Examination of Auditor-General's Performance Audit Reports
February 2018 - July 2018
New South Wales Parliamentary Library cataloguing-in-publication data:

**New South Wales. Parliament. Legislative Assembly. Public Accounts Committee.**


“May 2020”

ISBN: 978-1-921012-87-7

1. New South Wales. Audit Office.
   I. Piper, Greg.
   II. Title.

657.45 (DDC22)

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

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Membership

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Chair’s foreword

This is the second report of the Public Accounts Committee’s performance audit review program to be tabled in the 57th 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 the 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 February to July 2018, conducted into: managing risk in the NSW public sector: risk culture and capability; detecting and responding to cyber security incidents; regional assistance programs; shared services in local government; fraud controls in local councils; regulation of water pollution in drinking water catchments and illegal disposal of solid waste; council reporting on service delivery; grants in non-government schools; HealthRoster benefits realisation; and matching skills training with market needs.

With some exceptions, the Committee is generally satisfied that the responsible agencies are implementing the Auditor-General’s recommendations, while identifying areas where more action is required.

The Committee has made a total of seven recommendations to NSW Government agencies to: improve cyber security in the NSW public sector; provide greater rigour in the performance management of regional assistance programs; and better manage shared services in local government.

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 Secretariat for their contributions and support throughout the inquiry process.

Greg Piper MP
Chair
Findings and recommendations

Recommendation 1
The Committee recommends that Cyber Security NSW considers, as a matter of priority, expanding its cybersecurity training and awareness programs to agencies outside the main eight public sector clusters.

Recommendation 2
The Committee recommends that Cyber Security NSW reports on how it may best enhance NSW public sector threat intelligence gathering and sharing through formal links with the private sector.

Recommendation 3
The Committee recommends that Cyber Security NSW provides an update to the Auditor-General and the Committee, once a determination has been made in regard to Cyber Security NSW’s remit for State-owned corporations.

Recommendation 4
The Committee recommends that Infrastructure NSW, the Department of Planning, Industry and Environment and Transport for NSW apply a consistent approach to conducting sample audits on programs that present a moderate-to-high risk.

Recommendation 5
The Committee recommends that Infrastructure NSW, the Department of Planning, Industry and Environment and Transport for NSW report on available quantitative and qualitative data for early project rounds of the Resources for Regions and Fixing Country Roads schemes.

Recommendation 6
The Committee recommends that the Office of Local Government, in consultation with the Minister for Local Government considers the feasibility of including metropolitan councils, on a voluntary basis, in its next phase of the Joint Organisation framework rollout.

Recommendation 7
The Committee recommends that following its evaluation of the Joint Organisation framework, the Office of Local Government facilitates the development of guidelines for prospective councils. This should include case studies of the 13 Joint Organisations and a comparison toolkit to enable councils to determine whether the Joint Organisation would provide benefits over their current service arrangements.
Chapter One – Introduction

Overview

1.1 The performance audits examined by the Committee for this inquiry were tabled by the Auditor-General in the period February to July 2018. The aim of the examination is to assess the required action taken by relevant agencies 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 action 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 21 November 2019 to commence an examination of the Auditor-General’s performance audits from February to July 2018. The full terms of reference are included on page 3.

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, agency representatives and the Auditor-General were invited to a hearing to provide additional information.

1.5 The Committee examined ten performance audit reports and received eleven 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: Submissions.

1.6 On the basis of submissions received, the Committee determined that one performance audit had been satisfactorily completed, with the agencies concerned fully implementing the Auditor-General’s recommendations. This performance audit was:

- Managing risk in the NSW public sector: risk culture and capability

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

1.8 The Committee was not satisfied that recommendations contained in five of the remaining performance audit reports had been fully addressed. To conduct a more
Introduction

detailed examination of these reports, the Committee held a public hearing on 24 February 2020, seeking further information. The performance audits examined at the public hearing were:

- Detecting and responding to cyber security incidents
- Regional assistance programs
- Shared services in local government
- Fraud controls in local councils
- Regulation of water pollution in drinking water catchments and illegal disposal of solid waste

1.9 The Audit Office provided written feedback on the submissions made by agencies. The Auditor-General, Ms Margaret Crawford, Acting Deputy Auditor-General, Mr Scott Stanton, and Assistant Auditor-General, Claudia Migotto also attended the public hearing and supplemented the evidence given.

1.10 A transcript of the hearing is located on the Committee’s website at: Transcripts. Details of witnesses who appeared at the hearing are included at Appendix Four.

1.11 Additionally, the Committee sought further written clarification of aspects of agency responses to four performance audits, namely:

- Council reporting on service delivery
- Grants in non-government schools
- HealthRoster benefits realisation
- Matching skills training with market needs

1.12 Detailed agency responses to the Committee’s further questions can be found on the Committee’s website at: Agency Responses.

1.13 Discussion of the audits examined is detailed in subsequent chapters of the report.
Chapter Two – Committee’s consideration of performance audits not subject to public hearings

Background

2.1 As outlined in Chapter One, and in accordance with the Committee’s established procedure of considering performance audit reports in consolidated groupings, this report deals with ten Audit Office reports for the period February to July 2018.

2.2 The Committee’s practice in reviewing the reports is to make a determination, based on agency responses and Audit Office advice, about how to exercise its scrutiny functions in relation to each audit report’s recommendations. The options available are to: accept the initial agency response, with no further action required; seek further written elaboration of steps taken to carry out the report’s recommendations; or invite agency representatives to provide more detailed information by appearing at a public hearing.

2.3 In the case of the performance audits under current review, the Committee determined that the agency responses and Auditor-General’s comments on one of these audits required no further action. The Committee resolved to seek additional written responses to four further audits and to take formal evidence at a public hearing on the remaining five.

2.4 For the purposes of this Chapter, set out below is the Committee’s consideration of the audit reports which were not deemed to require formal evidence to be taken at a public hearing. The performance audits subject to formal evidence are detailed in subsequent chapters. More comprehensive information about all audits can be found on the NSW Audit Office and Public Accounts Committee’s websites.

No Action Required

Audit Report 298 – Managing risk in the NSW public sector: risk culture and capability

2.5 Organisational culture is now recognised as a factor to be taken into account in any risk management strategy. An effective organisational framework recognises risks associated with cultural factors and takes steps to support staff to make informed judgements and decisions. Neglecting this 'soft' side of risk management can threaten the success of an agency and lead to missed opportunities for change, improvement, and innovation.

2.6 The audit assessed how effectively NSW government agencies are at building risk management capabilities and embedding a sound risk culture throughout their organisations. The audit focussed on NSW Treasury as the agency responsible for the NSW Government’s risk management framework and carried out case studies
Committee’s consideration of performance audits not subject to public hearings

of four agencies: NSW Health; Fair Trading; NSW Police Force; and, NSW Treasury Corporation.

2.7 The audit found that some agencies are performing better than others in building their risk capabilities. Three of the four case study agencies could do more to understand the existing risk culture and strengthen the commitment to open communication. The Audit Office found that while NSW Treasury provides agencies with direction and guidance on risk management through policy and guidelines, there is scope for improvement. In particular, this applies to the development of additional practical guidance and tools to support a better risk culture in the NSW public sector.

2.8 The audit made one recommendation that by May 2019, NSW Treasury should review the scope of its risk management guidance, and identify additional guidance, training or activities to improve risk culture across the NSW public sector. This should focus on encouraging agency heads to form a view on the current risk culture in their agencies, identify desirable changes to that risk culture, and take steps to address those changes.

2.9 As a result of the audit recommendation, which NSW Treasury accepted in full, Treasury has undertaken the following:

- performed a high-level review of policies in relation to risk culture and capability;
- partnered with icare to design and contribute to the content of Risk Education Express (REX), an interactive digital platform that assists agencies deliver risk prevention education and facilitate open communication;
- developed a sector-wide Risk Maturity Tool to assess risk culture, identify improvements and strengthen risk management capability and culture across the sector;
- sponsored a regular forum that engages CFOs on risk management;
- established an ARC Leadership Forum which focusses on risk management for cross-sector ARC knowledge sharing;
- value added to the Public Service Commission's People Matter Employee Survey to include a question on comfort level when reporting risk; and
- updated Treasury’s website to outline its risk management structure in order to clarify roles and responsibilities.

