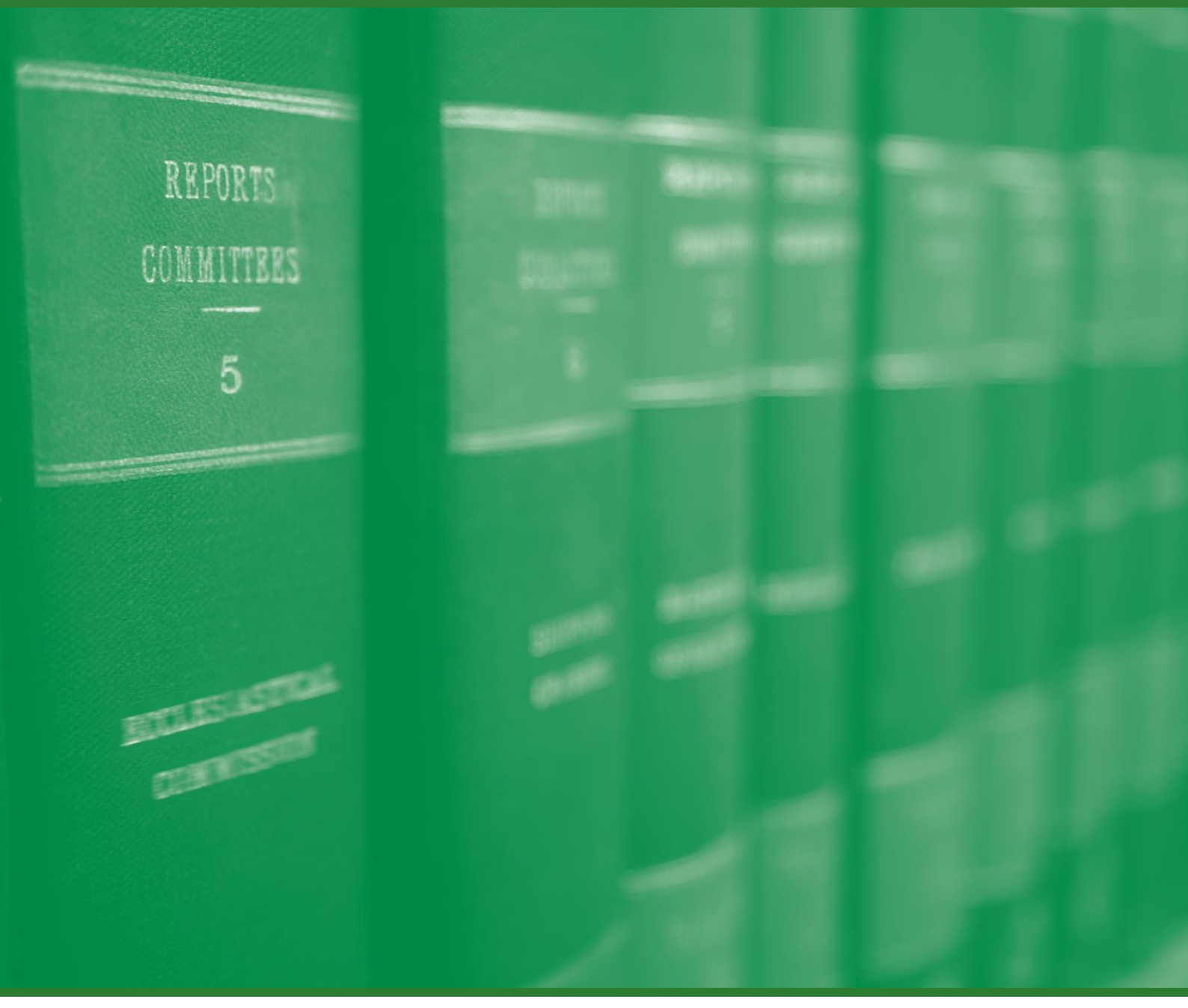




Public Accounts Committee

REPORT 4/56 – MARCH 2017

EXAMINATION OF AUDITOR-GENERAL'S PERFORMANCE AUDIT REPORTS DECEMBER 2014 - JUNE 2015



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Membership

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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.

Public Finance and Audit Act 1983

57 Functions of the Committee

- (1) The functions of the Committee are:
- ...
- (c1) to examine any reports of the Auditor-General laid before the Legislative Assembly,
- (d) to report to the Legislative Assembly from time to time upon any item, or any circumstances connected with, those financial reports, reports or documents which the Committee considers ought to be brought to the notice of the Legislative Assembly.

At its meeting on 22 September 2016, the Committee adopted the following terms of reference:

That the Committee inquire into and report on any circumstances connected with the following reports of the Auditor-General which the Committee considers ought to be brought to the notice of the Legislative Assembly:

- *Learning Management and Business Reform Program*
- *Westconnex: Assurance to the Government*
- *Security of Critical IT Infrastructure*
- *Vocational Education and Training Reform*
- *Managing Length of stay & unplanned readmissions in NSW public hospitals*
- *Country Towns Water and Sewerage Program*
- *Large construction projects: Independent assurance*
- *Government Advertising 2015*
- *Implementing performance audit recommendations*
- *Efficiency and effectiveness in tax collection*

Chair's Foreword

This is the second report of the Public Accounts Committee's performance audit review program to be tabled in the 56th Parliament.

In accordance with its established performance review process, the Committee examines performance audits conducted by the Auditor-General, in order to further investigate action taken by agencies in response to the Auditor-General's recommendations. As part of this follow up, the Committee questions agencies on measures they have taken and, if required, conducts public hearings to gather additional information from agency representatives.

The process has proven to be an effective means of testing action taken on performance audits and maintaining a high level of scrutiny of the agencies under review.

This report reviews ten performance audits covering the period from December 2014 to June 2015, conducted into: Westconnex - Assurance to the Government; Vocational Education and Training Reform; Managing length of stay & unplanned readmissions in NSW public hospitals; Country Towns Water and Sewerage Program; Implementing performance audit recommendations; Learning Management and Business Reform Program; Security of Critical IT Infrastructure; Large construction projects - Independent assurance; Government Advertising 2015; and Efficiency and effectiveness in tax collection.

With some noted exceptions, the Committee is generally satisfied that the responsible agencies are now implementing the Auditor-General's recommendations.

The Committee has made six recommendations to NSW Government agencies to address the following: project management and governance processes for the Learning Management and Business Reform Program; security safeguard assurances for critical IT infrastructure; and improvements to the efficiency and effectiveness of tax collection by the Office of State Revenue.

I am pleased to present this Report and thank the Auditor-General and Audit Office staff for their assistance in this inquiry. I also wish to thank my Committee colleagues and Committee staff for their contributions and support.



Bruce Notley-Smith MP
Chair

List of Findings and Recommendations

Recommendation 1 _____ 16

The Committee recommends that the Auditor-General reviews, at the appropriate time, Stage 3 of the Learning Management Business Reform Program implementation with a view to identifying whether refinements to the project management, governance and change management processes have been effective.

Recommendation 2 _____ 17

The Committee recommends that the Department of Education provides a formal report to the Auditor-General after completion of the Learning Management Business Reform Program implementation in 2017, identifying any additional challenges arising and the steps taken to address them, as well as any other relevant issues which may serve as lessons for the planning and implementation of future programs and projects.

Recommendation 3 _____ 26

The Committee recommends that Transport for NSW and Roads and Maritime Services provide the Auditor-General with a formalised policy regarding the identification, assessment and recording of IT security risks.

Recommendation 4 _____ 27

The Committee recommends that Transport for NSW and Roads and Maritime Services provide a progress report to the Auditor-General regarding the development of a separate disaster recovery site for the Traffic Management Centre system.

Recommendation 5 _____ 46

That the Office of State Revenue continues its research into tax gap methodology and applies its findings to increase the efficiency and effectiveness of tax collection in New South Wales.

Recommendation 6 _____ 46

That a fixed date be established for the publication of the Office of State Revenue's performance report each year.

Glossary

BRM	Benefits Realisation Management Framework NSW
DFSI	Department of Finance, Services and Innovation
DISP	Digital Information Security Policy
DNSW	Destination NSW
DPC	Department of Premier and Cabinet
DTIRIS	Department of Trade and Investment, Regional Infrastructure and Services
ICT	Information Communications Technology
IIAF	Infrastructure Investor Assurance Framework
INSW	Infrastructure New South Wales
ISMS	Information Security Management System
KPIs	Key Performance Indicators
KPMG	Klynveld Peat Marwick Goerdeler
LMBR	Learning Management and Business Reform
OSR	Office of State Revenue
PAC	Public Accounts Committee
PMO	Program Management Office
PwC	Price Water House Coopers
RMS	Roads and Maritime Services
S&R	Security and Risk Committee
SALM	Student Administration and Learning Management
SAP Australia	Systems, Applications and Products Australia
SCADA	Supervisory Control and Data Acquisition System
SCATS	Sydney Coordinated Adaptive Traffic System
SMA	Security Monitoring Assessment
SOH	Sydney Opera House
SWC	Sydney Water Corporation
TCT	Transport Cluster Technology
TfNSW	Transport for NSW
TISN	Trusted Information Sharing Network
TMC	Transport Management Centre

Chapter One – Introduction

Overview

- 1.1 The performance audits examined by the Committee during this inquiry are those tabled by the Auditor-General between December 2014 and June 2015. The aim of the examination is to assess what relevant agencies have done in response to the Auditor-General’s recommendations. The Committee considered evidence provided by each agency and also sought advice from the Auditor-General.
- 1.2 The Committee found significant work has been undertaken to address issues raised in the audits. It is clear that the agencies have taken the audit review process seriously and instigated processes to implement accepted recommendations. Some recommendations will take time to fully action or are being addressed through the implementation of larger projects.

Inquiry Process

- 1.3 In accordance with its legislative responsibility outlined in section 57 of the *Public Finance and Audit Act 1983*, the Committee resolved at its meeting on 22 September 2016 to commence an examination of the Auditor-General’s performance audits from December 2014 to June 2015. The full terms of reference are included on page iv.
- 1.4 The process for these examinations included:
- inviting a submission from responsible agencies twelve months after the tabling of the audit
 - referring agencies’ submissions to the Auditor-General for comment
 - where the Committee determined that further information was required, inviting agency representatives and the Auditor-General to a hearing to provide additional information.
- 1.5 The Committee examined ten performance audit reports and received 23 submissions in relation to its examination. A full list of submission authors can be found at Appendix One and copies of the submissions are available on the Committee’s website at: www.parliament.nsw.gov.au/publicaccounts.
- 1.6 On the basis of submissions received, the Committee determined that five performance audits had been satisfactorily completed, with the agencies concerned fully implementing the Auditor-General’s recommendations. These audits were:
- *Westconnex: Assurance to the Government*
 - *Vocational Education and Training Reform*
 - *Managing Length of stay & unplanned readmissions in NSW public hospitals*

- *Country Towns Water and Sewerage Program*
- *Implementing performance audit recommendations*

1.7 Details concerning these performance audits can be found on the website of the NSW Auditor-General at: www.audit.nsw.gov.au.

1.8 The Committee was not satisfied that recommendations contained in five of the other performance audit reports had been fully addressed. To conduct a more detailed examination of these reports, the Committee held a public hearing on 7 November 2016 to seek further information. The audits examined at the public hearing were:

- *Learning Management and Business Reform Program*
- *Security of Critical IT Infrastructure*
- *Large construction projects: Independent assurance*
- *Government Advertising 2015*
- *Efficiency and effectiveness in tax collection*

1.9 Details of witnesses who appeared at the hearing are included at Appendix Two.

Chapter Two – Learning Management and Business Reform Program

Introduction

- 2.1 On 1 July 2015, the Department of Education and Communities changed its name to the Department of Education following administrative changes to a number of NSW Government agencies. As part of these changes, TAFE NSW was transferred to the Industry, Skills and Regional Development Cluster. This report will refer to the Department of Education (the Department) by its current name.
- 2.2 The Learning Management and Business Reform (LMBR) program was established in 2006 to create an integrated system of student administration, human resources, payroll and finance across the Department of Education and TAFE, to be implemented in 2,218 schools and ten TAFE Institutes.¹ While initially due for completion at the end of 2014 at a total cost of \$483 million², the LMBR program was delayed due to budget and schedule over-runs. It is now due for completion at the end of 2017.³
- 2.3 As the LMBR program is a large scale and complex program, it has been treated as a significant risk to the Department since its inception. In order to manage the scale of the program, the Department segmented its major components and used a pilot implementation approach for schools.⁴

The performance audit

- 2.4 The Performance Audit examined the progress of the Department in implementing the LMBR program to assess whether it could achieve the expected benefits. The Audit considered the Department's progress from the original business case in 2006-07 to November 2014. It examined whether the Department had: established a clear business case with well-defined outcomes, costs and benefits; whether the Department had effective governance and program management arrangements to implement the program; and whether the Department is effectively managing realisation of the planned outcomes and benefits.⁵

¹ Audit Office of New South Wales Auditor-General Report, Performance Audit, The Learning Management and Business Reform Program: Department of Education and Communities and TAFE NSW, tabled 16 December 2014, <[NSW Auditor-General's Report - Learning Management and Business Reform \(LMBR\) program](#)>, viewed on 14 December 2016, Executive Summary, p2.

² NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p2.

³ Submission 1, NSW Department of Education, p2.

⁴ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p2.

⁵ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p2.

