



LEGISLATIVE ASSEMBLY OF NEW SOUTH WALES

PUBLIC ACCOUNTS COMMITTEE

REPORT 18/55 – NOVEMBER 2014

FOLLOW UP OF REPEAT RECOMMENDATIONS FROM THE AUDITOR-GENERAL'S 2013 FINANCIAL AUDIT REPORTS





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The motto of the coat of arms for the state of New South Wales is "Orta recens quam pura nites". It is written in Latin and means "newly risen, how brightly you shine".

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Membership

CHAIR	Jonathan O’Dea MP, Member for Davidson
DEPUTY CHAIR	Dr Geoff Lee MP, Member for Parramatta
MEMBERS	Mr Bart Bassett MP, Member for Londonderry (until 17 September 2014) Mr Michael Daley MP, Member for Maroubra Mr Greg Piper MP, Member for Lake Macquarie Mrs Roza Sage MP, Member for Blue Mountains (from 17 September 2014) Mr John Williams MP, Member for Murray-Darling
CONTACT DETAILS	Public Accounts Committee Parliament of New South Wales Macquarie Street Sydney NSW 2000
TELEPHONE	(02) 9230 2226
FACSIMILE	(02) 9230 3309
E-MAIL	pac@parliament.nsw.gov.au
URL	www.parliament.nsw.gov.au/publicaccounts

Terms of Reference

Under section 57 of the Public Finance and Audit Act 1983, the functions of the Committee include the examination of any report of the Auditor-General laid before the Legislative Assembly and any circumstances connected with those reports.

On 15 May 2014, the Committee resolved the following terms of reference for the inquiry:

That the Committee conduct an inquiry to follow up repeat recommendations of the Auditor-General's 2013 financial audit reports; and that the Chair write to relevant agencies seeking submissions detailing action taken to address the Auditor-General's repeat recommendations.

Chair's Foreword

It is my pleasure to present this report on the follow-up of repeat recommendations from the Auditor-General's 2013 financial audit reports. This is the eighteenth report of the Public Accounts Committee in this fifty-fifth Parliament, and the third that systematically examines high priority repeat recommendations from the financial audit reports tabled by the New South Wales Auditor-General.

The purpose of the Committee's financial audit reviews is to follow-up on action taken by agencies in response to repeat recommendations made by the Auditor-General. As part of the follow-up, the Committee questions agencies about their response to the recommendations. The Auditor-General also provides comments on submissions made by agencies.

The Committee only follows up in the areas where recommendations have been made at least once previously and are deemed to be significant, either by the Committee or by the Auditor-General. This process ensures that ongoing issues are addressed by relevant agencies and leads to concrete outcomes. The reduction in the number of substantial recommendations pursued in this report, compared to the previous two similar reports, reflects the success of the process over recent years.

This report examined recommendations directed to the State Records Authority; the Department of Justice; Transport for NSW; the Department of Planning and Environment; and the Office of Environment and Heritage. On the whole, it is pleasing to see that the relevant agencies have taken the recommendations of the Auditor-General seriously, and have worked towards their implementation. Several of the responses received outlined the significant savings made due to the implementation of these recommendations, highlighting their importance.

Given this Committee's special, previously demonstrated, interest in the future of infrastructure in NSW, it was particularly satisfying to find that the Department of Planning and Environment has improved its accounting methods to provide a more accurate indication of the requirements of infrastructure projects. Further transparency will encourage additional stakeholders to invest in this crucial area.

However, this report has identified five areas where further work or clarification is required to ensure that the full benefit of the Auditor-General's recommendations are realised. These recommendations aim to ensure that agencies continue to work to address issues and that resulting outcomes are meaningful. This will help ensure that the agencies achieve the savings and efficiencies highlighted by the Auditor-General and avoid the need for him to make similar recommendations in the future.

Finally, I record my appreciation for the assistance provided by the Auditor-General and the Audit Office staff. I also thank all my Committee members and the secretariat staff, particularly Leon Last, for their assistance in the inquiry process and the preparation of this report.

Jonathan O'Dea MP
Chair

List of Findings and Recommendations

RECOMMENDATION 1 _____ **4**

The Committee recommends that the State Records Authority of New South Wales develop a detailed plan with relevant timeframes to clear the current backlog of digital archives over the next four years, to coincide with the funding allocated.

RECOMMENDATION 2 _____ **9**

The Committee recommends that the Department of Justice conduct a cost-benefit analysis of the integration of policies, operations and systems between its divisions by October 2015.

RECOMMENDATION 3 _____ **13**

The Committee recommends that Transport for NSW gather information on the most effective strategies for reducing excess leave balances and ensure that all transport entities properly implement these methods.

RECOMMENDATION 4 _____ **28**

The Committee recommends that NSW Health conduct a review of 'asset useful lives' across the sector and publicly report on the findings by 28 February 2015.

RECOMMENDATION 5 _____ **29**

The Committee recommends that NSW Health review strategies used to reduce the number of employees with excessive overtime and document best practice procedures for use across the Ministry.

Chapter One – Introduction

- 1.1 This is the Public Accounts Committee's third report of its systematic examination of the Auditor-General's financial audit reports.
- 1.2 On 15 April 2014, the Auditor-General, Mr Grant Hehir, wrote to the Committee detailing important repeat recommendations which had been made in his financial audit reports. Mr Hehir identified nine recommendations as being significant. The Committee also identified an additional two recommendations which it intended to investigate further.
- 1.3 At its meeting on 15 May 2014, the Committee resolved to follow up the repeat recommendations contained in the Auditor-General's 2013 financial audit reports. The Committee further resolved to write to the relevant agencies seeking a submission outlining their response to the Auditor-General's repeat recommendations identified in his letter of 15 April 2014.
- 1.4 On 22 May 2014, the Committee wrote to the following agencies to request a submission:
- NSW Treasury;
 - NSW Health;
 - The Department of Police and Justice;
 - The Department of Planning and Environment;
 - Transport for NSW; and
 - The Office of Environment and Heritage.
- 1.5 The Committee received submissions from all of the relevant agencies and published them on its website.
- 1.6 Once received, the submissions were forwarded to the Auditor-General for his consideration and comment. The Auditor-General wrote to the Committee on 1 August 2014, providing comments on the submissions from agencies. This reply was also published on the Committee's website.
- 1.7 The Committee also sent questions on notice to NSW Health to request further information. The answers to these questions on notice were published on the Committee's website.

Chapter Two – State Records Authority

Introduction

- 2.1 The State Records Authority of New South Wales (State Records) is a statutory body established by the *State Records Act 1998*. It is the NSW Government's archives and records management authority. It manages the NSW State archives collection and provides guidance on the management of official records. State Records stores 491 linear kilometres of documents.
- 2.2 State Records is part of the Office of Finance and Services, and part of the Treasury and Finance Cluster.

The financial audit

- 2.3 As part of his regular financial audit program, the Auditor-General was unable to obtain all the necessary information to form an opinion on the value of records held by State Records.¹ As such, he qualified his audit opinion on the 30 June 2012 financial statements. The Auditor-General's report, 'Financial Audits Volume Two Focusing on Universities' was published in May 2013, which also included his comments on the State Records Authority of New South Wales.

Auditor-General's recommendation

- 2.4 The Auditor-General made the following recommendation relating to State Records and its digital archiving:
- The Authority should establish a government digital archiving system that enables it to comply with its enabling legislation.²

Background to the Auditor-General's recommendation

- 2.5 In May 2009, the Ministerial Memorandum: 'NSW Standard on Digital Recordkeeping' acknowledged the increasing reliance upon digital records in NSW public sector organisations. As part of his financial audit reports in 2010, the Auditor-General found that State Records was implementing a digital archiving facility to help government agencies manage digital records.³
- 2.6 However, State Records held some digital records that it was not able to access, as it did not have the correct information technology. Advice from the Crown Solicitors stated that if State Records holds public records that are not accessible it is in breach of its enabling legislation. As such, the Auditor-General recommended that State Records establish a digital archiving solution to address this breach.

