 in 2020–21 to 39 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 33 in 2020–21 to 30 with a gross value of \$406 million in 2021–22 (\$418.9 million in 2020–21). Reported uncorrected misstatements decreased from 13 in 2020–21 to nine with a gross value of \$31.8 million in 2021–22 (\$78 million in 2020–21).

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	3	1	1	5
\$50,000 to \$249,999	3	2	4	2
\$250,000 to \$999,999	5	2	8	0
\$1 million to \$4,999,999	7	2	5	2
\$5 million and greater	12	2	15	4
Total number of misstatements	30	9	33	13
Key	✓	!	✓	!
	Corrected misstatements	Uncorrected misstatements		

Agencies concluded the effect of not correcting the misstatements 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.

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

Of the 30 corrected monetary misstatements, 12 had a gross value of greater than \$5 million (individually) and related to the following:

Agency	Description of corrected misstatements > \$5 million
Department of Customer Service	<p>The 2021–22 comprehensive revaluation of service concession asset (land titling database) identified that the valuation from 2019 to 2021 were overstated due to incorrect input in the valuation model. These errors were corrected retrospectively in the financial statements by:</p> <ul style="list-style-type: none"> decreasing the prior year comparative for service concession asset by \$33.3 million decreasing the prior year comparative for accumulated funds by \$34.1 million increasing the prior year comparative for asset revaluation reserve by \$880,000 increasing the prior year comparative for other losses by \$4.8 million decreasing 1 July 2020 accumulated funds by \$29.4 million. <p>The department corrected the misstatements arising from incorrect accounting of data centre head lease modification and the impact on data centre sub-lease arrangements relating to:</p> <ul style="list-style-type: none"> understatement of right-of-use assets by \$14.4 million and lease liabilities of \$18.4 million understatement of lease-related expenses and gain from disposal of right-of-use assets by \$4 million understatement in depreciation expenses by \$5.4 million understatement in investment income and gain from disposal of leased assets of \$5.4 million.

Agency	Description of corrected misstatements > \$5 million
	<p>The department corrected the misstatements from equity transfer of certain assets and liabilities from the department to DEIT on 1 April 2022 relating to:</p> <ul style="list-style-type: none"> • overstatement of accumulated funds by \$9.9 million • understatement of payables, provisions and other liabilities by \$9.1 million • overstatement of receivables and contract assets by \$1.7 million • understatement in operating expenses by \$2 million • understatement of sales of goods and services by \$1.1 million. <p>The department adjusted the incorrect transfer of funding from the department to the Digital Restart Fund (DRF) by:</p> <ul style="list-style-type: none"> • recognising a receivable from DRF of \$5.8 million • reducing grants and subsidies expenses by \$5.8 million. <p>The department wrote-off intangible assets that were no longer in use by:</p> <ul style="list-style-type: none"> • derecognising accumulated amortisation by \$6.7 million • recognising impairment loss of \$1.8 million • derecognising intangible assets of \$6.7 million • derecognising depreciation and amortisation expense of \$1.8 million. <p>The department adjusted the incorrect classification of costs from 'consultancy expenses' to 'fees and charges' by \$5.1 million.</p>
Long Service Corporation	<p>The liability for the Building and Construction Index scheme was understated by \$11.3 million at 30 June 2022 as a result of applying incorrect demographic assumptions.</p>
New South Wales Government Telecommunications Authority (the authority)	<p>The authority corrected the classification of the unspent funding of \$6.6 million from the Critical Communications Enhancement Program from contract liabilities to other liabilities.</p> <p>The authority corrected an understatement of \$9 million revaluation increment in its interim revaluation of plants and equipment because of valuation indices movements.</p> <p>The authority adjusted an understatement of \$6.3 million make good provision due to increase in costs estimates.</p>
Service NSW	<p>Service NSW overstated its administration revenue by \$3.1 million and incorrectly accounted \$256 million grant administration revenue from administering economic stimulus and disaster recovery support programs as 'Sale of goods and services' under AASB 15 'Revenue from Contracts with Customers'. The administration revenue was reclassified to 'Grants and contributions' under AASB 1058 'Income of Not-for-Profit Entities'.</p>
Digital Restart Fund (DRF)	<p>The cash at bank balance at 30 June 2022 and total receipts during the year were reduced by \$5.8 million due to incorrect transfer of funding from the department.</p>

Of the nine uncorrected monetary misstatements, two had a gross value of greater than \$5 million (individually), which comprise the following:

Agency	Description of uncorrected misstatements > \$5 million
Department of Customer Service	The department incorrectly transferred funding to DRF, which is a special deposit account administered by the department, and posted an incorrect adjusting journal by recognising a receivable from DRF of \$5.8 million. This should be adjusted to cash at bank instead as it is an error in bank transfer.
Long Service Corporation (the corporation)	<p>The corporation reassessed when it should recognise building and construction levies as income, and when they are payable to the corporation under instalment plans. Legal advice obtained in 2021–22 supported the recognition of instalment plan levies as income entirely up front, whereas in previous years the corporation recognised the income in line with agreed instalment plans. Based on the new interpretation, the corporation's:</p> <ul style="list-style-type: none"> levy income was overstated, and opening equity understated, by \$19.9 million in 2021–22 levy income and receivables were understated by \$19.9 million in 2020–21. <p>The corporation's net assets at 30 June 2022 are not impacted by the above misstatement. As the corporation assessed the \$19.9 million to be immaterial, it was not corrected in its 2021–22 financial statements.</p> <p>Long Service Levies are payable under the <i>Building and Construction Industry Long Service Payments Act 1986</i> at the rate of 0.35% of the value of building and construction of \$25,000 or above. The levies are due and payable before work commences on the construction of the building.</p>

2.3 Timeliness of financial reporting

Early close procedures

Seven agencies did not submit or complete early close mandatory procedures on time

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 mandatory early close procedures and provide the outcomes to the audit team by 27 April 2022. The 17 mandatory procedures are listed in Appendix two.

Two of the nine agencies met the statutory deadline for submitting their 2021–22 early close financial statements and other mandatory procedures. Seven agencies either delayed their submission of certain early close mandatory procedures or did not complete certain early close mandatory procedures mainly due to significant delays in resolving accounting issues.