Delivery status at the time of the performance audit

- 2.5 The Auditor-General outlined the components of the program which had been delivered at the time of the performance audit. This was reported as follows: ...delivery of the finance system to the corporate areas and all TAFE Institutes completed in 2010; delivery of HR and payroll for all TAFE Institutes completed in 2013; finance for a pilot group of 229 schools delivered in 2013; student administration and learning management (SALM) delivered to all pilot schools in 2013; and all TAFE Institutes in 2014.⁶

Major audit findings

Business case and business requirements

- 2.6 While there have been five business cases for the LMBR program, most work completed to date has been funded under two business cases completed in 2008 and 2012. The Auditor-General found that central agency requirements applied to all business cases, project management and benefits realisation. It was also noted that there were key gaps, such as the costs of risk management and mitigation, which were not included in the estimated cost of the program.⁷
- 2.7 The Auditor-General found that not all the costs and benefits expected throughout the life of the program had been clearly defined. Expected benefits, as well as their value, had changed with each business case and the cost estimates for the implementation of the LMBR program were incomplete.
- 2.8 The recorded expenditure for the LMBR program to 30 June 2014 was \$531.4 million, but this was underestimated because not all costs had been included. In particular, the time of many Departmental staff involved in governance and consultation had not been measured.
- 2.9 As part of the process to develop the business case requirements, there was extensive consultation with users in schools, TAFE Institutes and the corporate areas of the Department. However, in interviews with pilot schools and TAFE institutes, the Auditor-General found that the system had not met all the agreed business requirements, or the expectations of users.⁸

Governance and program management

- 2.10 The Audit report found that the governance and program management arrangements for the LMBR program had not been effective in ensuring that the LMBR program's development and implementation met time, cost and quality requirements. Although the Department had invested significant time and resources into developing the governance and program management arrangements in 2006, governance groups had not always had the right people or information to effectively oversee activities and make informed decisions. For

⁶ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p2.

⁷ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p4.

⁸ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p4.

example, financial reporting was limited until mid-2013 when a financial oversight committee and improved financial reporting were introduced.⁹

- 2.11 The Auditor-General noted that the Department had engaged independent quality and assurance advisors to assist in identifying and managing risks. However, the Department had not always adequately addressed the concerns raised by the independent advisors.
- 2.12 The Auditor-General found that when the LMBR program was established, the Department did not have an enterprise-wide program management office (PMO) or program management framework, nor the skillset within the Department to manage the program's size and complexity. The first main contract for the LMBR program required the contractor to establish the PMO and program management framework. However, there was inadequate Departmental oversight to monitor potential conflicts of interest of staff working for the PMO.¹⁰
- 2.13 The Audit report also found that the organisational change management approach used for the LMBR program had underestimated the needs and capabilities of the school users and had failed to effectively communicate system functionality and changes as they occurred.¹¹ In addition, the Auditor-General considered that the Department had underestimated the business reform effort which was needed to support the 229 pilot schools in order to accommodate the complex new systems. Conversely, the Audit report noted that TAFE Institutes had taken responsibility for managing the business reform effort needed to successfully transition to the new systems.¹²
- 2.14 The Auditor-General found that the system had been implemented with known defects. While the Department had managed to overcome these, they had caused frustrations and difficulties for users and delays in the schedule.¹³

Realising benefits

- 2.15 The Audit reported that the Department had not effectively managed the realisation of planned outcomes and benefits established for the LMBR program. Even though a benefits realisation register was developed in 2006, it did not assign responsibility for achieving benefits and had not been updated to reflect the benefits defined in the 2008 and 2012 business cases. In addition, the documentation setting out evaluation processes in relation to benefits was incomplete.¹⁴

⁹ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p4.

¹⁰ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p4.

¹¹ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p4.

¹² NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p5.

¹³ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p5.

¹⁴ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p5.

- 2.16 The Auditor-General found that the benefits had not been consistently and regularly monitored and tracked against the expected benefits since the commencement of the program and noted that the Department could not report on the value of the benefits that had already been achieved.¹⁵

Audit conclusions

- 2.17 The Audit concluded that while some parts of the LMBR program had been delivered to different areas of the Department, the complete implementation was behind schedule and over budget. In addition, the Auditor-General found that the Department had yet to demonstrate that the program would achieve the expected benefits.¹⁶
- 2.18 In the view of the Auditor-General, while the Department's management of the LMBR was well done in relation to the inaugural financial components of the program, inadequacies in management began to emerge in 2011. This was when the LMBR moved into the more complex environment of student administration and learning management for schools and TAFE Institutes.
- 2.19 The Auditor-General acknowledged that the LMBR had faced all the inherent difficulties expected in trying to manage a large-scale, long-term and complex program with diverse business requirements and complex commercial arrangements. However, in the opinion of the Auditor-General, the Department was not adequately managing these significant issues.¹⁷
- 2.20 The total expenditure on the LMBR program to 30 June 2014 was \$531.4 million, representing \$403.4 million capital cost and \$128 million recurrent expenditure. This was \$48.4 million over the expected total cost of \$483 million to complete the program. Around 60% of the expenditure was spent on contractors and consultants. The Department expected that it would spend a total of \$573 million to complete Stage 2 by the end of 2014-15. However, the LMBR was not fully implemented by December 2014 as originally scheduled.¹⁸
- 2.21 At the time of the Performance Audit, the Department had commenced planning further work in Stage 3 of the program and needed to allocate significant additional funding from its budget to enable implementation of all planned LMBR components. This included the HR/payroll system to corporate areas and 229 pilot schools, and all LMBR program components into the remaining 2,000 schools.¹⁹
- 2.22 The Auditor-General concluded that the major causes of the cost increases and delays were: changes in business requirements and scope; a high level of

¹⁵ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p5

¹⁶ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p3.

¹⁷ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p3.

¹⁸ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p3.

¹⁹ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p3.

uncertainty in business cases; weaknesses in governance; and insufficient program management and contract management controls and processes.²⁰

- 2.23 Finally, the Audit report concluded that the Department had not established an effective benefits realisation process. In particular, since the start of the program, the Department had not measured or reported on any benefits that may have been achieved or changed. In 2012, the estimated value of the benefits to be realised was \$139.2 million per year.
- 2.24 The Department commenced a review of the estimated values in 2014. This indicated that stakeholders and business owners believed many of the expected benefits were not achievable and the value of benefits may be as low as \$26.3 million per year.²¹
- 2.25 The Auditor-General noted that, for both of the above estimates, the Department had not validated the quantity, value or type of benefits to demonstrate that these were achievable. On 11 December 2014, the Department provided the Auditor-General with a copy of the draft Stage 3 business case for the LMBR program. However, due to the timeframe, the Stage 3 business case did not form part of the Auditor-General’s conclusions.²²

Auditor-General’s recommendations

- 2.26 The Auditor-General made a total of eight recommendations, all of which were addressed to the Department of Education. These recommendations are detailed in the following table:

Table 1 - Recommendations made by the Auditor-General in Report No. 246: Learning Management and Business Reform Program²³

No.	Recommendation
	The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department:
1.a.	ensure that business cases comply with all central agency requirements
1.b.	for large projects, work is segmented so that deliverables are achieved, and benefits commence accruing, within a three-year time frame
2.	ensure that, within the business case, the risk-management approach quantifies the potential impact of risks and includes appropriate contingencies to manage them
3.	ensure that governance arrangements are not only robust, but also rigorously applied and monitored, and that there is effective financial oversight
4.	apply its Program Management Office and frameworks for program management, and the Department’s accredited procurement and contract management frameworks and ensure

²⁰ NSW Auditor-General’s Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p3.

²¹ NSW Auditor-General’s Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p3.

²² NSW Auditor-General’s Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p3.

²³ NSW Auditor-General’s Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p5.

No.	Recommendation
	staff are adequately trained in applying these processes
5.	ensure that there is specific accountability for achieving well-defined outcomes
6.	for the rollout of the LMBR program to the remaining 2,000 schools, require the Schools portfolio to take stronger responsibility for ensuring that schools are provided with the necessary support for successful implementation
7.a.	ensure a Benefits Realisation Register is developed
7.b.	that baseline and benefits measures are defined and validated by those responsible for realising the benefits
8.	ensure that throughout a program's development and implementation its benefits are regularly reviewed, updated and that achievements are recorded and validated.

Agency responses

2.27 The Department of Education and TAFE NSW accepted all recommendations in the Audit Report.²⁴ Although it was not required to implement the recommendations, TAFE NSW provided a summary of its progress and stated commitment to implement the recommendations as they applied to its own programs.²⁵ The specific responses of the agencies to the recommendations are summarised in a later section of this report.

2.28 The Department accepted all eight recommendations, while rejecting that it had not adequately managed the issues associated with the large scale, long term and complex nature of the program.²⁶ The Department also disagreed with the contention that the cost was underestimated because the time of departmental staff involved in governance and consultation was not measured.²⁷

2.29 In addition, the Department contested the Audit Office's finding that the program had not met all the agreed business requirements or expectations of the pilot schools and TAFE institutes. The Department noted that agreed requirements are developed taking into account the initial requirements gathered from the business, the current capability of the market to deliver to these requirements and budgetary and time constraints. The Department asserted that the program had been delivered to the documented business requirements.²⁸

2.30 Nevertheless, in its submission to the Committee, the Department's executive management acknowledged that the Performance Audit did provide the Department with a valuable opportunity to reflect on the achievements of the LMBR program and to focus on the lessons learned and areas for improvement as the program moved into its final stage.

²⁴ Submission 1, NSW Department of Education. pp2-8.

²⁵ Submission 2, TAFE NSW, pp2-8.

²⁶ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p7.

²⁷ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p8.

²⁸ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p8.

- 2.31 The Department also felt that the Audit had been beneficial because it enabled consideration of the recommendations in relation to other projects or programs. In addition, the Department confirmed that it had used the recommendation to fine-tune the Stage 3 business case and had actively sought to address each of the recommendations as a matter of urgency. The Department also gave assurance that implementation of all recommendations had been completed.²⁹

The Committee's examination

- 2.32 On 18 February 2016, the Committee Chair wrote to the Department of Education and to TAFE NSW asking each agency to provide the Committee with submissions outlining their responses to the Auditor-General's Report No. 246, *Learning Management and Business Reform Program*.
- 2.33 The Committee received the response from the Department on 18 March 2016³⁰ and TAFE NSW on 8 April 2016.³¹ The Chair then wrote to the Auditor-General on 24 May 2016 requesting comments on the responses. The Auditor-General, Ms Margaret Crawford, provided her comments by letter dated 27 June 2016. The Committee noted that at the time of the performance audit, the incumbent Auditor-General was Mr Grant Hehir.
- 2.34 The Committee conducted a public hearing on 7 November, 2016. Evidence was given by senior representatives of the Department of Education and of TAFE NSW. The names of witnesses are provided in Appendix Two. A full transcript of the hearing is available on the Committee's webpage.

Implementation of recommendations

- 2.35 The Department gave its assurance at the public hearing that all eight of the Auditor-General's recommendations had been implemented across 50% of NSW schools.³² TAFE NSW also confirmed that it had implemented all of the recommendations and advised that it would be procuring software to further address its specific business needs in relation to further implementing the LMBR³³

Stage 3 of the LMBR Business Case – Lessons learned

- 2.36 The Department noted that the Auditor-General's recommendations had been used to fine tune the Stage 3 business case.³⁴ In exploring this further, the Committee was interested to understand how the later stage of the implementation process had been improved as a result of the lessons learned along the way, and, in particular, how the Stage 3 business case was amended to take account of the Auditor-General's recommendations.

²⁹ Mr Greg Prior, Deputy Secretary School Operations and Performance, Department of Education, correspondence to Chair of the Public Accounts Committee, dated 18 March 2016.

³⁰ Submission 1, NSW Department of Education.

³¹ Submission 2, TAFE NSW.

³² Mr Gregory Prior, Deputy Secretary, Schools Operation and Performance, Department of Education, Transcript of evidence, 7 November 2016, p1.

³³ Mr Glen Babington, Chief Operating Officer, TAFE NSW, Transcript of evidence, 7 November 2016, p1.

³⁴ Mr Greg Prior, Deputy Secretary School Operations and Performance, Department of Education, correspondence to Chair of the Public Accounts Committee, dated 18 March 2016.

2.37 Mr Mark Grant, Executive Director, Learning Management and Business Reform, advised that one of the key points was more significant engagement with the schools area. Mr Grant explained that:

I do not see it as an IT roll out, although it clearly has that dependency, but it is more about change management and transformation of our workforce. Some 6,000 staff ultimately trained over the two years as a result of the rollout to the 2,000 additional public schools.³⁵

2.38 Mr Grant added that:

...the other key learning for me was to ensure that by having departmental staff embedded in the directorate with contract staff to provide the expertise, that there was a real oversight of the type of work contract staff were doing, leading to all sorts of things, not just some of the things that the Audit Office noted about costs and code of conduct, but to ensure that the work was being done in a way that actually did deliver for the business of the department...³⁶

2.39 With regard to the progress which has been made under Stage 3 of the LMBR, Mr Grant informed the Committee that 1,100 schools, or 50% of the government schools, were currently using the new system and that the remaining schools would be completed next year. He assured the Committee that the timeline had not shifted and that the program was still on budget to deliver the timeframe by the end of next year.³⁷

2.40 Mr Peter Riordan, Deputy Secretary Corporate Services, Department of Education, explained that the reason for costs being grossly underestimated was that they were not quantified in the business cases. He explained that the change management process in stage 1 had been satisfactory for training staff who worked in finance as their day to day job. However, the operational challenges emerged at a later stage when it came to training staff who did not have HR payroll, student administration or experience in finance as part of their normal role.³⁸

2.41 Mr Riordan said that the Department was now '..... pulling staff out of schools, doing intensive training over many days to build an understanding of the system.'³⁹ Looking back to the 2012 business case, when external consultants had been engaged to assist with the development of the student administration system and the change management process, Mr Riordan pointed out that the type and extent of training which would be required:

³⁵ Mr Mark Grant, Executive Director, Learning Management and Business Reform, Department of Education, Transcript of evidence, 7 November 2016, p1.

³⁶ Mr Mark Grant, Executive Director, Learning Management and Business Reform, Department of Education, Transcript of evidence, 7 November 2016, p1.

³⁷ Mr Mark Grant, Executive Director, Learning Management and Business Reform, Department of Education, Transcript of evidence, 7 November 2016, p2.

³⁸ Mr Peter Riordan, Deputy Secretary Corporate Services, Department of Education, Transcript of evidence, 7 November 2016, p5.

³⁹ Mr Peter Riordan, Deputy Secretary Corporate Services, Department of Education, Transcript of evidence, 7 November 2016, p5.