¹ New South Wales Auditor-General's Report, *Financial Audits Volume 2 Focusing on Universities*, May 2013, p186.

² New South Wales Auditor-General's Report, *Financial Audits Volume 2 Focusing on Universities*, May 2013, p186.

³ New South Wales Auditor-General's Report, *Financial Audits Volume 6 Focusing on Human Services and Technology*, November 2010, p45.

- 2.7 In his examination of 2013, the Auditor-General found that State Records still did not have the necessary equipment or information technology to access some of the digital records it holds. It is, therefore, in breach of the *State Records Act 1998*.⁴
- 2.8 According to the Auditor-General, State Records was in the process of developing its digital archive and was in discussions with the Department of Finance and Services to ensure ongoing funding at the time of his report.

The Committee's examination

- 2.9 As part of its follow up of the Auditor-General's 2013 Financial Audits, the Committee wrote to NSW Treasury, requesting a submission outlining its response to the Auditor-General's recommendation.
- 2.10 Mr Philip Gaetjens, Secretary, NSW Treasury, wrote to the Committee on 17 July 2014 outlining NSW Treasury's response to the Auditor-General's recommendation. This submission was forwarded to the Audit Office of NSW and the Acting Auditor-General provided comments on 11 August 2014.
- 2.11 Treasury informed the Committee that State Records has been developing a digital archiving solution since 2011 and that the project is now ready to move from the development phase to live operations.⁵
- 2.12 Further information received by the Committee in September 2014 indicated that the Digital State Archives project had been completed, which had improved access to digital records.⁶
- 2.13 There are also provisions in the 2014/2015 State budget for State Records to receive ongoing funding of \$3.5 million over four years, commencing 1 July 2014, to continue work on the digital archives. Treasury explained that these funds would deal with the backlog of records but that 'it may take some time until all records are accessible'.⁷

Committee comment

- 2.14 The Committee notes the continuing importance of digital records in a modern public sector. It is crucial that these digital records are accessible, for transparency, efficiency and to comply with relevant legislation. Therefore the Committee is pleased to see that the digital archiving solution project is finally going live.
- 2.15 The Committee is pleased to see that resources have been allocated to State Records to complete this work. However, the Committee notes with concern the lack of detail in the response from NSW Treasury and the vague indication of the amount of time the project would take to complete. Considering the significant

⁴ New South Wales Auditor-General's Report, *Financial Audits Volume 2 Focusing on Universities*, May 2013, p186.

⁵ Submission 6, *NSW Treasury*, p2.

⁶ Correspondence received by the Committee from Geoff Hinchcliffe, Director, State Records Authority of New South Wales, 30 September 2014.

⁷ Submission 6, *NSW Treasury*, p1.

funding which is being made available for this project, the Committee considers that a detailed plan should be put in place for this project.

RECOMMENDATION 1

The Committee recommends that the State Records Authority of New South Wales develop a detailed plan with relevant timeframes that will enable it to clear the backlog of digital archives within the current four year funding period.

Chapter Three – Department of Justice

Introduction

- 3.1 The Department of Justice (the Department) is the principal department for the justice cluster. It is made up of 12 agencies who work collaboratively to deliver investigative and policing, adjudication and court, and correctional services to the people of New South Wales. The Department also offers advice on law reform and legal matters to protect people's rights and community standards.
- 3.2 The Department of Justice also administers the Victims Support Scheme. The Victims Support Scheme (VSS) offers support and assistance to victims of violent crime in NSW. It offers information, counselling, and compensation payments.

The financial audit

- 3.3 As part of his regular financial audit program, the Auditor-General audited the then Department of Attorney-General and Justice in 2013. This resulted in an unqualified Independent Auditor's Report. The Auditor-General's report, 'Financial Audits Volume Six Focusing on Law, Order and Emergency Services' was published in November 2013.

Auditor-General's recommendations

- 3.4 The Auditor-General made the following recommendations relating to the Department of Attorney-General and Justice's integration across divisions and the monitoring of the success of the Victims Support Scheme.
- As previously recommended, the Department of Attorney General and Justice should continue integrating policies, operations and systems between its divisions and, once complete, analyse the costs and benefits.⁸
 - The Department of Attorney-General and Justice should ensure it has the necessary processes in place to enable it to regularly monitor and measure the performance and success of the Victims Support Scheme in providing a more accessible, streamlined and targeted service to victims of violent crime in New South Wales.⁹

Background to the Auditor-General's recommendations

Integration between divisions

- 3.5 The Department of Attorney General and Justice was created in July 2009, and functions of other agencies such as Juvenile Justice were transferred to it in 2011.
- 3.6 In his report of 2010, the Auditor-General found that there had been limited progress on the integration of policies, operations and systems following the

⁸ New South Wales Auditor-General's Report, *Financial Audits Volume 6 Focusing on Law, Order and Emergency Services*, November 2013, p10.

⁹ New South Wales Auditor-General's Report, *Financial Audits Volume 6 Focusing on Law, Order and Emergency Services*, November 2013, p11.

creation of the Department. He recommended that the Department complete the integration of these policies, operations and systems between its divisions.¹⁰

- 3.7 In 2011, the Auditor-General found that the issue had been compounded by the transfer in of the new divisions and repeated the recommendation.¹¹
- 3.8 The matter was still outstanding in 2012, and the Auditor-General further recommended that on completion of the matter, an analysis of the costs and benefits of the integration should be undertaken. However, the Auditor-General did report that a Chief Financial Officer had been appointed who had implemented a number of systems to bring consistency to the financial reporting process.¹²
- 3.9 In 2013, the Auditor-General found that there had been some progress made. Although each division's finance functions are still managed on separate systems, reporting of financial information to Treasury is now done at the Department level.¹³
- 3.10 The Department is also working to consolidate internal audit and risk management functions. While this is a work in progress, the current system functions reasonably well. The Auditor-General recognised that, 'in the interim, ... existing governance structures broadly achieve the requirements of TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector''.¹⁴
- 3.11 The Department has received funding for its shared corporate services reforms. These reforms will lead to the implementation of a consolidated finance and human resource management solution in the Department.
- 3.12 In addition, the Department explained that the integration of corporate systems, and movement towards best practice, will be further addressed through the Justice Shared Corporate Services Reforms Program.
- 3.13 This program will cost \$148 million and run over five years to 2018. It intends to facilitate a Cluster-wide review of corporate services process standards, including finance.¹⁵
- 3.14 The Department also advised that it will establish a review of the benefits, efficiencies and savings that will be achieved through this process as well as the methods to deliver those benefits.

¹⁰ New South Wales Auditor-General's Report, *Financial Audits Volume 8 Focusing on Law and Order and Emergency Services*, December 2010, p23.

¹¹ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2011, p26.

¹² New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2012, p13.

¹³ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2013, p10.

¹⁴ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2013, p10.

¹⁵ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2013, p10.

