



FINANCIAL AUDIT

8 DECEMBER 2022

Regional NSW 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 '**Regional NSW 2022**'.

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

Margaret Crawford

Auditor-General for New South Wales
8 December 2022



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

Regional NSW 2022

This report analyses the results of our audits of the Regional NSW cluster agencies for the year ended 30 June 2022.

1. Introduction

This report provides Parliament and other users of the Regional NSW cluster 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

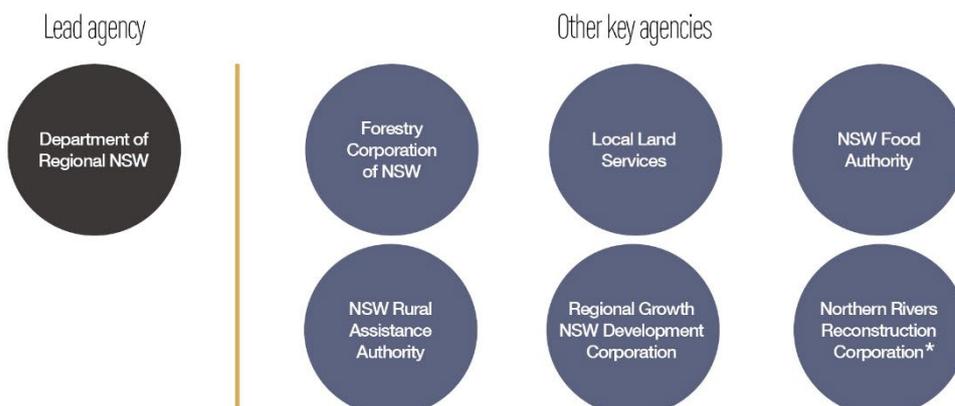
Regional NSW

Building regional economies and communities, growing primary industries, managing the sustainable use of regional land and the State's mineral and mining resources.

State outcomes

-  **Stronger and cohesive regional communities and economies**
Focusing on community wellbeing and economic growth in regional NSW.
-  **Stronger primary industries**
Focusing on primary industries' productivity, growth and ensuring the sector's sustainability for the benefit of all citizens.
-  **Mineral and petroleum industries generating prosperity, safely**
Supporting and growing responsible mining and exploration across regional NSW.
-  **Productive and sustainable land use**
Enhancing the use of the State's public and private lands, by supporting their sustainability, use and productivity.

Key agencies



* Newly created agency. See Section 1.2 for detail.

Source: NSW Budget Papers 2022–23.

1.2 Changes to the cluster

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

During 2021–22, the cluster was impacted by the following MoG changes:

- Under the 'Growth Centres (Development Corporations) Amendments (Northern Rivers Reconstruction Corporation) Order 2022', the Northern Rivers Reconstruction Corporation (NRRC) was created on 13 May 2022.
- Under the 'Administrative Arrangements (Administrative Changes – Miscellaneous) Order 2022' effective from 17 February 2022, the persons employed in the Local Land Services Staff Agency who were principally involved in the administration of the *Soil Conservation Act 1938* were transferred to the department of Regional NSW on 1 July 2022.

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 Regional NSW cluster (the cluster) for 2022.

Section highlights

- Unqualified audit opinions were issued on the financial statements of cluster agencies. Two audits are ongoing.
- Cluster agencies completed all required early close procedures.
- Changes to accommodation arrangements managed by Property NSW on behalf of the department and cluster agencies resulted in the collective derecognition of approximately \$100.6 million in right-of-use assets and corresponding lease liabilities totalling \$110.4 million from the balance sheets of these agencies.
- Cluster agencies continue to provide financial assistance to communities affected by natural disasters.