... was just not contemplated as being a requirement of the solution at that point in time. The vendors were not saying it was either, so it is like we were flying blindly. We had Accenture, KPMG, and Tribal and SAP Australia, all involved overlooking our processes.⁴⁰

- 2.42 In its submission to the Committee, TAFE NSW made the point that, although the Department had consulted TAFE during development of the business cases, systems delivered under LMBR had not met TAFE NSW business requirements or expectations.⁴¹ Mr Glen Babington, Chief Operating Officer, TAFE NSW, advised that TAFE NSW planned to procure a student management system to address its specific needs, based on lessons learned over the last few years. He explained that one of the key challenges was the disparate sources of revenue which had to be reconciled with enrolments.
- 2.43 Mr Babington further advised that, to help in addressing the operational difficulties being experienced by staff, TAFE NSW was seeking to make processes consistent across the 10 institutes. He said that during the past nine months, TAFE NSW had commenced a data remediation program in order to accomplish this.⁴²
- 2.44 In its Audit Findings, the Audit Office found that the Department had not effectively managed the realisation of planned outcomes and benefits established for the LMBR program. The Auditor-General recommended that the Department must develop a Benefits Realisation Register and ensure that baseline benefits measures were defined and validated.⁴³ At the public hearing, the Committee sought further information from the Department about the baseline and benefits measures contained in the Benefits Realisation Register and whether this was of assistance in implementing Stage 3 of the program.
- 2.45 Mr Mark Grant, Executive Director, Learning Management and Business Reform, reported that there had been considerable work done on the benefits realisation register, including a review of the baseline. He advised that the benefits work was validated by an independent quality assurer provided through PwC audit and assurance services to the steering group. He also confirmed that the benefits register was now in operation and that the software supporting the register included realisation of the benefit against the owner responsible for it as well as generating regular reports to management, the relevant benefit owner, and to the steering group.⁴⁴

Implementation of recommendations 1-8 - Department of Education

- 2.46 The Department accepted all recommendations and reported that they had been implemented, or were on track to completion. The Stage 3 Deployment Business Case was stated to be compliant with central agency requirements. The

⁴⁰ Mr Peter Riordan, Deputy Secretary Corporate Services, Transcript of evidence, 7 November 2016, p5.

⁴¹ Submission 2, TAFE NSW, p2.

⁴² Mr Glen Babington, Chief Operating Officer, TAFE NSW, Transcript of evidence, 7 November 2016, p4.

⁴³ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Executive Summary, p5.

⁴⁴ Mr Mark Grant, Executive Director, Learning Management and Business Reform, Department of Education, Transcript of evidence, 7 November 2016, p4.

Department further stated that Stage 3 is due to be completed by the end of 2017, with benefits accruing to the first group of schools in late 2016. The ongoing implementation is supported by the Department's Enterprise PMO.

- 2.47 Risk management protocols are accounted for in the Stage 3 Business case and the Department is adhering to the relevant Treasury and Government guidelines for the management of major projects. Governance arrangements have been strengthened and verified by independent reviews attesting to structural soundness and effective implementation.
- 2.48 The Department further advised that terms of reference for the governance framework are subject to an annual review process and reviewed as required. In addition, the Department noted that the governance framework provides for the representation of central agency and industry expertise.⁴⁵ As well, the Department has established a consultative Community of Practice for project and program management, including representation from LMBR, to enhance governance across the Department.⁴⁶
- 2.49 A dedicated Program Delivery Office has been established to implement Stage 3 of the LMBR and contract management plans have been established in accordance with the Department's contract management framework. The Department advised that a program has also commenced to recruit experienced procurement and contract management staff. In the case of other significant programs and projects, the Department advised that these are supported by its Enterprise PMO and that there is regular and ongoing staff training in relation to the procurement and contract management framework.⁴⁷
- 2.50 The LMBR program governance structure is oversighted by a multi-agency steering group which establishes clear accountability in relation to the role of members. In addition, the over-arching outcomes of the program are defined in the business case and further detailed outcomes are being built into the program and project documentation. The Schools Division assumed responsibility for the deployment of the LMBR Program in early 2015 and advised that the LMBR project team is responsible for all training, logistical and deployment support activities.⁴⁸
- 2.51 The Department confirmed that it has formally adopted the NSW Benefits Realisation Management (BRM) Framework and recast the program benefits into a newly created benefits register. During the program's life, the LMBR Program Delivery Office is responsible for the realisation of benefits assigned to business owners. On completion of the program, responsibility for ongoing tracking, monitoring, review and validation is transitioned to the Department's Program Management Office.⁴⁹

⁴⁵ Mr Greg Prior, Deputy Secretary, School Operations and Performance, Department of Education, Response to supplementary questions nos. 3 & 4, 21 November 2016.

⁴⁶ Mr Greg Prior, Deputy Secretary, School Operations and Performance, Department of Education, Response to supplementary question no. 5, 21 November 2016.

⁴⁷ Submission 1, NSW Department of Education, p5.

⁴⁸ Submission 1, NSW Department of Education, p6.

⁴⁹ Submission 1, NSW Department of Education, p8.

Implementation of recommendations 1-8 - TAFE NSW

- 2.52 TAFE NSW accepted all recommendations and reported that they had been implemented, or were in progress. Business cases complying with central agency requirements had been prepared and delivered, using templates, checklists and gateway processes. Any new business cases were being developed with a three year return on investment.
- 2.53 At the public hearing, Mr Glen Babington, Chief Operating Officer, TAFE NSW advised that TAFE NSW planned to procure a student management system to address the TAFE's specific business needs, based on the lessons learned during the LMBR implementation.⁵⁰
- 2.54 In relation to risk management, TAFE NSW will quantify risks with a contingent liability as part of their business case assessment, with cost assumptions to manage and mitigate such identified risks. Governance arrangements are being met through the application of the LMBR governance framework for regular business activities.
- 2.55 This has been done in order to ensure more effective financial oversight and collaborative processes for IT decision-making, engaging business and technical specialists in the identification, specification and approval of IT requirements.⁵¹
- 2.56 A range of measures have been developed, or are under development, to ensure that stronger financial oversight applies to future programs. These include specific authorities which are required as part of the program initiation and program plan and business case review processes.
- 2.57 TAFE NSW outlined six specific entities providing oversight within the broader governance processes. These are: the Program Control Board; the Work Stream Steering Committee; the Portfolio Design Authority; the Portfolio Steering Committee; the TAFE Commission Board and Investment Sub-Committee; and the Central Agency Forum. The Central Agency Forum includes representation by NSW Treasury, the Department of Finance, Services and Innovation; the Department of Premier and Cabinet; and the Department of Industry, Skills and Regional Development.⁵²
- 2.58 Contracts with third parties are subject to specific milestones, service agreements and penalty clauses. Business users identify benefits and project outcomes and ensure these are measurable.
- 2.59 Although a central Benefits Realisation Register was developed, it is yet to be implemented, due to a lack of achievable outcomes. TAFE NSW confirmed that it was working to ensure that business cases include a benefits profile, regularly reviewed and validated to ensure that benefits are measurable and realised.⁵³

⁵⁰ Mr Glen Babington, Chief Operating Officer, TAFE NSW, Transcript of evidence, 7 November 2016, p3.

⁵¹ Submission2, TAFE NSW, p4.

⁵² Mr Glen Babington, Chief Operating Officer, TAFE NSW, Response to Supplementary Questions no.1, 16 November 2016.

⁵³ Submission 2, TAFE NSW, p8.

- 2.60 TAFE NSW advised that since the end of the LMBR, its projects are being monitored by means of regular dashboard reports, which are produced and shared among the project managers and key stakeholders. In addition, TAFE NSW said that it was enhancing its PMO function and structure to further strengthen project governance arrangements.⁵⁴

Auditor-General's comments

- 2.61 The Deputy Auditor-General, Mr Tony Whitfield, advised that the Audit Office would conduct a financial audit to ensure that the recommendations have been completed and that it would make further recommendations if necessary. He acknowledged that TAFE NSW was making a great deal of effort to improve the finance system to resolve issues which had led to a qualification on its previous financial statements.⁵⁵

- 2.62 With regard to the lessons to be learned from the LMBR program experience, Mr Whitfield, expressed the view that:

The main issue we would say is that, going forward, when you have large capital projects you need to make sure that you do not focus just on the capital issues, but also on the change management and the training costs—particularly where you are dealing with a large number of schools, where the qualifications and ability of the people in the offices of the schools.....is in administration, but not necessarily in accounting. They do not have the knowledge to deal with some of these things, so it gets a bit daunting for some people to work in that process.⁵⁶

- 2.63 In relation to the Department's reported progress in implementing specific recommendations, the Auditor-General noted that all of the recommendations relating to the LMBR program had been completed. In addition, the Auditor-General acknowledged the commitment of the Department to applying the LMBR recommendations more broadly. The Auditor-General further expressed the view that the actions taken by the Department have adequately addressed the intent of the audit report's recommendations.⁵⁷

- 2.64 In relation to the actions reported by TAFE NSW in response to the recommendations, the Auditor-General pointed out that the Audit report on the LMBR programs did not direct specific recommendations to TAFE NSW. However, the Auditor-General was pleased to note the progress being made by TAFE NSW and its stated commitment to implement the recommendations as they apply to the programs which it is managing.⁵⁸

⁵⁴ Submission 2, TAFE NSW, pp8-9.

⁵⁵ Mr Anthony Whitfield, Deputy Auditor-General, Audit Office of New South Wales, Transcript of evidence, 7 November 2016, p5.

⁵⁶ Mr Anthony Whitfield, Deputy Auditor-General, Audit Office of New South Wales, Transcript of evidence, 7 November 2016, p5.

⁵⁷ Ms Margaret Crawford, Auditor-General, correspondence to Chair of the Public Accounts Committee, dated 27 June 2016.

⁵⁸ Ms Margaret Crawford, Auditor-General, correspondence to Chair of the Public Accounts Committee, dated 27 June 2016.

Committee comment

- 2.65 The Committee is satisfied, from the evidence presented, that the Department of Education has made significant improvements to its project management, risk management, governance and organisational change management practices to ensure that failings in planning and implementation of the LMBR program do not occur in other current or future projects and programs.
- 2.66 The Committee is pleased to learn there is now an enterprise-wide Project Management Office which includes project management methodologies, policies and procedures appropriate to managing a complex, long-term program such as the LMBR. The Committee also notes that the Department has developed a project management framework to support the current and future management of its programs and projects.
- 2.67 In addition, the Committee welcomes the evidence presented by the Department confirming that it has strengthened its governance arrangements. It is also glad to receive the Auditor-General's assurance that the Department has made appropriate responses to the performance audit recommendations and to the changes in the LMBR program environment which have occurred over time.
- 2.68 However, the Committee remains concerned that expenditure in the program was significantly underestimated and that the costs and benefits expected throughout the life of the program were not clearly defined and have not been fully realised. The LMBR has been a large-scale, complex, long-term business transformation program which required the preparation of a rigorous business case. The Committee notes that the Auditor-General found that planning at the outset involved a lot of uncertainties about the detailed requirements of the system and associated cost and timeline.
- 2.69 The anticipated timeframe for implementing the LMBR program was eight years. Due to budget and schedule over-runs, it is now due for completion at the end of 2017. The full duration of the program development and implementation since its approval by the Minister in May 2005 will be 12 years. The Committee notes that a previous NSW Parliamentary review conducted in 2013 deemed that the originally projected eight years was already an unacceptable length of time for any ICT project.⁵⁹
- 2.70 The Committee also holds concerns that the program's expected benefits have not been consistently defined, monitored and tracked over the life of the program. As the Auditor-General has pointed out, investments in new technology and business reform projects must be supported by a business case which adequately assesses the expected benefits against the costs and resources needed. Projects or programs can only be considered successful if they achieve or exceed their expected benefits.⁶⁰

⁵⁹ NSW Legislative Assembly, Public Accounts Committee, Report No 7/55, May 2013, 'Procurement and Management of ICT Services in the NSW Public Sector', <[NSW Legislative Assembly Public Accounts Committee Report - Procurement and Management of ICT Services in the NSW Public Sector](#)>,p13, viewed 10 November, 2016.

⁶⁰ NSW Auditor-General's Report to Parliament, The Learning Management and Business Reform Program, Key Findings, p30.

- 2.71 The Committee shares the concern expressed by the Auditor-General that, although there was a known risk that there might be operational issues, these were not explicitly quantified and arrangements to mitigate them were not made. However, the Committee was reassured by evidence presented at the public hearing confirming that significant steps have been taken by both the Department of Education and TAFE, to provide for change management and training measures in Stage 3 of the LMBR program.
- 2.72 As was pointed out by the Deputy Auditor-General, the main issue was that, with large capital projects such as the LMBR program, it is necessary to make sure that the focus is not just on the capital issues, but also on the change management and training costs.⁶¹
- 2.73 Also raised at the public hearing was that significant overruns in implementation deadlines and budgets occurred, notwithstanding the expert advice and support of four international companies, including software vendors and management consultants, which were contracted to the Department of Education on the basis of their extensive and relevant experience.⁶²
- 2.74 The Committee, nevertheless, relies on the Auditor-General's assessment of the Department's progress to date on implementation of the recommendations of the Audit Office as satisfactory. The Auditor-General has pointed, in particular, to the progress and commitment shown by the Department in applying the lessons learned from the LMBR more broadly and to the fact that the remedial measures which have been taken to date are addressing the intent of the audit recommendations.
- 2.75 In view of the considerable over-run in the cost of the LMBR program, and the fact that the Stage 3 business case was received outside the timeframe for the 2014 Performance Audit and therefore did not form part of the conclusions for that audit, the Committee was reassured to learn at the public hearing that the Audit Office plans to conduct a financial audit and it will make further recommendations if necessary.
- 2.76 The Committee joins with the Auditor-General in expressing appreciation that TAFE NSW has provided this inquiry with detailed comments on its progress and that it has expressed its commitment to implementing the recommendations as they apply to programs being managed within its jurisdiction.

Recommendation 1

The Committee recommends that the Auditor-General reviews, at the appropriate time, Stage 3 of the Learning Management Business Reform Program implementation with a view to identifying whether refinements to the project management, governance and change management processes have been effective.

⁶¹ Mr Anthony Whitfield, Deputy Auditor-General, Audit Office of New South Wales, Transcript of evidence, 7 November 2016, p5.

⁶² Mr Peter Riordan, Deputy Secretary, Corporate Services, Department of Education, Transcript of evidence, 7 November 2016, p5.

Recommendation 2

The Committee recommends that the Department of Education provides a formal report to the Auditor-General after completion of the Learning Management Business Reform Program implementation in 2017, identifying any additional challenges arising and the steps taken to address them, as well as any other relevant issues which may serve as lessons for the planning and implementation of future programs and projects.

