Government entities, universities and councils

Act on our recommendations and seek our advice

- We work collaboratively with the entities, universities and councils we audit

- We identify opportunities to improve financial reporting and management through our financial statement audits

- Our performance audits examine entity, university and council programs critically in order to identify potential improvements

Auditee response to our work

Our audits continue to be well regarded

Overall CFO performance index for financial audits remains at 78

Overall performance index for performance audits 71, compared to 70 last year

Surveying our auditees

Each year, we measure our auditees' satisfaction with our services through a survey. The survey results and feedback provide valuable information on our performance.

We use an independent research company to conduct the survey and clients have the option of responding anonymously.

In 2016–17, for our financial audit clients, we invited 232 agency Chief Financial Officers (CFOs) and 162 Audit and Risk Committee Chairs (ARC Chairs) to participate. The response rates were similar to last year, with responses from 75 per cent of CFOs and 72 per cent of ARC Chairs.

For our performance audit auditees, we invited 31 agency contacts to respond to the survey and received a response rate of 74 per cent, again similar to last year.

Overall performance indices remain steady

The overall CFO performance index for financial audits remained the same as last year at 78. ARC Chairs' satisfaction increased slightly from 84 last year to 86. The overall performance index for performance audits was 71, compared to 70 last year.

Satisfaction with audit process

Financial audit satisfaction improves across key measures

The CFO performance index for our audit process increased slightly from 80 to 82. CFOs were particularly positive about our auditors:

- communicating effectively, up to 96 per cent from 94
- adequately understanding their organisation, up to 92 per cent from 87
- meeting agreed deadlines, up to 92 per cent from 86
- conducting themselves professionally during the audit, up to 100 per cent from 97
- using their organisation's staff members' time efficiently, up to 88 per cent from 78.

CFOs were less positive about our auditors:

- being responsive to their needs, down to 88 per cent from 92.
- being promptly informed of significant issues identified during the audit, down slightly from 92 per cent to 90.

ARC Chairs' ratings of our audit process were up from last year. Ninety-seven per cent of ARC Chairs agreed that we promptly informed them of significant issues, up from 90 last year.

The percentage of ARC Chairs who agreed our auditors met agreed deadlines increased from 94 per cent to 99.

Satisfaction with the performance audit process stable

The audit process performance index for performance audits was 72, similar to last year's 73.

Seventy-eight per cent of auditees agreed that our auditors had the professional skills and knowledge required to conduct the audit, up from 72. Auditees in agreement that our auditors met agreed deadlines increased from 79 per cent to 82.

Areas for improvement include promptly informing our auditees of significant issues as they arise during the audit, down from 79 per cent to 72, and our auditors adequately understanding their organisation, down from 55 per cent to a five-year low of 39.
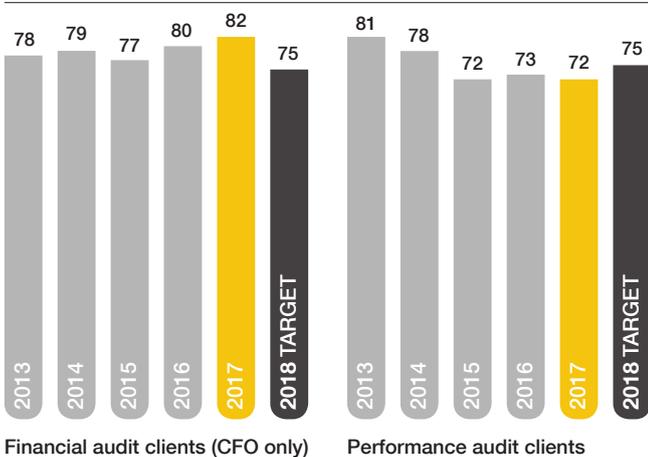
Satisfaction with audit reporting

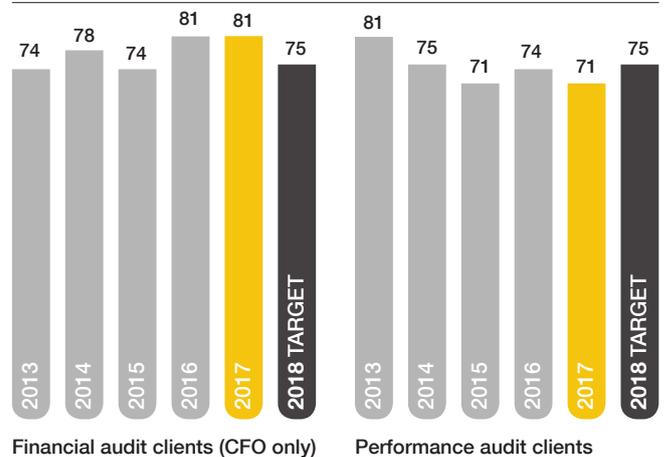**Financial audit results steady**

The CFO performance index for audit reporting remained at 81. CFOs were particularly positive about our:

- management letters communicating the audit findings clearly, improved from 94 per cent to 97
- audit opinions being issued in a timely manner, improved from 95 per cent to 98

Satisfaction with audit process %

Financial audit clients (CFO only)
2013: 78, 2014: 79, 2015: 77, 2016: 80, 2017: 82, 2018 TARGET: 75

Performance audit clients
2013: 81, 2014: 78, 2015: 72, 2016: 73, 2017: 72, 2018 TARGET: 75

Satisfaction with audit reporting %

Financial audit clients (CFO only)
2013: 74, 2014: 78, 2015: 74, 2016: 81, 2017: 81, 2018 TARGET: 75

Performance audit clients
2013: 81, 2014: 75, 2015: 71, 2016: 74, 2017: 71, 2018 TARGET: 75

- reports presenting audit findings in a balanced and fair manner, up from 84 per cent to 89
- the reports' media release being fair, up from 77 per cent to 91.

CFOs were less positive about our management letters containing 'no surprises', down from 90 per cent to 86.

ARC Chairs were positive about our management letters, with 96 per cent agreeing they were issued in a timely manner, up from 94. Ninety-nine per cent of ARC Chairs agreed that management letters communicated the audit findings and issues clearly, up slightly from last year's 97.

Performance audit reporting satisfaction down slightly

The performance index for performance audit reporting decreased from 74 in 2016 to 71.

Positively, the number of auditees who agreed the tabled audit report was factually accurate improved from 69 per cent to 74, and agreement the report was balanced and fair improved significantly from 59 per cent to 70. Ninety-one per cent of auditees agreed they were provided with adequate opportunities to comment on the audit findings and issues, in line with 93 per cent last year.