2.10 On the basis that the recommendation has been fully complied with, the Committee is satisfied that the agency has met its obligations and has no further comment to make.
Additional Information Requested

Audit Report 296 – Council reporting on service delivery

2.11 The services delivered by 128 local councils across New South Wales directly impact on the amenity, safety and health of their communities. As councils have a high level of autonomy in decisions about service provision, it is important that local communities have access to information about how well they are being delivered and whether they are meeting their needs and expectations.

2.12 The Audit Office examined the 2015-16 annual reports from 105 local councils to see how well they report on the efficiency and effectiveness of services, achieve transparency in the prioritisation of resources, and encourage engagement of local communities in councils’ service planning.

2.13 Although the majority of councils report on outputs, the audit found that reporting on councils’ performance over time could be improved. As well as assisting communities to understand the nature of services being delivered, such information could also document how efficiently and effectively they are being delivered and whether any improvements are being made.

2.14 The audit made four recommendations to be completed by mid-2018. These were:

- that the Office of Local Government (OLG) offer additional guidance on good practice in council reporting;
- that information requests from government agencies be consolidated to avoid duplication;
- to continue the development of the performance measurement framework for sector-wide performance reporting; and
- that OLG provides additional assistance to rural councils to develop their reporting capability.

2.15 The Office of Local Government accepted all four recommendations, reporting that two were completed in mid-2018. A dedicated Council Engagement Team was established to address the consolidation of information required of councils by government agencies. Additionally, in order to assist rural councils to develop their reporting capability, the OLG was holding workshops focusing on the new Australian Accounting Standards that form part of councils’ annual reports.

2.16 Two recommendations, however, were reported to have been delayed, due to the development of an Integrated Planning and Reporting Framework, and subject to other local government reform processes.

2.17 The Committee considered that further details about the recommendations was required and sought additional information in writing. This related to recommendations concerning additional guidance on good practice reporting, the performance measurement framework and the overall reporting burden.
2.18 In the response to the Committee’s request for further information, provided on 3 February 2020, the Department of Planning, Industry and Environment elaborated on progress on these recommendations. According to the agency, revised and updated planning and reporting guidelines were due to be delivered in the first quarter of 2020.

2.19 These guidelines were to be accompanied by supporting material to assist councils in achieving best practice in tandem with the commencement of the remaining provisions of amendments to the Local Government Amendment (Governance and Planning) Act 2016. As a further consideration, the September 2020 elections and current planning cycles has meant that implementation of the new arrangements would align with the start of the next four year cycle after the election has been held.

2.20 Furthermore, the Department has resumed work on a common performance measurement framework as part of the effort to enhance and improve council monitoring and reporting and to tailor community engagement to each local community. Detailed assessment of best practice in individual councils is still to be completed.

2.21 As part of the NSW Government’s initiative to reduce red tape and regulatory burdens for local councils, the following actions were reported to have been undertaken:

- the tender threshold has been raised to $250,000 for most contracts;
- the Code of Accounting and Financial Reporting has been streamlined, resulting in reduced workloads for councils and the Auditor-General;
- digitisation of companion animal registration;
- access to State Government procurement prequalification schemes;
- General Manager delegations to accept tenders; and
- development and rollout of the Joint Organisation network of councils across regional and rural NSW.

2.22 On the basis of the further information provided, the Committee is satisfied that the agency has fulfilled the intent of the audit recommendations. A more detailed description of the Department’s activities to address the Committee’s questions can be found on the Committee’s website.

Audit Report 299 – Grants to non-government schools

2.23 Non-government schools educate 418,000 children each year, representing 35% of all NSW school students. The NSW Department of Education administers several grant schemes to support student learning outcomes at these schools. Eligible schools must be registered with the NSW Standards Authority (NSWSA) and not operate ‘for profit’, consistent with section 83C of the NSW Education Act 1990.
2.24 The Audit Office assessed how effectively and efficiently NSW Government allocates and manages grants to non-government schools. It did not assess the use of non-government grants by individual non-government schools or System Authorities. These functions are not within the Audit Office's mandate and the funds are spent by non-government entities.

2.25 The Audit Office found that the Department of Education allocates grants to non-government schools in line with its methodology. Some potential areas for improvement include clarifying the objects of the grants, monitoring progress towards these objectives, and improving oversight to strengthen accountability for the use of public funds by non-government schools.

2.26 The Audit Office made four recommendations to the NSW Department of Education and two recommendations to the NSW Education Standards Authority (NESA) to be completed by the end of 2018. These were to:

- establish and communicate funding conditions for funded schools;
- strengthen processes to provide greater assurance that the enrolment and expenditure information for non-government school is accurate;
- establish formal information sharing arrangements with the NSW Education Standards Authority to more effectively monitor schools' eligibility to receive funding;
- increase oversight of System Authorities;
- extend inspection practices to increase coverage of the registration requirement for policies and procedures for the proper governance of schools; and
- establish formal information sharing arrangements with the NSW Department of Education to more effectively monitor schools' continued compliance with the registration requirements.

2.27 The Department of Education accepted all recommendations. While the NSW Education Standards Authority did not make an agency response to the last two recommendations, these were claimed to have been captured by earlier recommendations, which had been implemented.

2.28 The Committee was not satisfied that the response to the audit provided sufficient information for a full assessment and consequently wrote to the Department of Education seeking to clarify the agency response, to address the following issues:

- further investigation of the Department's actions after the Memorandum of Understanding (MoU) with non-government schools was finalised in December 2019;
- the depth of the desktop review of non-government schools and how well the findings can be extrapolated across the remaining 99% of the non-government school sector;
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- whether the MOU covers information the Department received from the Commonwealth that may assist NESA with its responsibilities to monitor compliance of non-government schools with registration requirements; and

- how the Department will ensure that there is appropriate transparency on the level of funding reallocated by System Authorities to each of its member schools.

2.29 In the written response from the Department of Education dated 7 February 2020, the Executive Director, Strategic Resource Management, reported that all recommendations in the audit had now been fully implemented.

2.30 Memoranda of Understanding to strengthen accountability were completed with Catholic Schools NSW and the Association of Independent Schools in December 2019, effective from January 2020. The Memoranda aim to strengthen accountability for non-government schools by ensuring a commitment to:

- high quality and equitable education for all students, and to the outcomes, targets and measures in line with the National School Reform Agreement;

- align financial and performance reports to support the NSW Government’s Outcome Budgeting policy, with reports to the NSW Government to commence in 2020;

- implement measures that strengthen financial and systems accountability by alignment with Commonwealth requirements that delivers both greater accountability and reduced red tape; and

- develop an Implementation Plan by April 2020.


2.32 An Information Sharing Agreement, as part of the MOU process with the NSW Education Standards Authority, assists with registration compliance for non-government schools. Additionally, a pilot desktop review identified Commonwealth assurance processes which can be utilised to increase assurance and reduce the administrative burden on schools. This has been incorporated into the MoU.

2.33 The Committee is satisfied that the Department has fulfilled the intent of the audit recommendations. A more detailed description of the Department’s activities to address the Committee’s questions can be found on the Committee’s website.

Audit Report 301 – HealthRoster benefits realisation

2.34 The NSW public health system employs over 100,000 people in clinical and non-clinical roles across the state. With increasing demand for services, it is vital that
NSW Health effectively rosters staff to ensure high quality and efficient patient care, while maintaining good workplace practices to support staff in demanding roles.

2.35 HealthRoster is a state-wide staff rostering system that allows managers to more effectively roster staff according to the demands of each location. This audit assessed the effectiveness of the system in delivering business benefits, particularly whether expected business benefits of HealthRoster were well-defined and HealthRoster is achieving business benefits where implemented.

2.36 The audit found that HealthRoster system is delivering some business benefits but not all of its features are being utilised.