- 3.15 However, the Auditor-General highlighted that at the time of his report, the Department could not provide information on additional costs associated with the integration of its divisions, or the expected savings.¹⁶

Victims Support Scheme

- 3.16 The current backlog of victims' compensation claims represents almost five years of claims. For the past four years, the Auditor-General has recommended that the Department work to ensure that this backlog is processed in a reasonable timeframe.
- 3.17 An independent review of the Victims Compensation Scheme was undertaken in 2012. This review recommended that the existing scheme be closed and replaced with a proposed scheme called the Victims Support Scheme. The old scheme was closed on 7 May 2013, and replaced with the current scheme on 3 June 2013 on commencement of the *Victims Rights and Support Act 2013*.¹⁷
- 3.18 Rather than focusing solely on a lump sum compensation payment, the new scheme offers practical and financial support when victims need it, while still providing a lump sum in recognition of the suffering of victims of crime.
- 3.19 The Department engaged an actuary to perform liability assessments for the last three financial years. The actuary found that the liability provision at 30 June 2011 was \$316 million, which rose to \$367 million at 30 June 2012. However, with the introduction of the new scheme the provision was \$150 million at 30 June 2013.¹⁸
- 3.20 There is still a significant backlog of claims to be processed. At 30 June 2013, there were 23,470 pending claims which the Department estimates will result in payments of \$150 million. Treasury has agreed to provide additional funding over the next two financial years to ensure all pending claims are finalised by 30 June 2015.¹⁹
- 3.21 All claims that were lodged under the old scheme and were pending when the new scheme commenced will be determined under the provisions of the new scheme.
- 3.22 The legislation provides for a statutory review to determine whether the policy objectives remain valid and the terms of the Act remain appropriate for securing those objectives. This review is to take place three years after the commencement of the VSS. The Department also advised the Auditor-General that it will conduct an annual review. This should enable the Department to monitor the scheme's operations and allow it to act on any emerging, potentially

¹⁶ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2013, p11.

¹⁷ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2013, p11.

¹⁸ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2013, p12.

¹⁹ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Law, Order and Emergency Services*, November 2013, p13.

adverse trends that are not within the regulatory powers of the scheme's administrators.

The Committee's examination

- 3.23 As part of its follow up of the Auditor-General's 2013 Financial Audits, the Committee wrote to the then Department of Police and Justice, requesting a submission outlining the Department's response to the Auditor-General's recommendations.
- 3.24 Mr Andrew Cappie-Wood, Secretary, Department of Police and Justice, wrote to the Committee on 27 June 2014 outlining the Department's response to the Auditor-General's recommendation. This submission was forwarded to the Audit Office of NSW and the Acting Auditor-General provided comments on 11 August 2014.

Integration between divisions

- 3.25 The Department told the Committee that it is undertaking a number of internal reviews to examine processes and policies to continue implementing the Auditor-General's recommendation and develop a streamlined approach across the Department.
- 3.26 The Department is currently focusing on the corporate services area. With the view of providing a single platform for corporate service delivery, it has consolidated all relevant processes, policies and procedures.²⁰
- 3.27 The Auditor-General noted this work and that the Department had been progressively actioning the recommendation since it was initially made in 2010. He stressed that the Department should continue its efforts to implement the recommendation where appropriate.²¹

Victims Support Scheme

- 3.28 In order to measure and monitor the management of the Victims Support Scheme, Victims Services has developed a Reporting and Quality Assurance Framework. The Department explained that this Framework, 'involves understanding the current state, reviewing all service standards, developing appropriate KPIs, setting standards for operational processes and considering the changes required in the business to embed the framework'. Victims Services will also collect feedback from clients and data about each claim.²²
- 3.29 The Department told the Committee that this Framework was under development but according to the Audit Office, it has now been implemented. The Auditor-General will report further in his report to Parliament in November 2014.²³

²⁰ Submission 3, *Department of Police and Justice*, p2.

²¹ Submission 7, *Audit Office of NSW*, p7.

²² Submission 3, *Department of Police and Justice*, p2.

²³ Submission 7, *Audit Office of NSW*, p8.

Committee comment

- 3.30 The Committee commends the ongoing work by the Department to fully integrate policies, operations and systems between its divisions. The Committee recognises the size of this task and the scale of the project to be undertaken. However, the Committee notes with concern the length of time the work has been ongoing and notes that the Auditor-General will continue to make recommendations in this area until it is complete.
- 3.31 The Committee also notes with concern, that the Department made no reference to the costs and benefits referred to by the Auditor-General in its submission to the Committee. It is important to analyse the costs and benefits of such a large undertaking. This will improve transparency and ensure that any learnings from this amalgamation are available to inform future decisions.

RECOMMENDATION 2

The Committee recommends that the Department of Justice conduct a cost-benefit analysis of the integration of policies, operations and systems between its divisions by October 2015.

- 3.32 The Committee welcomes the introduction of the new Victims Support Scheme and the significant savings involved while still offering substantial support to the victims of crime. The Committee hopes to see a reduction in the backlog of claims in coming years.
- 3.33 The Committee is very pleased to see that the Department has implemented a Reporting and Quality Assurance Framework to monitor and measure the effectiveness of the Victims Support Scheme. The Framework has developed appropriate standards and KPIs which should assist the Department in avoiding future backlogs. By collecting feedback from clients, the Department will also have the opportunity to further fine tune the Scheme ahead of statutory reviews.

Chapter Four – Transport for NSW

Introduction

4.1 Transport for NSW is the lead agency involved in delivering transport services in NSW. Agencies within Transport for NSW, which provide transport services across NSW include:

- Sydney Trains;
- NSW Trains;
- Roads and Maritime Services (RMS);
- Sydney Ferries; and
- State Transit Authority.

4.2 There were 553.9 million passenger journeys made by buses, trains and ferries in 2013. There are also 6 million registered vehicles on the roads of NSW. Employee-related expenses for the Department of Transport were \$2,741 million.²⁴

The financial audit

4.3 As part of his regular financial audit program, the Auditor-General audited all transport agencies, including the Department of Transport and Transport for NSW in 2013. This resulted in an unqualified Independent Auditor's Report. The Auditor-General's report, 'Financial Audits Volume Eight Focusing on Transport and Ports' was published in December 2013.

Auditor-General's recommendation

4.4 The Auditor-General made the following recommendation relating to staff leave balances.

- All transport entities should do more to reduce excessive annual leave balances to ensure they will comply with new targets set by the Premier.²⁵

Background to the Auditor-General's recommendation

4.5 Taking regular annual leave helps employees to maintain their health and has a positive impact on wellbeing. Large leave balances also increase the financial liability of agencies. It is also important for employees performing key control functions to be rotated regularly to guard against fraud.

²⁴ New South Wales Auditor-General's Report, *Financial Audits Volume 8 Focusing on Transport and Ports*, December 2013, p18.

²⁵ New South Wales Auditor-General's Report, *Financial Audits Volume 8 Focusing on Transport and Ports*, December 2013, p49.

- 4.6 In 2012, the Premier requested that all agencies reduce excessive leave balances. The targets for the maximum accrued annual leave balance were 40 days by 30 June 2013, 35 days by 30 June 2014 and 30 days by 30 June 2015.²⁶
- 4.7 At 30 June 2013, 2,204 transport staff, which accounts for 7.4 per cent of the workforce, had excessive annual leave balances. There were also five employees across Transport for NSW who had annual leave balances in excess of 100 days.²⁷
- 4.8 By comparison, the number of staff with excess leave balances at 30 June 2012 was 2,509 or 8.3 per cent of the workforce.²⁸
- 4.9 The Auditor-General noted this reduction but stated that agencies will continue to face 'bigger challenges' as the maximum allowable balance decreases.²⁹
- 4.10 Some agencies had seen a larger reduction than others. For example, Roads and Maritime Services reduced the proportion of staff with excess leave from 8.1 per cent in 2011-12 to 6.9 per cent in 2012-13. On the other hand, the proportion of staff at RailCorp has only decreased from 8.5 per cent in 2011-12 to 8.1 per cent in 2012-13.³⁰
- 4.11 The Auditor-General found that all agencies have put policies in place to reduce these excess leave balances but noted that not all of these policies have been as effective as required.

The Committee's examination

- 4.12 As part of its follow up of the Auditor-General's 2013 Financial Audits, the Committee wrote to Transport for NSW, requesting a submission outlining the Department's response to the Auditor-General's recommendations.
- 4.13 Mr Dave Stewart, Secretary, Transport for NSW, wrote to the Committee on 18 June 2014 outlining Transport for NSW's response to the Auditor-General's recommendation. This submission was forwarded to the Audit Office of NSW and the Acting Auditor-General provided comments on 11 August 2014.
- 4.14 The submission states that policies to reduce excess leave balance had been put in place across the transport entities. This included allowing staff to have some of their leave balances paid out, and implementing Christmas and Easter 'closedowns' to give staff an opportunity to take leave. There are also

²⁶ Department of Premier and Cabinet, *Memoranda M2012-07 Reduction of accrued recreation leave balances*, 29 June 2012.