However, the percentage of auditees who felt the report contained 'no surprises', declined from 97 per cent to 87. Similarly, there was a fall in the number of auditees who agreed the reports' media release was balanced and fair, down to 57 per cent from 62.

Satisfaction with audit value

Financial audit value remains steady

Our CFO performance index for financial audit value remained steady at 73 in comparison to 74 in 2016. CFOs continue to value the assurance obtained from the audit of their statutory financial statements, increased to 98 per cent from 93. They also value our recommendations to improve financial management, which increased to 87 per cent from 84. Areas for improvement include CFOs agreeing our financial audit services provide value for money, down from 70 per cent to 64. Those who agreed our fees are reasonable relative to the scale, complexity and financial risk of their operations decreased, to 62 per cent from 68.

Our financial audit services providing value for money also decreased with ARC Chairs, with 75 per cent agreeing, down from 82 last year. However, ARC Chairs continue to value our recommendations to improve financial management, improved from 96 per cent in 2016 to 100 per cent this year.

Performance audit value improves

The audit value performance index for performance audits improved from 65 in 2016, to 69. Fifty-seven per cent of respondents agreed that the timing of the performance audit was appropriate, which is equal to the 2016 result, while 74 per cent agreed that the audit provided a balanced assessment of the management of the activity, up from 55 per cent. When it came to respondents agreeing that the audit will help improve the performance of the audited activity, there was a significant increase in the results, from 53 per cent in 2016 to 70 per cent this year.

In line with other audit offices

We have been comparing our auditee satisfaction with other Australian audit offices since 2005. In 2017, our financial and performance audit report results were benchmarked against recent results from the audit offices in Queensland, Victoria, Western Australia, South Australia and Tasmania, and the Australian National Audit Office.

Our results are in line with other audit offices for our financial audit auditees. The overall performance index for the Audit Office is 80, compared to 79 across all offices. We are also in line with the other audit offices on audit process, with the Audit Office index at 79 and the average 77, and audit value, with the Audit Office index at 81 and the average 83. The Audit Office is slightly ahead of the other audit offices when it comes to audit reporting, with our performance index at 81 compared to the average of 78. Our results are also in line with other audit offices for our performance audit auditees, with the overall performance index for Audit Office performance audits 72 compared to 73 across all offices.
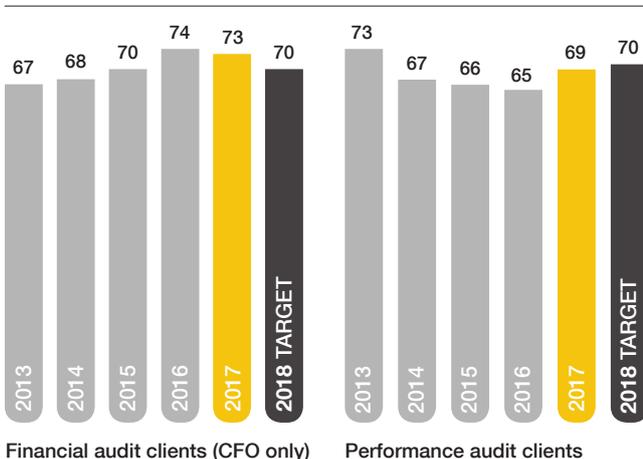
The year ahead

In 2017–18, we will:

- in our 'Influencing for Impact' strategic initiative, develop a strategy for better engaging with our external stakeholders, including our auditees. This aims to ensure we deliver audits that are of a high quality, are valued, and lead to improved public sector reporting and performance
- in our 'Reporting Process' strategic initiative, we will implement efficient tools and processes to publish high quality reports. This aims to ensure our reports clearly communicate to our auditees the issues our audits are finding, why they are important and what we are recommending.

See page 9 for further details on our strategic initiatives for 2017–18.

Satisfaction with audit value %

	67	68	70	74	73	70	73	67	66	65	69	70
	2013	2014	2015	2016	2017	2018 TARGET	2013	2014	2015	2016	2017	2018 TARGET

Financial audit clients (CFO only)   Performance audit clients

Influencing for impact

Our work is topical, relevant and has high impact

98% of our financial audit recommendations accepted

77% of our performance audit recommendations accepted

Improving public sector accountability and performance

Our audits identify opportunities for improving public sector accountability and performance. We develop recommendations in consultation with the entities we audit in response to our audit findings. Our recommendations are reported to the entities involved and, for the more significant matters, to parliament. Most entities agree with our recommendations.

Of the 427 recommendations we made to our top 50 financial audit entities in 2016–17, 418 (98 per cent) were accepted, above our target of 95 per cent.

Seventy-seven per cent of performance audit recommendations were accepted against our target of 90 per cent. Although this is an improvement on last year, we still have more to do to ensure more of our recommendations are accepted by our auditees.

In regards to the recommendations we have made previously, it is pleasing we continue to make an impact through these recommendations, as the following case studies highlight.

Case studies

Community Housing
In our performance audit on Community Housing, released in September 2015, we recommended that the Department of Family and Community Services ensure its social housing policy included performance measures for tenant outcomes. This would enable it to monitor progress against its goals and determine whether the community housing sector was delivering value for money. In January 2016, the department released the 'Future Directions for Social Housing in NSW' policy. Measurable social housing targets that align with the Premier's and State Priorities have been identified.

Red Tape Reduction
Released in August 2016, we found that NSW Government initiatives to prevent and reduce red tape were not effective. Reported red tape savings were inaccurate and the regulatory burden of legislation had increased. Red tape reduction targets resulted in some savings. However, estimates of these savings were, in some cases, based on unverified or unsubstantiated assumptions, cost-transfers, or pre-implementation projections that are yet to be achieved. Also, the targets

did not drive new reform or significant rollback of regulation.
The NSW Government established the 'Regulatory Policy Framework Review Panel' in October 2016 as part of its response to the Red Tape Reduction performance audit report.

Planning for School Infrastructure
Following the tabling of our report Planning for School Infrastructure, the government allocated an additional $4.2 billion over the next four years for school infrastructure. It also established the School Infrastructure NSW unit within the Department of Education to implement the School Assets Strategic Plan, a blueprint for the future of school infrastructure in New South Wales.

Early Childhood Education
Our May 2016 report on Early Childhood Education found enrolments in quality early childhood education programs were increasing but still below the national benchmark. To support universal access to early childhood education, the government allocated an additional $115 million in funding in 2016 and $217 million between 2017 and 2021.