Agencies need to improve their completion of early close procedures

The following cluster agencies did not complete all mandatory early close procedures:

Cluster agencies	Not completed	Description of incomplete early close procedures
		
Principal department		
Department of Customer Service	3	<p>Significant management judgements and assumptions</p> <p>Management has not updated the proforma financial statements with significant judgements and assumptions applied when estimating the following transactions and account balances, except for the valuation of land and buildings. The delay was caused by the following unresolved accounting issues at the time of completing early close procedures:</p> <ul style="list-style-type: none"> Valuation of service concession asset (land titling database) which management planned to obtain at 30 June 2022. Impact assessment of the change in office accommodation lease arrangements with Property NSW (PNSW). Impact assessment of data centre lease modification on its head lease and sub-lease accounting. Documentation of key assumptions and judgements applied in the corporate costs and administrative fee allocation models. <p>Finalise right-of-use assets and lease liability balances</p> <p>Management has not performed and documented their review of the department's lease arrangements.</p> <p>This was due to delay in completing the impact assessment of:</p> <ul style="list-style-type: none"> the change in office accommodation lease arrangements with PNSW data centre (secure IT data storage) lease modifications on its head lease and sub-lease with other agencies. <p>Finalise assessment of all revenue contracts</p> <p>Management's assessment of funding arrangements and agreements of appropriations (totalling \$12.8 billion), and grants and contributions received during the period against TPP21-03 'Administered items', AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities', was incomplete. It did not include the supporting documents for the assessment and lacked analysis to justify its conclusion.</p>
Other agencies listed in Appendix A of TD19-02		
Long Service Corporation	1	<p>Significant management judgements and assumptions</p> <p>A paper was not finalised on time for early close to support management's significant judgements and assumptions used when estimating the following transactions and account balances:</p> <ul style="list-style-type: none"> accounting valuation of scheme liabilities valuation of financial assets at fair value.

Cluster agencies	Not completed	Description of incomplete early close procedures
New South Wales Government Telecommunications Authority	4	<p data-bbox="735 293 1378 322">Fair value assessment of property, plant and equipment</p> <p data-bbox="735 333 1251 362">At early close, the authority did not complete an:</p> <ul data-bbox="735 374 1426 640" style="list-style-type: none"> <li data-bbox="735 374 1426 497">• annual stocktake of assets including inspection of physical condition and functionality assessment of plant and equipment. The annual stocktake was in progress and the results were not available at early close <li data-bbox="735 508 1378 537">• annual review of assets' useful lives and residual values <li data-bbox="735 548 1426 640">• impairment assessment of plant and equipment and work in progress including impact assessment of natural disaster (for example, recent floods). <p data-bbox="735 678 1257 707">Revaluation of property, plant and equipment</p> <p data-bbox="735 719 1426 842">The authority did not apply relevant indexation to the equipment costs for certain assets as part of its interim valuation of plant and equipment to ensure net carrying amount of plant and equipment remain materially at fair value.</p> <p data-bbox="735 853 1426 945">Interim valuation could not be completed due to outstanding annual stocktake and impact assessment of natural disaster (for example, recent floods) on plant and equipment.</p> <p data-bbox="735 965 1362 994">Finalise right-of-use assets and lease liability balances</p> <p data-bbox="735 1005 1426 1128">The authority was in the process of migrating lease data from lease system 'Anaplan' to 'SAP RE' at early close and had not finalised its reconciliation between the two systems and the lease-related balances at early close.</p> <p data-bbox="735 1149 1362 1178">Significant management judgements and assumptions</p> <p data-bbox="735 1189 1426 1312">A paper was not finalised on time for early close to support management's significant judgements and assumptions used when estimating the following transactions and account balances:</p> <ul data-bbox="735 1323 1426 1525" style="list-style-type: none"> <li data-bbox="735 1323 1426 1386">• Plant and equipment – impairment, useful lives and fair value assessment. <li data-bbox="735 1397 1426 1489">• Receivables and provisions due to delays in its projects construction arising from natural disasters and insurance claims with Insurance and Care NSW (iCare). <li data-bbox="735 1500 1123 1525">• Data centre lease modifications.
State Insurance Regulatory Authority	1	<p data-bbox="735 1570 1246 1599">Finalise assessment of all revenue contracts</p> <p data-bbox="735 1610 1426 1733">Management did not complete its revenue assessment of the claw back of \$90.6 million private insurers' profit under AASB 15 'Revenue from Contracts with Customers' or AASB 1058 'Income of Not-for-Profit Entities'.</p>

Cluster agencies	Not completed	Description of incomplete early close procedures
Service NSW	3	<p data-bbox="735 297 1398 320">Inter and intra (cluster) agency transactions and balances</p> <p data-bbox="735 342 1406 432">Service NSW did not confirm the transactions and balances for amounts held on behalf of other agencies and administered items.</p> <p data-bbox="735 454 1362 477">Significant management judgements and assumptions</p> <p data-bbox="735 499 1398 555">Significant management judgements and assumptions applied for the following transactions and events were incomplete:</p> <ul data-bbox="735 566 1426 898" style="list-style-type: none"> <li data-bbox="735 566 1426 757">• Management's assessment of administered items including COVID-19 and flood grant programs against AASB 1050 'Administered Items' and TPP 21-03 'Administered Items' was incomplete. It did not include supporting documents for the assessment and lacked analysis to support its conclusion. <li data-bbox="735 768 1382 824">• No impact assessment of the recovery of fraudulent and non-compliance grants on the financial statements. <li data-bbox="735 835 1382 898">• No accounting assessment of administration revenue of \$171 million from administering stimulus grant programs. <p data-bbox="735 936 1246 958">Finalise assessment of all revenue contracts</p> <p data-bbox="735 981 1426 1104">Management has not performed and documented their review of Service NSW's revenue contracts including the administration revenue of \$171 million and \$18.5 million grants from Digital Restart Fund.</p>
Rental Bond Board	1	<p data-bbox="735 1122 1362 1178">Material transactions are not supported by appropriate delegations</p> <p data-bbox="735 1189 1398 1245">The board did not have delegations in place to expend money from its Rental Bond Interest Account.</p>
Office of the Independent Review Officer	2	<p data-bbox="735 1272 1362 1305">Finalise right-of-use assets and lease liability balances</p> <p data-bbox="735 1317 1414 1406">Management did not finalise assessment of its new office accommodation arrangement with the Department of Customer Service against AASB 16 'Leases'.</p> <p data-bbox="735 1429 1374 1485">Prior year Management Letter and Engagement Closing Report</p> <p data-bbox="735 1496 1414 1552">Management was yet to address prior year Management Letter issues related to:</p> <ul data-bbox="735 1563 1426 1724" style="list-style-type: none"> <li data-bbox="735 1563 1337 1630">• implementing a financial reporting process to record accruals and provisions <li data-bbox="735 1641 1426 1724">• recognising provision for Independent Legal Assistance and Review Service (ILARS) grants obligations that are subject to uncertainty in timing or amount.