2.37 The Audit Office recommended that NSW Health should:

- review the use of HealthRoster in Local Health Districts (LHDs) and Specialty Health Networks (SHNs) in clusters 1 and 2 and assist them to improve their HealthRoster related processes and practices;
- ensure that LHDs undertake benefits realisation planning according to the NSW Health benefits realisation framework;
- regularly measure benefits realised, at state and local health district levels, from the statewide implementation of HealthRoster; and
- ensure that all Local Health Districts are effectively using demand based rostering.

2.38 NSW Health accepted all four recommendations, noting that activities are underway to regularly measure the benefits and improve HealthRoster related processes and practices across NSW Health.

2.39 The Department’s response appears to address the overall intent of the first recommendation, but less than half of the LHDs had endorsed the local Benefits Management Framework. Furthermore, while stating that the Department is in the process of addressing the other recommendations, it appears metrics for LHD/SHNs that have not completed implementation of HealthRoster are not being measured.

2.40 On that basis, the Committee determined to seek written information on the progress of LHDs in undertaking benefits realisation planning and its annual monitoring of such benefits.

2.41 The response from the Secretary, NSW Health, dated 14 February 2020 reported that all LHDs and SHNs have now implemented HealthRoster in line with the approved program budget of $125.6M. In addition, all LHDs/SHNs were asked to complete their benefits methodology and commence the monitoring of benefits by December 2019.

2.42 According to NSW Health, with the exception of two LHDs, all are now monitoring rostering benefits and the Department is measuring rostering related metrics upon completion of implementation, providing additional support as required.
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NSW Health is also assessing responses from LHDs to the use of the rostering monitoring tool due to be operational by 31 January 2020. This involves each LHD providing an update of their performance against key rostering metrics, as described in the Department’s detailed response.

2.43 In response to questions regarding statewide benefits targets, NSW Health reported that due to the variability in service demand and delivery models, a single statewide target is not appropriate. This is particularly the case where there are differences in workforce availability in rural as opposed to metropolitan areas.

2.44 On the question of demand based rostering, NSW Health indicated that this is monitored by a statewide steering committee and a RosterPerform analytics platform, supplementing HealthRoster. In addition, the Ministry of Health is developing a new automated analytics dashboard to monitor demand and make appropriate adjustments.

2.45 On the basis of the additional information provided, the Committee is satisfied that the agency has fulfilled the intent of the audit recommendations. A more detailed description of the Department’s activities to address the Committee’s questions can be found on the Committee’s website.

Audit Report 305 – Matching skills training with market needs

2.46 In 2012, Australian governments entered into the National Partnership Agreement on Skill reform, to foster a more accessible, transparent, efficient and high-quality training sector, responsive to the needs of students and industry.

2.47 In July 2015, the NSW Government introduced the Smart and Skilled program, implemented by the NSW Department of Industry, whereby students can choose a vocational course from a list of approved qualifications and training providers. Students pay the same fee for their chosen qualification regardless of the selected providers and the Government covers the gap between the student fee and fixed price of the qualification.

2.48 The audit concluded that the Department effectively consulted with the industry, training providers and government departments to identify skill needs and target subsidies to meet those needs. However, it did not have a robust data-driven process to remove subsidies from qualifications which are no longer a priority.

2.49 The Audit Office noted that the NSW Skills List only includes high priority qualifications that need to be subsidised by the government and there was a risk that some qualifications which are subsidised do not reflect the skills needs of NSW.

2.50 The Audit Office recommended that by mid-2019, the NSW Department of Industry should:

- increase transparency of decisions and improve record keeping about proposed changes to the NSW Skills List; and
• investigate why training providers do not offer, and prospective students do not enrol in, some Smart and Skilled-subsidised qualifications.

2.51 The audit also recommended that by December 2019, the NSW Department of Industry should:

• use data more effectively and consistently to ensure that the NSW Skills List only includes high-priority qualifications;

• evaluate the effectiveness of Smart and Skilled funding which supplements standard subsidies for qualifications on the NSW Skills List;

• provide longer-term funding certainty to high performing training providers, while retaining incentives for them to continue to perform well; and

• develop and implement a specific communications strategy for Smart and Skilled to support prospective student engagement and meet the information needs of training providers.

2.52 The Department accepted all recommendations, confirming that the first two had been implemented and the remainder were on track to be completed.

2.53 In order to obtain more clarity about the finalisation of action on the Audit, the Committee resolved to write to the Department to seek additional information. This was to ascertain whether the Department had completed its evaluation and what changes, if any were intended as a result of the audit findings, including whether it intended to provide long-term funding certainty to high performing service providers.

2.54 In its response to the Committee's request for further information dated 7 February 2020, the Deputy Secretary, Skills and Higher Education, reported that all recommendations had either been completed or were being implemented. Specifically, the Department stated that ongoing consultation was being undertaken with stakeholders to determine factors affecting the demand for Smart and Skilled qualifications.

2.55 In addition, a final evaluation report on Smart and Skilled funding was due to be completed in February 2020. The results of the evaluation would influence any amendments to the funding arrangements for Smart and Skilled providers.

2.56 A new communications strategy was also to be implemented in January 2020, leveraging the approach of the NSW Vocational Education and Training (VET) repositioning campaign and focusing on streamlining audience engagement across different skills programs. According to the Department, the success of the strategy will be reviewed annually to incorporate continuous improvement to activities.

2.57 While not in a position to assess the full outcome of actions taken to implement the recommendations, due to their operational timing, the Committee is satisfied that the Department has taken appropriate steps to satisfy the intent of the audit
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recommendations. A more detailed description of the Department’s activities to address the Committee’s questions can be found on the Committee’s website.
Chapter Three – Detecting and responding to cyber security incidents

Introduction

3.1 The NSW Government uses digital technology across its agencies and departments to deliver services, organise and store information, manage business processes and control critical infrastructure. The increasing interconnectivity between computer networks has dramatically increased the risk of cyber security incidents, potentially harming or halting government service delivery.

3.2 After the Audit Office tabled the performance audit report on 2 March 2018, a revised NSW Cyber Security policy was released in February 2019, establishing the Cyber Security NSW unit within the Department of Customer Service (DCS) in May 2019.

The Performance Audit

3.3 The audit examined cyber security incident detection and response in the NSW public sector, focusing on the role of the Department of Finance, Services and Innovation (DFSI), which oversees policies and practices relating to information security and digital information security.

3.4 The audit also included ten case studies to better understand how cyber security incidents are detected and addressed within agencies. The agencies were selected based on their responsibility for personal data, critical infrastructure, financial information and intellectual property.

Major Audit Findings

3.5 The audit found overall that significant and prompt changes were needed to improve the ability of the NSW public sector to detect and respond to cyber security incidents.

3.6 Moreover, there was no whole-of-government capability to detect and respond effectively to cyber security incidents, limited sharing of information on incidents among agencies and poor detection and response practices and procedures in some agencies.

Auditor-General’s Recommendations

3.7 The Auditor-General made seven recommendations for the Department of Finance, Services and Innovation to implement, as a matter of priority. These recommendations are set out in the following table:

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1 NSW Auditor-General, Performance Audit Report, Detecting and responding to cyber security incidents, 2 March 2018, Executive Summary, pp.1-3.
Table 1- Recommendations made by the Auditor-General in the Detecting and responding to cyber security incidents performance audit report

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
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<tr>
<td>As a matter of priority, the Department of Finance, Services and Innovation should:</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Develop whole-of-government procedures, protocol and supporting systems to effectively share reported threats and respond to cyber security incidents impacting multiple agencies, including post-incident reviews and communicating lessons learnt</td>
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<tr>
<td>2.</td>
<td>Assist agencies to improve their detection and response by providing: 1. better practice guidelines for incident detection, response and reporting to help agencies develop their own practices and procedures 2. training and awareness programs, including tailored programs for a range of audiences such as cyber professionals, finance staff, and audit and risk committees 3. role requirements and responsibilities for cyber security across government, relevant to the size and complexity of each agency 4. a support model for agencies that have limited detection and response capabilities</td>
</tr>
<tr>
<td>3.</td>
<td>Revise the Digital Information Security Policy and Event Reporting Protocol by: 1. clarifying what security incidents must be reported to DFSI and when 2. extending mandatory reporting requirements to those NSW Government agencies not currently covered by the policy and protocol, including State owned corporations</td>
</tr>
<tr>
<td>4.</td>
<td>develop a means for agencies to report incidents in a more effective manner, such as a secure online template, that allows for early warnings and standardised details of incidents and remedial advice</td>
</tr>
<tr>
<td>5.</td>
<td>enhance NSW public sector threat intelligence gathering and sharing including formal links with Australian Government security agencies, other states and the private sector</td>
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<tr>
<td>6.</td>
<td>direct agencies to include standard clauses in contracts requiring IT service providers to report all cyber security incidents within a reasonable timeframe</td>
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| 7. | provide assurance that agencies have appropriate incident reporting procedures by: 1. extending the attestation requirement within the Digital Information Security Policy to cover procedures and reporting 2. reviewing a sample of agencies' incident reporting procedures each year.  