Chapter Three – Security of Critical IT Infrastructure

Introduction

- 3.1 Systems used to control critical IT infrastructure are known as process control systems or operational technology. In the last two decades, the integration of process control systems with other networks has increased the risk of unauthorised users obtaining access to these systems and potentially threatening the operation of critical infrastructure.⁶³
- 3.2 Given the importance of critical IT Infrastructure in operating and maintaining traffic signal networks and the Sydney Metropolitan water supply system, the Auditor-General conducted a performance audit to examine the security and integrity of the current system.

The performance audit

- 3.3 The Auditor-General examined whether systems used to operate and manage critical IT Infrastructure in the NSW Traffic signal network and the Sydney metropolitan water supply were secure and whether there are sound recovery arrangements in place if the systems fail⁶⁴. The main agencies reviewed in the Audit were Transport for NSW (TfNSW), Roads and Maritime Services (RMS) and Sydney Water Corporation (SWC).
- 3.4 In addition, the Audit examined whether each respective agency was effectively managing security risks. Effective risk management involves implementing an Information Security Management System (ISMS) which would be regularly reviewed by an accredited external provider.⁶⁵ An ISMS is an integrated set of policies, plans, procedures and processes for managing information security risks.

Transport for NSW and Roads and Maritime Services

- 3.5 The Audit examined systems utilised by the Transport Management Centre (TMC) with a focus on the Sydney Coordinated Adaptive Traffic System (SCATS) which monitors and/or controls approximately 4,000 sets of traffic lights from a central server and subordinate regional servers. SCATS is used to synchronise traffic signals and monitor congestion in order to optimise traffic flows.⁶⁶
- 3.6 Due to the overlapping responsibilities in the security of critical IT Infrastructure, TfNSW and RMS provided a joint response to the Auditor-General's report.

⁶³ Audit Office of New South Wales Auditor-General Report, Performance Audit, Security of Critical IT Infrastructure: Transport for NSW, Roads and Maritime Service, Sydney Water Corporation, tabled 21 January 2015, <[NSW Auditor-General's Report - Security of Critical IT Infrastructure](#)>, viewed on 28 November 2016, Executive Summary, p2.

⁶⁴ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, Executive Summary, p2.

⁶⁵ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p11.

⁶⁶ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p9.

Sydney Water

- 3.7 The Audit also examined Sydney Water Corporation's Supervisory Control and Data Acquisition System (SCADA). SCADA technology is used to monitor and control the operation of reservoirs, water and wastewater pumping stations and other infrastructure over a wide area network throughout greater Sydney.⁶⁷

The Department of Finance, Services and Innovation

- 3.8 Although the Audit did not examine DFSI, the Auditor-General made recommendations in relation to DFSI disseminating the Audit report's findings and undertaking a regular review to ensure that the relevant agencies comply with the Digital Information Security Policy.⁶⁸ DFSI is responsible for a whole of Government reform in information and communications technologies.⁶⁹

Audit conclusions

- 3.9 The Auditor-General made five recommendations to Transport for NSW and Roads and Maritime Services, five recommendations to Sydney Water Corporation and six recommendations to DFSI and other Government agencies with critical IT Infrastructure.

Transport for NSW and Roads and Maritime Services

- 3.10 The Auditor-General concluded that the controls used to prevent, detect and respond to security breaches were only partially effective and unlikely to support the goal of a timely response to limit any potential damage to business systems.
- 3.11 The Audit also found that the risk management process of the Transport Management Centre was only partially effective, as it did not extend to the whole traffic light environment and while the risk management plan accounted for strategic level risks, it did not cover all operational risks.⁷⁰

Oversight and monitoring of the security of process control systems and their environment

- 3.12 According to the Audit findings, while controls have been implemented to limit a number of risks, the protection environment requires improvement to defend against targeted attacks. For example, there is a potential for unauthorised access to sensitive information and systems that could result in traffic disruptions, and even accidents in one particular section of the road network.
- 3.13 Due to the limited scope of the ISMS, confined to the TMC, established controls were only partially effective in detecting and preventing incidents. This was therefore unlikely to support the goal of a timely response to limit the impact on traffic management.

⁶⁷ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p9.

⁶⁸ Submission 6, Department of Finance, Services and Innovation, p2.

⁶⁹ Department of Finance, Services and Innovation, Annual Report 2015/16, p12.

⁷⁰ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p11.

- 3.14 TfNSW acknowledged that their ISMS was limited in scope and, in conjunction with RMS, ensured they would find the best way to cover all appropriate components of the Traffic Management System.⁷¹
- 3.15 The Auditor-General noted that while there was a risk management process in place to document strategic level risks, it did not account for all operational level risks. For instance, poor password practices and a lack of internet web filtering had not been included in the risk register and this limited the agencies' ability to routinely identify, evaluate and mitigate risks.
- 3.16 Furthermore, the Audit found that there was not a formalised approach to assess security alerts. Subsequently, the risks of security vulnerabilities may not have been reliably assessed or actioned when necessary.⁷²
- 3.17 At the time of the Auditor-General's report publication, TfNSW and RMS acknowledged the inadequacy of their current systems and advised that a Security Monitoring and Assessment (SMA) Program would be implemented in two years.⁷³

Network architecture

- 3.18 The Auditor-General also found that although security zones had been created across the network, the separation of the zones was only partially effective.⁷⁴ A security zone is an area within a network occupied by a group of systems and components with similar requirements for the protection, functions and characteristics of those requirements. For instance, a higher level security zone would typically have more firewalls than a low level security zone.
- 3.19 However, the Auditor-General concluded there were insufficient access controls between the network zones (i.e. a higher security zone would have additional access controls to allow access for authorised staff.) At the time of the Auditor-General's report, TfNSW in conjunction with RMS stated they would be reviewing their security zoning model.⁷⁵

Operational, technical and physical controls

- 3.20 The Audit report found that while a range of controls were adequately managed, there were areas which required improvement. These included the physical lock mechanisms for roadside traffic cabinets, as well as further training for Traffic Management Centre staff on the appropriate actions to be taken following a security breach of their traffic systems.

⁷¹ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p11.

⁷² NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p12.

⁷³ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p12.

⁷⁴ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p12.

⁷⁵ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p13.

- 3.21 At the time of the Audit, TfNSW advised they would improve the physical locking mechanism for road side cabinets and provide additional training for TMC staff to enhance their incident response skills.⁷⁶

Managing the risk to business continuity, including an emergency response capability

- 3.22 The Audit report also noted that while the Traffic Management Centre could adequately respond to an isolated incident, there were concerns about whether it would be able to address an incident if the main data centre was disabled. This was because a separate disaster recovery site was yet to be commissioned.⁷⁷
- 3.23 In the course of the Audit, TfNSW advised that the TMC had identified the risk and was progressing with developing another site. The Auditor-General noted, however, that the development was delayed from its original schedule. The Auditor-General also found that whereas roles and responsibilities were defined for responding to security incidents, there was “no evidence that staff received the required training”⁷⁸ for responding to real or suspected security incidents.
- 3.24 The Auditor-General concluded that a business continuity plan was in place for the TMC, but that the disaster recovery procedures for information systems were incomplete and did not include timeframes.
- 3.25 TfNSW advised that the business continuity testing was successful on an alternative TMC in September 2014 and SCATS disaster recovery testing was carried out during November 2014. It also advised that the TMC procedures, including recovery plans, would be reviewed and updated by February 2015.⁷⁹

Sydney Water

- 3.26 The Audit report concluded that Sydney Water Corporation is adequately equipped to deal with the impact of security incidents with well developed testing procedures for security incidents and major outages, and the provision of relevant training for staff. While SWC’s response capability is good, the Auditor-General noted that SWC was limited by its inability to detect all security breaches.⁸⁰

Oversight and monitoring of security of process control systems and their environment

- 3.27 The Auditor-General found that SWC was yet to formally document an appropriate level of security for the Supervisory Control and Data Acquisition Programs (SCADA). The absence of a comprehensive risk management plan and the lack of documentation of all risks, results in incomplete reports to management of current risks.⁸¹

⁷⁶ NSW Auditor-General’s Report to Parliament, Security of Critical IT Infrastructure, p14.

⁷⁷ NSW Auditor-General’s Report to Parliament, Security of Critical IT Infrastructure, p16.

⁷⁸ NSW Auditor-General’s Report to Parliament, Security of Critical IT Infrastructure, p16.

⁷⁹ NSW Auditor-General’s Report to Parliament, Security of Critical IT Infrastructure, p16.

⁸⁰ NSW Auditor-General’s Report to Parliament, Security of Critical IT Infrastructure, Executive Summary, p3.

⁸¹ NSW Auditor-General’s Report to Parliament, Security of Critical IT Infrastructure, p17.

- 3.28 The Audit also reported that there was a limit to assurances regarding the adequacy of the security of process control systems at Prospect Treatment Plant (operated by third party company, Degremont) because the mandate did not extend to 'directly examining controls in third party providers.'⁸²
- 3.29 The Auditor-General concluded that SWC lacked a formalised procedure for assessing security alerts and that the assessment process was ad hoc and did not provide assurances that the security risks were reliably assessed.⁸³

Network architecture

- 3.30 The Audit report indicated that the IT network security was only able to manage selective threats to the system and that a comprehensive security plan/architecture was yet to be developed. The Auditor-General noted that SWC had created a SCADA network security policy without an implementation plan in place.
- 3.31 The Auditor-General also found SWC's separation of security zones was not sufficient to protect the system from targeted malicious attacks. However, such an attack would only be possible if there was a 'level of physical access and knowledge of SWC'.⁸⁴
- 3.32 SWC advised the Auditor-General that it was adopting the TISN security architecture guidelines in terms of gateways and was looking into investigating a range of solutions to 'enhance the effectiveness of security zoning'.⁸⁵

Operational, technical and physical controls

- 3.33 The Auditor-General found that while the physical security level of the SWC main office and treatment plants were good, the security of the process controller should be improved. The report noted that the security of the server's workstations were well below the recommendations of Microsoft's TISN Critical Infrastructure Security Guidelines.
- 3.34 The Auditor-General was satisfied with the amount of training provided to staff about how to respond and manage security incidents, the development of a security incident response plan and business continuity management tools.⁸⁶

Auditor-General's recommendations

- 3.35 The Audit report made ten recommendations to Transport for NSW, Roads and Maritime Services and Sydney Water Corporation to be implemented by July 2015, five to TfNSW/RMS and five to SWC.
- 3.36 In addition, the Audit report made 6 recommendations to DFSI and other Government Agencies with critical Infrastructure. These are detailed in the following table:

⁸² NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p17.

⁸³ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p17.

⁸⁴ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p19.

⁸⁵ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p19.

⁸⁶ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, p21.

Table 2 - Recommendations made by the Auditor-General in Report No. 248: Security of Critical IT Infrastructure⁸⁷

Transport for NSW/Roads and Maritime Services

No.	Recommendation
1	Extend the Information Security Management System (ISMS) to oversee the security of the complete traffic management environment, including operational level risks.
2	Develop a comprehensive security plan for the whole environment.
3	Improve the identification, assessment and recording of security risks.
4	Improve logging and monitoring of security related events regarding access to applications, operating systems and network access.
5	Improve security zoning to better protect the system from potential threats.

Sydney Water Corporation

No.	Recommendation
6	Extend the Information Security Management System (ISMS) to oversee the security of the process control environment, including the management of operational level risks and controls.
7	Develop a comprehensive security plan for the whole environment (building on SWC's SCADA security policy).
8	Document and undertake additional risk mitigation to reduce risks to acceptable levels, and clearly document what levels of risk can be tolerated.
9	Obtain current documentary evidence to indicate that the risks associated with the security of process control systems at Prospect Treatment Plant are been mitigated to acceptable levels.
10	Determine the appropriate controls to limit unauthorised access to computer accounts including SCADA application software and computer operating systems.

Other Government agencies with critical infrastructure

No.	Recommendation
11	The organisation's ISMS covers all business processes and technology including systems used to control infrastructure.
12	Compliance with the NSW Government Digital Information Security Policy (DISP). For State Owned Corporations, this requirement should be incorporated into their Statements of Corporate Intent.
13	A comprehensive security plan is maintained for technical systems supporting critical government services where the system requires additional protection above the baseline controls utilised for the remainder of the agency's systems.
14	Management receives and acts on information security/availability risk assessments that define the current and target risk levels.

Department of Finance, Services and Innovation:

16	Ensure lessons learnt in this audit are communicated to all relevant government agencies
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⁸⁷ NSW Auditor-General's Report to Parliament, Security of Critical IT Infrastructure, Executive Summary, p3-4.

17	Undertake regular reviews to ensure that relevant agencies are complying with the Digital Information Security Policy and that the policy is meeting its objectives.
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Agency responses

- 3.37 Transport for NSW and Roads and Maritime Services accepted all recommendations in the Auditor-General's report and welcomed the opportunity to enhance prevention and detection to effectively respond to security threats.
- 3.38 Sydney Water Corporation accepted four of the five recommendations and rejected recommendation nine, requiring SWC to obtain documentary evidence to indicate the risks associated with the security of process control systems at Prospect Treatment Plant. SWC stated that while the recommendation implied there was an issue with risk management processes in the Prospect Treatment Plant, it would work together with Degremont to ensure the appropriate mitigation processes were in place.⁸⁸
- 3.39 In the letter addressed to the Chair, dated 9 September 2016, the Auditor-General expressed satisfaction with the security of the third-party systems.
- 3.40 The Department of Finance, Services and Innovation accepted all Audit recommendations.⁸⁹

The Committee's examination

- 3.41 On 18 February 2016, the Committee Chair wrote to Transport for NSW, Roads and Maritime Services and Sydney Water Corporation asking each agency to provide the Committee with submissions outlining their response to the recommendations made in the *Auditor-General's Report No.248 Security of Critical IT Infrastructure*.
- 3.42 The Committee also wrote to NSW Treasury and the Office of Finance and Services on 4 July 2016, seeking a response to the Audit recommendations. NSW Treasury responded on 11 August 2016, advising that, as a result of administrative changes, the Office of Finance and Services ceased to be part of the Treasury cluster on 1 July 2015.⁹⁰ Consequently, a response was received from the Department of Finance, Services and Innovation on 4 August 2016.
- 3.43 The Committee received a response from TfNSW/RMS on 22 August 2016 and SWC provided a response on 8 August 2016. The Chair of the Committee requested the Auditor-General's comments on the subsequent submissions from TfNSW/RMS and SWC. The Auditor-General provided comments on 9 September 2016.⁹¹

⁸⁸ Submission 5, Sydney Water Corporation

⁸⁹ Submission 6, Department of Finance, Services and Innovation, p2.