Recommendations accepted %
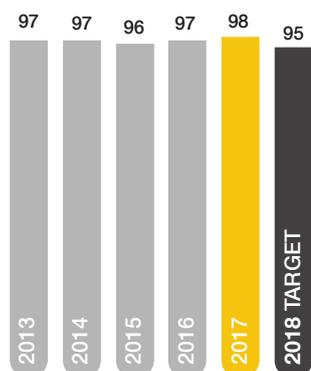
Financial audits
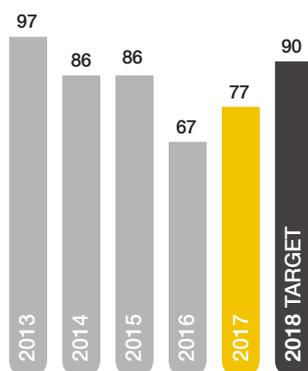
Performance audits

Timeliness

Timeframes for reporting to agencies

86% of financial audit opinions issued within ten weeks, down from 91% last year

Financial audit timeliness needs to improve

Under the *Public Finance and Audit Act 1983*, we are required to issue all financial audit opinions within ten weeks of receiving entities' financial statements. Eighty-six per cent of our opinions were issued within ten weeks in 2016–17, a decline from 91 per cent. The earlier we give entities our audit opinions and management letters, the sooner they can make a decision around our recommendations.

The proportion of total opinions issued on or before 30 September for our 30 June entities (that is, all government entities except for government universities) reduced from 69 per cent in 2015–16 to 68 per cent in 2016–17.

While we issue interim management letters throughout the audit, we aim to issue our final management letters within six weeks of issuing our respective audit opinions. In 2016–17, we achieved 67 per cent, compared to last year's 70 per cent. We continue to develop and implement strategies to improve the timeliness of our management letters.

We also continue to improve our own internal processes, as well as report our concerns about the quality and timeliness of financial reporting across the sector.

High quality and timely financial reporting is essential for the government to make informed decisions. We continued to support NSW Treasury's early close program to improve the quality and timeliness of financial reporting through our active engagement with Chief Financial Officers and Audit and Risk Committee Chairs.

Performance audit timeliness decreases

This year our average time to complete performance audits increased to nearly 11 months from ten months. Five performance audits took longer than 12 months to complete. The remaining 12 performance audits were completed on average in 9.5 months.

The completion time for audits varies depending on the scope, number of entities involved, and subject matter complexity. Extended consultation time with some entities, and performance audit resourcing changes, also impact completion times.

This year, our performance audit branch delivered more reports than previous years while experiencing considerable resourcing challenges. Nine experienced branch members left to pursue other career opportunities. Five people joined the branch to fill new positions to support our expanded mandate to audit local government. In addition, four people joined the branch to fill existing vacancies, and two people were seconded from our financial audit branch. At the end of the financial year, four positions remained vacant.

The year ahead

In 2017–18, we will focus on the timeliness of our audit output through innovation, collaboration and streamlined processes. This includes:
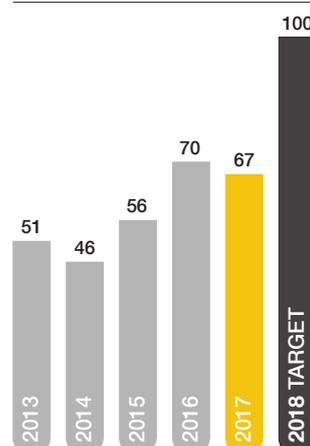
- working with NSW Government entities and central agencies to achieve improved quality and timeliness of financial and performance audit reports
- using stakeholder feedback to maintain effective relationships through our 'Influencing for Impact' strategic initiative
- improving our resource capacity by spreading the timing of audit work and partnering better with audit service providers external to the Audit Office
- our branches working together better to improve efficiency and enhance skills and knowledge transfer though our 'Working Better, Working Together' strategic initiative
- exploring opportunities to make greater use of technology to speed up and simplify reporting processes through our 'Reporting Process' strategic initiative.

(See page 9 for further details on our strategic initiatives for 2017–18.)

Audit opinions within 10 weeks %

2013	2014	2015	2016	2017	2018 TARGET
78	79	83	91	86	100
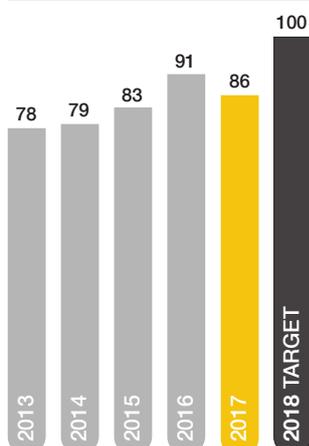
Management letters to clients within 6 weeks %

2013	2014	2015	2016	2017	2018 TARGET
51	46	56	70	67	100

Our financial audits

Providing value to the entities we audit

16 new modifications issued and 4 modifications cleared

What are financial audits?

Our financial audits provide independent opinions on the financial statements of NSW Government entities, universities and councils. Our opinions provide assurance about whether these financial statements comply with accounting standards, relevant laws, regulations and government directions. Additional financial audits are undertaken each year on the General Government and Total State Sector Accounts. Financial statement audits also highlight opportunities where entities can improve their accounting and financial systems.

Our audit base

We completed 426 financial audits of NSW Government agencies in 2016–17 (see Appendix Two for the full list of entities we audited over this period). These entities provide a diverse range of services and vary in size from large government departments, universities, State superannuation entities and utilities, to small boards and trusts. We also audited one local council in 2016–17. NSW State Government entities as a whole collected income of approximately $99 billion, spent approximately $93 billion and managed more than $456 billion in assets.

In October 2016, we were given the mandate to audit all NSW local and county councils. Each council is unique in its administration and provision of diverse services and facilities for their communities. The financial audits of these councils will be completed under our new mandate for the first time in the 2017–18 financial year. We will therefore report on these audits in next year's annual report.