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2 NSW Auditor-General, Performance Audit Report, Detecting and responding to cyber security incidents, 2 March 2018, Executive Summary, p.3.
Agency Response

3.8 As previously noted, Cyber Security NSW was established within the Department of Customer Service (DCS) in May 2019. As such, DCS provided the agency response to the audit recommendations on 14 August 2019.

3.9 DCS accepted all seven recommendations, with the exception of recommendation 3.2 which was accepted in part.3 As set out in the Table above, recommendation 3.2 states that mandatory reporting for NSW Government agencies is not covered by the current policy and protocol, including state owned corporations.

3.10 DCS noted that under the Government Sector Employment Act 2013, the Cyber Security Policy only extends to the agencies listed in schedule 1, which does not include State-owned corporations (SOCs), local councils and universities. Cyber Security NSW, however, maintains a relationship with these organisations and strongly encourages them to report.4

3.11 At a public hearing on 24 February 2020, the Chief Cyber Security Officer, Department of Customer Service advised that prior to extending mandatory reporting requirements to SOCs, consultations would need to take place in order to identify whether these agencies have the resources to comply.

Despite [not having a mandate], myself and members of my executive team quite routinely have briefed a number of audit and risk committees from State-owned corporations in particular. We have progressed a number of key achievements that not only address these recommendations, but ensure further cybersecurity readiness and resilience...5

3.12 Further to that, the Department advised that it is currently working with the Government to examine the scope of Cyber Security NSW in relation to State-owned corporations. According to the Chief Information and Digital Officer, Department of Customer Service:

I would say that despite not being formally covered by the policy, the Chief Information Security Officers who carry the risk in those State-owned corporations very much still look to us for advice and guidelines, etc. They receive our advisories and alerts, and we have got to the point by building relationships with them that they will alert us when incidents do occur.6

3.13 In its response to the remaining recommendations, DCS advised that the NSW Cyber Security Policy (the Policy), which came into effect on 1 February 2019, addressed many of the concerns set out in the audit report.7

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3 Submission No. 2, Department of Customer Service, p.4.
4 Submission No. 2, Department of Customer Service, p.4.
5 Mr Tony Chapman, Chief Cyber Security Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 2
6 Mr Greg Wells, Chief Cyber Information Officer and Digital Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 4
7 Mr Tony Chapman, Chief Cyber Security Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 2
3.14 In response to recommendation 1, 2.1 and 4, concerning policies, procedures, supporting systems, and practice guidelines to share information on threats and intelligence, agencies are now required to report all cyber security incidents to Cyber Security NSW, as set out in the Policy. Additionally, agencies are mandated to provide annual reports on how they are tracking against the Australian cybersecurity key technical controls known as the Essential 8.8

3.15 According to DCS:

I think it has gone beyond just guidelines and best practice of guidelines...For the first time agencies need to look at the [the Essential 8] and report against them. I would say as well as best practice guidance... it is more fundamentally mandated across government now that that is the level of reporting we need to uplift cybersecurity maturity across the State.9

3.16 In response to recommendation 2.2, concerning training and awareness programs for agency staff, DCS advised that the cyber security steering group, which consists of the eight cluster Chief Information Security Officers, meets monthly to discuss cybersecurity issues. The Department also reported that it regularly holds workshops with independent agencies and local councils, and provides online technical training.10

3.17 In recommendation 2.4 the audit endorsed DCS support for agencies that have limited detection and response capabilities. The Department acknowledged the varying levels of cybersecurity resources across agencies, and advised that a proposal for the development of a vulnerability management service was currently in the planning stages, with a ‘launch hopefully sometime this year.’11

3.18 The response to recommendation 5 indicated that DCS was charged with establishing formal links with Australian Government security agencies, other states and the private sector. In response, DCS further advised that the Chief Cyber Security Officer is a member of the National Cyber Security Committee, which meets quarterly and consists of all the heads of cybersecurity across Australia.

3.19 Lastly, the audit recommended that Cyber Security NSW direct agencies to include standard clauses in contracts for IT service providers requiring all cyber security incidents be reported. The Department advised that guidance is provided to chief information security officers ‘when they are looking to engage a vendor or manage the IT risk.’12

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8 Mr Tony Chapman, Chief Cyber Security Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 2
9 Mr Greg Wells, Chief Cyber Information Officer and Digital Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 3
10 Mr Tony Chapman, Chief Cyber Security Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 3
11 Mr Tony Chapman, Chief Cyber Security Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 3
12 Mr Tony Chapman, Chief Cyber Security Officer, Department of Customer Service, Transcript of evidence, 24 February 2020, p. 5
Detecting and responding to cyber security incidents

Auditor General’s Comments

3.20 The Auditor-General, Ms Margaret Crawford, Acting Deputy Auditor-General, Mr Scott Stanton, and Assistant Auditor-General, Claudia Migotto attended the public hearing and supplemented evidence given by the Department of Customer Service.

3.21 The Auditor-General advised that the establishment of Cyber Security NSW and development of the NSW Cyber Security Policy addressed the intent, at least in part, of most of the audit’s recommendations. In particular, the Audit Office considered the Department’s response to recommendations 1, 2.3, 3.1, and 7 addressed the overall intent of the recommendations.13

3.22 While the Audit Office noted some deficiencies in several of the Department’s responses, the evidence given at the public hearing reassured the Audit Office that its recommendations were being addressed. The Auditor-General also noted, however, that ‘it is an ongoing, changing world, so constant vigilance is key’ and cybersecurity was an area that the Audit Office would continue to examine closely in future audits.14

Committee Comments

3.23 The Committee commends the work of the Department of Customer Service and Cyber Security NSW for its work in protecting the public sector against cybersecurity threats and building resilience and awareness as a proactive measure.

3.24 In particular, the Department’s development of the NSW Cyber Security Policy addressed a number of recommendations set out in the audit report. The Committee is encouraged to see that cybersecurity has been elevated to Cabinet level priority, and that meetings between the heads of cybersecurity across the country now take place regularly.

3.25 The Department noted that there may be scope to expand cybersecurity training outside the eight main clusters, which the Committee supports. This would be particularly important for those agencies with limited detection and response capabilities, who could benefit greatly from this training. The Committee is recommending that the Department, as a matter of priority, consider expanding cybersecurity training and awareness programs to agencies outside the main eight public sector clusters.

3.26 The Committee commends the Department for establishing formal links with the Australian Government security agencies and other states in order to stay connected and provide best practice guidelines. However, the Committee, believes more could be done to establish links with the private sector, which is responsible for many apps used by the public sector. The Committee is therefore recommending that Cyber Security NSW consider how it may best enhance NSW

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13 Ms Margaret Crawford, Auditor-General for NSW, letter to Greg Piper, Chair, Public Accounts Committee, 4 October 2019, pp. 3-5.
14 Ms Margaret Crawford, Auditor-General for NSW, Audit Office of NSW, Transcript of evidence, 24 February 2020, p. 6
Detecting and responding to cyber security incidents

public sector threat intelligence gathering and sharing through formal links with the private sector.

3.27 Finally, the Committee notes the importance of ensuring cybersecurity resilience for State-owned corporations, which control critical infrastructure across NSW, such as energy, water and ports. The Committee acknowledges that Cyber Security NSW is currently working with the Government to determine the scope of its remit, particularly in regard to SOCs.