2.1 Cluster financial information 2022

Agency	Total Assets \$m	Total Liabilities \$m	Total income* \$m	Total expenses** \$m
Principal department				
Department of Regional NSW	1,144.3	559.1	1,637.0	1,617.5
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02				
Forestry Corporation of New South Wales	2,147.2	712.9	402.1	475.2
Local Land Services	1,164.2	70.8	294.7	281.7
New South Wales Rural Assistance Authority	690.2	674.4	280.1	265.2
NSW Food Authority	26.5	4.4	19.1	17.7
Regional Growth NSW Development Corporation	121.3	26.9	73.7	11.1

* Include other gains and taxation refunds.

** Include other losses.

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

Audits are ongoing for:

- Agricultural Scientific Collections Trust
- CB Alexander Foundation.

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 21 in 2020–21 to 16 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 14 in 2020–21 to 12 with a gross value of \$23 million in 2021–22. There are four reported uncorrected misstatements (seven in 2020–21) with a gross value of \$0.8 million in 2021–22.

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	2	1	7	6
\$50,000 to \$249,999	5	2	2	--
\$250,000 to \$999,999	1	1	4	--
\$1 million to \$4,999,999	2	--	--	1
\$5 million and greater	2	--	1	--
Total number of misstatements	12	4	14	7
Key		Corrected misstatements		Uncorrected misstatements

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

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

Of the 12 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 Regional NSW	There were incorrect reconciling items in the department's cash at bank reconciliations. These resulted in overstatement of \$8.1 million in other liabilities and understatement of \$8.1 million in payables accounts with nil impact on the cash balance.

Fifteen 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		
Local Land Services Staff Agency (LLSSA)	Part 3A, Division 2, Section 9F of the GSF Regulation	<p>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 reporting GSF agency.</p> <p>Staff agency satisfies this requirement and therefore is exempted from preparing financial statements in 2021–22. This exemption is standing in nature and continue from the previous year.</p>
Small agencies		
<p>Fisheries Administration Ministerial Corporation</p> <p>Local Boards:</p> <ul style="list-style-type: none"> • Central Tablelands • Central West • Greater Sydney • Hunter • Murray • North Coast • Northern Tablelands • North West • Riverina • South East • Western <p>Northern Rivers Reconstruction Corporation</p> <p>Soil Conservation Commission</p>	Part 3A, Division 2, Section 9D of the GSF Regulation	<p>GSF Regulation prescribes a GSF agency meeting all the following requirements not to be a reporting GSF agency:</p> <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. <p>Management has assessed these agencies against the criteria and concluded that they have met all requirements. Therefore they were not required to prepare financial statements in 2021–22.</p>

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 two.

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 two.

Agency	Completed 	Not completed 	Not applicable 
Principal department			
Department of Regional NSW	14	--	3
Other cluster agencies			
Agricultural Scientific Collections Trust	7	--	10
Forestry Corporations of NSW*	--	--	--
Local Land Services	15	--	2
New South Wales Rural Assistance Authority	9	--	8
NSW Food Authority	9	--	8
Regional Growth NSW Development Corporation	10	--	7

* Forestry Corporation of NSW was exempted from performing early close procedures.

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 two cluster agencies financial statements are ongoing.

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

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 premises and removes the agency's right to occupy the identified accommodation on an ongoing basis. 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 Local Land Services accepted the changes to their office accommodation arrangements with PNSW. This has resulted in:

- the derecognition of \$100.6 million of right-of-use assets (ROU assets)
- the derecognition of \$110.4 million of lease liabilities
- \$9.8 million of other gains.

Going forward, these agencies will recognise the office accommodation payments as expenses in the Statement of Comprehensive Income. Agreements between the agencies and PNSW mean agencies will continue to recognise leasehold improvement (or fit-out) assets and liabilities for the makegood of premises.