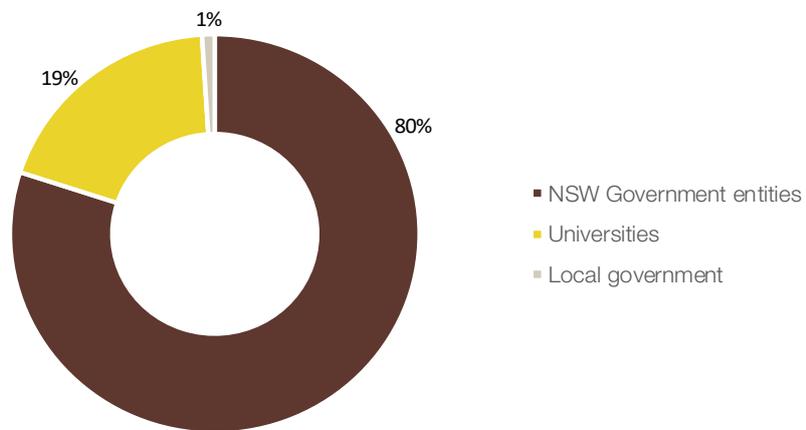### NSW General Government and Total State Sector opinion

For the fourth consecutive year, the General Government and Total State Sector Accounts received an unqualified auditor's opinion following more than a decade of qualifications. This outcome shows the government's commitment to improve the quality of financial reporting across the NSW public sector. Compared to previous years, there were fewer significant errors in entities' 2015–16 financial statements submitted for audit and used for whole-of-government financial reporting.
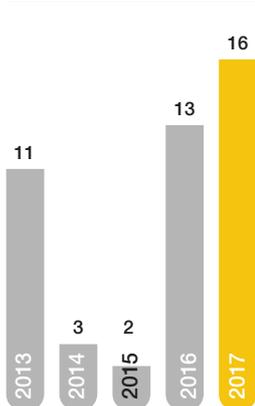
Budget review

We were first engaged to review the reasonableness of estimates and forecasts used by NSW Treasury in preparing the Budget Papers for 2013–14, and have continued to conduct this review each year up to and including the 2016–17 Budget Papers.

In 2016–17, we were not engaged to review the 2017–18 Budget. This was due to the implementation of the PRIME system in 2016–17 which is part of Treasury's broader Financial Management Transformation (FMT) (see the case study on page 53 for further details on FMT). Treasury advised our review was a major undertaking, and would be challenging when run alongside the PRIME implementation.
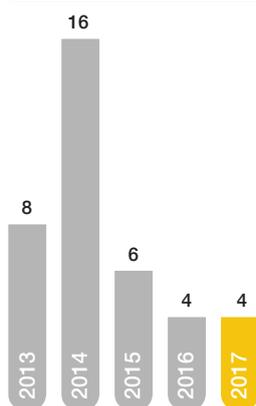
Financial audits per sector

- 80% NSW Government entities
- 19% Universities
- 1% Local government

Number of new modifications

2013	2014	2015	2016	2017
11	3	2	13	16

Number of modifications cleared

2013	2014	2015	2016	2017
8	16	6	4	4

Number of repeat modifications

2013	2014	2015	2016	2017
12	11	8	5	4
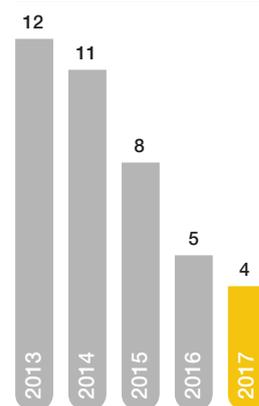
Modified auditor's opinions and conclusions

We issued 20 modified auditor's opinions and conclusions on assurance engagements in 2016–17 (18 modified audit opinions in 2015–16).

Of the 18 modifications from the previous year only four remain unresolved. Ten modifications have not been repeated as they were one-off modifications related to a compliance audit conducted in 2015–16. The Auditor-General selects a new compliance audit subject each year.

Agency	New/repeat modification	Type of modification	Reason for modification
Modified opinions on financial statements			
Former Gosford Water Supply Authority	New	Disclaimer of opinion	Control weaknesses in the finance system prevented management from attesting that all transactions had been properly recorded and reflected in the financial statements.
State Emergency Service	Repeat	Qualified opinion	We were unable to form an opinion on the completeness of received donations and fundraising revenues as the internal controls at the point of collection were not operating for the full financial year.
Modified opinions and conclusions on other assurance engagements			
The Sydney's Children's Hospital Network (Randwick and Westmead) (incorporating the Royal Alexandra Hospital for Children) Audit of the Acquittal Statements for the National Centre for Immunisation Research and Surveillance activities	New	Qualified opinion	We could not verify the unexpended funds brought forward at 1 July 2014 because the acquittal statements were not audited from the commencement of the funding agreement on 14 September 2010 until 30 June 2014.
Department of Industry, Skills and Regional Development Review of the Summary of Australian Vocational Education and Training Management Information Statistical Standard (AVETMISS) Financial Data for New South Wales	New	Qualified conclusion	Systems limitations prevented us from obtaining sufficient and appropriate evidence to support the amounts recorded for student revenue and related transactions.

Our financial audits (continued)

Providing value to the entities we audit

Modified auditor's opinions and conclusions (continued)

Agency	New/repeat modification	Type of modification	Reason for modification
Modified conclusions on compliance engagements			
Review of compliance with Part 3 Division 5 of the *Government Information (Public Access) Act 2009* (GIPA Act). Thirteen agencies were selected for this compliance review. ○ Board of Studies, Teaching and Educational Standards ○ Department of Family and Community Services ○ Department of Industry, Skills and Regional Development ○ Department of Justice ○ Department of Planning and Environment ○ Department of Premier and Cabinet ○ Hunter New England Local Health District ○ Insurance and Care New South Wales ○ Justice Health and Forensic Mental Health Network ○ Land and Property Information – Division of Department of Finance, Services and Innovation ○ NSW Trains ○ NSW Treasury ○ Sydney Water Corporation	New	Qualified conclusion	The 13 agencies materially complied with the requirements of Part 3 Division 5 of the GIPA Act. However, we identified instances of non-compliance, which resulted in a qualified review conclusion for each agency. Instances of non-compliance included the completeness, accuracy and timeliness of contract registers. For further information refer to the 2016 Special Report Agency Compliance with the GIPA Act, which contains our findings and makes several recommendations to help agencies better comply with the requirements of the GIPA Act.
The Legislature Review of compliance with the annual Determination of the Parliamentary Remuneration Tribunal Our review program is designed to cover all Members over the four-year Parliamentary term. This year's review covered a sample of 34 Members.	Repeat	Qualified conclusion	The Members reviewed complied with the requirements of the Tribunal's determination. However, we identified some instances of non-compliance including: ○ claiming an expense from the Member's Logistic Support Allocation allowance which did not aid in their Parliamentary duties ○ late submission of reconciliations and declarations to the Department of Parliamentary Services. For further information on our findings refer to the 2017 Auditor-General's Report Members' Additional Entitlements 2016.
NSW Ministry of Health Review of compliance with the prudential requirements of Division 57 of the *Aged Care Act 1997* and Division 3 of Part 4 of the User Rights Principles 1997	Repeat	Qualified conclusion	The Ministry materially complied with the requirements of the Act and the Principles. However, we identified instances of non-compliance, which resulted in a qualified review conclusion.
The Sydney Children's Hospitals Network (Randwick and Westmead) (incorporating the Royal Alexandra Hospital for Children) Review of compliance with specified requirements of the *Health Insurance Act 1973,* and the Health Insurance (Approval of Billing Agents) Guidelines (No.1) 2004	Repeat	Qualified conclusion	The Network materially complied with the requirements of the Act and Guidelines, except for prepaid trust fund monies which were not paid directly into the Network's compartmentalised bank account. This resulted in a qualified review conclusion.