3.28 The Committee recommends that Cyber Security NSW provides an update to the Auditor-General and the Committee, once a determination has been made in regard to Cyber Security NSW’s remit for State-owned corporations.

Recommendation 1
The Committee recommends that Cyber Security NSW considers, as a matter of priority, expanding its cybersecurity training and awareness programs to agencies outside the main eight public sector clusters.

Recommendation 2
The Committee recommends that Cyber Security NSW reports on how it may best enhance NSW public sector threat intelligence gathering and sharing through formal links with the private sector.

Recommendation 3
The Committee recommends that Cyber Security NSW provides an update to the Auditor-General and the Committee, once a determination has been made in regard to Cyber Security NSW’s remit for State-owned corporations.
Chapter Four – Regional assistance programs

Introduction

4.1 In 2011, the NSW Government established Restart NSW to fund major infrastructure projects across regional and rural NSW to support long term economic growth. This fund was created using the proceeds from the sale and lease of government assets and recipients are primarily local councils. From 2011 to 2017, the NSW Government allocated $1.7 billion from the fund towards infrastructure projects in regional areas, with an additional commitment of $1.3 billion to be allocated by 2021.

4.2 Resources for Regions and Fixing Country Roads are the two largest programs under Restart NSW, with allocations of $333.7 million for 173 different projects within 3 years to 30 June 2016. Consequently, the 2018 audit report focuses largely on the management of these two programs.

4.3 Resources for Regions was launched in 2012 and aimed to address infrastructure constraints in mining affected communities. This program is administered by Infrastructure NSW (INSW) with support from the Department of Premier and Cabinet (DPC).

4.4 Fixing Country Roads was launched in 2014 and aimed to build more efficient road freight networks by supporting local councils to link up local and regional roads to major road arteries. The program is jointly administered by Transport for NSW (TfNSW) and INSW.

The Performance Audit

4.5 The audit assessed whether the Resources for Regions and Fixing Country Roads programs were being effectively managed by the relevant agencies and whether the funded projects met their program and project objectives. The audit focussed on four rounds of Resources for Regions funding between 2013-14 and 2015-16 and the first two rounds of Fixing Country Roads funding in 2014-15 and 2015-16.

Major Audit Findings

4.6 Overall the Audit Office found that INSW effectively managed grant applications, that the assessment criteria adequately reflected the program objectives, and that the agency’s support for applicants had improved over successive rounds for both the Resources for Regions and Fixing Country Roads programs.

4.7 However, the audit could not conclude whether program objectives were achieved, because INSW had not measured program benefits for completed projects. Additionally, probity and record keeping practices did not fully comply with the probity plans. For example, INSW did not complete conflict of interest registers for the Resources for Regions program and not all government employees and contractors signed declarations for potential conflicts of interests.
This posed issues particularly when INSW used the same consultancy to act as both its internal auditor and probity advisor. Although the audit concluded that this was unlikely to significantly impact its assessment processes, it allowed an avoidable conflict of interest and undermined its probity and auditor assessment. This is particularly illustrated by the consultancy referring to its work as probity advisor in confirming that there were no current probity issues.

The audit noted that while INSW used a risk-based approach to manage projects effectively, there were areas that could be strengthened. For example, by conducting annual compliance audits on a random sample of funded projects or reallocating unused funding through the assessment process to support program objectives.

For both programs, agency support to applicants has improved over successive program rounds. Agency support included briefings and webinars for applicants explaining the type of information to include, how to demonstrate their program meets the selection criteria, and tools for demonstrating the economic impact of their applications.

**Auditor General's Findings**

The audit report made seven recommendations to INSW and TfNSW: recommendations 1-2 to be completed by June 2018; and recommendations 3-7 to be completed by December 2018.

*Table 2 – Recommendations made by the Auditor-General in Regional Assistance Programs performance audit report*[15]

<table>
<thead>
<tr>
<th>By June 2018</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ensure probity reports address whether all elements of the probity plan have been effectively implemented.</td>
</tr>
<tr>
<td>2</td>
<td>Maintain and store all documentation regarding assessment and probity matters according to the <em>State Records Act 1998</em>, the NSW Government Standard on Records Management and the relevant probity plans.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By December 2018</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Conduct annual audits of compliance with the funding deed for a random sample of projects funded under Resources for Regions and Fixing Country Roads.</td>
</tr>
<tr>
<td>4</td>
<td>Publish the circumstances under which unspent funds can be allocated to extensions in project scope.</td>
</tr>
<tr>
<td>5</td>
<td>Measure benefits delivered by projects that were completed before December 2017.</td>
</tr>
</tbody>
</table>

Implement an annual process to measure benefits for projects completed after December 2017.

Incorporate a benefits realisation framework as part of the detailed application.

Agency Response

4.12 The agencies agreed to recommendations 1, 2, 4, 5 and 7, and reported them as completed or on track to be completed. Recommendations 3 and 6 were noted by the agencies, which reported that their compliance measures and reviews were sufficient.

4.13 In response to recommendation 1, INSW funded independent probity advice for all agencies at each step of the assessment process for submission-based programs for the Restart NSW Fund. INSW advised that agencies that administer the Restart NSW regional submission programs have direct administrative responsibility for the assessment process and are required to develop probity plans as part of that function.16

4.14 In May 2019, INSW put forward a proposal for consultation with relevant agencies and Ministers recommending changes to the governance and management of Restart NSW Fund regional submission based programs.

4.15 This included, that programs prepare upfront strategic business cases for each funding round clearly articulating: the design and objective of the program; governance arrangements (including probity plans and reports); risk management; and expected benefits. In its submission dated July 2019, INSW noted that agencies were considering this proposal with a view to seek Cabinet endorsement.17

4.16 The Committee heard from representatives of INSW, DPIE (Department of Planning, Industry and Environment) and TfNSW at its public hearing in February 2020. INSW advised that although the department had originally sought to undertake an independent review into the management of Restart NSW, it had instead implemented action in response to the audit findings.

4.17 This included a clear separation between INSW’s internal audit, run by KPMG, and their probity auditor, now O’Connor Marsden.18 INSW confirmed that conflicts of interests of participants in the audit process are declared and recorded to ensure its probity reviews and assessment methodology are now in line with the audit report’s recommendations.

4.18 The agencies reported that INSW and TfNSW had already addressed recommendation 2 and marked it as completed.19 In response to supplementary

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16 Submission 5, Department of Premier and Cabinet, p.2.
17 Submission 5, Department of Premier and Cabinet, p.2.
18 Mr Simon Draper, Chief executive Officer and Co-ordinator General, Infrastructure NSW, Transcript of evidence, 24 February 2020, p.8.
19 Submission 5, Department of Premier and Cabinet, p.3.
questions sent by the Committee, INSW advised that the Resources of Regions and Fixing Country Roads programs are reviewed on an ongoing basis to ensure that they remain fit for purpose.

4.19 Recent probity reports for Resources for Regions (Rounds 3 and 4) and Fixing Country Roads (Round 2) found that probity protocols were complied with, including: responsibilities; decision making and sign off; minutes; fairness and impartiality; document compliance; communication with applications; independence of decision makers; management of bias; management of confidentiality; and attaining best value for money.

4.20 The review indicated that some assessment information was not stored correctly in the complaint records management system and some documentation was incomplete for one round of the Resources for Regions program. In response to these findings, INSW is taking steps to ensure record storage and supporting documentation processes are consistent. A review of management process for the Resources for Regions rounds found that good documentation practices were in place and supported the decisions of governance bodies.20

4.21 INSW noted, rather than accepted, the Auditor-General’s recommendation 3, to conduct annual reports of compliance with the funding deed for a random sample. Instead, INSW reported that it would undertake compliance audits on a risk-assessed basis, rather than randomly across programs of works, to ensure the best value for compliance costs in addition to their existing suite of compliance controls.21

4.22 In response to recommendation 4, INSW agreed with the Auditor-General’s recommendation to publish the circumstances under which unspent funds can be reallocated to extensions in project scope. In its written response, this recommendation was marked as completed, noting that extensions of project scope could only be approved as a change request under the funding deed and assessed on a case by case basis.22 Legislative changes enacted in February 2019, under Schedule 5 of the Restart NSW Deed "Cost Control Plan and Project Cashflow", now outline the process for reallocation of unspent funds to extensions in project scope.