²⁷ New South Wales Auditor-General's Report, *Financial Audits Volume 8 Focusing on Transport and Ports*, December 2013, p50.

²⁸ New South Wales Auditor-General's Report, *Financial Audits Volume 8 Focusing on Transport and Ports*, December 2013, p50.

²⁹ New South Wales Auditor-General's Report, *Financial Audits Volume 8 Focusing on Transport and Ports*, December 2013, p50.

³⁰ New South Wales Auditor-General's Report, *Financial Audits Volume 8 Focusing on Transport and Ports*, December 2013, p51.

requirements for monthly and quarterly reviews by managers to monitor staff and ensure they take leave if they accrue excess.³¹

- 4.15 Transport for NSW reports that there has been a further decrease in staff with excess leave balances in the period from 1 July 2013 to 30 April 2014. The number of staff with excess balances is now 1,755 as opposed to the 2,204 at 30 June 2013. This has reduced the total value of excess annual leave balances from \$8.76 million at 30 June 2013 to \$6.57 million at 30 April 2014.³² Transport for NSW highlighted that this represents a 20.4 per cent reduction in the number of staff with excess leave balances and an associated 25 per cent reduction in the value of those leave balances.³³
- 4.16 The Audit Office noted this reduction but had concerns about the remaining \$6.57 million in excess leave liabilities which still remained at 30 April 2014. They advised that they would review the situation at 30 June 2014 and report to Parliament as part of their 2014 financial audits.³⁴

Committee comment

- 4.17 The Committee commends Transport for NSW and the transport entities for the work that they have continued to do to reduce excess leave balances. The Committee fully supports encouraging staff to take leave for their own wellbeing and also to reduce the financial liabilities of the various agencies.
- 4.18 Nevertheless, it appears that a significant number of staff remain who have excessive leave balances. As highlighted by the Auditor-General, the restrictions on leave balances will be firmer next year so work will have to continue in order to bring these numbers down further. The importance of this matter is shown by the fact that current liabilities stand at \$6.57 million.
- 4.19 The Committee notes that certain agencies have had greater success at reducing excess leave balances than others. The Committee was pleased to see Transport for NSW use monthly and quarterly reviews for staff leave, as this was highlighted by the Auditor-General as an effective method to monitor leave balances.
- 4.20 The Committee notes that the Auditor-General intends to continue to monitor this area and encourages Transport for NSW to work with the process to improve the situation.
- 4.21 It may be beneficial for agencies to review their policies and also discuss which strategies have been the most successful. Where applicable, these methods can then be implemented across all agencies.

³¹ Submission 1, *Transport for NSW*, p3.

³² Submission 1, *Transport for NSW*, p3.

³³ Submission 1, *Transport for NSW*, p1.

³⁴ Submission 7, *Audit Office of NSW*, p2.

RECOMMENDATION 3

The Committee recommends that Transport for NSW gather information on the most effective strategies for reducing excess leave balances and ensure that all transport entities properly implement these methods.

Chapter Five – Department of Planning and Environment

Introduction

- 5.1 The Department of Planning and Environment (the Department) is responsible for delivering planning and environmental strategies that facilitate sustainable growth and employment in NSW.
- 5.2 There are a number of agencies within the portfolio including:
- Central Coast Regional Development Corporation;
 - Hunter Development Corporation;
 - Sydney Harbour Foreshore Authority;
 - Office of Local Government; and
 - UrbanGrowth NSW.
- 5.3 As part of its work, the Department can sometimes collect Special Infrastructure Contributions (SIC). A SIC is a payment made by a developer during a land development process to fund regional infrastructure. They allow for services that are an essential part of development such as roads, bus depots, open space and land required for social services. SICs can be received by the Department as works-in-kind.

The financial audit

- 5.4 As part of his regular financial audit program, the Auditor-General audited the then Department of Planning and Infrastructure in 2013. This resulted in an unqualified Independent Auditor's Report. The Auditor-General's report, 'Financial Audits Volume Nine Focusing on Environment, Water and Infrastructure' was published in December 2013.

Auditor-General's recommendation

- 5.5 The Auditor-General made the following recommendation relating to the Department of Planning and Infrastructure's treatment of Special Infrastructure Contributions.
- The Department of Planning and Infrastructure should finalise development of accounting policies and controls for Special Infrastructure Contributions.³⁵

³⁵ New South Wales Auditor-General's Report, *Financial Audits Volume 9 Focusing on Environment, Water and Infrastructure*, December 2013, p95.

Background to the Auditor-General's recommendation

- 5.6 In 2011, the Auditor-General reported that contributions and infrastructure provided by way of in-kind arrangements, collected by the Department on behalf of the Crown Entity, were not being recognised in financial statements. He stated that recognition of SICs and related infrastructure would provide more transparency over contributions received by the Government. This would also allow stakeholders to better assess the cost of infrastructure provided.³⁶
- 5.7 The Auditor-General recommended that the Department develop accounting policies to record SICs and related expenditure on infrastructure.
- 5.8 In 2012, the Audit Office reported that 'significant progress was made during 2011-12 and these contributions and related expenditure are now being recorded in the financial statements'.³⁷ However, more work was required and the recommendation concerning SIC accounting policies was repeated.
- 5.9 In 2013, the Auditor-General recognised the work being done in this area by the Department but highlighted that 'further improvements are required in relation to the recording and accounting for SIC works-in-kind'.³⁸

The Committee's examination

- 5.10 As part of its follow up of the Auditor-General's 2013 Financial Audits, the Committee wrote to the Department of Planning and Environment, requesting a submission outlining the Department's response to the Auditor-General's recommendation.
- 5.11 Ms Carolyn McNally, Acting Secretary, Department of Planning and Environment, wrote to the Committee on 9 July 2014 outlining the Department's response to the Auditor-General's recommendation. This submission was forwarded to the Audit Office of NSW and the Acting Auditor-General provided comments on 11 August 2014.
- 5.12 The submission from the Department explained that work had been done towards implementing the recommendation. Specifically, a new policy had been developed. According to Ms McNally:
- ... the departmental Finance team has developed an accounting policy in respect of these amounts and performs monthly reconciliations of the Works-in-Kind balances received.³⁹
- 5.13 The Audit Office have reviewed the policy and 'agree with the underlying accounting principle'.⁴⁰ The Auditor-General noted that, for the year ending 30 June 2014, the Department would recognise unearned income of \$5.5 million.

³⁶ New South Wales Auditor-General's Report, *Financial Audits Volume 6 Focusing on Environment, Water and Regional Infrastructure*, November 2011, p91.

³⁷ New South Wales Auditor-General's Report, *Financial Audits Volume 6 Focusing on Environment, Water and Regional Infrastructure*, November 2012, p91.

³⁸ New South Wales Auditor-General's Report, *Financial Audits Volume 9 Focusing on Environment, Water and Infrastructure*, December 2013, p95.

³⁹ Submission 5, *Department of Planning and Environment*, p1.

Committee comment

5.14 This Committee has a particular interest in infrastructure in NSW and as such it is pleased to see that the Department has implemented the Auditor-General's recommendation. By properly accounting for works-in-kind received, the Department will provide a more accurate indication of the costs and requirements of infrastructure projects.

5.15 The Committee supports all work done in this area to encourage further investment. It notes the Auditor-General's calls for further transparency to allow stakeholders to assess the costs of infrastructure and considers that the work done by the Department will encourage investment in this critical area.

⁴⁰ Submission 7, *Audit Office of NSW*, p10.