Response to natural disasters

Cluster agencies continue to response to natural disasters

In 2021–22, the NSW Government continue to assist communities in their recovery from recent weather emergencies, including significant flooding in New South Wales. There were significant financial implications in the following agencies:

- The New South Wales Rural Assistance Authority (RAA) provided financial assistance programs to communities and individuals to assist them recover from natural disaster events and other difficult financial situations. Grants and subsidies paid by RAA increased by \$112.4 million from \$126.9 million in 2020–21 to \$239.3 million in 2021–22. This year RAA paid \$208.4 million (\$118.1 million in 2020–21) in grants for flood, bushfire and drought relief. These grants were funded from the Commonwealth and NSW Governments.
- RAA also paid \$9.6 million in new loans to customers under the disaster relief program compared to \$22.6 million in 2020–21. Approved loans for bushfire programs came to an end during 2021–22.
- The department's natural disaster recovery expense decreased by \$30.3 million from \$151.8 million in 2020–21 to \$121.5 million in 2021–22. The decrease was mainly due to a \$142.8 million decrease in bushfire recovery expenditures and a \$112.5 million increase in flood waste clean-up works during the year.
- The department paid \$37.5 million in grants for the mice plague response across regional NSW and \$73.8 million in bushfire refund grants to Local governments and non-government organisations.

The Northern Rivers Reconstruction Corporation was established from 13 May 2022 to rebuild communities in the Lismore and Northern Rivers region impacted by floods. In 2021–22 Northern Rivers Reconstruction Corporation had nil expenditure and was exempted from preparing financial statements for period between 13 May 2022 and 30 June 2022.

The Audit Office's performance audit on '[Bushfire recovery grants](#)' will assess how effectively the Department of Regional NSW and Resilience NSW administered rounds one and two of the Bushfire Local Economic Recovery program.

The Audit Office's 2022–23 planned audit on '[Flood recovery](#)' will consider select aspects of the government's response to the recent flooding events in New South Wales. The exact areas considered in this audit will take into account the findings of the NSW Independent Flood Inquiry and the Parliamentary Inquiry into the Response to Major Flooding across New South Wales in 2022.

A performance audit on 'Natural disaster preparedness and response' is planned for 2023–24. This audit may consider how effectively Transport for NSW applies funding to prepare for, respond to and recover from natural disaster events.

Forestry regulation

Forestry Corporation Contingent liability

Forestry Corporation of NSW (Forestry Corporation) in 2021–22 disclosed a contingent liability for notices received from NSW Environment Protection Authority (NSW EPA) for various alleged breaches under environment regulations. Forestry Corporation has determined that it is not possible to estimate the potential effect of the notices at this stage.

The NSW EPA is responsible for regulating Forestry Corporation's compliance with Integrated Forestry Operations Approvals (IFOAs). IFOAs set out rules to protect species and ecosystems where timber harvesting is occurring and ensure forests are managed in an ecologically sustainable way.

The Audit Office's planned 2022–23 performance audit on '[Native Forestry Regulation](#)' will assess how effectively Forestry Corporation of NSW manages its public native forestry activities to ensure compliance, and how effectively EPA regulates these activities.

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 Regional NSW

The department of Regional NSW (department) is the central NSW government agency with responsibility for delivering outcome for regional economies and communities, strengthening primary industries, managing the use of New South Wales regional land, and overseeing the State's mineral and mining resources.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment - \$588.7 million</p>	<p>The department's property, plant and equipment consists of agricultural and livestock research, laboratory and general administration land, building and specialised assets such as artificial reefs and agricultural institutes infrastructure assets, which are measured at fair value based on market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the department, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>
 <p>Grants and subsidies expenditures - \$670.7 million</p>	<p>The department's grants and subsidies expenses consist of payments made to cluster agencies for their normal business operations, payments made to various state and local government agencies and regional communities under Stronger Country and regional Communities Development Programs and Natural Disaster Recovery Packages.</p> <p>Our audit risk rating for grants and subsidies expenditures is higher because these expenses represent a significant proportion of the department's total expenditure. The grant management office processed a high volume of grant applications and acquittals which incorporate judgements in reviewing and approving the grants and subsidies.</p>	<p>Our audit procedures included evaluating the design and implementation of key controls over grants and subsidies expenditure processes and systems. In addition, our procedures including testing a sample of grants and subsidies expenses to underlying supporting evidence and approval by the appropriate delegated authorities.</p>

Forestry Corporation of NSW

The Forestry Corporation of New South Wales (Forestry Corporation) is a NSW state-owned corporation responsible for managing native forests and plantations for environmental sustainability and renewable timber production. This involves replanting and regeneration operations, planning and managing harvest operations and marketing and delivering timber products.