4.23 In response to recommendations 5 and 6, DPIE and TfNSW initially agreed to the recommendation to collaborate with sponsor agencies to ensure that program benefits will be reported at the 50% mark and after completion, and to ensure a review of reported benefits. However, INSW’s response to the Committee indicated that it did not intend to undertake this collaboration, which would ensure project benefits are measured by agencies administering these funding programs.23

4.24 In supplementary questions to the agency, the Committee asked why INSW did not intend to undertake the proposed collaboration under recommendations 5

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20 Answers to supplementary questions, provided by Investment NSW 27 March 2020, p1.
21 Submission 5, Department of Premier and Cabinet, p.3.
22 Submission 5, Department of Premier and Cabinet, p.4.
23 Submission 5, Department of Premier and Cabinet, pp.4-5.
Regional assistance programs

and 6, and how it will ensure project benefits are measured by the agencies administering the funds. INSW stated that it continues to collaborate with TfNSW and DPIE on the management of the Resources for Regions and Fixing Country Roads programs, but asserted that benefits evaluation needs to be undertaken at a program level (by the agency administering the fund) rather than at the project level (by INSW, TfNSW or DPIE).

4.25 Neither Resources for Regions or Fixing Country Roads have a program-level benefits realisation framework in the early stages. Additionally, INSW has undertaken a desktop review of the benefits delivered by Resources for Regions round 1 projects and found that while all projects were completed within the agreed scope and budget, and all projects appeared to have delivered significant benefits to the local community, INSW could not quantify or attribute those outcomes. INSW also reported progress on evaluation frameworks for future program rounds with DPIE and TfNSW.24

4.26 In response to recommendation 7, regarding incorporating a benefits realisation framework as part of the detailed application, DPIE and TfNSW agreed to this recommendation and stated that agencies have been responsible for the construction of the Detailed Application process. In particular, TfNSW had developed Benefits Realisation and Governance Framework documents for the Fixing Country Roads and Fixing Country Rail programs, published in January 2019. DPIE also advised that program evaluation was integrated into each regional program design and included measuring the benefits delivered under each program, including Resources for Regions.25

4.27 INSW acknowledged the Auditor-General’s third recommendation for a sample-based approach to project audits, but indicated that the department can perform more targeted audits on at-risk projects identified through its monthly project reports. Following this approach, INSW estimated it had performed audits on three local governments and one non-government recipient – accounting for 16 projects in total.26

4.28 INSW reported that formal program objectives are determined by the sponsoring agency and published as part of the submission base rounds. The early rounds of these programs do not generally have a formal benefits realisation framework to measure these program objectives. However, at the public hearing, INSW advised that program indicators such as completion timeframes and budget criteria give a good indication of project outcomes for early project rounds.

4.29 For example, the benefits of the Cobar water project were examined for their assistance to communities impacted by mining. While this project did not have a formal benefits realisation assessment, DPIE have assessed the water security for the Cobar community and reported on its improvement. DPIE noted that the

24 Answers to supplementary questions, provided by Investment NSW 27 March 2020, p2.
25 Submission 5, Department of Premier and Cabinet, p.5.
26 Mr Simon Draper, Chief executive Officer and Co-ordinator General, Infrastructure NSW, Transcript of evidence, 24 February 2020, p.9.
Resources for Regions program has operated for six rounds, with constant improvement evident for each round.  

4.30 INSW also noted that while early round objectives are not generally measured, these projects are relatively small-scale and the investment in evaluating them would be disproportionate to their scale. On this point, DPIE noted that a benefits realisation framework is being implemented for subsequent rounds of the Resources of Regions program, acknowledging that these frameworks were not implemented for the early rounds of the program.

Auditor-General’s Comments

4.31 On 4 October 2019, the Auditor-General provided comments on the agency’s initial response to the audit and its seven recommendations. These comments were addressed at the public hearing and in the supplementary questions cited above.

4.32 The Audit Office noted that recommendation 1 had not been implemented, which included maintaining a conflict of interest register and declarations. Instead, INSW had prepared a consultation paper for proposed additional guidance, which includes governance arrangements such as probity plans and reports, and that full completion of this recommendation was significantly delayed.

4.33 Although INSW indicated that it had addressed recommendation 2, its response did not state whether INSW had reviewed the effectiveness of its efforts to improve record keeping.

4.34 The Audit Office acknowledged that INSW had noted, and not accepted, recommendation 3 because it considered that its existing risk-based approach to conducting compliance audits was effective. However, the Audit Office considered that INSW’s response was not clear about how many compliance audits they had undertaken according to its risk-based framework.

4.35 The Auditor General was satisfied with INSW’s response that it had addressed recommendation 4.

4.36 In reference to recommendations 5 and 6, the Auditor General commented that INSW had agreed to these recommendations. These were to collaborate with sponsor agencies (such as TfNSW for the Fixing Country Roads program) to ensure that program benefits are reported for project milestones, namely the 50% completion and 100% completion points. INSW also responded that it would review reported benefits.

4.37 However, in the agency’s response to the audit, it was noted that this responsibility belonged to the agencies administering the program. Furthermore, program evaluation was integrated into each regional program design, including

27 Mr Chris Hanger, Executive Director, Regional NSW Group, NSW Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, p.10.

28 Mr Simon Draper, Chief executive Officer and Co-ordinator General, Infrastructure NSW, Transcript of evidence, 24 February 2020, p.9.
measuring the benefits delivered under each program such as Resources for Regions. Consequently, the agency response indicated that INSW did not intend to undertake the recommended agency collaboration to ensure program benefits are reported and measured.

4.38 For recommendation 7, the Audit Office noted that TfNSW implemented a benefits realisation framework for the Fixing Country Roads program. However, INSW’s response was unclear as to whether INSW and DPIE had implemented a similar benefits realisation framework for the Resources for Regions program as recommended.

4.39 At the public hearing, the Auditor General made no further comment on the matters raised by INSW and TfNSW following their public hearing evidence.

Committee Comments

4.40 The Committee supports the efforts made by INSW and DPIE to implement processes aligning with the audit recommendations. In particular, the implementation of measures to improve the probity and record keeping of their audit processes. This includes remediying the conflict of interest registers and having separate internal and probity auditors, thereby providing a more robust and accountable system going forward.

4.41 The Committee is satisfied that the agencies are undertaking regular reviews to ensure the programs remain fit for purpose and that all probity and assessment documentation is maintained and stored appropriately. The Committee is also satisfied that the agencies have adequately addressed recommendation 4, by amending the Restart NSW Deed to specify the circumstances for reallocating unspent funds within the project scope.

4.42 The Committee recognises the disproportionate investment in randomly sampled audits due to the large number of small scale projects. However, it is noted that the department’s current method of auditing at-risk projects relies upon information supplied through monthly progress reports completed by the council or program operator. The self-reported nature of these progress reports may limit the scope for potential audits. Given the investment required for a widespread sample audit, the Committee considers it important that sample audits conducted on the basis of self-reported data, are applied on a consistent basis that encompass programs presenting a moderate-to-high risk.

Recommendation 4

The Committee recommends that Infrastructure NSW, the Department of Planning, Industry and Environment and Transport for NSW apply a consistent approach to conducting sample audits on programs that present a moderate-to-high risk.

4.43 The Committee acknowledges the reasoning regarding the absence of a performance framework for the early project rounds, which can often be assessed by other general criteria that may not be quantifiable. However, the

29 Submission 5, Department of Premier and Cabinet, p5.
Committee considers that a benefits realisation framework acts to provide clarity on the measurable benefits of these programs in the early rounds.

While noting that quantitative data may not yet be available for the early project rounds, the Committee considers that reporting available qualitative data would be beneficial to assess the project’s early progress and improve project transparency. The Committee encourages the agencies to continue to utilise available quantitative data and qualitative outcomes to report on their progress.