Chapter Six – Office of Environment and Heritage

Introduction

- 6.1 The Office of Environment and Heritage (OEH) is a separate agency within the Planning and Environment cluster. OEH is the agency responsible for protecting and conserving the NSW environment, including the natural environment, Aboriginal country, culture and heritage and built heritage. It also manages NSW national parks and reserves, and aims to support the community, business and government in maintaining a healthy environment and economy.
- 6.2 The National Australian Built Environment Rating System (NABERS) measures the environmental performance of Australian buildings, tenancies, and homes. NABERS measures the energy efficiency, water usage, waste management and indoor environment quality of a building or tenancy and its impact on the environment. Verified performance information, such as utility bills, is then converted into a star rating scale from one to six stars.
- 6.3 NABERS is administered and managed nationally by the NSW Office of Environment and Heritage, on behalf of Commonwealth, state and territory governments.

The financial audit

- 6.4 As part of his regular financial audit program, the Auditor-General audited the Office of Environment and Heritage for NSW in 2013. This resulted in an unqualified Independent Auditor's Report. The Auditor-General's report, 'Financial Audits Volume Nine Focusing on Environment, Water and Infrastructure' was published in December 2013.

Auditor-General's recommendation

- 6.5 The Auditor-General made the following recommendation relating to the Office of Environment and Heritage reporting on NABERS.
- The Office of Environment and Heritage should report compliance by NSW Government budget dependent agencies with the National Australian Built Environment Rating System on its website and in its annual report.⁴¹

Background to the Auditor-General's recommendation

- 6.6 Energy and water efficiency measures can help reduce cost pressures caused by rising energy costs and protect against potential shortages. Under the NSW Government's Resource Efficiency Policy, all office buildings over 2,000 m², owned or occupied by the Government, must achieve and maintain a NABERS

⁴¹ New South Wales Auditor-General's Report, *Financial Audits Volume 9 Focusing on Environment, Water and Infrastructure*, December 2013, p25.

Energy whole building rating of at least 4.5 stars by June 2017.⁴² This policy was adopted in July 2014.

- 6.7 Centralised data centres, and other data centres that meet appropriate criteria, are also required to provide and maintain a minimum 4.5 star NABERS energy rating.
- 6.8 In addition, all new and refurbished office buildings over 2,000 m², owned or tenanted by government agencies, must incorporate minimum water performance standards to meet a 4 star NABERS Water rating, where cost-effective.⁴³
- 6.9 In 2010, the Auditor-General first recommended that the then Department of Climate Change and Water report on agency compliance with NABERS ratings on its website and in its annual report.⁴⁴ This recommendation referred to a prior Government Sustainability Policy, but a requirement to meet NABERS ratings has been constant.
- 6.10 The following year, the Auditor-General noted that assessing the level of compliance with the policy was difficult, as information was only available on the NABERS website. He argued that it would assist OEH if agencies confirmed their compliance annually on their websites and in their own reporting. This could then be collated and reported on by OEH to ensure that the policy was being followed. This would also create an effective monitoring process.⁴⁵
- 6.11 The Auditor-General repeated this recommendation in 2011, 2012 and 2013.
- 6.12 In 2012, the Auditor-General reported that OEH had advised that reporting arrangements had expired under the existing policy and were being reviewed.⁴⁶ According to the Auditor-General's 2013 report this review was ongoing but these recommendations, and others for more streamlined reporting, were being considered as part of the review.⁴⁷

The Committee's examination

- 6.13 As part of its follow up of the Auditor-General's 2013 Financial Audits, the Committee wrote to the Office of Environment and Heritage, requesting a submission outlining the Office's response to the Auditor-General's recommendation.

⁴² NSW Government Resource Efficiency Policy, E2: Minimum NABERS Energy ratings for offices and data centres, July 2014, p4.

⁴³ NSW Government Resource Efficiency Policy, W2: Minimum water standards for office buildings, July 2014, p9.

⁴⁴ New South Wales Auditor-General's Report, *Financial Audits Volume 7 Focusing on Environment, Climate Change and Water*, November 2010, p25.

⁴⁵ New South Wales Auditor-General's Report, *Financial Audits Volume 6 Focusing on Environment, Water and Regional Infrastructure*, November 2011, pp25-27.

⁴⁶ New South Wales Auditor-General's Report, *Financial Audits Volume 6 Focusing on Environment, Water and Regional Infrastructure*, November 2012, p24.

⁴⁷ New South Wales Auditor-General's Report, *Financial Audits Volume 9 Focusing on Environment, Water and Infrastructure*, December 2013, p25.

- 6.14 Mr Terry Bailey, Chief Executive, Office of Environment and Heritage, wrote to the Committee on 25 June 2014 outlining the Office's response to the Auditor-General's recommendation. This submission was forwarded to the Audit Office of NSW and the Acting Auditor-General provided comments on 11 August 2014.
- 6.15 The submission from OEH initially rejected the recommendation from the Auditor-General, highlighting that the previous Government Sustainability Policy was approved in 2008 but had expired. OEH did state, however, that they were tasked with bringing forward a new Government Resource Efficiency Policy which had yet to be adopted.⁴⁸
- 6.16 The Audit Office recognised that the policy which the initial recommendation referred to was no longer active but also noted that the new policy was released in July 2014. The Audit Office proposed that OEH report on government performance against any new NABERS targets outlined in the new policy. It indicated that it would follow up with OEH on its reporting responsibilities under the new policy.⁴⁹
- 6.17 In September 2014, the Committee contacted OEH to ascertain the arrangements under the new policy. OEH explained that general government agencies will report performance against the NABERS requirements by publishing financial year data annually. OEH will also publish collated agency data online. In addition agencies will publish a statement of compliance and any instances of non-compliance should be noted and explained.⁵⁰
- 6.18 The policy also contains provisions for a NABERS rating to be updated if there are any changes, or if it has been three years since the last rating took place.⁵¹

Committee comment

- 6.19 The Committee recognises the savings that can be made through energy efficiency measures and considers this to be an important aspect of the Government's sustainability policy. It is pleased to see that there is still a minimum NABERS requirement for Government owned and tenanted buildings.
- 6.20 The new policy also appears to have improved reporting guidelines to ensure that all agencies properly comply. The collection and publication of data from all relevant agencies will allow for simple monitoring of all agencies' performance.
- 6.21 The Committee notes that the data will be published online but not in the annual report. The Committee understands the need to streamline annual reports for all Departments but OEH will need to ensure that the data is published in a prominent place online.
- 6.22 The Committee was initially concerned to receive correspondence from OEH stating that it 'rejected' the recommendation of the Auditor-General. Although

⁴⁸ Submission 4, *Office of Environment and Heritage*, p2.

⁴⁹ Submission 7, *Audit Office of NSW*, p9.

⁵⁰ *NSW Government Resource Efficiency Policy*, July 2014, p14.

⁵¹ *NSW Government Resource Efficiency Policy, E2: Minimum NABERS Energy ratings for offices and data centres*, July 2014, p4.

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OFFICE OF ENVIRONMENT AND HERITAGE

the initial recommendation referred to an out dated policy, the Auditor-General recognised this in his 2013 report and it was apparent that the current recommendation would be relevant to the new policy. However, the new policy appears to have taken the Auditor-General's recommendation into account and the Committee hopes that OEH will continue to work with the Audit Office productively. The Committee look forward to seeing the new reporting functions in the following year.

Chapter Seven – NSW Health

Introduction

- 7.1 The NSW Ministry of Health (NSW Health) controls a large number of entities within the health system which are responsible for the provision of healthcare across New South Wales. These entities include Local Health Districts (LHDs), the Sydney Children's Hospital Network, and the Justice Health and Forensic Mental Health Network. There are fifteen LHDs across NSW, eight of which cover the Sydney metropolitan region and seven cover rural and regional NSW.
- 7.2 Following a governance review by the Director-General in August 2011, NSW Health has undergone a number of recommended structural changes. As part of these changes, a number of its functions were transferred to pillar entities such as the Agency for Clinical Innovation and the Bureau of Health Information.⁵² These pillar agencies remain part of NSW Health.