⁹⁰ Office of Finance and Services, Annual Report 2014/15, Secretary's message, p4.

⁹¹ Ms Margaret Crawford, Auditor-General, correspondence to Chair of the Public Accounts Committee, dated 9 September 2016.

- 3.44 After considering the agency responses and the further written comments provided by the Auditor-General, the Committee determined that it would call for additional evidence at a public hearing from representatives of TfNSW and RMS. The public hearing was on 7 November, 2016. The names of witnesses are provided in Appendix Two.
- 3.45 Following further consultations with agency representatives regarding the sensitive nature of the Audit and the potential for compromising highly critical IT security systems, the Committee resolved to conduct this hearing *in camera*.

Implementation of recommendations

- 3.46 As previously outlined, the Committee was broadly satisfied with SWC's response to the Auditor-General's recommendations and determined that it would take further evidence from TfNSW and RMS. This view was reinforced in the Auditor-General's comments on the Audit, which stated that the actions undertaken adequately addressed the intent of the recommendations.

Implementation of recommendations 1-5 – Transport for NSW & Roads and Maritime Services

- 3.47 These recommendations involved the extension of the Information Security Management System by developing a comprehensive security plan, improving identification, assessment and recording of security risks and security alerts and improving access and security zoning.
- 3.48 In their combined response to the Audit, TfNSW/RMS advised that all actions had been completed to satisfy the Audit requirements. This included a formalised Security Management Plan and associated risk management activities as part of the ISMS framework.⁹²
- 3.49 In addition, TfNSW/RMS had established a Transport Cluster Technology (TCT) Security and Risk (S&R) Committee. The Committee would provide oversight on risk management practices including identification and recording of operational IT risks across the transport cluster.⁹³
- 3.50 It was also noted in the TfNSW/RMS response that the security zoning had been tightened and monitoring of logging security related events regarding access to applications, operating systems and networks would be fed to a central security monitoring tool.⁹⁴
- 3.51 Given the sensitivity of the information regarding the security of critical IT Infrastructure, the Committee received additional detailed information on implementation during the *in-camera* hearing.

⁹² Submission 4, Transport for NSW, p2.

⁹³ Submission 4, Transport for NSW, p3.

⁹⁴ Submission 4, Transport for NSW, p3.

Implementation of recommendations 6-10 – Sydney Water Corporation

- 3.52 In response to the Audit, SWC accepted four of the five recommendations and rejected recommendation nine.⁹⁵ The reason for this rejection is covered earlier in the Chapter.
- 3.53 SWC reported it had completed action on implementing all other recommendations in accordance with the agreed timetable. These actions included: extending the ISMS to oversee the security process environment; developing a comprehensive security plan; documenting and undertaking additional risk mitigation measures; and determining the appropriate controls to limit unauthorised access to computer accounts including SCADA application software.⁹⁶

Implementation of recommendations 11-16 – Department of Finance, Services and Innovation and other Government agencies with critical infrastructure

- 3.54 In response to the Audit, DFSI accepted all recommendations.
- 3.55 DFSI advised they had completed action on implementing the recommendations. These actions included: disseminating the findings of the Audit report through the Digital Information Security Community of Practice; and undertaking regular reviews of relevant agencies to ensure they complied and met the objectives of the Digital Information Security Policy.⁹⁷

Committee Comment

- 3.56 In completing its review, the Committee is broadly satisfied that the relevant agencies have fulfilled the requirements of the Auditor-General's recommendations. The agency responses to the Audit report and comments provided by the Auditor-General indicated that appropriate measures had been taken to improve internal and external security.
- 3.57 While the Committee was satisfied that all relevant agencies had fulfilled the Auditor-General's recommendations, there remain some areas requiring further attention. These relate to the creation of a formal policy to identify, assess and record security risks and the provision of more information about the development of a separate TMC disaster recovery site.
- 3.58 The Committee appreciates the cooperation from all agencies in providing detailed comments on the progress of their recommendations and to TfNSW and RMS for elaborating on their responses to the Audit.

Recommendation 3

The Committee recommends that Transport for NSW and Roads and Maritime Services provide the Auditor-General with a formalised policy regarding the identification, assessment and recording of IT security risks.

⁹⁵ Submission 5, Sydney Water Corporation, p3-7.

⁹⁶ Submission 5, Sydney Water Corporation, p3-7.

⁹⁷ Submission 6, Department of Finance, Services and Innovation, p2.

Recommendation 4

The Committee recommends that Transport for NSW and Roads and Maritime Services provide a progress report to the Auditor-General regarding the development of a separate disaster recovery site for the Traffic Management Centre system.

Chapter Four – Large construction projects: Independent assurance

Introduction

4.1 The NSW Government procurement policy framework incorporates a capital project assurance system. The system is designed to provide independent assurance to sponsor agencies and the government about the viability of a capital project throughout its life cycle.

4.2 The Audit report examined a selection of large construction projects (costing over \$50 million) from various agencies to:

*‘assess the effectiveness of the procurement policy framework in providing independent assurance that projects address priority needs, the best options to address these needs are selected, and costs are controlled well and variations justified. The audit also sought to identify reasons for deviation from project budgets’.*⁹⁸

The performance audit

4.3 The Audit focused on the following key framework assurance elements:

- Gateway reviews by independent reviewers at key stages of a project’s life cycle against seven criteria: service delivery; affordability/value for money; sustainability; governance; risk management; stakeholder management; and change management.
- Sponsor agencies reporting to and being monitored by NSW Treasury for capital projects costing less than \$100 million and by Infrastructure NSW (INSW) for capital projects costing \$100 million or more.⁹⁹

4.4 A total of 17 projects were examined within six agencies.

Audit conclusions

4.5 The main findings of the Audit report were that while the current procedures of providing independent assurance to agencies and government had evolved, more independent assurance and compliance consistency was required.

4.6 Low compliance with Gateway requirements was evident for new construction projects, as earlier identified by a NSW Commission of Audit in 2012 and highlighted for new construction projects in the 2014-15 Budget Papers.¹⁰⁰

⁹⁸ Audit Office of New South Wales Auditor-General Report, Performance Audit, Large construction projects: Independent assurance: NSW Treasury, Infrastructure NSW, Transport for NSW, NSW Health, Roads and Maritime Services, Sydney Trains, Venues NSW and Department of Primary Industries, tabled 7 May 2015, <[NSW Auditor-General’s Report - Large construction projects: Independent assurance](#)>, viewed on 15 December 2016, p2.

⁹⁹ NSW Auditor-General’s Performance Audit Report; Large construction projects; Independent assurance, May 2015, p2.

- 4.7 In December 2014, following a review conducted by INSW, the Government agreed on an improved process for independent assurance of major capital projects costing \$100 million or more. This was stated to potentially alleviate the Auditor-General's concerns about such projects.
- 4.8 The Performance Audit also stressed that there was a need to improve independent assurance for large capital projects costing less than \$100 million. While responsibility for compliance on individual projects lies primarily with sponsor agencies, the Audit report found that Treasury needs to ensure the system for projects below \$100 million is working effectively and providing adequate assurance.¹⁰¹

Auditor-General's recommendations

- 4.9 The Auditor-General made six recommendations in total. Four recommendations were addressed to NSW Treasury and two were addressed to Infrastructure NSW. One recommendation was directed to both NSW Treasury and Infrastructure NSW. These are set out in the table below:

Table 3 - Recommendations made by the Auditor-General in Report No. 252: Large construction projects: Independent assurance¹⁰²

NSW Treasury

No.	Recommendation
1	review the capital project assurance system for capital projects costing less than \$100 million, including the Gateway review process and its monetary thresholds, to introduce a greater focus on project risk, noting that cost is only one component of risk (by December 2015).
2	enhance assurance processes surrounding major scope variations (by December 2015).
3	issue documentation which clarifies the government's decisions on Gateway reviews for large capital project assurance (by July 2015).
4	report publicly on compliance with Gateway review and other reporting and monitoring requirements for capital projects costing less than \$100 million (by December 2015).

Infrastructure NSW

No.	Recommendation
5	report publicly on implementation of, and compliance with, the Investor Assurance Framework (by December 2015).

NSW Treasury and Infrastructure NSW

No.	Recommendation
6	regularly monitor and evaluate the effectiveness of the government's large capital project external assurance arrangements.

¹⁰⁰ NSW Auditor-General's Performance Audit Report; Large construction projects; Independent assurance, May 2015, p2.

¹⁰¹ NSW Auditor-General's Performance Audit Report; Large construction projects; Independent assurance, May 2015, p2.

¹⁰² NSW Auditor-General's Performance Audit Report; Large construction projects; Independent assurance, May 2015, p4.

Agency responses

- 4.10 NSW Treasury provided a consolidated response to this performance audit on behalf of NSW Treasury and INSW. The response acknowledged and accepted the Auditor-General's report findings and provided a progress report outlining the implementation of the recommendations.

The Committee's examination

- 4.11 As part of the Committee's follow up of the performance audit, the Chair of the Public Accounts Committee, Mr Bruce Notley-Smith MP, wrote to both NSW Treasury and Infrastructure NSW on 16 May 2016 inviting responses to the Auditor-General's recommendations. NSW Treasury provided a consolidated submission on 26 June 2016, which was forwarded to the Auditor-General, who provided further comments on 8 September 2016.
- 4.12 After considering the agency response and the further written comments provided by the Auditor-General, the Committee determined that it would call for additional evidence at a public hearing to be conducted on 7 November, 2016. The names of witnesses are provided in Appendix Two. A full transcript of the hearing is available on the Committee's webpage.

Implementation of Recommendations

- 4.13 **Recommendation 1**, that NSW Treasury review assurance processes for capital projects less than \$100 million and introduce a greater focus on project risk, was accepted.
- 4.14 In the consolidated response, NSW Treasury stated that the Government agreed to an enhanced project assurance vehicle, vesting responsibilities for its carriage with INSW. This involved moving responsibility for all capital assurance for projects above \$10 million to INSW and establishing an Investor Assurance Committee, convened and chaired by INSW.¹⁰³
- 4.15 In October 2015, a tiered, risk based approach to infrastructure assurance was developed by INSW and endorsed in principle by Government. In addition, a new Infrastructure Investor Assurance Framework (IIAF) was developed for consideration by Government. The new framework has been canvassed with the Auditor-General.¹⁰⁴
- 4.16 NSW Treasury is also developing a revised Gateway Policy after conducting a review process in late 2015 and early 2016.¹⁰⁵
- 4.17 During the hearing, INSW was asked to provide comments on how it compares with other jurisdictions in relation to monetary thresholds for mandatory gateway reviews. INSW advised that risk profiling starts at \$10 million, although assurance requirements are not applied to all projects. The process allows the

¹⁰³ Submission 12, NSW Treasury

¹⁰⁴ Submission 12, NSW Treasury

¹⁰⁵ Submission 12, NSW Treasury

identification of low value projects that could still carry a high risk, while concentrating on those with a high profile and high risk.¹⁰⁶

- 4.18 The Auditor-General expressed satisfaction with the expanded IIAF and noted the INSW was clearly responsible for projects between \$10 million and \$100 million.¹⁰⁷
- 4.19 **Recommendation 2**, that NSW Treasury should enhance assurance processes surrounding major scope variations, was accepted.
- 4.20 NSW Treasury confirmed that the policy framework had been completed, requiring variations of greater than 10% in the approved capital cost of a project to be approved by the Treasurer, even if variations are within the agencies.¹⁰⁸
- 4.21 INSW advised that variations to projects were to be incorporated within the IIAF, using three tools: Gateway Reviews and periodic health checks; regular project reporting and dealing with major scope variations; and ongoing monitoring.¹⁰⁹
- 4.22 The Auditor-General noted concerns with the inconsistencies surrounding capital expenditure authorisation limits and suggested monetary limits should remain unchanged.
- 4.23 During the hearing, when questioned about authorisation limits and Treasury approvals for all projects costing over \$10 million, NSW Treasury stated that budget control frameworks were strengthened and therefore were in line with the IIAF. It was also acknowledged that capital expenditure should be managed internally within individual agencies expenditure authorisation limits.¹¹⁰
- 4.24 **Recommendation 3**, that NSW Treasury issue documentation which clarifies the Government's decisions on Gateway Reviews for large capital project assurance, was accepted.
- 4.25 The Government has agreed to a central point of accountability across all capital projects and programs and has transferred responsibility for all projects over \$10 million to INSW.
- 4.26 Following authorisation by Cabinet, an Investor Assurance Committee has been established and implemented with advice provided to all agencies. During the hearing, INSW outlined that as part of the implementation process, extensive consultation had been undertaken with agencies to provide details of individual requirements within the framework. Infrastructure NSW went on to comment that the framework had addressed the Auditor-General's key recommendations

¹⁰⁶ Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW, Transcript of evidence, 7 November 2016, p8.

¹⁰⁷ Auditor-General letter to Chair dated 8 September 2016 – Follow-up of Auditor-General's Reports

¹⁰⁸ Submission 12, NSW Treasury

¹⁰⁹ Submission 12, NSW Treasury

¹¹⁰ Ms Caralee McLeish, Deputy Secretary Fiscal and Economic Group, NSW Treasury, Transcript of evidence, 7 November 2016, p7.

and that five qualitative criteria were implemented as part of the assessment process.¹¹¹

4.27 The Auditor-General was pleased with expansions made to the IIAF and made no further comments.

4.28 **Recommendation 4**, that NSW Treasury report publicly on compliance with Gateway review and other reporting and monitoring requirements for capital projects costing less than \$100 million, was given qualified acceptance.