Source: Reports 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 ensure timely completion and submission of early close procedures, particularly relating to:

- documenting significant management judgements and assumptions
- finalising the impact assessment of revenue contracts
- finalising the assessment of right-of-use assets and lease liabilities.

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.

The following agency obtained NSW Treasury's approval to extend submission of 30 June 2022 financial statements:

Cluster agencies	Revised deadline	Reason
State Insurance Regulatory Authority (SIRA)	3 August 2022	SIRA only received the actuarial valuation for its Insurer Guarantee Fund (IGF) on 1 August 2022. IGF represents a significant liability in SIRA's financial statements.

On 2 August 2022, SIRA sought an extension from NSW Treasury to submit their financial statements until 3 August 2022. NSW Treasury approved the extension to 3 August 2022 through an email on 2 August and subsequent approval letter on 16 August 2022 pursuant to TD 21-02. It was unclear from the NSW Treasury approval whether this extension applied to the submission of the financial statements to both NSW Treasury and the Auditor-General.

Financial statements were submitted on time

Cluster agencies met the reporting deadlines for submitting their 2021–22 year-end financial statements. SIRA met NSW Treasury's extension timeframe.

The *Government Sector Audit Act 1983* does not specify the statutory deadline for issuing the audit reports.

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 Customer Service	✓	2 November 2022
Long Service Corporation	✓	23 November 2022
New South Wales Government Telecommunications Authority	✓	14 October 2022
State Insurance Regulatory Authority	—	7 October 2022
Service NSW	✓	25 November 2022
Digital Restart Fund	N/A	23 November 2022
Rental Bond Board	✓	13 October 2022
Independent Pricing and Regulatory Tribunal	✓	19 October 2022
Office of the Independent Review Officer	✓	7 November 2022
Information and Privacy Commission	✓	26 September 2022
NSW Architects Registration Board	✓	27 October 2022
Board of Surveying and Spatial Information	✓	20 October 2022



Treasury's reporting deadline was met.



Treasury's approved extension timeframe was met.

N/A

Treasury's reporting deadline does not apply to Digital Restart Fund as it is a special deposit account that prepared a special purpose financial report.

Recognition of \$256 million administration revenue

Late resolution of the accounting of administration revenue resulted in misstatements and delays in financial reporting and audit

Service NSW and NSW Treasury signed project agreements for Service NSW to administer a range of economic stimulus and disaster recovery support grant programs in 2021–22.

Service NSW recognised \$256 million as fee for service revenue under AASB 15 'Revenue from Contracts with Customers' in the financial statements submitted for audit. The administration revenue is related to the recovery of grant programs administration costs.

Grant project agreements were not reviewed by Service NSW to identify whether these agreements met criteria for revenue recognition under AASB 15 'Revenue from Contracts with Customers' or AASB 1058 'Income of Not-for-Profit Entities'. Subsequent discussions with NSW Treasury resulted in Service NSW changing the basis of accounting administration revenue from AASB 15 to AASB 1058. Service NSW reclassified administration revenue from 'Sale of goods and services from contracts with customers' to 'Grants and contributions' in the financial statements.

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

Retrospective correction of prior period errors

Material prior period errors identified in the valuation of service concession asset

The department corrected a prior period error retrospectively in the financial statements. The department engaged an independent valuer to perform a comprehensive valuation of service concession asset (land titling database) at 30 June 2022.

In our review of the valuation report, we noted that one of the key valuation inputs, the staff number allocation to two of the registers in the land titling database, was incorrect in prior years which resulted in material prior period errors in the valuation of service concession asset.

The department obtained revised valuations for 2019 to 2021 from the valuer and corrected these misstatements in the financial statements in September 2022:

- Reduced the prior year comparative for service concession asset by \$33.3 million.
- Reduced the prior year comparative for accumulated funds by \$34.1 million.
- Increased the prior year comparative for asset revaluation reserve by \$880,000.
- Increased the prior year comparative for other losses by \$4.8 million.
- Decreased the 1 July 2020 accumulated funds by \$29.4 million.

Last year, we recommended in our 2021 Management Letter that the department should establish an independent process to validate various inputs and assumptions provided by the service concession private operator in the valuation model such as total staff number and their allocation to the different registers. This information involved estimations and judgements applied by the service concession private operator.

Recommendation

We recommend the department:

- **continue to enhance the data validating process of the valuation of service concession asset**
- **include the valuation of service concession asset as part of the early close procedures to reduce the risk of material misstatement in the financial statements.**

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 and Service NSW accepted the changes to their office lease arrangements with PNSW. The impact on the financial statements is included in the table below:

Cluster agency	Impact on the financial statements
Department of Customer Services	<ul style="list-style-type: none"> • Derecognition of \$324 million of right-of-use assets. • Derecognition of \$425.4 million of lease liabilities. • Recognition of \$101.4 million of other gains.
Service NSW	<ul style="list-style-type: none"> • Derecognition of \$110.6 million of right-of-use assets. • Derecognition of \$120.4 million of lease liabilities. • Recognition of \$7.9 million of other gains. • Recognition of \$1.9 million of lease incentive liability.


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.