The financial audit

- 7.3 As part of his regular financial audit program, the Auditor-General audited the NSW Ministry of Health in 2013. This resulted in unqualified audit opinions being issued on the financial statements of NSW Health and its controlled entities, except for the Sydney Children's Hospitals Network, which received a qualified audit opinion.⁵³ The Auditor-General's report, 'Financial Audits Volume Ten Focusing on Health' was published in December 2013.

Auditor-General's recommendations

- 7.4 The Auditor-General informed the Committee that he made a number of repeat recommendations to NSW Health. The Committee sought further information on six of these recommendations which it deemed to be significant. These recommendations are as follows:
- In addition to its payment performance indicator, the Ministry of Health should develop a liquidity ratio definition and target for local health districts, taking into account the nature of their operations and funding model.⁵⁴
 - The Ministry should provide more guidance and feedback to health entities to help them:
 - develop consistent, comprehensive asset maintenance plans
 - consistently identify and measure backlog maintenance.⁵⁵

⁵² New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p18.

⁵³ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p15.

⁵⁴ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p22.

⁵⁵ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p47.

- The Ministry should establish a working group of finance and asset managers to review asset useful lives across the sector. The working group should report its findings to the Ministry by no later than 31 March 2014.⁵⁶
- All local health districts should stocktake plant and equipment assets annually.⁵⁷
- Each year, all health entities should identify the top one per cent of overtime earners (including call backs) and investigate whether excessive reliance on these employees represents value for money or compromises patient safety.⁵⁸
- Health entities should monitor employees who take no or very little leave in a rolling 12 month period.⁵⁹

The Committee's examination of the agency's response

- 7.5 As part of its follow up of the Auditor-General's 2013 Financial Audits, the Committee wrote to NSW Health, requesting a submission outlining its response to the Auditor-General's recommendations.
- 7.6 Dr Mary Foley, Secretary, NSW Health, wrote to the Committee on 18 June 2014 outlining NSW Health's response to the Auditor-General's recommendations. This submission was forwarded to the Audit Office of NSW and the Acting Auditor-General provided comments on 11 August 2014.
- 7.7 The Committee also sent further questions on notice to NSW Health on 29 September 2014, and received a response on 21 October 2014. The Committee's examination of these issues is detailed below.

Financial liquidity

- 7.8 The Auditor-General found that at 30 June 2013, only the Sydney Children's Hospital Network and Sydney LHD had a ratio of assets divided by liabilities exceeding one. The lowest ratios were found in the Northern NSW and Far West LHDs where the ratio was less than 0.3. The Auditor-General explained that, 'This means for every dollar of current liabilities these entities only had 30 cents of current assets'.⁶⁰ The average ratio across NSW Health is 0.61.⁶¹
- 7.9 The Auditor-General had previously recommended that NSW Health develop an appropriate liquidity definition and target for each health entity. However, NSW Health advised that it considered its current performance measure of paying creditors within 45 days was the best measure of liquidity.⁶²
- 7.10 The Auditor-General argued that a liquidity ratio definition and target, taking into account the nature of the operations and funding model, would help local health

⁵⁶ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p54.

⁵⁷ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p57.

⁵⁸ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p33.

⁵⁹ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p38.

⁶⁰ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p22.

⁶¹ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p23.

⁶² New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p22.

district boards and other financial statement users to assess the sustainability of an LHD.

- 7.11 NSW Health advised the Committee that it has now developed a proposed methodology to determine a reportable measure of each LHD's liquidity which can be compared to a measurement target across the State. This ratio aims to focus on the more directly controllable assets and liabilities of an LHD and is expected to be part of LHD financial reporting for 2014-2015.⁶³
- 7.12 NSW Health informed the Committee that it was discussing these new targets and reporting measures with the Audit Office to ensure that they are effective. This was confirmed by the Audit Office who noted that they would report their findings in the 2014 Auditor-General's report to Parliament.⁶⁴

Backlog maintenance

- 7.13 According to the Auditor-General, total backlog maintenance in the health sector remains unknown. This is because some health entities assessed backlog maintenance in their 2013-2014 asset strategic plans, while others did not. There is also inconsistency in the asset maintenance plans submitted to NSW Health across the sector. This makes it difficult for NSW Health to develop an accurate and effective overarching maintenance plan.⁶⁵
- 7.14 Improved guidance and standardisation in this area would lead to greater consistency and help NSW Health to effectively manage repairs, maintenance and renewal budgets to the health entities.
- 7.15 To help manage assets across the health sector, including the backlog of maintenance issues, NSW Health told the Committee that it is implementing a consolidated asset management system. This will provide a single registry and tracking system for health assets and include information on their condition.⁶⁶
- 7.16 NSW Health explained that this system is now in its implementation phase, with Project Acceptance Testing completed after being conducted by experts across Health agencies including LHDs, HealthShare NSW, Health Infrastructure and the Ministry of Health. Any defects or enhancement requests were recorded and are being tracked and actioned via a Change Request Management System.⁶⁷
- 7.17 Following the testing, certain core asset management functions were made available to Health agencies, including Facilities Management on 30 September 2014. Further modules are to be introduced later, with Medical Equipment to launch on 25 November 2014, and Operations and Maintenance to launch on 31 March 2015.⁶⁸

⁶³ Submission 2, *NSW Health*, p2.

⁶⁴ Submission 7, *Audit Office of NSW*, p4.

⁶⁵ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p47.

⁶⁶ Submission 2, *NSW Health*, p2.

⁶⁷ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p2.

⁶⁸ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p2.

- 7.18 NSW Health indicated that it was still tracking to schedule, but noted that full maturity of the system will occur over several years. Currently, modules are being made available to LHDs. They will be progressively populated and modified by other Health agencies and data completeness and quality will improve over time.
- 7.19 Part of the system is the Asset Facilities Management (AFM) Online which is required to be made available to all health agencies to act as a single repository for all asset information. Asset data has been submitted for the population of AFM Online. Ongoing support is also being provided to Health agencies in the initial phase of implementation.⁶⁹
- 7.20 NSW Health also engaged consultants in March 2014, to support the development of an overall NSW Health Asset Portfolio Management Strategy. This Strategy intends to identify the means for state-wide and local health entity levels to realise priority outcomes, which includes consistent backlog maintenance reporting.⁷⁰
- 7.21 This Strategy was initially scheduled for release in July 2014, but following the identification of certain issues including end user training, data maintenance in legacy systems, governance standards and reporting, this deadline was moved to the end of October 2014.⁷¹
- 7.22 The Audit Office noted these developments and told the Committee that it will include further details in its report to Parliament in 2014. It also highlighted that it had not yet seen the advice given to health entities to support the measurements of backlog maintenance.⁷²

Fully depreciated plant and equipment

- 7.23 The Auditor-General reported that the health sector uses a high proportion of fully depreciated assets. In 2013, 27.1 per cent of total plant and equipment is fully depreciated. This amounted to 29,332 items of plant and equipment with a total value of \$485 million. While this is lower than in previous years, the Auditor-General notes that it is still more than a quarter of all plant and equipment in the sector.⁷³
- 7.24 The Auditor-General notes that the existence of so many assets still being used, after their original estimated accounting useful lives, suggests that the useful lives may be too short, leading to depreciation expenses being overstated.
- 7.25 While NSW Health does perform annual checks to ensure old plant and equipment assets function properly and safely, a review of asset lives would be beneficial.

⁶⁹ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p3.

⁷⁰ Submission 2, *NSW Health*, p2.

⁷¹ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p3.

⁷² Submission 7, *Audit Office of NSW*, p4.

⁷³ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p54.

- 7.26 The Auditor-General has made similar recommendations for the past four years but highlights that 'little progress has been made in addressing this accounting issue'.⁷⁴
- 7.27 NSW Health advised that it would also task the Asset and Facilities Maintenance Working Party with ensuring that processes are in place through the relevant IT systems for assessing the useful life of plant and equipment.⁷⁵
- 7.28 The Financial Accounting Manual for Public Health Organisations is currently under review and it was submitted that this will require annual assessment of the useful life of plant and equipment.
- 7.29 However, since the new system is being rolled out until February 2015, NSW Health has moved the target completion date to 28 February 2015 rather than 31 March 2014 as recommended by the Auditor-General.