Modified opinions cleared

We work closely with agencies to resolve qualification issues. This year we resolved four previous qualifications.

Agency	Type of opinion removed	Reason for modification
Financial statements		
Technical and Further Education Commission	Qualified opinion	The previous qualification arose because system limitations prevented the Commission from providing sufficient and appropriate support for the amounts recorded for student revenue and related transactions. The modification was removed because the Commission was subsequently able to support these amounts for 2014–15 and 2015–16.
Charles Sturt University Foundation Trust	Qualified opinion	The previous qualification arose because the Trust was not able to evidence an effective system of internal control over fundraising revenue and voluntary donations until their initial entry and receipt into their financial records system. The modification was removed as the control deficiency was rectified.
Other assurance engagements		
HealthShare NSW Parramatta and Newcastle Service Centres HealthShare NSW Westmead Service Centre Assurance engagement on the service organisation's description of controls, their design and operating effectiveness	Qualified opinion	These two previous qualifications arose from a control deficiency that meant the control objective 'disbursements are made to the appropriate suppliers' was not achieved during the period. The modification was removed as the control deficiency was resolved during 2014–15 and the control operated effectively for the 2015–16 year.

Our performance audits

Addressing issues of public concern

What is a performance audit?

Performance audits are in-depth assessments of whether government entities are achieving effectiveness, efficiency and economy in the programs and services they deliver.

A performance audit may cover:

- the whole of an entity's operations
- one particular entity activity
- an activity across a number of entities.

We report the results of these audits to the head of each entity, the responsible minister, the Treasurer and the NSW Parliament. We also publish our findings publicly on our website.

Choosing a topic

When selecting and scoping topics, we combine our own research with suggestions from parliamentarians, agency CEOs, councillors and members of the public. We aim to choose topics that reflect the interests of parliament in holding the government to account.

Our three-year program is published on our website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. For an overview of our three-year performance audit program, see page 37.

This year's performance audits

On the following page is a table detailing all of the performance audit reports we tabled in parliament in 2016–17. Pages 29–36 provide a summary of the content of each report, as well as a summary of the response provided by each auditee. The future performance audit program is discussed on page 37.

Entities audited	Performance audit report	Tabled in parliament
o Department of Premier and Cabinet o Department of Finance, Services and Innovation	Red Tape Reduction	25 August 2016
o Department of Industry — Lands	Sale and Lease of Crown Land	8 September 2016
o NSW Food Authority	Monitoring Food Safety Practices in Retail Food Businesses	15 September 2016
o NSW Police Force o Fire and Rescue NSW	Preventing and Managing Worker Injuries	13 October 2016
o Department of Premier and Cabinet	Government Advertising 2015—16	27 October 2016
o NSW Treasury o Department of Premier and Cabinet o Department of Industry, Skills and Regional Development o Department of Justice o Department of Planning and Environment	Implementation of the NSW Government's Program Evaluation Initiative	3 November 2016
o Transport for NSW	CBD and South East Light Rail Project	30 November 2016
o Planning Assessment Commission (Independent Planning Commission)	Assessing Major Development Applications	19 January 2017
o Department of Family and Community Services	Building the Readiness of the Non-Government Sector for the NDIS	23 February 2017
o Transport for NSW o Sydney Trains o NSW Trains	Passenger Rail Punctuality	11 April 2017
o Department of Education o Transport for NSW o Department of Industry	Contingent Workforce	27 April 2017
o Department of Justice o Corrective Services NSW	Therapeutic Programs in Prisons	3 May 2017
o Department of Education	Planning for School Infrastructure	4 May 2017
o Department of Planning and Environment	Mining Rehabilitation Security Deposits	11 May 2017
o NSW Health	Medical Equipment Management in NSW Public Hospitals	25 May 2017
o Department of Premier and Cabinet o NSW Treasury o Infrastructure NSW o Roads and Maritime Services o Transport for NSW	NorthConnex	8 June 2017
o Roads and Maritime Services	Sydney Region Road Maintenance Contracts	15 June 2017

This year's performance audits

Addressing issues of public concern

Red Tape Reduction

Red tape refers to unnecessary costs to the community, business and government resulting from poorly designed and implemented regulation. Between 2011 and 2015, the NSW Government committed to a program of red tape reductions aimed at improving business competitiveness comprising:

- a red tape savings target of $750 million by June 2015
- a 'one-on, two-off' policy – for every new legislative instrument, two had to be repealed.

This audit assessed whether:

- NSW Government initiatives and processes to prevent and reduce red tape were effective
- the red tape savings initiative and 'one-on, two-off' policy were effective in reducing red tape.

Overall, we found that NSW Government initiatives and processes to prevent and reduce red tape were not effective. Reported red tape savings were inaccurate and the regulatory burden of legislation increased. Red tape reduction targets resulted in some savings. However, estimates of these savings were, in some cases, based on unverified or unsubstantiated assumptions, cost-transfers, or pre-implementation projections that are yet to be achieved. The targets also did not drive new reform or significant rollback of regulation.

Despite the NSW Government meeting the numerical target for reducing the number of legislative instruments, legislative complexity and regulatory burden increased during implementation of the 'one-on, two-off' regulation reduction initiative.

Response

The Department of Premier and Cabinet and the Department of Finance, Services and Innovation supported the recommendations in the report. The NSW Government established an independent inquiry into the NSW Regulatory Policy Framework in response to the report.