	Key financial statement risk	Audit response
 <p>Biological assets - \$623.8 million</p>	<p>The Forestry Corporation's biological assets primarily consist of plantation timbers, which were measured at fair value less cost to sell as required by 'AASB 141 Agriculture and AASB 13 Fair Value Measurement'.</p> <p>Our audit risk rating for the biological assets is higher because these assets are financially significant to the financial statements of the Forestry Corporation, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included assessing the competence and objectivity of management's valuation experts; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>
 <p>Property, plant and equipment - \$1,322.7 million</p>	<p>The Forestry Corporation's property, plant and equipment consists of \$1,322.7 million, which are measured at fair value based on market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the Forestry Corporation, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>
 <p>Defined benefits superannuation liabilities - \$32.1 million</p>	<p>The Forestry Corporation's defined benefit net superannuation liability balance was provided to the Corporation by the Administrator of the SAS Trustee (State Super), based on an independent actuarial assessment.</p> <p>Our audit risk rating for the defined benefit superannuation liabilities is higher because these liabilities are financially significant to the financial statements of the Forestry Corporation and the underlying valuation model is complex due to the high degree of judgements and estimates when determining its fair value. The value of these liabilities is also sensitive to minor changes in the valuation inputs.</p>	<p>Our audit procedures included assessing the competence and objectivity of management's actuarial experts; assessing the completeness and accuracy of the membership data used in the model, reviewing the appropriateness of the valuation model, significant inputs and judgements applied in the valuation; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>

Local Land Services

The Local Land Services (LLS) is a regional-focused NSW government agency responsible for delivering customer service to farmers, landholders and the wider community.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment - \$1,046.6 million</p>	<p>The LLS's property plant and equipment consists of freehold land and buildings, crown land, Travelling Stock Reserve (TSR) land, stock watering place land and improvements on TSR land. These asset classes are measured at fair value based on either mass valuation technique, market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the LLS and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>

New South Wales Rural Assistance Authority

The New South Wales Rural Assistance Authority (RAA) is a statutory body and is responsible to provide financial assistance programs including loans, grants, rebates and subsidies on behalf of both the NSW and Australian Governments.

	Key financial statement risk	Audit response
 <p>Loans to customers - \$626.9 million</p>	<p>RAA's loans to customers are largely under the following programs:</p> <ul style="list-style-type: none"> • Farm Innovation Fund \$394.4 million • Drought relief \$141.9 million • Disaster relief \$57.5 million. <p>Our audit risk rating for the loans to customers is higher because these loan receivables are financially significant to RAA's statement of financial position. Significant key assumptions and judgement is involved in estimating the expected credit loss provision on the loan balances.</p>	<p>Our audit procedures included understanding and reviewing loan agreements to assess the reasonableness of the accounting treatment. In addition, our procedures included testing sample of loans to ensure the approval of the loans were in place and agreed to underlying supporting documents; and reviewing the reasonableness of the significant judgements and estimates applied on the expected credit loss provision calculation.</p>
 <p>Grants and subsidies to customers - \$239.3 million</p>	<p>RAA's significant grants and subsidies expenses mainly consisted of payments made in response to natural disasters such as bushfires, storms, floods and drought.</p> <p>Our audit risk rating for grants and subsidies expenses is higher because these expenses represent a significant proportion of the RAA's total expenditures. The RAA continued to process a high volume of grant applications which incorporate judgements in reviewing and approving the grants and subsidies payments.</p>	<p>Our audit procedures included evaluating design and implementation of controls over grant and subsidies program process. In addition, we tested a sample of grants and subsidies and agreed to underlying supporting evidence.</p>

NSW Food Authority

The NSW Food Authority (Food Authority) is a NSW government entity and is responsible for ensuring that food safety standards are implemented in an integrated and consistent way at all points in the food supply chain.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment -</p> <p>\$9 million</p>	<p>The Food Authority's property plant and equipment consists of land and an office building which are measured at fair value based on market and current replacement costs.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the Food Authority, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>

Regional Growth NSW Development Corporation

The Regional Growth NSW Development Corporation (RGDC) is a NSW government entity and is responsible to drive economic growth in regional NSW through Special Activation Precincts.