2.4 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 Customer Service


The Department of Customer Service delivers value by making or enabling sustained improvements to services in New South Wales. It aims to deliver excellence in customer service, digital leadership and innovation in government services, and safe and secure markets.

	Key financial statement risk	Audit response
 <p>Service concession asset \$848.8 million</p>	<p>The department's service concession asset (land titling database) is managed by a private service concession operator. The department engaged an external valuer to value the land titling database.</p> <p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> • the service concession arrangement is financially significant to the department's financial position • valuation of service concession asset is complex and involves significant judgements and assumptions. Many of the valuation inputs are provided by the private service concession operator. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • evaluating and testing the design and implementation of relevant controls in the financial reporting of service concession asset • assessing the competency, capability and objectivity of management's independent valuation expert • assessing the appropriateness of the methodology, key assumptions and judgements adopted • testing the key inputs and mathematical calculation of the valuation model • assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.

	Key financial statement risk	Audit response
 <p>Administered duties and taxes revenue \$41.9 billion</p> <p>Administered taxation and fines receivables \$5.6 billion including \$351.3 million allowance for impairment for taxation and fines</p>	<p>The department's administered revenue consists of licences, taxes, levies and certain transfer payments for the Crown.</p> <p>Our audit risk rating is higher due to:</p> <ul style="list-style-type: none"> the financial significance of taxation revenue, and related receivable in the disclosure of the department's administered activities the significant impact of COVID-19 stimulus measures implemented by the NSW Government on the recognition and measurement of administered taxation revenue including deferral of lodgements in returns for self-assessed taxes significant judgements and assumptions required in the calculation of the allowance related to taxation receivable. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> evaluating the design and testing operating effectiveness of controls over key administered revenue streams, including land tax, payroll tax, duties, gaming machine taxes and mineral royalties recalculating key administered revenue streams for reasonableness against the requirements of the relevant taxation legislation testing the adjustments of administered revenue. The adjustments captured material deferrals in lodgements of returns for self-assessed taxes as part of the COVID-19 stimulus packages up until the date of signing the financial statements assessing the methodology and assumptions used to estimate the allowance for impairment related to administered taxation receivable against historical recoverability rates and write-off of debt for reasonableness recalculating the allowance for impairment recognised for mathematical accuracy assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.

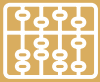
Service NSW

Service NSW makes it easier to access government services for people and businesses across NSW. Service NSW administers grants on behalf of other agencies to support individuals and businesses through bushfires, floods and the COVID-19 pandemic. These grants cannot be used for the achievement of Service NSW's own objectives, therefore transactions related to the fund are not recognised as 'revenue', 'expense', 'assets' and 'liabilities' in the financial statements.

	Key financial statement risk	Audit response
 <p>Note 24 Administered items</p> <p>Transfer payments received: \$12.3 billion</p> <p>Administered expenses: \$11.6 billion</p>	<p>Service NSW disclosed the administered expenses paid for a range of economic stimulus and disaster recovery support measures in Note 24 Administered items in the financial statements. Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> the note disclosure is financially significant to Service NSW's financial statements the TPP 21-03 'Guidance on Administered Items' released in April 2021 required management to assess the control of the underlying transactions depending on the realisation of benefits and discretion criteria by Service NSW for each program. 	<p>Our audit procedures reviewed management's assessment of administered programs. The audit tested the design and implementation of key controls, substantive testing of transactions, and assessed the adequacy of financial statement disclosures against applicable Australian Accounting Standards.</p>


Long Service Corporation

Long Service Corporation (the corporation) administers a long service payments scheme for the building and construction industry in New South Wales.

	Key financial statement risk	Audit response
 <p>The valuation of scheme liabilities of \$1.6 billion</p>	<p>The corporation's provisions include the expected benefit payments from the Building and Construction Industry Long Service Payments Scheme and the Contract Cleaning Industry Long Service Payments Scheme payable over the future working lifetime of current workers.</p> <p>Our audit risk rating is higher because:</p> <ul style="list-style-type: none"> of the financial significance of the scheme liabilities to the corporation of the amount of judgement needed to develop assumptions and the complexity of valuation models used to value the scheme liabilities the scheme liabilities may change significantly and unexpectedly with changes in assumptions. 	<p>With the assistance of an actuarial specialist, the audit evaluated the competence, capabilities and objectivity of the corporation's actuary, and performed an overall assessment of the valuation methodology, key assumptions and models used to value the corporation's scheme liabilities.</p>

New South Wales Government Telecommunications Authority

The New South Wales Government Telecommunications Authority (the authority) delivers critical radio communications to first responders and essential services to keep people and places in New South Wales safe.

	Key financial statement risk	Audit response
 <p>Property, plant, and equipment \$521.5 million</p>	<p>The authority's property plant and equipment consist of specialised plant and equipment and minor land and leasehold improvements.</p> <p>Our audit risk rating is higher due to the:</p> <ul style="list-style-type: none"> financial significance of property, plant and equipment in the Statement of Financial Position specialised nature of the telecommunication assets extent of significant management judgements underpinning key assumptions used in the valuation process. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> evaluating and testing the design and implementation of relevant controls in the financial reporting of property, plant and equipment assessing the appropriateness of the methodology, key assumptions and judgements adopted in the valuation and impairment of plant and equipment testing the key inputs and mathematical calculation of the fair value and impairment assessment of plant and equipment testing the movements in property, plant and equipment on sample basis reviewing the results of comprehensive stocktake on plant and equipment and management's action to address the results of stocktake assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.

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 Customer Service cluster.

Section highlights

- The 2021–22 audits identified five high risks (three in 2020–21) and 36 moderate risk issues (59 in 2020–21) across the cluster. Fifty-three per cent of the issues (42% in 2020–21) were repeat issues. Many repeat issues related to information technology controls around user access management.
- While improvement was noted in the number of control deficiencies in GovConnect ASAE 3402 controls assurance reports, internal control qualification and control deviation issues continued to occur in 2021–22. Ineffective controls at service providers increase the risk of fraud, error and security to data.
- Cyber security governance and management requires improvement. The department is yet to fully implement Essential 8 Mitigation Strategies and the maturity level for several Essential 8 strategies is at Level Zero in the current maturity model. The department is in the process of completing the roll out of some long outstanding system patches.
- Significant gaps were identified in Service NSW's policies, systems and processes in administering and financial reporting of grant programs.