Report release date:
25 August 2016

Sale and Lease of Crown Land

The audit assessed whether the Department of Industry managed the sale and lease of Crown land effectively. In making this assessment, we looked at the department's strategy for the use of Crown land, compliance with legislation and policies, systems for ensuring quality and transparency in decision-making, and engagement with stakeholders.

We found that the department was not managing the sale and lease of Crown land effectively, although there had been some improvement. Policy and guidance for staff needed to improve – there were more than 1,300 pages of policies and guidance, and many had not been updated in the last decade.

Decisions about Crown land did not always comply with policies on rent rebates, rent determinations, debt management, and direct negotiation.

There was limited oversight of sale and lease decisions, and tenant compliance. The department only reviewed many leases when they were due for renewal, and there was no systematic checking of compliance with lease conditions during the term of a lease.

The department complied with statutory requirements to notify the public about its decisions, but did not provide consistent opportunities for people to understand or have a say in decisions about the sale and lease of Crown land. Decision-making about Crown land was not transparent and direct negotiations were common with 97 per cent of leases and 50 per cent of sales directly negotiated over the past four years.

Response

The Department of Industry accepted the recommendations in the report.

Report release date:
8 September 2016

Monitoring Food Safety Practices in Retail Food Businesses

Under the *Food Act 2003*, the NSW Food Authority (the Authority) is responsible for ensuring that food sold in New South Wales is safe and fit for human consumption. Its responsibilities cover all sectors of the food industry, including primary production, manufacturing, transport and retail food businesses, such as restaurants, cafes, bakeries and takeaways.

This audit focused on the Authority's responsibility to ensure that retail food businesses complied with national food safety standards. To meet this responsibility, the Authority appoints enforcement agencies, which are primarily local councils, to inspect and monitor around 40,000 retail food businesses across the State. Councils assess whether retail food businesses in their area comply with food safety standards.

At the time of our report, New South Wales had a lower rate of foodborne illness than the national average. This reflected some good practices in the Authority's risk-based approach and councils' long-standing commitment to ensuring food safety standards are met. We found that the Authority provided guidance and training to councils and retail food businesses to improve their knowledge and compliance with food safety standards.

However, the Authority had not implemented sufficient controls to monitor the consistency and quality of regulatory activities conducted by councils. Consequently, the Authority could not provide assurance that councils applied food safety inspection and enforcement activities in accordance with its requirements consistently across the State.

Response

The NSW Food Authority accepted the recommendations in the report.

🗁 Report release date:
   15 September 2016

Preventing and Managing Worker Injuries

This audit assessed how well the NSW Police Force and Fire & Rescue NSW prevented worker injuries and managed the return to work of injured workers.

We found that the NSW Police Force had introduced a number of health promotion and injury prevention programs, some on a trial basis. These were promising examples of a shift towards a more proactive approach to injury prevention, and initial feedback on the programs from police officers was positive. The NSW Police Force should use evaluations of these programs to determine whether initiatives should be rolled out more broadly. We also found that the NSW Police Force could improve access to return to work options for injured officers.

Fire & Rescue NSW promoted health, fitness and wellbeing through a range of programs. However, many of these programs were voluntary and did not adequately ensure all firefighters remained fit for duty. We recommended that Fire & Rescue NSW introduce ongoing periodic assessments of firefighter health and fitness to reduce risks of injury.

Response

The NSW Police Force and Fire & Rescue NSW broadly supported the recommendations in the report.

🗁 Report release date:
   13 October 2016

Addressing issues of public concern

Government Advertising 2015–16

In New South Wales, the *Government Advertising Act 2011* requires government advertising campaigns with a likely expenditure over $50,000 to be independently peer reviewed before commencement. This audit assessed whether peer review was effective in providing assurance that government advertising was needed and cost-effective.

We found that, overall, the peer review process was effective in providing assurance that government advertising was needed and cost-effective. The majority of feedback we received about the process was positive.

Noting that the process was generally effective, the audit report focussed on areas where we identified room for improvement. These included recommending changes to the process of allocating reviewers to campaigns and providing regular feedback to peer reviewers to support improvement in the quality of peer reviews.

Response

The Department of Premier and Cabinet supported the recommendations in the report.

🗁 Report release date:
  27 October 2016

Implementation of the NSW Government's Program Evaluation Initiative

The NSW Government introduced program evaluation in 2013. This requires agencies to periodically assess whether service delivery programs are achieving expected outcomes and value for money. Departments each year prioritise and prepare a list of programs for evaluation in their cluster in the upcoming financial year. NSW Treasury then consolidates these lists into an annual report to the Expenditure Review Committee of Cabinet (ERC).

This audit assessed whether the program evaluation initiative was implemented in a way that informed the NSW Government's decisions on what programs to support and fund. We reviewed NSW Treasury, the Department of Premier and Cabinet, the Department of Justice, the Department of Planning and Environment, and the Department of Industry, Skills and Regional Development.

We found that the program evaluation initiative was largely ineffective, as it was not providing sufficient information to government decision makers on the performance of programs.

Only one agency – the Department of Industry, Skills and Regional Development – had processes which gave assurance that the right programs were being listed in their annual report to the ERC.

We also found that NSW Treasury and the Department of Premier and Cabinet did not use evaluation outcomes in their advisory role to the NSW Government on funding and prioritisation of programs.

Response

All the departments we reviewed supported the recommendations in the report.

🗁 Report release date:
  3 November 2016

CBD and South East Light Rail Project

The Central Business District and South East Light Rail (CSELR) project is a large public transport infrastructure project. At the time of the audit, the estimated capital cost was $2.1 billion in 2014 dollars, excluding finance, operation and maintenance costs.

This audit assessed how well Transport for NSW (TfNSW) ensured planning and procurement for the CSELR project achieved value for money within the parameters set by the NSW Government.

We found the established assurance framework provided that TfNSW undertake the assurance reviews of the CSELR project. However, this approach did not provide the independent assurance required for such a major infrastructure project. In addition, the planning and governance arrangements, while approved by the NSW Government,

skipped important assurance steps. Tight timeframes meant planning was inadequate and normal governance systems were not initially in place. This contributed to underestimating costs and overestimating benefits. As a result, between 2011 and 2014, TfNSW did not effectively plan and procure the CSELR project to ensure it maximised value for money for New South Wales.

TfNSW continues to manage problems created because of these shortcomings. Above all, it did not finalise key third-party agreements that affected the design and scope of works before issuing tenders and signing the major public private partnership (PPP) contract. This increased the project's complexity and risks, and reduced value for money.