4.29 In acknowledging the merits of public reporting, INSW drew attention to the confidential nature of the review process. At the public hearing, INSW voiced support for public transparency and gave a commitment to reporting as part of their annual report process, while protecting sensitive project related information.¹¹²

4.30 INSW were asked at the hearing to elaborate on their response relating to IIAF's balance between disclosure and confidentiality to maximise value. INSW reconfirmed that their reporting would encompass the number of projects registered and the number of gateway reviews conducted by tier, in order to assure the public that major infrastructure projects were being monitored and reviewed appropriately.

4.31 Extensive changes have been made by INSW in the areas of reporting and transparency. In discussing the various types of reporting implemented, INSW and NSW Treasury were committed to ensuring that the Government's investor assurance arrangements were operating optimally and that they represented best practice in order to achieve maximum value.¹¹³

4.32 **Recommendation 5**, that Infrastructure NSW report on implementation of, and compliance with, the Investor Assurance Framework, was accepted.

4.33 At the public hearing, both agencies were asked to report on the levels of compliance regarding assurances. This was addressed by INSW as follows:

The framework has been progressively developed and implemented by Infrastructure NSW between June 2015 and June 2016, at which time it was fully operational and endorsed by government. An NSW Treasury circular issued on 25 July this year confirmed the framework as the applicable policy for capital project assurance. As the policy owner, NSW Treasury reviewed the framework before it was finally endorsed by government. Following this, Infrastructure NSW and NSW Treasury have continued to work closely to facilitate the assurance processes and on ongoing compliance.¹¹⁴

4.34 The Auditor-General expressed satisfaction with the implementation to date.

¹¹¹ Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW, Transcript of evidence, 7 November 2016, p8.

¹¹² Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW, Transcript of evidence, 7 November 2016, p7.

¹¹³ Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW Transcript of evidence, 7 November 2016, p7.

¹¹⁴ Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW Transcript of evidence, 7 November 2016, p6.

- 4.35 **Recommendation 6**, that NSW Treasury and INSW regularly monitor and evaluate the effectiveness of the government's large capital project external assurance arrangements, was accepted.
- 4.36 In its response, INSW reported that following the first 12 months of operation after finalisation of the IIAF, it will review its implementation in consultation with NSW Treasury, Department of Premier and Cabinet (DPC) and relevant delivery agencies. This will constitute part of the performance evaluation process, while reporting to Cabinet, IIAC, the INSW Board and Treasury, as appropriate.
- 4.37 At the public hearing, INSW explained that a governance committee had been established to oversee the panel undertaking gateway reviews with twice yearly reports focusing on trends and analysis of key issues gathered. INSW further advised:
- ...We have quite a strong commitment to doing that self-monitoring along the way to make sure that we are informing Cabinet of our progress and to ensure that we are capturing the lessons learned along the way. We will be working closely with Treasury at the end of the first full year of operation to make sure that that performance monitoring of our own efforts under the assurance have led to the improvements that we want to see.¹¹⁵
- 4.38 NSW Treasury also commented that close monitoring of IIAF would be undertaken in conjunction with INSW, should any issues arise that needed to be improved.¹¹⁶
- 4.39 INSW told the Committee that, as the framework was only endorsed by Cabinet in June 2016, the first initial formal review will commence on 1 July 2016. The reporting will cover a broad range of areas and be forwarded to Cabinet, IIAC, INSW and NSW Treasury as appropriate.
- 4.40 The Auditor-General considered the response to the audit as being positive and satisfactory.

Committee comment

- 4.41 The Committee commends the work done by INSW in the areas of risk management and the implementation of the IIAF. This is an evolving area, and the Committee appreciates the willingness of INSW and NSW Treasury to improve their processes and outcomes in the achievement of this objective.
- 4.42 The Committee also notes the Auditor-General's positive feedback on the responses provided by the agencies and the progress undertaken.¹¹⁷

¹¹⁵ Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW Transcript of evidence, 7 November 2016, p9.

¹¹⁶ Ms Karen Sanderson, Executive Director, Fiscal Estimates and Financial Reporting, NSW Treasury, Transcript of evidence, 7 November 2016, p9.

¹¹⁷ Ms Margaret Crawford, Auditor-General, Audit office of NSW, Transcript of evidence, 7 November 2016, p9.

Chapter Five – Government Advertising 2015

Introduction

- 5.1 Government advertising is used to provide public information about government services and programs and to drive health and community safety promotion messages. The advancement of government programs and activities in advertising and communication campaigns is subject to the provisions of the *Government Advertising Act 2011* (the Act), associated regulations and government guidelines.
- 5.2 Government advertising includes all types of media and, under the Act, prohibits party political material and direct references to Members as well as obliging adherence to strict accountability standards in relation to cost. In addition, the Act does not permit the targeting of specific groups for ridicule or disparagement.¹¹⁸

The performance audit

- 5.3 The Audit covered the extent to which advertising and communications activities in 2015 were managed in a way that is accountable, transparent and in compliance with relevant policies and guidelines. The main agencies reviewed in the Audit were the Department of Premier and Cabinet and those in the broader Trade and Investment, Regional Infrastructure and Services (DTIRIS) cluster.
- 5.4 In addition, the Audit examined the extent to which the content or other circumstances of selected government advertising campaigns breached the prohibition on political advertising in the Act.¹¹⁹
- 5.5 Whereas the Department of Premier and Cabinet (DPC) coordinates and oversees all government advertising, individual agencies are accountable for their own compliance with relevant legislative and regulatory conditions and guidelines. This includes requirements for accuracy of information provided, grounded in demonstrated analysis and research, and cost efficiency and effectiveness in achieving a public purpose.
- 5.6 As well as DPC, the scope of the performance report covered agencies in the DTIRIS cluster. In the three years to 2013-14, DPC estimated the value of DTIRIS' campaign advertising expenditure to be \$64.6 million, or around 33% of the NSW government's total campaign advertising expenditure. The Audit provided

¹¹⁸ Audit Office of New South Wales Auditor-General's Report, Performance Audit, Government Advertising: Department of Premier and Cabinet, Destination NSW, Sydney Opera House, Department of Trade and Investment, Regional Infrastructure and Services, tabled 22 June 2015, <[NSW Auditor-General's Report - Government Advertising](#)>, viewed on 15 December 2016, p2.

¹¹⁹ NSW Auditor-General's Performance Audit Report; Government advertising, June 2015, p9.

detailed examination of the advertising activities of Destination NSW (DNSW) and the Sydney Opera House (SOH).¹²⁰

- 5.7 The Audit looked at whether DTIRIS cluster agencies had established adequate policies and procedures for campaign advertising, digital media, sponsorships, partnerships, and other similar arrangements. The Audit report also made specific reference to the effectiveness of information systems in meeting agency accountability obligations by reporting on relevant and timely information for advertising and communications activities and costs.

Audit conclusions

- 5.8 The Audit found that the current regulatory framework is adequate to hold agencies to account for ensuring that their proposed advertising activities are necessary, cost effective and comply with government advertising requirements. At the same time, the Audit report identified a number of weaknesses in how the framework is applied.
- 5.9 Furthermore, the Auditor-General considered that DPC's role in monitoring implementation of government advertising obligations requires improvement and that unclear and inconsistent application of these requirements makes it hard for all agencies to comply.
- 5.10 As well as the need for improved DPC compliance monitoring, the Audit highlighted shortcomings in peer review and approval processes, inadequate transparency and accountability and a lack of consistency in established policies and procedures across agencies. The need for better strategic communication planning with key performance indicators was identified as critical to achieve audit objectives and to minimise risk.¹²¹

Auditor-General's recommendations

- 5.11 The Audit report made 25 recommendations to be implemented by December 2015: eight of which were addressed to the DPC; six to the SOH; six to DNSW; and five to the DTIRIS cluster agencies. These are detailed in the following table:

Table 4 - Recommendations made by the Auditor-General in Report No. 253: Government Advertising 2015¹²²

Department of Premier and Cabinet

No.	Recommendation
1	develop a monitoring program to ensure agency compliance with government advertising requirements
2	revise the government advertising requirements to ensure its advice to agencies is clear and consistent, and the compliance process is efficient
3	enforce the requirement for agencies to report on campaign expenditure and outcomes at their completion

¹²⁰ NSW Auditor-General's Performance Audit Report; Government advertising, June 2015, p11.

¹²¹ NSW Auditor-General's Performance Audit Report; Government advertising, June 2015, p12.

¹²² NSW Auditor-General's Performance Audit Report; Government advertising, June 2015, pp4 - 5.

No.	Recommendation
4	publish an advertising cost reporting template to assist in consistent and reliable data collection across agencies
5	publish an advertising campaign evaluation template to assist agencies to report on campaign outcomes
6	improve transparency of reporting on the cost of government advertising campaigns by publishing both the approved advertising campaign budgets and the actual expenditure
7	publish a policy and guidelines for sponsorship and other similar arrangements
8	review and update government advertising requirements to ensure they reflect current advertising practices, and address the diverse range of advertising and communication activity, including digital media.

Sydney Opera House

No.	Recommendation
9	ensure its marketing procurement practices are consistent with its procurement policies to better demonstrate value for money in procuring its advertising services
10	implement 6-monthly reviews of procurement practices to ensure staff are complying with them, particularly in relation to issuing free tickets in conjunction with procurement
11	use the government central MAS contract for media planning and buying
12	report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
13	formalise its existing campaign management processes to set out minimum requirements for managing advertising campaigns
14	include procedures to ensure content complies with government advertising requirements, and internal processes align with the certification statement for government advertising campaigns. This would also facilitate consistent and complete documentation.

Destination NSW

No.	Recommendation
15	immediately ensure that related advertising campaigns are not inappropriately split to avoid the threshold for cost benefit analysis.
16	improve its policies to better demonstrate it achieves value for money in advertising and marketing arrangements.
17	report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign.
18	formalise existing campaign management processes to set out minimum requirements for managing advertising campaigns.
19	include procedures to ensure content complies with government advertising requirements, and internal processes align with the certification statement of government advertising campaigns. This would also facilitate consistent and complete documentation.
20	improve its management systems to support efficient and reliable tracking of its marketing programs and advertising campaigns.

The Trade and Investment, Regional Infrastructure and Services cluster agencies

No.	Recommendation
21	use the government central MAS contract for media planning and buying

No.	Recommendation
22	report back to DPC on campaign expenditure and outcomes at the completion of each advertising campaign
23	establish policies and procedures that set out minimum requirements for managing advertising campaigns to ensure they comply with government advertising requirements, and internal processes align with the certification statement for government advertising campaigns
24	establish policies and procedures to govern their digital media content to ensure it is accurate and appropriate prior to publishing
25	review their own policies and ensure they comply with ICAC guidelines and DPC policy, and address potential risks specific to their agency in relation to sponsorships and other similar arrangements.

Agency responses

- 5.12 As the main coordination and compliance monitoring agency, the Department of Premier and Cabinet reported that it had implemented all Audit recommendations where possible. This included updating the Government Advertising Handbook. The Department also foreshadowed a statutory review of the Act.¹²³
- 5.13 The Sydney Opera House has implemented measures to respond to all recommendations contained in the Auditor-General's performance report. The agency stated that the audit process had delivered valuable improvements to its business practices and assisted in meeting its advertising and commercial objectives.¹²⁴
- 5.14 The Department of Industry, Skills and Regional Development accepted all recommendations, with action completed on four of these and delayed on one. This delay was caused by a restructure of the Department's communications functions, but was on track pending final approval.¹²⁵
- 5.15 Destination NSW also responded positively to the Audit recommendations, which resulted in a comprehensive review of its business processes. However, in its detailed response to the implementation of specific recommendations, DNSW reported that it had rejected one and noted another, resulting in full acceptance of only four of the six recommendations.¹²⁶

The Committee's examination

- 5.16 On 20 June 2016, the Committee Chair wrote to the Department of Premier and Cabinet, the Sydney Opera House, Destination NSW and the Department of Industry, Skills and Regional Development asking each agency to provide the Committee with submissions outlining their responses to the Auditor-General's Report No. 253, *Government Advertising*.

¹²³ Submission 16, Department of Premier and Cabinet, p2.

¹²⁴ Submission 15, Sydney Opera House, p2.

¹²⁵ Submission 14, Department of Industry, p2.

¹²⁶ Submission 13, Destination NSW, p2.

- 5.17 The Committee received the response from DNSW on 27 June 2016; the Department of Industry, Skills and Regional Development on 1 July, 2016; SOH on 18 July 2016 and the DPC on 9 August 2016. The Chair then wrote to the Auditor-General on 18 August 2016 requesting comments on the responses received from the various agencies. The Auditor-General provided comments by letter dated 9 September 2016.
- 5.18 After considering the agency responses and the further written comments provided by the Auditor-General, the Committee determined that it would call for additional evidence at a public hearing from representatives of Destination NSW. The public hearing was conducted on 7 November, 2016. The names of witnesses are provided in Appendix Two. A full transcript of the hearing is available on the Committee's webpage.

Implementation of recommendations

- 5.19 As previously outlined, the Committee was broadly satisfied with most agency responses to the Audit recommendations and determined that it would only take further evidence from Destination NSW at its public hearing. This view was reinforced in the Auditor-General's comments on the Audit, which stated that the actions undertaken adequately addressed the intent of the recommendations. A more detailed summary of the specific responses to the recommendations is set out below:

Implementation of recommendations 1-8 – Department of Premier and Cabinet

- 5.20 These recommendations targeted the monitoring of agency compliance with government advertising requirements and the coordination role of the DPC. In its response to the Audit, the Department defined its role with reference to an updated Government Advertising Handbook, actively increased engagement with agencies to reinforce compliance responsibilities and clarity about reporting obligations.
- 5.21 DPC has also reviewed its processes in consultation with Treasury to deliver a Cost Benefit Analysis Framework and to develop a User Guide for campaigns in accordance with legislative obligations. A budget template had also been implemented to be used in peer reviews in order to enhance transparency and accuracy in financial reporting.
- 5.22 An evaluation framework reporting on campaign outcomes had been developed, drawing on best practice approaches in other jurisdictions, as well as comparable research models. This had assisted the peer review process by standardising reporting across agencies.
- 5.23 It was also noted in the DPC response that the *Government Advertising Act 2011* was due for statutory review and that this would be conducted in line with the Premier's role in administering the legislation.