Asset stocktakes

- 7.30 Annual asset stocktakes are an important factor in safeguarding against theft or misappropriation. As such it is crucial that LHDs perform them. When the Auditor-General reported on asset stocktakes in 2011-2012, he found that only 7 of the 15 LHDs had completed a full stocktake.⁷⁶
- 7.31 In 2012-2013, 13 of the 15 LHDs completed a stocktake of plant and equipment assets.⁷⁷
- 7.32 NSW Health policy is that all LHDs must stocktake their plant and equipment annually and should plan to complete the 2013-2014 stocktake and update relevant accounting records before 30 June 2014.
- 7.33 NSW Health stated that all LHDs and Speciality Health Networks are required to stocktake on a rolling basis each month so that all items are subject to stocktake each year. This requirement has been reinforced and is a milestone item which entails ongoing compliance.⁷⁸
- 7.34 Further information received by the Committee showed that 14 of the 15 LHDs completed asset stocktakes in 2014-2015, and the remaining LHD was 85 per cent compliant with the requirement.⁷⁹

Overtime payments

- 7.35 In the Auditor-General's 2012 Financial audit focusing on Health, he recommended that health entities identify the top one per cent overtime earners

⁷⁴ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p54.

⁷⁵ Submission 2, *NSW Health*, p2.

⁷⁶ New South Wales Auditor-General's Report, *Financial Audits Volume 11 Focusing on Health*, December 2012, p39.

⁷⁷ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p57.

⁷⁸ Submission 2, *NSW Health*, p3.

⁷⁹ Correspondence received by the Committee from Cathy Hill, Executive Officer, Finance Branch, NSW Health, 2 October 2014.

and investigate whether reliance on these employees represents value for money or compromises patient safety.⁸⁰

- 7.36 In his 2013 report, the Auditor-General found that only half of the health entities completed this review during the year. Where the review was completed, significant savings were made. One LHD reduced overtime and call-back payments by 3.8 per cent compared to the previous year. Another LHD identified an employee who consistently earned more than \$300,000 a year in overtime over the past three years and was able to reduce this to \$68,000 in 2012-2013.⁸¹
- 7.37 Given the savings that could be made and also the potential impacts on patient safety of staff working excessive hours, this is an important area for entities to review. It may be beneficial for health entities to identify better rostering and other operational practices.
- 7.38 NSW Health informed the Committee that those LHDs, which have employees with excessive overtime and call back payments, were asked to indicate how they were addressing the problem. Specific actions taken by these LHDs included, reviewing individual Career Medical Officer contracts, reviewing rostering practices, monitoring overtime worked and examining alternative models of service delivery.⁸²
- 7.39 From 2011 to 2014, total overtime, including call backs, paid by NSW Health reduced by \$21 million.⁸³
- 7.40 LHD executives will also maintain a newly developed report, which indicates the number of employees each month, and by average year-to-date, who work more than 500 hours overtime and call backs a year. These reports will identify instances of excessive overtime and call backs and prompt the LHD to take action. With the introduction of the State Management Report Service in April 2015, the reports will also be available to cost centre managers to actively manage overtime usage.⁸⁴
- 7.41 The Auditor-General in his comments noted that from a small sample of LHDs his office had reviewed, management had completed a review of top overtime earners and reported findings to their respective Finance and Performance Committees and Audit and Risk Management Committees. The Audit Office will continue to review the remaining LHDs.⁸⁵
- 7.42 NSW Health advised that it had requested all LHDs and Networks to respond by November 2014 on what strategies have, or are being put in place, to reduce the number of employees with greater than 500 hours worked overtime. Specific reports are also required for each employee who was in the top 50 overtime

⁸⁰ New South Wales Auditor-General's Report, *Financial Audits Volume 11 Focusing on Health*, December 2012, p42.

⁸¹ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p33.

⁸² Submission 2, *NSW Health*, p3.

⁸³ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p4.

⁸⁴ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p4.

⁸⁵ Submission 7, *Audit Office of NSW*, p6.

earners in NSW Health. These reports will include, but are not limited to, whether reliance on these employees represents value for money.⁸⁶

Annual leave balances

- 7.43 Large leave balances can increase the financial liability of an agency. Taking regular annual leave also helps employees to maintain their health and has a positive impact on wellbeing. It is also important for employees performing key control functions to be rotated regularly to guard against fraud.
- 7.44 Although the number of employees with excessive leave balances who took no annual leave has decreased from 3,034 in 2011-2012 to 2,247 in 2012-2013, this is still a significant number. The Auditor-General also reported that not all health entities were monitoring employees who take no or little leave, despite previous recommendations. In two health entities with the largest number of these employees, the number of employees increased in the past year.⁸⁷
- 7.45 The Auditor-General noted that all health entities should develop exception reporting to identify these staff members as a further mechanism to manage excessive leave.⁸⁸
- 7.46 NSW Health advised that it was monitoring and reporting on staff who took little or no leave as part of work being done to implement other recommendations made by the Auditor-General in the area of annual leave balances. There was a reduction of over 10 per cent in the number of staff with excess leave who took no leave in 2012-2013.⁸⁹ In addition, there was a reduction by over 15 per cent in 2013-2014.⁹⁰
- 7.47 NSW Health indicated that it had requested all LHDs and Networks to respond by November 2014 on what strategies have or are being put in place to reduce the number of employees with greater than 35 days accrued leave.
- 7.48 Regular reporting against excessive leave, and employees who have taken no leave in the last 12 months, is being developed in the Statewide Management Report Service (SMRS), which is scheduled for roll out in April 2015.⁹¹

Committee comment

- 7.49 The Committee was pleased to find that NSW Health accepted all the significant repeat recommendations made by the Auditor-General and had worked towards their implementation. As outlined, these are important issues, which could lead to significant efficiency savings for the Ministry.
- 7.50 The Committee particularly notes the comments from NSW Health in relation to the Auditor-General's report on Building energy use in NSW public hospitals

⁸⁶ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p4.

⁸⁷ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p39.

⁸⁸ New South Wales Auditor-General's Report, *Financial Audits Volume 10 Focusing on Health*, December 2013, p38.

⁸⁹ Submission 2, *NSW Health*, p3.

⁹⁰ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p4.

⁹¹ Dr Mary Foley, Secretary, NSW Health, *Answers to further questions*, 21 October 2014, p5.

reported on elsewhere by this Committee.⁹² The fact that Chief Executive Service Agreements have been amended to include a schedule which requires Chief Executives to ensure recommendations made by the Auditor-General arising from Financial Audits and Performance Audits, are actioned in a timely manner and no repeat issues arise in the next audit, should further help to progress these issues.

7.51 In areas such as financial liquidity, the Committee commends NSW Health for taking on board the Auditor-General's recommendation and working with the Audit Office to ensure that it is properly implemented.

7.52 However, in the area of backlog maintenance and depreciated assets, the Committee is concerned at the length of time being taken to implement the Auditor-General's recommendations. The Committee recognises the work done by NSW Health in this area and notes that the project is a substantial one. When complete, it should lead to a more efficient process and fewer problems in the future. Nevertheless, certain aspects have been outstanding for a number of years and further progress would be preferable. The Committee will continue to monitor action taken in these areas and review further reports of the Auditor-General in the future.

7.53 The Auditor-General's recommendation that a working group review 'asset useful lives' across the sector had a deadline of 31 March 2014. While the Committee understands the reasoning for the new deadline of 28 February 2015, it notes the discrepancy. As such, the Committee considers it appropriate for this working group to report its findings to ensure that work is properly completed.

RECOMMENDATION 4

The Committee recommends that NSW Health conduct a review of 'asset useful lives' across the sector and publicly report on the findings by 28 February 2015.