**Recommendation 5**

The Committee recommends that Infrastructure NSW, the Department of Planning, Industry and Environment and Transport for NSW report on available quantitative and qualitative data for early project rounds of the Resources for Regions and Fixing Country Roads schemes.
Chapter Five – Shared services in local government

Introduction

5.1 Councils are responsible for delivering a wide range of services, including: waste management; water supply; libraries; planning; road maintenance; street lighting; aged care; and food regulation.

5.2 Under the Local Government Act 1993 (NSW) (the Act), councils are required to provide these services while also providing best value for residents and ratepayers, and delivering these services efficiently, effectively, and transparently.30

5.3 Many councils work together to share knowledge, resources and services in order to save money and improve access. When these joint undertakings are done well, all involved councils benefit from cost savings and increased access to services.

5.4 Some services, however, are more suitable to be shared than others, depending on the nature of the service and the circumstances of the councils involved.

The Performance Audit

5.5 This audit assessed how efficiently and effectively councils engage in such shared service arrangements. For the purposes of the audit, ‘shared services’ are defined as the joint management of activities to deliver community services or perform back-office functions.

5.6 The audit included information gathered from a survey of 128 general-purpose councils in NSW, of which 67 (52 per cent) provided a response, interviews with stakeholders, case studies of different shared service arrangements, and consultation with a group of eight selected councils in various locations of NSW.

5.7 The audit did not include the following in its assessment: the amalgamation process; shared services within Joint Organisations; outsourcing of services by one council; activities of a county council; the effectiveness and efficiency of shared services in place; public private partnerships; or service delivery other than shared services arrangements.

Major Audit Findings

5.8 The audit found that the majority of the surveyed councils were not efficiently and effectively engaging in shared services. This was due to the three major factors:

30 Local Government Act 1993 (NSW), Section 8A.
• councils did not review their existing services in order to decide on the best joint service delivery model;

• the governance models used by some of the councils did not include the same checks and balances required for all councils under the *Local Government Act 1993*. This affected the scope, management and effectiveness of the shared operations, and put at risk the transparency and accountability within these models; and

• some of the surveyed councils lacked the capability to establish and manage shared service arrangements. The audit found that many of the surveyed councils lacked ‘in house’ skill sets such as: strong project management; inter-council negotiation skills; service analysis and business case development; and outcomes and key performance indicators to track performance.31

**Auditor-General’s Recommendations**

5.9 The sole recommendation in the Audit Office report was that the Office of Local Government (OLG) should, by April 2019, develop guidance which outlines the risks and opportunities of governance models that councils can use to share services. This should include advice on legal requirements, transparency in decisions, and accountability for effective use of public resources.32

5.10 The report also detailed the best practice components for optimal shared service arrangements, as set out in the table below:

Table 3– Recommendations made by the Auditor-General in Practices for efficient and effective shared services performance audit report

<table>
<thead>
<tr>
<th>Recommendation - Practices for efficient and effective shared services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Councils should base their decision to engage in shared services on a sound needs analysis, a review of service delivery models and a strong business case, which clearly identifies the expected costs and benefits. This should align with councils’ Delivery Program and Community Strategic Plan.</td>
</tr>
<tr>
<td>2 Councils should collect baseline information, monitor and evaluate services that will be shared. They should also ensure that services perform to expectations.</td>
</tr>
<tr>
<td>3 Councils should ensure that the governance models they select to deliver shared services are fit for purpose. They should ensure clear roles, responsibilities, accountability and transparency of decisions.</td>
</tr>
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</table>


Councillors should build the capability of councillors and council staff in the areas of assessing and managing shared services, leading to better understanding of opportunities and management of risk.\(^{33}\)

**Agency Response**

5.11 In a letter to the Audit Office of NSW dated 14 June 2018, the Office of Local Government (OLG) noted its support for the recommendation, and reported on a NSW Government initiative model framework for regional and rural councils to undertake shared services by establishing Joint Organisations (JOs).\(^{34}\)

5.12 In its submission, the OLG advised that the establishment of 13 Joint Organisations meets the intent of the Audit’s recommendation. The new model provides for collaboration between rural and regional councils and for engagement with the OLG and other government agencies. The Office of Local Government further advised that the Joint Organisations established as a result of the initiative are now fully operational.\(^{35}\)

5.13 At its public hearing on 24 February 2020, the Committee took evidence from the Director, Policy and Sector Development, Office of Local Government, who explained that the Joint Organisations were comprised of elected representatives who attended meetings. Each representative is required to disclose pecuniary and general conflicts of interest to the same degree as councillors. Each Joint Organisation operates with a code of conduct and decisions of each JO must be made transparent.\(^{36}\)

5.14 OLG reported that the NSW Government provided $150,000 to each Joint Organisation to ‘develop and prepare capacity-building projects.’ A number of these projects were stated to be ‘really focused on shared services and models for undertaking shared services in a better and more strategic ways.’\(^{37}\) In other words, some of the projects were to develop best practice guidelines which could then be shared with other Joint Organisations and councils.

5.15 In response to the recommendation’s emphasis on the OLG providing guidance to the councils participating in Joint Organisations, the Committee was told that participating councils were best placed to create a service framework for themselves.

In terms of actual guidance in undertaking shared services, they [the councils] are now in the box seat really to be able to trial some different ways of doing things. We will work with them – and we have worked very closely with them since they were

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\(^{35}\) Submission 1, Office of Local Government, p.2.


\(^{37}\) Ms Melissa Gibbs, Director, Policy and Sector Development, Office of Local Government, Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, p.11.
5.16 OLG elaborated on the expertise available to councils in undertaking these joint ventures:

They tend to have access to their own skills and resources and their own legal advice and will quite often just come to the Office of Local Government when they are ready to embark on something that may need our approval, or they might give us an early heads-up of what they are thinking so that we can be mindful of the fact that might be coming our way down the track when it does come to us for approval. But they tend to be able to manage their own affairs and gather their own advice and support.39

...It is in keeping with the Government’s view now that collaboration with the local government sector and encouraging them to be masters of their own destiny is the preferred approach at the moment, particularly with something like this.40

5.17 The Committee was advised that because the Joint Organisations had only been in operation for 18 months at the time of the public hearing, OLG will conduct an evaluation later in the year.

Auditor-General’s Comments

5.18 On 4 October 2019, the Auditor-General provided comments on the Office of Local Government’s initial response to the Audit and its recommendation. The majority of the issues raised were addressed at the public hearing.

5.19 At the public hearing, the Auditor-General also noted that some councils lack the capability required to establish and manage shared service arrangements. In response to the Office of Local Government’s statement that councils are best placed to develop best practice, the Auditor-General commented that there is still 'a capability question in councils [which] probably is still a little bit of a gap.' 41

5.20 In the Audit Office report, the Auditor-General observed that identifying whether to enter in a shared services agreement required ‘a specialised skillset that councils do not always have in house.’ Skills such as services analysis, business case development, negotiation skills, project management, and outcomes evaluation among others.42

Committee Comments

5.21 The Committee supports the Office of Local Government in its work to help establish the 13 Joint Organisations. In particular, providing support to a number

40 Ms Melissa Gibbs, Director, Policy and Sector Development, Office of Local Government, Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, p.15.
41 Ms Margaret Crawford, Auditor-General NSW, Audit Office of NSW, Transcript of evidence, p.15.
of councils, each with its own distinct character and practices, is to be commended.

5.22 The Committee recognises the Joint Organisation framework is new, and the Office of Local Government intends to undertake an evaluation of the framework later in the year. The Committee notes the strong rate of council participation in the Joint Organisation model as evidence of demand for collaboration.

5.23 The Committee also notes that the Joint Organisation model is only offered to regional and rural councils at this point in time. There are, however, a number of metropolitan councils which may also be interested in the benefits of participation.

5.24 For this reason, the Committee recommends that the Office of Local Government, in consultation with the Minister for Local Government considers the feasibility of including metropolitan councils, on a voluntary basis, in its next phase of the Joint Organisation framework rollout.

5.25 While the Committee is supportive of the Joint Organisation framework for shared council services, the Committee also acknowledges the advice from the Auditor-General regarding a potential gap in the capability of councils to manage shared services.