Implementation of recommendations 9-14 – Sydney Opera House

- 5.24 In accepting all Audit recommendations, the SOH reported that it had completed action on implementing them in accordance with the agreed timetable. These actions included: improved marketing procurement practices; six monthly

procurement reviews; adoption of a central Media Agency Services Contract; post campaign reporting; the development of an overarching Advertising and Marketing Campaign Management Policy; and updating its sponsorship policies.

- 5.25 The Opera House stated that participation in the performance audit had enabled it to refine marketing, advertising and reporting processes to align with its priorities of streamlining its business operations.

Implementation of recommendations 15-20 – Destination NSW

- 5.26 In its response to the Audit, DNSW rejected recommendation 15 which was made to prevent related advertising campaigns from being inappropriately split to avoid the threshold for cost benefit analysis. This relates to a legislative provision stipulating that: “The head of a Government agency must ensure that a cost benefit analysis of a Government advertising campaign of the agency is carried out before the campaign commences if the cost of that campaign is likely to exceed \$1,000,000 or such other amount as may be prescribed by the regulations.”¹²⁷

- 5.27 When questioned by the Chair about the rejected recommendation at the public hearing, the Chief Executive Officer of DNSW elaborated on the issue in the following terms:

We have not split campaigns to avoid a CBA. We repeatedly explained to the auditors the nature of the work we do and the fact that the campaigns are not all lumped in together. To give you an example, saying Qantas is one campaign is totally incorrect. It is split against different markets; it is split against different times, so summer, winter; it is split with different partners. You could say that the whole of our expenditure is one campaign because we are promoting New South Wales or we are promoting events. We said to them that this is the way we have split them—seasonal campaigns, event campaigns, domestic and international, because they are completely different target markets. So that was the basis of our recommendation or our rejection of that assertion.¹²⁸

- 5.28 In support of this position, Ms Chipchase said that Destination NSW adhered to all legislative requirements and, in appearances before the Government Advertising Agency, had answered questions and fully satisfied all reporting obligations. In providing further clarification, the Audit Office stated that it can be attributed to a difference of opinion between DNSW and the Audit Office.¹²⁹

- 5.29 While noting recommendation 16, DNSW reported that it had completed the required action by improving its policies to provide better value for money in advertising and marketing arrangements. This had been achieved by relevant policy and guideline reviews.

- 5.30 DNSW has accepted and completed action on the remaining four recommendations, dealing with: enhanced expenditure review reporting; formalising campaign management and social media policies as well as digital,

¹²⁷ Government Advertising Act 2011, section 7(1).

¹²⁸ Ms Sandra Chipchase, Chief Executive Officer, Destination NSW, Transcript of evidence, 7 November 2016, p11.

¹²⁹ Ms Kathrina Lo, Assistant Auditor-General, Performance Audit, Audit Office of NSW, Transcript of evidence, 7 November 2016, p7.

communications and publishing policies; reissuing approval templates to align with certification; and staff training provision.

- 5.31 In addition, DNSW had implemented a new reporting tool for campaign monitoring purposes and prepared monthly reports for reconciliation of approved campaigns. It is also commencing the development of a business case for a new integrated campaign project management technology system.

Implementation of recommendations 21-25 – Department of Industry, Skills and Regional Development

- 5.32 The Department's response to the Audit report indicated that it had fully complied with the recommendations and completed all actions, as required. The central media contract is used across the Department and promoted on the intranet to ensure consistency.
- 5.33 In addition, the Department had improved its financial information reporting system and developed an enhanced policy framework to manage compliance and certification of campaigns. A digital governance framework had also been implemented along with measures to minimise risk and conflicts of interest.

Committee comment

- 5.34 In its examination of the Audit, the Committee was broadly satisfied that the relevant agencies had met the objectives set out in the report's recommendations. The agency responses to the Audit report and the comments provided by the Auditor-General indicated that appropriate measures had been taken to improve internal processes and to provide greater accountability for expenditure on advertising campaigns.
- 5.35 Destination NSW, in rejecting one of the recommendations, prompted the Committee to explore the reasons for the rejection by taking further evidence at a public hearing. The Committee notes that DNSW and the Audit Office appear to have a difference of opinion in relation to the way campaigns are defined to trigger a cost benefit analysis. However, after hearing from both agencies, this does not seem to constitute a major concern requiring further action.
- 5.36 The Committee appreciates the cooperation from all agencies in providing detailed comments on the progress of recommendations and to DNSW for appearing to elaborate on its response to the Audit.

Chapter Six – Efficiency and Effectiveness in tax collection

Introduction

- 6.1 The Office of State Revenue (OSR) is a division within the Department of Finance, Services and Innovation (DFSI). Responsibility for OSR falls within the portfolio of the Minister for Finance, Services and Property.
- 6.2 At the time the Auditor-General's report was published, the Department of Finance, Services and Innovation was known as the Office of Finance and Services and formed part of the Treasury and Finance cluster. Administrative changes in 2014-15 resulted in the separation of the Office of Finance and Services from Treasury and on 1 July 2015 the Office of Finance and Services became known as the Department of Finance, Services and Innovation.¹³⁰
- 6.3 Tax collection is the major source of OSR's total revenue. In 2013-14, OSR's three largest sources of tax revenue were:
- (a) \$8 billion in payroll tax
 - (b) \$7.8 billion in duties
 - (c) \$2.4 billion in land tax¹³¹

The performance audit

- 6.4 The Auditor-General assessed the efficiency and effectiveness of OSR in optimising taxation revenue collection by examining the performance framework used to measure and report on its activities.¹³²

Audit conclusions

- 6.5 The Auditor-General concluded that OSR had made some progress towards improving its efficiency and effectiveness in tax collection.¹³³ However, the Audit also identified gaps in measuring and reporting on effectiveness and recommended that measures of efficiency would be strengthened by more sophisticated approaches which convincingly attributed results to OSR activity.¹³⁴

Auditor-General's recommendations

- 6.6 The Auditor-General made five recommendations to OSR. These recommendations are detailed in the following table:

¹³⁰ NSW Government, The Treasury Annual Report 2014-15, p14.

¹³¹ Audit Office of New South Wales, Performance Audit, Efficiency and effectiveness in tax collection: Office of Finance and Services, Office of State Revenue, tabled 25 June 2015, <[NSW Auditor-General's Report - Efficiency and effectiveness in tax collection](#)>, viewed on 15 December 2016, p5.

¹³² NSW Auditor-General's Performance Audit Report; efficiency and effectiveness in tax collection, June 2015, p39.

¹³³ NSW Auditor-General's Performance Audit Report; efficiency and effectiveness in tax collection, June 2015, p24.

¹³⁴ NSW Auditor-General's Performance Audit Report; efficiency and effectiveness in tax collection, June 2015, p10.

Table 5 - Recommendations made by the Auditor-General in Report No. 255: Efficiency and Effectiveness in tax collection¹³⁵

No.	Recommendation
1	OSR should clarify its definition of effectiveness so that the concept is not restricted by “doing more with the same resources or less”
2	<p>In order to better demonstrate OSR’s overall effectiveness in collecting tax revenue, OSR should:</p> <ul style="list-style-type: none"> a) work in collaboration with NSW Treasury and other expert bodies to progress tax gap analysis by the end of 2016-17 b) build a stronger evidence base for setting compliance revenue targets and modelling different resource levels to optimise tax revenue collection c) ensure that compliance revenue targets incorporate the analysis performance under paragraphs a) and b).
3	<p>OSR should review its current suite of key performance indicators and performance measures to ensure that by 2016-17:</p> <ul style="list-style-type: none"> a) KPIs clearly demonstrate the extent to which OSR is efficient and effective in optimising tax revenue b) KPIs are aligned to, and can more clearly demonstrate the achievement of, organisational objectives and goals as per OSR 2021 c) there is a clearer hierarchy of KPIs and measures to ensure that achievement of lower level performance measures contribute to the achievement of higher level KPIs and organisational goals d) operational, business unit, branch and program plans each have measures to hold managers accountable for performance
4	<p>OSR should enhance its governance and accountability arrangements with the Office of Finance and Services through:</p> <ul style="list-style-type: none"> a) a framework agreement with the Office of Finance and Services that formalises and clarifies expectations, roles and responsibilities of each party, including to ensuring efficiency and effectiveness in tax collection b) improving the quality of monthly OSR management reporting to the Office of Finance and Services with key performance indicators which demonstrate OSR’s efficiency and effectiveness in tax collection
5	OSR should publish more performance information publicly on its efficiency and effectiveness, such as in the Office of Finance and Services annual report or on its own website.

Agency responses

6.7 OSR acknowledged the findings of the Auditor-General’s report and the opportunities identified to improve the efficiency and effectiveness of its tax collection functions. While broadly accepting the recommendations contained in the report, OSR sought to clarify a few points in order to present a more accurate picture of its performance.

6.8 OSR highlighted that its tax revenue operations were only one of its four lines of business. It also queried some aspects of the productivity calculation

¹³⁵ NSW Auditor-General’s Performance Audit Report; efficiency and effectiveness in tax collection, June 2015, p4.

methodology used in the report. Moreover, OSR expressed the view that the report incorrectly stated that OSR does not conduct research into latest practices with the Australian Tax Office and overseas revenue administrators.¹³⁶

The Committee's examination

6.9 The Chair wrote to the Office of State Revenue on 20 June 2016 to request a submission detailing the actions the agency had taken in response to the Auditor-General's report. This was provided on 13 July 2016 and subsequently forwarded to the Auditor-General for comment. A response was provided on 8 September 2016.

6.10 As a result of the information provided, the Committee resolved to conduct a public hearing on 7 November 2016, to take further evidence from representatives of the Office of State Revenue. The names of witnesses are provided in Appendix Two. A full transcript of the hearing is available on the Committee's webpage.

Implementation of recommendations

6.11 **Recommendation 1**, that OSR should clarify its definition of effectiveness, was accepted.

6.12 OSR submitted that it defines effectiveness as:

...the extent to which a service, process or project fulfils its intended purpose. It relates to the achievement of organisational goals and objectives.¹³⁷

6.13 OSR stated that the reference to 'doing more with the same resources or less' was used as an example of effectiveness, while acknowledging that it should have been cited under efficiency.¹³⁸

6.14 **Recommendation 2**, that OSR should better demonstrate its overall effectiveness in collecting tax revenue by utilising tax gap analysis and stronger evidence based compliance revenue targets, was partially accepted.

6.15 Mr Stephen Brady, Chief Commissioner of State Revenue informed the Committee that OSR only partially accepted the recommendation because tax gap methodology is embryonic and evolving, has significant limitations, and has not been successfully applied in other jurisdictions with similar revenue streams to NSW.¹³⁹

6.16 Mr Brady told the committee:

One of the lessons coming out of the work that has been done by other jurisdictions is unless you plan and work through the methodology very carefully you can spend a lot of time, effort and resource and have almost nothing at the back end. There are

¹³⁶ NSW Auditor-General's Performance Audit Report; efficiency and effectiveness in tax collection, June 2015, pp33-35.

¹³⁷ Submission 23, Department of Finance, Services and Innovation, p1.

¹³⁸ Submission 23, Department of Finance, Services and Innovation, p1.

¹³⁹ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, pp16-17.

issues to do with data availability, the degree of accuracy in the data you are using, the timeliness of the data you are using and how you apply that to come to some sort of measure of tax gap. There are serious issues for us to consider in terms of what methodology to apply.¹⁴⁰

6.17 Despite these challenges, OSR committed to working with NSW Treasury to assess the merits of pursuing tax gap assessment with a focus on areas where it is agreed that a material improvement to revenue potential and compliance might result.¹⁴¹

6.18 To this end, OSR completed an extensive review of international, domestic and State level tax gap studies and established an expert panel to support its development of tax gap methodologies around State-based taxes.¹⁴² Mr Brady informed the Committee that:

...we have tried to secure the best knowledge and skills within the Australian market to support us [in] the first detailed attempt to apply tax gap to a State-based tax in New South Wales.¹⁴³

6.19 The Committee heard that OSR was also proceeding with a feasibility study into applying tax gap methodology to payroll tax.¹⁴⁴ In response to a supplementary question regarding how the findings of this study will enhance OSR's collection of revenue, Mr Brady stated that tax gap analysis will help identify which areas to place greater emphasis on in future compliance programs. This will maximise scarce compliance resources and lower the burden on compliant taxpayers.

6.20 Tax gap analysis will also assist in determining what levels of non-compliance are tolerable. Tolerable non-compliance is determined by weighing the tax gap against the cost to enforce compliance, the level of red tape and community impacts.¹⁴⁵ Once the study is complete, OSR will identify opportunities to use the tax gap methodology to inform revenue targets.¹⁴⁶

6.21 **Recommendation 3**, that OSR should review its current suite of key performance indicators (KPIs) and performance measures, was accepted.

6.22 OSR conducted a comprehensive review of its performance measure and reporting framework. Following this review, KPIs and performance measures are now reported in a newly developed dashboard. Measures are aligned to clearly demonstrate how they contribute to the achievement of OSR 2021 goals in the areas of effectiveness, efficiency, quality and customer experience.¹⁴⁷

¹⁴⁰ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, p16.

¹⁴¹ NSW Auditor-General's Performance Audit Report; efficiency and effectiveness in tax collection, June 2015, p36.

¹⁴² Submission 23, Department of Finance, Services and Innovation, p3.

¹⁴³ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, p15.

¹⁴⁴ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, p15.

¹⁴⁵ Mr Stephen Brady, Response to supplementary question, 21 November 2016, p1.

¹⁴⁶ Mr Stephen Brady, Response to supplementary question, 21 November 2016. p2.

¹⁴⁷ Submission 23, Department of Finance, Services and Innovation, p3.