3.1 Findings reported to management

The number of findings reported to management has decreased and 53% 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 64 findings raised across the cluster (93 in 2020–21). Fifty-three per cent of all issues were repeat issues (42% in 2020–21).

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

2021–22 audits identified five high-risk findings












High-risk findings, including repeat findings, were reported at the following cluster agencies.







Agency	Description
2021–22 findings	
Department of Customer Service Repeat finding: Qualifications and control deviations in GovConnect NSW controls assurance reports	<p>The department's Information Technology General Controls (ITGC) internal control assurance report was qualified. The Infosys ITGC report had three control deviations and Infosys payroll report had one control deviation.</p> <p>The qualification on the department's ITGC report was due to some ineffective controls to ensure all access to systems, applications and data is authorised and appropriate to the user's job responsibilities during 1 July 2021 to 30 June 2022.</p> <p>The control deficiencies in ITGC increase the risk of:</p> <ul style="list-style-type: none"> unauthorised transactions, system and configuration changes (such as workflow approvals, three-way match) and modifications to the system reports incomplete, invalid and inappropriate system access, segregation of duties and system reports for the GovConnect customers. <p>While improvement was noted in the number of control deficiencies, the qualification in the department and control deviations in Infosys were repeated. Our 2021 Management Letter and 2021 Customer Service Auditor-General's Report to Parliament recommended management to perform data analytics on GovConnect transactions. This recommendation was not implemented in 2021–22.</p> <p>This matter was assessed as high risk, because if not adequately addressed, it had the potential to result in material fraud and error in the department's financial statements and reputation damages. This issue is further discussed later in this chapter.</p>
Department of Customer Service Repeat finding: Change management significant control deficiencies	<p>Revenue NSW, a division of the department, has a key role in managing the State's finances. It administers State taxes, manages fines, recovers State debt, and administers grants and subsidies. A key control over the IT change process is restricting or limiting the access of staff with system development responsibilities to the live business systems. This ensures appropriate segregation of duties, governance and integrity of the IT system change controls process. Bamboo is a tool used by management to release IT changes to the live business systems. We identified the following access control deficiencies within the Bamboo tool:</p> <ul style="list-style-type: none"> Appropriate access controls were not in place within the Bamboo tool to restrict developers from releasing changes to the live business systems. Eight developers had access to the Bamboo tool that gives them direct access to the business application servers used for calculating and administering State taxes. <p>The audit assessed this matter as a high-risk management letter finding because it can significantly affect the integrity of tax calculation, business process approvals, invalid changes to bank accounts, unauthorised refunds and write-offs. While management have taken several steps to remediate this issue, the risk is still unresolved in the 2021–22 financial year.</p>

Agency	Description
2021–22 findings	
Service NSW New finding: Grant administration revenue recognition and cost recovery	<p>Service NSW administered a range of economic stimulus and disaster recovery support programs in 2021–22. Service NSW signed grant project agreements which had a requirement for the Secretary, NSW Treasury, to sign-off the finalised grant administration costings and funding source for the administration costs once they were determined.</p> <p>Service NSW recognised \$256 million grant administration revenue and withdrew this amount of cash from a few administered bank accounts without NSW Treasury's approval in 2021–22. The audit identified significant controls deficiencies associated with Service NSW's administration and financial reporting of these programs.</p> <p>The accounting matter discussed above, and these control deficiencies, were assessed as high risk as it could result in material misstatements in the financial statements. This issue is further discussed later in this chapter.</p>
Rental Bond Board Repeat finding: Accounting treatment of rental bonds held in trust	<p>The board held rental bonds, totalling \$1.8 billion at 30 June 2022 (\$1.7 billion at 30 June 2021), paid by tenants to landlords for residential tenancies. The board continues to hold the rental bonds off-balance sheet and disclosed the rental bonds as 'trust fund'. This treatment is based on management's judgement that the board does not have control of the bonds.</p> <p>Previously the board obtained advice from the Crown Solicitors. They stated that in their view the rental bond funds held in the rental bond account were not moneys held in trust and the <i>Residential Tenancies Act 2010</i> (the Act) should be reviewed and amended to better support its accounting treatment of rental bonds. The board has initiated the need to amend the Act, however the implementation of the legislative amendments is still pending. Our 2020 and 2021 Management Letters and Auditor-General's Reports to Parliament raised this as a high-risk issue and the matter remains unresolved.</p> <p>This matter was assessed as high risk, as if not adequately supported, it had the potential to result in material misstatements in the board's financial statements.</p>
Rental Bond Board New finding: Delegation instrument for the Rental Bond Interest Account	<p><i>The Residential Tenancies Act 2010</i> established a Rental Bond Interest Account from which the board's operating expenses are paid. There is no delegation instrument from the Commissioner for Fair Trading (the Commissioner) to government officers authorising them to approve expenditure. The Rental Bond Board paid \$4.6 million in operating expenses from the Rental Bond Interest Account without an authorised delegation from the Commissioner in 2021–22.</p> <p>This matter was assessed as high risk as this resulted in non-compliance with section 186 of the <i>Residential Tenancies Act 2010</i> and section 5.5 of the <i>Government Sector Finance Act 2018</i>. This non-compliance is reported in the 2022 Independent Auditor's Report as an 'other matter'.</p>

Source: Management Letters 2022 issued by the Audit Office of New South Wales.