Response

Transport for NSW accepted the recommendations in the report.

🗁 Report release date:
    30 November 2016

Assessing Major Development Applications

The audit assessed whether the Planning Assessment Commission made decisions in a consistent and transparent manner. We looked at whether the Commission:

- o had sound processes to help it make decisions on development applications
- o ensured its decisions were free from bias and transparent to stakeholders and the public.

We found that while the Commission had improved its decision-making process, there was more it could do to ensure its decisions were consistent and transparent. Improvements made by the Commission included standard documentation and processes for public meetings, a range of probity policies and procedures, and publication of its decisions, fact sheets for 'high profile' decisions, and records of meetings with applicants/stakeholders.

The Commission was not able to show in every decision we reviewed how it met its statutory obligation to consider the matters in Section 79C of the *Environmental Planning and Assessment Act 1979,* and its reports did not clearly address these matters.

The Commission only notifies the community of public meetings via its website and newspaper advertisements. Also, it imposes an inflexible five-minute time limit for individual speakers. There was a perception among some stakeholders that the Commission was not independent of the Department of Planning and Environment. For example, the Commission becomes involved late in the process, after the department prepares an assessment recommending whether a development should proceed.

Response

The Planning Assessment Commission accepted the recommendations in the report.

🗁 Report release date:
    19 January 2017

Addressing issues of public concern

Building the Readiness of the Non-Government Sector for the NDIS

This audit assessed the effectiveness of the NSW Department of Family and Community Services' management of the risks of the National Disability Insurance Scheme (NDIS) transition in New South Wales. It focused on the department's work to build the readiness of the non-government sector for the NDIS.

We found the department managed the risks of the transition effectively by increasing the overall capacity of the sector and investing in provider capability building initiatives. The department supported significant growth in the non-government sector in the years leading up to the NDIS. More targeted work will

be needed to build the sector's capacity to provide services to people with the most complex support and access needs. The department evaluated the larger provider capability building programs and these received positive feedback from providers. However, the overall impact of the department's investment on providers is not clear because of limitations in the department's monitoring of changes in provider capability.

Response

The Department of Family and Community Services supported the recommendations in the report.

☐ Report release date:
23 February 2017

Passenger Rail Punctuality

This audit assessed whether rail agencies had plans and strategies to maintain or improve performance in getting the growing number of rail passengers to their destinations on time.

We found rail agencies were well placed to manage the forecast increase in passengers up to 2019. Based on forecast patronage increases, the rail agencies will find it hard to maintain punctuality after 2019 unless the capacity of the network to carry trains and people is increased significantly. Punctuality could be at risk sooner if recent patronage growth continues.

In addition to investment in new metro networks, sustained and substantial investment needs to be made into the existing heavy rail network to meet demand and ensure its ongoing reliability.

Transport for NSW had undertaken work on strategies to increase capacity and maintain punctuality after 2019, but remained some months away from putting a costed plan to government.

Passenger rail punctuality indicators adopted in New South Wales are good practice, and measurement of punctuality is reasonably precise. Train punctuality is reported publicly, but there is limited public reporting of customer delay. System-wide train punctuality has usually exceeded target since 2005, but some services suffer from poor punctuality compared to the rest of the network.

Response

The rail agencies asked us to reconsider our conclusions citing various projects and initiatives to meet demand. We commented in the report that we had considered these in reaching our conclusions.

☐ Report release date:
11 April 2017

Contingent Workforce: Procurement and Management

Contingent labour are people employed by a recruitment agency and hired by agencies to provide labour or services on a short-term basis. Between 2011–12 and 2015–16, spending on contingent labour had increased from $503 million to $1.1 billion.

The audit assessed whether the approach of three agencies' to purchasing and managing their contingent workforce met business needs and delivered value for money.

We found that none of the three agencies we reviewed could demonstrate that contingent labour was the best resourcing strategy to meet their agencies' business needs or delivered value for money.

Two of the three agencies had limited oversight of their contingent workforce. None of the agencies routinely monitored and centrally documented the performance of contingent workers. These factors made it difficult for agencies to ensure contingent labour was engaged only when needed, at reasonable rates, and delivered quality services.

Despite the Public Service Commission's recommended maximum tenure of six months for contingent labour, we found that the maximum tenure of contingent labour varied across agencies from nine years to more than 20 years.

Response

The Department of Education and the Department of Industry supported the recommendations in the report. Transport for NSW did not commit to accepting the recommendations, stating: '*We again ask that you take these matters into account as we do not consider the conclusions reached accord with the level of delivery that is underway in the Transport cluster using an appropriate mix of skills, capabilities and resources.*'

🗁 Report release date:
   27 April 2017

Therapeutic Programs in Prisons

This audit assessed whether prison programs aimed at reducing reoffending were available, accessible and effective. The audit focused on a selection of programs that targeted prisoners who made up more than half the prison population.

The Department of Justice had increased the roll out of moderate intensity prison programs which reached greater numbers of prisoners. However, over the same period, the number of higher intensity prison programs that addressed the therapeutic needs of sex offenders, and serious and violent offenders, had decreased or remained the same. In 2015–16, 75 per cent of prisoners who needed programs reached their earliest release date without receiving one. These prisoners were often released with incomplete or no intervention, or

were refused parole and held in custody longer than their minimum term. The department had worked in partnership to independently evaluate some programs, however these had largely been inconclusive. In August 2016, the department received an additional $237 million to reduce reoffending and proposed to focus its efforts on evaluating the effectiveness of its programs by engaging external experts and increasing resourcing in its own evaluation unit, as well as increasing the number of higher intensity prison programs.

Response

The Department of Justice broadly supported the recommendations in the report but had concerns on the interpretation and reporting of certain data.

🗁 Report release date:
   3 May 2017

Addressing issues of public concern

Planning for School Infrastructure

This audit assessed whether the Department of Education had a strategy and implementation model to ensure it has sufficient fit-for-purpose student learning spaces when and where needed.

Over the next 15 years, the student population in New South Wales is projected to grow by 21 per cent to nearly 1.5 million. Over 80 per cent of this growth is expected to be in the Sydney metropolitan area. Many more classrooms will be needed, with many others requiring renovation.