	Key financial statement risk	Audit response
 <p>Property, plant and equipment -</p> <p>\$93.2 million</p>	<p>The RGDC's property plant and equipment consists of land and assets under construction acquired to deliver Special Activation Precinct programs mainly in Parkes and Wagga Wagga precincts. Land assets are measured at fair value based on market evidence. Assets under construction are held at cost.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are financially significant to the financial statements of the RGDC, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation. RGDC continues to significantly expand its operations and large capital works create increased financial reporting risks.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p> <p>We tested a sample of assets capitalised and agreed to underlying supporting evidence.</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 Regional NSW cluster.

Section highlights

- The 2021–22 audits identified five moderate issues across the cluster. One moderate risk issue was a repeat issue related to Local Land Services' annual fair value assessment of the asset improvements on land reserves used for moving stock.
- Of the four newly identified moderate rated issues, one related to internal control deficiencies and improvements and three related to financial reporting.
- The number of findings reported to management has decreased from 36 in 2020–21 to 14 in 2021–22.

3.1 Information technology (IT) shared services

Control deficiencies were identified in the department's IT shared service provider

The department currently uses SAP MYHQ (SAP) application system which is maintained by the Department of Planning and Environment (DPE). High risk findings have been identified at DPE relating to:

- user access to HR and payroll management
- comprehensive SAP user access review
- third party service provider management process.

DPE and the department signed a service partnership agreement effective from 1 July 2021. The agreement requires DPE to provide SAP system management services which includes facilitating appropriate user access, monitoring vendors and managing incidents and service requests, to ensure the SAP system is operating as designed. The agreement also documents the department's obligations in supporting the provision of these services by DPE.

3.2 Findings reported to management

The number of findings reported to management has decreased, but 14% 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 14 findings raised across the cluster (36 in 2020–21). Fourteen per cent of all issues were repeat issues (50% in 2020–21). One repeat issue related to the Local Land Services' annual fair value assessment of the asset improvements on land reserves used for moving stock. The other repeat issue related to the lack of purchase orders raised for payments above \$5,000 at Belgenny Farm Agriculture Heritage Centre Trust.

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

Risk rating	Issue
Internal control deficiencies or improvements	
 Moderate: 1 new  Low: 2 new, 1 repeat	The financial audits identified internal control deficiencies across key business processes relevant to financial reporting. Of note were deficiencies identified in: <ul style="list-style-type: none"> the monitoring and management of banking user access non-compliance with policies and procedure in accounts payables.
Financial reporting	
 Moderate: 3 new, 1 repeat  Low: 5 new	The financial audits identified: <ul style="list-style-type: none"> the need for agency to improve assets valuation process no evidence of review of significant contracts and agreements incorrect expensing of capital costs long outstanding: <ul style="list-style-type: none"> cash reconciling items accruals and stale cheques.
Governance and oversight	
 Low: 1 new	The financial audits identified deficiencies for agencies to improve governance and oversight processes: <ul style="list-style-type: none"> develop compliance registers, including assessment on non-compliance, consequence, level of risk and action plan.
 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.

Recommendation (repeat issue)

Cluster agencies should prioritise and action recommendations to address internal control weaknesses and deficiencies.