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

Risk rating	Issue
Information technology	
 High: 2 repeat  Moderate: 1 new, 9 repeat  Low: 5 repeat	<p>The financial audits identified opportunities 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:</p> <ul style="list-style-type: none"> internal control exceptions in information and technology services provided by GovConnect service providers inadequate change management controls poor user access administration and no monitoring of privileged user activities insufficient cyber security controls and processes.
Internal control deficiencies or improvements	
 High: 1 new  Moderate: 6 new, 1 repeat  Low: 7 new, 2 repeat	<p>The financial audits identified internal control deficiencies across key business processes, including:</p> <ul style="list-style-type: none"> significant deficiencies in the cost allocation methodology for administering COVID-19 and flood grant programs, and approval for administration cost recovery control exceptions and misstatements identified through data analytics of payroll and accounts payable timeliness of review over monthly account balance reconciliations and clearing reconciling items.
Financial reporting	
 High: 1 repeat  Moderate: 4 new, 6 repeat  Low: 2 new, 3 repeat	<p>The financial audits identified opportunities for agencies to strengthen financial reporting, including:</p> <ul style="list-style-type: none"> uncertainties in legislation to support accounting of rental bonds as funds held in trust quality and timeliness of accounting papers for key accounting matters to support their recognition, measurement and disclosures in the financial statements improvements required in lease accounting and fixed asset management to ensure accuracy and completeness of recognition, measurement and disclosure of related transactions.
Governance and oversight	
 Moderate: 3 new  Low: 1 new, 1 repeat	<p>The financial audits identified opportunities for agencies to improve governance and oversight processes, including:</p> <ul style="list-style-type: none"> establishing a risk management plan and accounting policy for Transitional Excess Profits and Losses (TEPL) mechanism, which is applied to adjust motor accidents Compulsory Third Party (CTP) insurance fund levies to avoid or minimise transitional excess profits and transitional excess losses in private insurers renewing or finalising service arrangement agreements between agencies.

Risk rating	Issue
Non-compliance with key legislation and/or central agency policies	
 High: 1 new  Moderate: 3 new, 3 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 <i>Residential Tenancies Act 2010</i> and the <i>Government Sector Finance Act 2018</i> due to no delegation instrument to authorise expenditure • non-compliance with contract and procurement management policy • annual leave in excess of 30 days where Circular 2020-12 'Managing Accrued Recreation Leave Balances' requires agency heads to reduce employee recreation leave balances to 30 days or less.
 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.	

Source: Management Letters 2022 issued by the Audit Office of New South Wales.

Internal control qualification and deviation matters repeated in GovConnect NSW

In 2021–22, Infosys and the department were co-providers of business processes and information technology services that constitute the GovConnect environment (GovConnect NSW).

The department has several roles in GovConnect. It:

- is the contract authority for the NSW Government and leads the project management of GovConnect services
- engages an independent service auditor (service auditor) from the private sector to perform annual assurance reviews of controls at GovConnect service providers in accordance with Australian Standard on Assurance Engagements 3402 'Assurance Reports on Controls at a Service Organisation' (ASAE 3402)
- is responsible for the remediation of control deficiencies and continuous improvement in the GovConnect internal control environment
- is a service provider in GovConnect and provides information technology services to GovConnect customers.

The controls assurance service auditor issued seven reports under the ASAE 3402 'Assurance reports on controls at the service organisation' covering business processes controls and ITGC provided by Infosys and the department. The department's ITGC internal control assurance report was qualified. Infosys ITGC report had three control deviations and Infosys payroll report had one control deviation. These control deviations did not result in qualifications in Infosys ITGC and payroll reports.

The qualification on the department's ITGC report was due to some ineffective controls to ensure all access to systems, applications and data is authorised and appropriate to the user's job responsibilities during the reporting period. The qualification matters include:

- no evidence of approval over three user additions on the Windows network. These users did not have SAP accounts
- three user accounts and three generic account additions on the Windows network were not approved before access was provisioned. The user accounts had SAP accounts.

In 2020–21, the controls assurance service auditor issued eight ASAE 3402 reports and four of these reports were qualified. While improvement was noted in the number of control deficiencies in 2021–22, the qualification matter in the department and control deficiencies in Infosys were repeated.

Our 2021 Management Letter and Customer Service 2021 Auditor-General’s Report to Parliament recommended management to perform data analytics on GovConnect transactions. This recommendation was not implemented in 2021–22.

Recommendation

We recommend the department continue:

- **uplifting GovConnect internal control environment to address control deficiencies and qualification matters**
- **developing data analytics to help analyse and identify high risk patterns and anomalies in GovConnect key transaction systems, augmenting their existing monitoring and detective controls.**

Cyber security management requires improvement

Our audit assessed some aspects of cyber security governance and controls, including a subset of the Essential 8 Mitigation Strategies, as it relates to the risk assessment in financial statement audit. The NSW Cyber Security Policy (CSP) requires agencies to:

- implement these strategies
- report levels of maturity
- establish and report target levels of maturity. Maturity is measured on a four-point scale from Level Zero to Level Three.

The audit noted:

Audit Observations	Impact
The department has yet to fully implement all Essential 8 Mitigation Strategies (Essential 8)	The Essential 8 is a series of baseline mitigation strategies taken from the 'Strategies to Mitigate Cyber Security Incidents' recommended for organisations. Implementing these strategies as a minimum makes it much harder for adversaries to compromise systems.
The maturity level for several Essential 8 strategies is at Level Zero under the maturity model (revised in July 2021)	Maturity Level Zero indicates that there is a need for improved security controls to complement the existing mitigating controls.
Management has engaged an external service provider to manage long outstanding system patches and is in the process of rolling out system patches. Patch management plan is currently being established.	As patching addresses known vulnerabilities, leaving IT systems unpatched at the operating system, database or application levels increases the opportunity for attackers to exploit those known vulnerabilities. Patching is also used to provide system functionality updates and fix defects. The long outstanding system patches increase the risk of exploitation.

These issues also apply to the Customer Service cluster agencies that rely on the IT services provided by the department.

Recommendation

We recommend the department continue:

- **prioritising improvements to cyber security resilience as a matter of urgency**
- **implementing all Essential 8 Mitigation Strategies**
- **establishing a patch management plan and completing the roll out of long outstanding system patches.**

Significant gaps identified in Service NSW's administration and financial reporting of grant programs

In response to the ongoing COVID-19 pandemic, severe storms and flooding, Service NSW continues to administer a range of economic stimulus and disaster recovery support programs. It paid \$11.6 billion across 17 different programs in 2021–22, to support the people of New South Wales through these difficult times. The number and size of Service NSW's administered grant programs have increased significantly. In comparison, it paid \$263 million across five programs in 2020–21.