7.54 NSW Health appears to have processes in place to ensure that all LHDs stocktake plant and equipment assets annually and the Committee was pleased to see significant progress over previous years.

7.55 The Committee notes the significant work being done by NSW Health to reduce overtime payments and excessive leave balances. Given the potential financial liabilities these can lead to, it is encouraging to find that steps are being taken to improve the situation. Ongoing reporting should also prevent the issue from becoming problematic again in the future.

7.56 Following the review of employees with greater than 500 hours worked overtime, NSW Health may benefit from sharing information across entities to adopt the most effective methods of reducing overtime.

⁹² Legislative Assembly of NSW, Public Accounts Committee, *Examination of the Auditor-General's Performance Audit Reports May 2013 – July 2013*, November 2013, p27.

RECOMMENDATION 5

The Committee recommends that NSW Health review strategies used to reduce the number of employees with excessive overtime and document best practice procedures for use across the Ministry.

Appendix One – List of Submissions

1	Transport for NSW
2	NSW Health
3	Department of Police and Justice
4	Office of Environment and Heritage
5	Department of Planning and Environment
6	NSW Treasury
7	Audit Office of New South Wales

Appendix Two – Extracts from Minutes

MINUTES OF PROCEEDINGS OF THE PUBLIC ACCOUNTS COMMITTEE 75

Thursday 15 May 2014
9.45am
Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Mr Bassett, Mr Daley, Mr Piper, Mr Williams

Officers in attendance

Elaine Schofield, David Hale, Abigail Groves, Leon Last, Meike Bowyer

1. Confirmation of minutes

Resolved, on the motion of Mr Piper, seconded by Mr Bassett: That the minutes of meeting no. 74 held on 8 May be confirmed.

2. ***

3. Follow up of the Auditor-General’s 2013 financial audit reports

Resolved, on the motion of Mr Williams, seconded by Mr Bassett: That the Committee conduct an inquiry to follow up repeat recommendations of the Auditor-General’s 2013 financial audit reports; and that the Chair write to relevant agencies seeking submissions detailing action taken to address the Auditor-General’s repeat recommendations.

4. ***

5. ***

MINUTES OF MEETING 79

Wednesday 2 July 2014
10.05am
Macquarie Room, Parliament House

Members present

Mr O’Dea (Chair), Dr Lee, Mr Bassett, Mr Piper

Officers in attendance

Abigail Groves, David Hale, Leon Last, Abigail Javier

1. Apologies

Apologies were received from Mr Daley and Mr Williams.

2. Confirmation of minutes

Resolved, on the motion of Mr Piper, seconded by Mr Bassett: That the minutes of meeting no. 78 held on 23 June 2014 be confirmed.

3. ***

4. ***

5. Follow up of repeat recommendations from the Auditor-General’s 2013 Financial Audits

5.1 Submissions

Resolved, on the motion of Mr Bassett, seconded by Dr Lee: That Submissions 1 and 2 be published and uploaded to the Committee’s website.

6. ***

7. ***

8. ***

The meeting adjourned at 10.20am.

MINUTES OF MEETING 80

Thursday 7 August 2014

9.50am

Room 1043, Parliament House

Members present

Mr O'Dea (Chair), Dr Lee, Mr Bassett, Mr Piper, Mr Daley, Mr Williams

Officers in attendance

Elaine Schofield, Abigail Groves, David Hale, Leon Last

1. Confirmation of minutes

Resolved, on the motion of Mr Bassett, seconded by Dr Lee: That the minutes of meeting no. 79 held on 2 July 2014 be confirmed.

2. ***

3. ***

4. Follow up of repeat recommendations from the Auditor-General's 2013 Financial Audits

4.1 Submissions

Resolved, on the motion of Dr Lee, seconded by Mr Bassett: That Submissions 3, 4, 5 and 6 be published and uploaded to the Committee's website.

5. ***

6. ***

7. ***

8. ***

The meeting adjourned at 10.33am.

MINUTES OF MEETING 81

Thursday 14 August 2014
9.50am
Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Dr Lee, Mr Bassett, Mr Piper, Mr Daley, Mr Williams

Officers in attendance

Elaine Schofield, Abigail Groves, David Hale, Leon Last

1. Confirmation of minutes

Resolved, on the motion of Mr Piper, seconded by Mr Williams: That the minutes of meeting no. 80 held on 7 August 2014 be confirmed.

2. ***

3. Follow up of repeat recommendations from the Auditor-General’s 2013 Financial Audits

3.1 Submission

Resolved, on the motion of Mr Bassett, seconded by Dr Lee: That Submission 7 from the Audit Office of NSW be published and uploaded to the Committee’s website.

4. ***

5. ***

6. ***

7. ***

The meeting adjourned at 10.08am.

MINUTES OF MEETING 86

9:45am
Thursday 16 October 2014
Room 1043, Parliament House

Members present

Mr O'Dea (Chair), Dr Lee, Mr Piper, Mrs Sage, Mr Williams, Mr Daley

Officers in attendance

Abigail Groves, David Hale, Leon Last, Sasha Shevstova, Abigail Javier, Tanja Zech

1. Confirmation of minutes

Resolved, on the motion of Mrs Sage, seconded by Mr Williams: That the minutes of meeting no. 85 held on 18 September 2014 be confirmed.

2. Follow up of repeat recommendations from the Auditor-General's 2013 Financial Audits

Resolved, on the motion of Mr Piper, seconded by Mrs Sage: That the Committee note the following items of correspondence received:

- Email from Ms Cathy Hill, Executive Officer, Finance Branch, NSW Health, re: compliance with reporting requirements, dated 2 October 2014.
- Email from Mr Tom Grosskopf, Office of Environment and Heritage, re: NABERS reporting requirement, dated 29 September 2014.

3. ***

4. ***

5. ***

6. ***

The Committee adjourned at 10.01am.

MINUTES OF MEETING 87

9:50am
Thursday 23 October 2014
Room 1043, Parliament House

Members present

Mr O’Dea (Chair), Dr Lee, Mr Piper, Mr Williams, Mr Daley

Officers in attendance

Abigail Groves, David Hale, Leon Last, Abigail Javier, Tanja Zech

1. Apologies

An apology was received from Mrs Sage.

2. Confirmation of minutes

Resolved, on the motion of Mr Williams, seconded by Mr Piper: That the minutes of meeting no. 86 held on 16 October 2014 be confirmed.

3. ***

4. Follow up of repeat recommendations from the Auditor-General’s 2013 Financial Audits

4.1 Answers to questions on notice

Resolved, on the motion of Mr Williams, seconded by Mr Piper: That the answers to additional questions received from the Ministry of Health be published and uploaded to the Committee’s website.

5. ***

6. ***

7. ***

The Committee adjourned at 10.05am.

MINUTES OF MEETING 88

9:50am
Thursday 6 November 2014
Room 1043, Parliament House

Members present

Mr O'Dea (Chair), Dr Lee, Mr Piper, Mr Williams, Mr Daley

Officers in attendance

Abigail Groves, Leon Last, Abigail Javier

1. Apologies

An apology was received from Mrs Sage.

2. Confirmation of previous minutes

Resolved, on the motion of Mr Piper, seconded by Mr Williams: That the minutes of meeting no. 87 held on 23 October 2014 be confirmed.

3. ***

4. ***

5. Follow up of repeat recommendations from the Auditor-General's 2013 Financial Audits

5.1 Chair's draft report

The Committee considered the draft report.

Resolved, on the motion of Mr Piper: That the Chair's Report on the Follow up of repeat recommendations from the Auditor-General's 2013 Financial Audits as tabled be adopted as the report of the Committee, to be signed by the Chair and presented to the House; that the Chair and the secretariat be permitted to correct stylistic, typographical and grammatical errors; and that, once tabled, the report be published on the Committee's website.

6. ***

7. ***

8. ***

The Committee adjourned at 10.02am.