Section two

Appendices

Appendix one – Misstatements in financial statements submitted for audit

	2021–22			2020–21		
	Uncorrected [#]	Corrected	Total	Uncorrected [#]	Corrected	Total
Department of Regional NSW	1	3	4	--	2	2
Agricultural Scientific Collections Trust	*	*	*	--	2	2
Belgenny Farm Agricultural Heritage Centre Trust	1	--	1	2	3	5
Border Fence Maintenance Board	v	v	v	1	--	1
CB Alexander Foundation	*	*	*	--	--	--
Coal Innovation NSW	--	3	3	--	1	1
Fisheries Trust Funds	1	--	1	--	2	2
Forestry Corporation of NSW	--	1	1	--	--	--
Game and Pest Management Trust Fund	--	2	2	--	--	--
Local Land Services	1	--	1	--	1	1
New South Wales Rural Assistance Authority	--	--	--	1	--	1
NSW Food Authority	--	--	--	--	--	--
Regional Growth NSW Development Corporation	--	1	1	--	--	--
Rice Marketing Board for the State of New South Wales	--	1	1	1	1	2
The Trustee for Farrer Memorial Research Scholarship Fund	v	v	v	1	2	3
Wine Grapes Marketing Board	v	v	v	1	--	1
Veterinary Practitioners Board	--	1	1	--	--	--

* Audits for these agencies are ongoing.

v These agencies prepare financial statements as at December, 2020–21 comparative information is relating to financial year ended at 31 December 2021.

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 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 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.

Appendix three – Timeliness of financial reporting

Cluster agencies	2021–22 Financial statements submission	Date audit report was issued
Department of Regional NSW	✓	20 October 2022
Agricultural Scientific Collections Trust	✓	*
Belgenny Farm Agricultural Heritage Centre Trust	✓	3 November 2022
Border Fence Maintenance Board	**	**
CB Alexander Foundation	✓	*
Coal Innovation NSW	✓	30 November 2022
Fisheries Trust Funds	✓	2 December 2022
Forestry Corporation of NSW	✓	11 October 2022
Game and Pest Management Trust Fund	✓	6 December 2022
Local Land Services	✓	26 October 2022
New South Wales Rural Assistance Authority	✓	29 September 2022
NSW Food Authority	✓	29 September 2022
Regional Growth NSW Development Corporation	✓	29 September 2022
Rice Marketing Board for the State of New South Wales	✓	21 October 2022
The Trustee for Farrer Memorial Research Scholarship Fund	**	**
Veterinary Practitioners Board	✓	25 October 2022
Wine Grapes Marketing Board	**	**

✓ Treasury's reporting deadline was met.

* Audits for these agencies are ongoing.

** Agency prepare financial statements as at 31 December.

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 Regional NSW	1,144	924	559	496	1,637	1,546	1,618	1,608
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02								
Agricultural Scientific Collections Trust	***	85	***	--	***	--	***	--
Forestry Corporation of NSW	2,147	2,084	713	732	402	413	475	449
Local Land Services	1,164	1,123	71	89	295	268	282	266
New South Wales Rural Assistance Authority	690	660	674	659	280	161	265	150
NSW Food Authority	27	25	4	4	19	20	18	17
Regional Growth NSW Development Corporation	121	53	27	23	74	32	11	4
Other cluster agencies								
Belgenny Farm Agricultural Heritage Centre Trust	1	1	1	--	--	1	1	1
Border Fence Maintenance Board	****	14	****	--	****	3	****	3
CB Alexander Foundation	***	36	***	2	***	3	***	2
Coal Innovation NSW	65	70	3	2	1	--	6	3
Fisheries Trust Funds	43	41	3	2	22	24	21	22
Games and Pest Management Trust Fund	1	1	--	--	2	2	2	2
Rice Marketing Board	2	2	--	--	1	1	1	1
The Trustee for Farrer Memorial Research Scholarship Fund	****	1	****	--	****	--	****	--
Wine Grape Marketing Board	****	3	****	--	****	1	****	1
Veterinary Practitioners Board	6	5	2	2	1	2	1	1

* Include other gains and taxation refunds.

** Include other losses and taxes, if applicable.

*** Audits for these agencies are ongoing.

**** These agencies prepare financial statements as at December, 2020–21 comparative information is shown.

Source: Agencies audited 2021–22 financial statements.

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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