The Audit Office acknowledges the significance of Service NSW's work in administering these programs and the speed with which many were implemented. The table below summarises our observations in the audit of Service's NSW grant administration-related transactions and disclosures.

Key issues	Audit Observations	Impact
Accounting assessment of administered grant programs not performed promptly and with sufficient quality	<p>Late assessment of revenue resulted in misstatements</p> <p>The financial reporting implications associated with administering these programs was not assessed at early close, including whether it administered or controlled each program, and how it would account for the revenue for administering the programs. These assessments were not performed until requested by the audit.</p> <p>Grant project agreements were not reviewed by Service NSW's finance team to identify whether these agreements met criteria for revenue recognition under AASB 15 'Revenue from Contracts with Customers' or AASB 1058 'Income of Not-for-Profit Entities'. Subsequent discussions with NSW Treasury resulted in Service NSW changing the basis of recognition of administration revenue from AASB 15 to AASB 1058.</p>	<ul style="list-style-type: none">• Mandated early close procedure was not completed.• Incorrect recognition of revenue related to the grant administration.

Key issues	Audit Observations	Impact
Funds withdrawn from administered grant programs without formal authorisation	<p>Withdrawal of funds without approval from NSW Treasury</p> <p>Many of the project agreements required the Secretary, NSW Treasury, to sign-off on the finalised costings and funding source for Service NSW's administration costs. Service NSW recognised \$256 million in grant administration revenue and withdrew this amount of cash from bank accounts related to the administered grant programs without prior written sign-off from NSW Treasury.</p>	<ul style="list-style-type: none"> Administrative breach of project agreements with NSW Treasury.
Approval to recover administration costs requested post 30 June 2022	<p>Late request for approval to recover 2021–22 grant administration costs</p> <p>Service NSW did not write to the Secretary, NSW Treasury, for approval of its administration costs until late September 2022 when requested by the audit. In the letter to NSW Treasury, Service NSW requested approval to recover \$252 million administration costs from the grant appropriations given to administer grant programs.</p> <p>The Secretary, NSW Treasury, advised Service NSW that the administration costs it had incurred were reasonable and within an expected range of a program's administration expenditure on 21 November 2022.</p>	<ul style="list-style-type: none"> Significant adjusting events may occur that require changes to the financial statements. Significant delays to finalise financial reporting and audit.
Lack of a robust grant administration cost allocation methodology	<p>Unable to quantify administration costs for each grant program</p> <p>Service NSW had no documentation to support its cost allocation methodology and only prepared assessment at the request of the audit.</p> <p>The methodology to allocate administration costs to different grant programs was not robust, and Service NSW did not have the financial controls, systems and processes to enable it to accurately quantify the costs incurred in administering each program. The methodology was heavily reliant on high-level judgements and assumptions.</p>	<ul style="list-style-type: none"> Incorrect revenue amount being recognised.
Overpayments in administered grants are being reviewed and recovered	<p>System errors resulted in overpayments</p> <p>Overpayments of grants were caused by system errors where payments were incorrectly triggered more than once. Service NSW is currently reviewing these exceptions before commencing funds recovery.</p>	<ul style="list-style-type: none"> Financial loss that the NSW Government that may not be able to recover.

Recommendation

We recommend Service NSW:

- **resolve the significant matters noted above as a matter of urgency**
- **identify the root causes of control breakdowns**
- **remediate the gaps in the current policies, systems and processes in administering and financial reporting of grant programs.**

Quality and timeliness of accounting assessment for key accounting matters need improvement

NSW Treasury Policy and Guidelines TPG22-11 'Agency Direction for the 2021–22 Mandatory Early Close' requires agencies to document in accounting papers where transactions and balances involve significant management judgements and assumptions.

During the year, there were significant delays in completing the accounting papers to support its accounting treatment of significant transactions and events.

The department did not assess or complete the accounting assessment of the following transactions at early close:

- Funding received for stimulus packages and some whole-of-government initiatives and programs.
- Lease modification resulted from data centre lease contract renegotiation which was signed in September 2021. The accounting paper was provided in June 2022, some nine months since the accounting event.

Service NSW did not perform adequate accounting analysis of revenue contracts including project administration revenue and the accounting treatment of recovery of fraudulent and non-compliant grants at early close, and before submission of financial statements to audit. This has resulted in misstatements and significant audit delays. The accounting paper was provided in August 2022, a year after some of the COVID-19 programs had commenced.

In reviewing the accounting papers, the audit noted that:

- they did not contain sufficient analysis of the transactions against relevant accounting standards and NSW Treasurer's Directions
- accounting of transactions arising from the arrangement were not clearly documented and analysed including their impact on the financial statements
- supporting contracts/agreements and relevant documentation were not provided together with the accounting papers.

The late resolution of accounting issues resulted in material misstatements in the financial statements and significant delays in completing the audit.

Recommendation

We recommend the department and Service NSW:

- **implement a process in identifying significant accounting issues, and assign clear responsibilities over assessment and reporting**
- **improve the timeliness and quality of accounting papers to support accounting treatment by early close**
- **ensure all analysis is well-supported and audit trail is kept for review purpose.**

Data analytics in accounts payable and payroll identified control deficiencies

As part of our audit of the department, we integrated the use of data analytics into the audit approach. We performed data analytics over aspects of payroll, procurement and accounts payable activities. This helped us to highlight anomalies or risks in those data sets that are relevant to the audit of the department, and plan testing procedures to address those risks. Data analytics also assisted us in providing an insight into the internal control environment of the department, highlighting areas where key controls are not in place or are not operating as intended by management.

Controls over accounts payable master data require improvement

Our data analytics for the period 1 July 2021 to 30 April 2022 highlighted:

- 292 different vendors with the same Australian Business Number (ABN). Of the 292 instances, 281 had similar names and 11 were related to instances where the companies have merged or been acquired
- 1,174 vendors with blank ABNs
- 64 vendors with the same name and more than one vendor number.