- 6.23 A clear hierarchy of KPIs and performance measures has been developed using a 'bottom-up' approach. There is now a line of sight for individual measures that can trace their contribution to the highest level of OSR's performance.¹⁴⁸
- 6.24 To increase managerial accountability, performance measures are now incorporated into a revised planning framework and individual performance agreements. The plans include success measures and hold individual positions responsible for each initiative. Accountability is tracked using the performance agreements which have newly defined Executive KPIs and hold executives and managers accountable for delivery of their plans.¹⁴⁹
- 6.25 Mr Brady informed that Committee that OSR has a business metrics committee that meets monthly to analyse the progress of KPIs and whether there are any areas that require investigation.¹⁵⁰ He stated that one area OSR would like to further develop performance measures is customer education.
- 6.26 Increasingly OSR's strategy is to focus on voluntary compliance through educating the community rather than audit-based compliance. The Committee heard that while there were some performance measures in place in this area, further measures could be developed to determine the effectiveness of these programs.¹⁵¹
- 6.27 **Recommendation 4**, that OSR should enhance its governance and accountability arrangements with the Office of Finance and Services, was accepted.
- 6.28 Quarterly meetings and reporting from the Deputy Secretary of OSR to the Secretary of the Department of Finance, Services and Innovation (formerly Department of Finance and Services) commenced in January 2016.
- 6.29 This was formalised by the drafting of Terms of Reference and documenting a process for reports and meetings.¹⁵² Mr Brady described the process as robust and rigorous. The meetings include discussions on the achievement of strategic plans, progress of revenue targets, operational metrics, human resources and budgetary performance.¹⁵³
- 6.30 **Recommendation 5**, that OSR should publicly publish more performance information on its efficiency and effectiveness, was accepted.
- 6.31 In its submission, OSR committed to publishing an annual report focusing on efficiency and effectiveness on its website by 31 August each year.¹⁵⁴ However, at the public hearing Mr Brady informed the Committee that while OSR remains

¹⁴⁸ Submission 23, Department of Finance, Services and Innovation, p3.

¹⁴⁹ Submission 23, Department of Finance, Services and Innovation, p4.

¹⁵⁰ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, p16.

¹⁵¹ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, p16.

¹⁵² Submission 23, Department of Finance, Services and Innovation, pp4-5.

¹⁵³ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, p17.

¹⁵⁴ Submission 23, Department of Finance, Services and Innovation, p5.

committed to publishing an annual report, the report's reliance on audited data makes the August timeframe unachievable.¹⁵⁵

Committee comment

- 6.32 The Committee is satisfied that OSR has implemented the Auditor-General's recommendations to improve efficiency and effectiveness in tax collection.
- 6.33 The Committee acknowledges that tax gap methodology is an emerging area of expertise and commends OSR for undertaking what is pioneering research into labour based tax gaps. The Committee recommends that OSR continues its research into tax gap methodology and applies its findings to increase the efficiency and effectiveness of tax collection in New South Wales.
- 6.34 The Committee also commends OSR for implementing a new system to monitor performance measures and enhancing its governance and accountability arrangements.
- 6.35 The Committee notes that the publishing date of 31 August each year for OSR's performance report is unachievable. The Committee therefore recommends that a revised date be established for the publication of OSR's performance report each year.

Recommendation 5

That the Office of State Revenue continues its research into tax gap methodology and applies its findings to increase the efficiency and effectiveness of tax collection in New South Wales.

Recommendation 6

That a fixed date be established for the publication of the Office of State Revenue's performance report each year.

¹⁵⁵ Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue, Transcript of evidence, 7 November 2016, p17.

Appendix One – List of Submissions

- 1 NSW Department of Education
- 2 TAFE NSW
- 3 Department of Premier and Cabinet
- 4 Transport for NSW
- 5 Sydney Water
- 6 Department of Finance, Services and Innovation
- 7 NSW Treasury
- 8 Transport for NSW
- 9 Department of Industry
- 10 NSW Health
- 11 Department of Industry
- 12 NSW Treasury
- 13 Destination NSW
- 14 Department of Industry
- 15 Sydney Opera House
- 16 Department of Premier and Cabinet
- 17 Transport for NSW
- 18 NSW Department of Education
- 19 NSW Department of Premier and Cabinet
- 20 NSW Treasury
- 21 NSW Health
- 22 NSW Police Force
- 23 Department of Finance, Services and Innovation

Appendix Two – List of Witnesses

- Mr Greg Prior, Deputy Secretary, School Operations and Performance, Department of Education and Communities
- Mr Mark Grant, Executive Director, Management of Business Reform, Department of Education and Communities
- Mr Peter Riordan, Deputy Secretary, Corporate Services, TAFE NSW
- Mr Glen Babington, Chief Operating Officer, TAFE NSW
- Mr Ken Kanofski, Chief Executive, Roads and Maritime Services
- Mr Justin Griffith, Acting Chief Information Officer, Roads and Maritime Services
- Mr Pascal Labouze, Executive Director, Operational Systems, Transport for NSW
- Mr Stephen Troughton, Deputy Secretary, Infrastructure and Services, Transport for NSW
- Mr Tim Catley, Chief Information Officer, Transport for NSW
- Ms Caralee, Deputy Secretary, Fiscal and Economic Group, NSW Treasury
- Ms Karen Sanderson, Executive Director, Fiscal Estimates and Financial Reporting, NSW Treasury
- Mr Jim Betts, Chief Executive Officer, Infrastructure NSW
- Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW
- Ms Sandra Chipchase, Chief Executive Officer, Destination NSW
- Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue
- Ms Nancy Arya, Director, Strategy and Service Improvement, Office of State Revenue

Appendix Three – Extracts from Minutes

MINUTES OF MEETING No 17

Thursday, 22 September 2016

9.17am

Room 1254, Parliament House

Members Present

Mr Bruce Notley-Smith, Mr Stephen Bromhead, Mr Michael Daley, Mr Lee Evans, Mr Greg Piper, Mr Mark Taylor

Staff in attendance: Bjarne Nordin, Jenny Whight, Ze Nan Ma, Derya Sekmen

1. ****
2. ****
3. ****

4. Examination of the Auditor-General's performance audit reports, December 2014-June 2015

The Committee considered a table of proposed action to follow up performance audit reports 246-255.

Resolved, on the motion of Mr Bromhead: that the Committee adopts the recommended action on performance audits 246-255.

The Committee considered draft terms of reference, the conduct of a public hearing on 7 November 2016 and a proposed witness list, as part of an examination of the Auditor-General's performance audit reports 246-255.

Resolved, on the motion of Mr Bromhead:

- That the Committee adopts the terms of reference for an examination of the Auditor-General's performance audit reports December 2014- June 2015
- That a public hearing be conducted at Parliament House on 7 November 2016
- That the Committee invites selected organisations on the proposed witness list to appear as witnesses at the public hearing
- That the Committee receives and authorises the publication of submissions received, with personal details redacted as appropriate, and that they be placed on the Committee's website

5. ****
6. ****

7. Next meeting

The Committee adjourned at 9.47am until 9.15am on Thursday 20 October 2016

MINUTES OF MEETING No 18

Thursday, 20 October 2016

9.16am

Room 1254, Parliament House

Members Present

Mr Bruce Notley-Smith, Mr Stephen Bromhead, Mr Lee Evans, Mr Greg Piper, Mr Mark Taylor

Apology

Mr Michael Daley

Staff in attendance: Bjarne Nordin, Jenny Whight, Ze Nan Ma, Derya Sekmen

1. ****

2. ****

3. Examination of the Auditor-General's performance audit reports, December 2014-June 2015

Committee staff distributed an updated notice of public hearing for 7 November 2016. Discussion ensued.

Resolved, on the motion of Mr Evans, seconded Mr Bromhead:

- That the Committee permit audio-visual recording, photography and broadcasting of the public hearing.
- That the corrected transcript of evidence given on 7 November 2016 be authorised for publication and uploaded on the Committee's website.
- That witnesses be requested to return answers to questions taken on notice and any further questions within two weeks of the date on which the questions are forwarded to the witness, and that, once received, answers be published on the Committee's website.

4. ****

5. Next meeting

The Committee adjourned at 9.56am until 10.00am on Monday 7 November 2016.

MINUTES OF MEETING No 19

Monday, 7 November 2016

9.45am

Waratah Room, Parliament House

Members Present

Mr Bruce Notley-Smith (Chair), Mr Mark Taylor (Deputy Chair), Mr Lee Evans, Mr Stephen Bromhead

Apology

Mr Michael Daley, Mr Greg Piper

Staff in attendance: Bjarne Nordin, Ze Nan Ma, Derya Sekmen, Christopher Herbert and Jacqueline Isles

6. Consideration of *in camera* evidence

The Committee met to consider Transport NSW and Roads and Maritime Services' request for all their evidence in the Public Hearing to be given *in camera*.

Resolved, on the motion of Mr Bromhead: That all evidence given by Transport for NSW and Roads and Maritime Services be conducted *in camera*.

7. Adjournment

The Committee adjourned the private meeting at 9.55 am, to conduct a public hearing.

8. Public Hearing

The Committee commenced its hearing at 10.00am

The press and public were admitted.

The following witnesses representing the **Department of Education and Communities**, **TAFE NSW** and the **Audit Office of NSW** were called and examined together:

- Mr Greg Prior, Deputy Secretary, School Operations and Performance, Department of Education and Communities, Mr Mark Grant, Executive Director, Management and Business Reform, Department of Education and Communities and Mr Peter Riordan, Deputy Secretary, Department of Education and Communities, Mr Glen Babington, Chief Operating Officer, TAFE NSW, Ms Margaret Crawford, Auditor-General, Audit Office of NSW and Mr Tony Whitfield, Deputy Auditor-General, Audit Office of NSW were sworn and examined.
- Mr David Blackley, Chief Information Officer, TAFE NSW and Ms Kathrina Lo, Assistant Auditor-General were affirmed and examined.

Evidence concluded, the witnesses withdrew.

The Chair noted that the Committee had resolved to hear evidence from the representatives from Transport for NSW and Roads and Maritime Services *in camera*. The press and public withdrew.

The following witnesses representing **Roads and Maritime Services, Transport for NSW** and the **Audit Office of NSW** were called and examined together *in camera*:

- Ms Margaret Crawford, Auditor General, Audit Office of NSW, Mr Tony Whitfield, Deputy Auditor- General, Audit Office of NSW and Ms Kathrina Lo, Assistant Auditor General, Audit Office of NSW, formerly sworn.
- Mr Ken Kanofski, Chief Executive, Roads and Maritime Services and Mr Justin Griffith, Acting Chief Information Officer, Roads and Maritime Services were sworn and examined.
- Mr Pascal Labouze, Executive Director, Operational Systems, Transport for NSW, Mr Stephen Troughton, Deputy Secretary, Infrastructure and Services, Transport for NSW and Mr Tim Catley, Chief Information Officer, Transport for NSW were affirmed and examined.

Evidence concluded, the witnesses withdrew.

The public hearing reconvened. The press and public were readmitted.

The following witnesses representing the **NSW Treasury, Infrastructure NSW** and the **Audit Office of NSW** were called and examined together:

- Ms Margaret Crawford, Auditor General, Audit Office of NSW, Mr Tony Whitfield, Deputy Auditor- General, Audit Office of NSW and Ms Kathrina Lo, Assistant Auditor General, Audit Office of NSW, formerly sworn.
- Ms Caralee McLiesh, Deputy Secretary, Fiscal and Economic Group, NSW Treasury and Ms Karen Sanderson, Executive Director, Fiscal Estimates and Financial Reporting, NSW Treasury were sworn and examined.
- Representatives from Infrastructure NSW, Mr Jim Betts, Chief Executive Officer, Infrastructure NSW and Ms Anissa Levy, Deputy Chief Executive Officer, Infrastructure NSW were affirmed and examined.

Evidence concluded, the witnesses withdrew.

The following witnesses representing the **Destination NSW** and the **Audit Office of NSW** were called and examined together:

- Ms Margaret Crawford, Auditor General, Audit Office of NSW, Mr Tony Whitfield, Deputy Auditor- General, Audit Office of NSW and Ms Kathrina Lo, Assistant Auditor General, Audit Office of NSW, formerly sworn.
- Ms Sandra Chipchase, Chief Executive Officer, Destination NSW, Mr Ross Pearson, Chief Operating Officer, Destination NSW and Mr Anthony Laver, General Manager, Marketing, Destination NSW were sworn and examined.

Evidence concluded, the witnesses withdrew.

The following witnesses representing the **Office of State Revenue** and the **Audit Office of NSW** were called and examined together:

- Ms Margaret Crawford, Auditor General, Audit Office of NSW, Mr Tony Whitfield, Deputy Auditor- General, Audit Office of NSW and Ms Kathrina Lo, Assistant Auditor General, Audit Office of NSW, formerly sworn.
- Mr Stephen Brady, Chief Commissioner of State Revenue, Office of State Revenue were sworn and examined.
- Ms Nancy Arya, Director, Strategy and Service Improvement, Office of State Revenue and Ms Sharon Azmi, Manager, Assurance and Review, Office of State Revenue were affirmed and examined.

Evidence concluded, the witnesses withdrew.

The Public Hearing adjourned at 12:20pm

9. Next meeting

The Committee adjourned at 12:20pm until 9:15am on Thursday 17 November 2016 at Parliament House.

MINUTES OF MEETING No. 21

Thursday, 23 February 2017

9.15am

Room 1254, Parliament House

Members Present

Mr Bruce Notley-Smith (Chair), Mr Mark Taylor (Deputy Chair), Mr Stephen Bromhead, Mr Michael Daley, Mr Lee Evans.

Apologies

Mr Greg Piper.

Staff in attendance: Bjarne Nordin, Jenny Gallagher, Ze Nan Ma, Christopher Herbert, Derya Sekmen.

1. ****
2. ****
3. ****

4. Consideration of Chair's draft report on the Examination of the Auditor-General's Performance Audit Reports December 2014 – June 2015

Resolved on the motion of Mr Evans, that the Committee considers the draft report by recommendations considered separately.

Resolved on the motion of Mr Taylor, that the Committee adopts recommendation one.

Resolved on the motion of Mr Evans, that the Committee adopts recommendation two.

Resolved on the motion of Mr Taylor, that the Committee adopts recommendation three.

Resolved on the motion of Mr Evans, that the Committee adopts recommendation four.

Resolved on the motion of Mr Taylor, that the Committee adopts recommendation five.

Resolved on the motion of Mr Evans, that the Committee adopts recommendation six.

Resolved on the motion of Mr Daley:

- That the Committee adopts the draft report signed by the Chair for presentation to the House, and authorises Committee staff to make appropriate final editing and stylistic changes as required
- That once tabled the report be published on the Committee's webpage.

5. ****

6. ****

7. ****

8. ****

9. Next meeting

The Committee adjourned at 10.15am until 9:15am on Thursday 30 March 2017.