The department had developed its first School Asset Strategic Plan to deliver sufficient fit-for-purpose student learning spaces when and where needed up to 2031. The plan proposes several changes to the way schools are planned, designed, built, managed and funded. It also proposes a significant change in the way decisions on infrastructure are made at the local level. Cluster planning will look at groups of schools that are close to each other to better distribute student numbers and improve infrastructure investments. Up until now, decisions had been made on a school-by-school basis.

Even with these significant reforms, the estimated cost of the infrastructure needed up to 2031 is significantly more than the department had been receiving. The department was yet to secure the funding required to meet the expected need.

Response

The Department of Education accepted the recommendations in the report and advised that work is underway to address them.

📁 Report release date:
4 May 2017

Mining Rehabilitation Security Deposits

This audit assessed whether the Department of Planning and Environment maintains adequate security deposits to cover the liabilities associated with mine closures if mining companies default on their rehabilitation obligations.

The total value of security deposits held had increased from $500 million in 2005 to around $2.2 billion in 2016. While a substantial increase, mine rehabilitation security deposits are still not likely to be sufficient to cover the full costs of each mine's rehabilitation in the event of a default. This is largely because:

○ rates and allowances used to calculate deposits had not changed since 2013

○ deposit calculations did not cover, or cover adequately, some activities required for effective rehabilitation

○ the department also did not seek sufficient contingency from mining companies to cover uncertainties associated with unplanned closure.

Further, there is no financial assurance to cover unexpected environmental degradation in the long-term after a mine is deemed to be rehabilitated and the security deposit is returned. We recommended that the department investigates ways to address this risk.

This audit was undertaken almost entirely when the Department of Industry, Skills and Regional Development was responsible for administering security deposits. This responsibility was transferred to the Department of Planning and Environment on 1 April 2017.

Response

The Department of Planning and Environment supported the recommendations in the report.

📁 Report release date:
11 May 2017

Medical Equipment Management in NSW Public Hospitals

Medical equipment needs to be properly managed over its lifecycle, from planning to acquisition, operation and disposal, to ensure patient safety and quality of care. This audit assessed how well NSW hospitals managed medical equipment to meet the needs of patients. We examined the management of:

- Positron Emission Tomography and Computed Tomography (PET-CT) scanners, a high-value piece of equipment commonly used for diagnosing cancer

- a small sample of lower value but critical medical equipment known as biomedical equipment.

We found that while PET-CT scanners were well managed, management could be enhanced by better performance reporting and replacement planning. Separately, we found improvement was needed in the timeliness of testing and maintenance for biomedical equipment. Outdated and inefficient information systems used for day-to-day management of biomedical equipment also needed to be improved or replaced.

Response

NSW Health supported the recommendations in the report.

Report release date:
25 May 2017

NorthConnex

NorthConnex is a nine-kilometre tolled motorway tunnel between the M1 Pacific motorway at Wahroonga and the M2 Hills motorway at West Pennant Hills. Major construction work commenced in February 2015 and the tunnel is expected to open to traffic in late 2019. This audit assessed whether the process used to determine the NorthConnex funding model adequately considered value for money for taxpayers and road users.

We found that the processes used to assess NorthConnex adequately considered value for money for taxpayers and road users within the NSW Government's stated policy objectives. These processes included assessing the proposal against the costs and benefits

of the NSW Government fully funding the project, adding a competitive tender process for the design and construction components, and using independent cost estimation and traffic modelling. The NorthConnex proposal met a need identified by the NSW Government. By these measures, the NorthConnex agreement represented value for money for the NSW Government.

We identified two areas where there were deficiencies. The Unsolicited Proposals Guide was not clear on the timing of key assurance stages. Additionally, record keeping for this project did not meet the standards for government record keeping.

Response

The Department of Premier and Cabinet and NSW Treasury supported the recommendations in the report.

Report release date:
8 June 2017

Sydney Region Road Maintenance Contracts

In November 2013, Roads and Maritime Services (RMS) outsourced the maintenance of State roads in the Sydney region west and south zones using a new contract model called the Stewardship Maintenance Contract (SMC). This audit assessed whether RMS had effectively managed this outsourcing.

We found the SMC was an innovative approach which met RMS' requirements for:

- flexibility in pricing mechanisms as contractors become familiar with the road assets

- the need for collaboration in asset maintenance planning

- promoting innovation

- effective performance management.

RMS established a framework to manage SMCs which included most elements of good practice. However, RMS' management had key elements missing which reduced its effectiveness. RMS did not have procedures and authorities to guide its contract managers in exercising specific provisions of the SMC. Consequently, RMS failed to exercise several significant SMC requirements.

RMS achieved around 80 per cent of expected cost savings in 2014–15. However, it has not tracked benefits achieved since then.

Response

Roads and Maritime Services broadly supported the recommendations in the report.

Report release date:
15 June 2017

The year ahead for performance audit

Continuing with our three-year program

We consider broad themes in government administration and reform

Section 38B of the *Public Finance and Audit Act 1983* gives the Auditor-General of New South Wales the mandate to undertake performance audits in NSW Government.

In developing the proposed performance audit program, we directly consulted a range of stakeholders, including NSW Parliament's Public Accounts Committee, cluster department secretaries, and the integrity agencies. We also receive suggestions from members of parliament, and from the community.

Our program considers broad themes that are relevant to today's government administration and reform, including:

- ensuring services meet citizen needs
- leveraging digital opportunities
- having good checks and balances
- getting value from commissioning
- breaking down silos
- looking after future generations and the vulnerable
- a capable and diverse public sector
- investing in infrastructure to meet the needs of a growing population
- working together with local government.

Our proposed performance audit program for 2017–18 to 2019–20, is available on our website. It is a rolling three-year program and the Auditor-General may prioritise other topics that come to our attention for performance audits, or may remove topics that are no longer deemed relevant.

In 2017–18, we will table our first local government performance audits, resulting from the NSW Government's 2016 decision to expand our mandate (see page 53 for more details on our expanded mandate).

Consistent with broader trends in government, we will continue to work with entities in a collaborative and cooperative way, whilst ensuring we retain our independence and objectivity.

We will also continue our efforts to strengthen our topic selection processes and better communicate this to key stakeholders.

To support contemporary approaches to performance auditing, we will host the IMPACT Conference in 2018. This conference brings together key thought leaders in, and relevant to, performance auditing. The focus of the conference will be on the future of performance auditing and how we can address key emerging challenges for the profession and our audit clients.

We will also build on our efforts to develop more integrated approaches to our performance audits by leveraging knowledge, skills and capabilities from across the organisation. This will ensure a greater diversity of thinking on our audits and hence greater audit insights.