Maintaining accurate and up-to-date accounts payable master data is important, as this helps to mitigate the risk of fraud and duplicate payments. Our analytics highlighted 18 instances of potential duplicate payments. Seven were confirmed by the department as duplicate payments. Management's action to recover these overpayments has commenced. These duplicate payments occurred because multiple instances of the same supplier exist within the master data. Current controls cannot confirm if the invoice had already been paid where a separate purchase order and goods receipt were raised for the duplicate invoice.

The timeliness of raising purchase orders and making payments require improvement

Our data analytics for the period 1 July 2021 to 30 April 2022 highlighted that:

- 5,247 invoices or 30.1% of invoices were not paid within 30 days from invoice date. Of these invoices, 5.2% were identified in the department's finance system as being payments to small business suppliers
- 2,832 purchase orders or 16.9% of purchase orders raised were after the invoice date
- 5,397 invoices or 31.8% of invoices were paid without a purchase order.

Purchase orders help to ensure expenditure is committed and approved by delegated officers prior to expenditure being incurred, and key purchasing terms, including price, are agreed up-front with suppliers. Using purchase orders can also speed up the payment process because pre-approval has been obtained for the purchase, and the accounts payable team can more easily identify the officer responsible for authorising receipt of the good or service. To this end, NSW Treasury Circular TC11/12 requires agencies to pay small business suppliers within 30 days for goods and services (unless an alternative time period is provided) or else automatically pay interest on the amount outstanding.

These matters have been referred to the department for further investigation.

Employees' excessive overtime hours need close monitoring

Our data analytics for the period 1 July 2021 to 30 April 2022 highlighted 135 employees with overtime hours exceeding 120 hours for the period.

Recommendation

We recommend the department:

- **address the control exceptions noted in the audit's data analytics for procurement, accounts payable and payroll**
- **implement similar data analytics on financial information to enhance detection controls and reduce the risk of material misstatements in the financial statements.**

Section two

Appendices

Appendix one – Misstatements in financial statements submitted for audit

	2021–22			2020–21		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Department of Customer Service	2	11	13	5	9	14
Long Service Corporation	1	1	2	--	1	1
New South Wales Government Telecommunications Authority	2	3	5	--	9	9
State Insurance Regulatory Authority	1	2	3	--	6	6
Service NSW	1	2	3	1	--	1
Digital Restart Fund	--	1	1	--	2	2
Rental Bond Board	--	1	1	--	1	1
Independent Pricing and Regulatory Tribunal	--	--	--	--	--	--
Office of the Independent Review Officer	1	1	2	6	2	8
Information and Privacy Commission	1	3	4	--	--	--
NSW Architects Registration Board	--	4	4	--	--	--
Board of Surveying and Spatial Information	--	1	1	--	--	--
Greyhound Welfare and Integrity Commission*	--	--	--	--	--	--
Independent Liquor and Gaming Authority*	--	--	--	1	2	3
Responsible Gambling Fund *	--	--	--	--	1	1

* Transferred to the Department of Enterprise, Investment and Trade on 1 April 2022

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 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 issue(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.

Appendix three – Timeliness of financial reporting

Cluster agencies	2021–22 Financial statements submission	Date audit report was issued
Department of Customer Service	✓	2 November 2022
Long Service Corporation	✓	23 November 2022
New South Wales Government Telecommunications Authority	✓	14 October 2022
State Insurance Regulatory Authority	—	7 October 2022
Service NSW	✓	25 November 2022
Digital Restart Fund	N/A	23 November 2022
Rental Bond Board	✓	13 October 2022
Independent Pricing and Regulatory Tribunal	✓	19 October 2022
Office of Information Review Officer	✓	7 November 2022
Information and Privacy Commission	✓	26 September 2022
NSW Architects Registration Board	✓	27 October 2022
Board of Surveying and Spatial Information	✓	20 October 2022



Treasury's reporting deadline was met.



Treasury's approved extension timeframe was met.

N/A

Treasury's reporting deadline does not apply to Digital Restart Fund as it is a special deposit account that prepared a special purpose financial report.

Appendix four – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Cluster lead entity								
Department of Customer Service	1,998.1	2,083.6^	2,923.2	3,238.4	2,231.3	1,889.3^	2,022.4	1,909.8^
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02								
Long Service Corporation	2,112.6	2,162.7	1,605.9	1,636.7	78.5	380.1	97.7	108.6
New South Wales Government Telecommunica tions Authority	804.7	603.3	234.7	159.3	293.7	249.2	181.3	123.7
State Insurance Regulatory Authority	486.6	465.2	292.6	344.3	624.7	585.8	551.7	571.6
Service NSW	215.2	305.4	157.1	221.5	887.7	624.2	913.6	682.4
Digital Restart Fund***	240.7	209.5	--	--	655.5	450.9	624.3	241.4
Rental Bond Board	194.9	206.3	0.6	0.1	65.1	215.8	77.1	69.1
Independent Pricing and Regulatory Tribunal	6.0	6.2	4.7	5.2	32.3	31.5	32.0	31.5
Office of the Independent Review Officer	8.6	6.0	8.6	6.0	90.1	36.2	90.1	36.2
Information and Privacy Commission	2.1	1.2	0.9	0.9	8.2	6.0	7.2	6.4
Independent Liquor and Gaming Authority<	--	13.8	--	12.6	--	28.6	--	28.2

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Immaterial agencies								
NSW Architects Registration Board	7.5	5.1	4.2	2.7	2.4	2.0	1.5	1.5
Board of Surveying and Spatial Information	0.8	0.9	0.0	0.1	0.6	0.7	0.6	0.6
Greyhound Welfare and Integrity Commission <	--	4.1	--	3.5	--	16.6	--	16.8
Responsible Gambling Fund (SDA)<	--	26.6	--	6.0	--	24.3	--	34.4

* Include other gains.

** Include other losses and taxes, if applicable.

*** A special deposit account that prepares a special purpose financial report on a cash basis.

^ Restated 2021 financial data following correction of a prior period error in the department's financial statements.

< Transferred to the Department of Enterprise, Investment and Trade on 1 April 2022.

Source: Agencies audited 2021–22 financial statements.

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