5.26 The Committee therefore recommends that following its evaluation of the Joint Organisation framework, the Office of Local Government facilitates the development of guidelines for councils considering entering into a Joint Organisation. This should include case studies and a comparison toolkit, so councils can determine whether the Joint Organisation would provide benefits over their current service arrangements.

5.27 Finally, the Committee stresses the importance of Joint Organisations continuing to operate according to relevant codes of conduct and transparent decision making.

Recommendation 6

The Committee recommends that the Office of Local Government, in consultation with the Minister for Local Government considers the feasibility of including metropolitan councils, on a voluntary basis, in its next phase of the Joint Organisation framework rollout.

Recommendation 7

The Committee recommends that following its evaluation of the Joint Organisation framework, the Office of Local Government facilitates the development of guidelines for prospective councils. This should include case studies of the 13 Joint Organisations and a comparison toolkit to enable councils to determine whether the Joint Organisation would provide benefits over their current service arrangements.
Chapter Six – Fraud controls in local councils

Introduction

6.1 Fraud can directly influence a council’s ability to deliver services and undermine community confidence and trust. Resultant disruption to the delivery and quality of council services can also threaten its financial stability.

The Performance Audit

6.2 In 2015, the Audit Office produced a Fraud Control Improvement Kit which identifies ten attributes of an effective fraud control system. As part of the current performance audit, 128 New South Wales local councils were asked to complete a survey to assess their fraud controls against the ten fraud control attributes set out in the Kit.

6.3 The performance audit also reviewed other data collected by councils and several New South Wales Government entities and conducted workshops and interviews with councils, industry experts and relevant stakeholders. Research was also carried out into fraud control efforts undertaken elsewhere, as well as incorporating findings from the Audit Office’s first year of financial audits.

Major Audit Findings

6.4 Based on the results of the Audit Office survey, the Auditor-General concluded that the strength of fraud control systems varies significantly across New South Wales local councils, with significant improvements required. Of the 83 councils that completed the audit survey:

- 5 have implemented most of the controls recommended by the Kit;
- a further 40 have implemented half or more of the recommended controls; and
- 38 have implemented less than half the recommended controls.

6.5 While 65 of the 83 councils completing the survey have fraud control policies in place, 52 do not have control plans directing resources to the specific fraud risks identified. In the last two years, only 15 councils completing the survey have assessed their fraud risks to identify a need for updating or revising their plans.

6.6 The audit also identified councils which have policies, procedures and systems in place, without ensuring that staff had the requisite training or understanding to implement them. Less than one-third of surveyed councils regularly trained staff to identify and respond to suspected fraud and/or informed staff and the public how to report suspected fraud and investigate such reports.

6.7 Despite several New South Wales state entities collecting data on suspected fraud, the cost, extent, and nature of fraud in local councils is not clear. Collaboration between state agencies and councils to address inconsistencies in data collection could provide a clearer picture to the public and councils of the incidence of fraud.
Auditor-General’s Recommendations

6.8 The performance audit report observed that councils should improve their fraud controls by:

- tailoring fraud control plans to their circumstances and specific risks;
- systematically and regularly reviewing their fraud risks and fraud control systems to keep their plans up to-date;
- effectively communicating fraud risks, and how staff and the community can report suspected fraud; and
- ensuring that they comply with the *Public Interest Disclosure Act 1994*. 43

6.9 Two recommendations were made, to be implemented by April 2019.

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
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<tbody>
<tr>
<td>1</td>
<td>That the Office of Local Government work with councils to ensure they comply with the <em>Public Interest Disclosure Act 1994</em>.</td>
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</table>
| 2   | That the Office of Local Government work with state entities and councils to develop a common approach to how fraud complaints and incidences are defined and categorised so that they can:  
  - better use data to provide a clearer picture of the level of fraud within councils  
  - measure the effectiveness of, and drive improvement in councils’ fraud control systems. 44 |

Agency Response

6.10 The Office of Local Government (OLG) accepted both recommendations, noting that considerable progress had been made towards their full implementation.

6.11 Public interest disclosure policies are a requirement of the *Public Interest Disclosure Act* (the PID Act) and are an important component of councils’ notification control systems. The audit found, however, that five councils surveyed were not compliant with the Act because they did not have a PID policy. 45

43 NSW Auditor-General, Performance Audit Report, *Fraud controls in local councils*, 22 June 2018, Executive Summary, pp. 1 - 3
44 NSW Auditor-General, Performance Audit Report, *Fraud controls in local councils*, 22 June 2018, Executive Summary, p. 3
45 NSW Auditor-General, Performance Audit Report, *Fraud controls in local councils*, 22 June 2018, Executive Summary, p. 3
6.12 Recommendation 1 in the audit report required OLG to work with councils to ensure that they comply with the Public Interest Disclosure Act. In its response to this recommendation, OLG referred to advice provided to councils in November 2018, obliging them to develop an internal reporting policy for the management of public interest disclosures. Councils were also directed to the reporting policy available on the NSW Ombudsman’s website. 

6.13 After reviewing OLG’s response to this recommendation, the Auditor-General commented that the response from councils to this advice lacked clarity and it was not evident whether OLG had reviewed the actions taken by councils. The Committee followed this up at the public hearing, asking OLG whether it was satisfied that all councils were now in compliance with the PID Act.

6.14 In its response, OLG stated that the oversight of the PID Act falls within the responsibility of the NSW Ombudsman, as the Public Interest Disclosures Regulation 2011 requires councils to report annually to the Ombudsman on their PID obligations.

6.15 The Committee was also told that most councils incorporated the PID reporting obligation within their annual report, which was posted on their website and provided to the Minister under section 428 of the Local Government Act 1993.

6.16 Recommendation 2 called on OLG to work with councils to develop a common approach to defining fraud complaints and incidences. The Committee was advised that shared services in local government were strengthened in 2018 by the establishment of a new Joint Organisation model to provide a framework for collaboration between rural and regional councils.

6.17 Thirteen Joint Organisations were established under the Local Government Act 1993 to provide a coordinated avenue for engaging with OLG and other Government agencies.

6.18 OLG also advised the Committee that:

- Substantial work has been undertaken on updating the Integrated Planning and Reporting Guidelines (IP&R). These guidelines link the development of each council’s Community Strategic Plan with resource planning, community consultation and other council strategic plans to ensure a cohesive approach to council management.

- The development of a Performance Management Measurement Framework had been reactivated to enhance transparency and assist all stakeholders in understanding council performance.

- Progress had also been made towards assisting with the development of council’s reporting capabilities by providing guidance on annual reporting, conducting workshops on financial reporting, establishing support and

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46 Mr Christopher Allen, Director, Sector Performance and Intervention, Office of Local Government, Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, p. 16

47 Answers to Supplementary Questions, Office of Local Government, 6 March 2020, p. 2
Section 440 of the Local Government Act 1993 requires local councils to adopt a code of conduct incorporating the provisions of the ‘Model Code of Conduct for Local Councils in NSW, November 2015’ (the Model Code). The Audit found that of the 83 councils that completed the survey:

- 67 councils ask staff to sign a code of conduct when they commence employment, but only 7 councils make this an annual requirement; and
- 63 councils have a policy relating to conflict of interest. Only 36 of these ask staff to complete a conflict of interest declaration on commencement of employment and 29 make this an annual requirement.

At the public hearing, the Committee asked OLG how confident it was that councils are applying the model code of conduct, as required under section 440 of the Local Government Act 1993. The code describes expectations for ethical conduct and the avoidance of fraudulent behaviour.

The Office of Local Government referred to its circular issued at the end of 2019, advising councils on various strategies to be taken to address the issues of fraud control, including reviewing controls against the Audit Office Fraud Control Improvement Kit. OLG noted that there are 128 councils across the State and that the process of educating staff to the new processes and policies takes time. Any issues raised were stated to be addressed by OLG staff or referred to ICAC as appropriate.

OLG further reported that an engagement team had been established to work closely with councils and provide information back to OLG on issues relating to maladministration. A council governance team was also available to provide advice to councils about code of conduct issues.

In addition, a local government liaison group had been established involving OLG, the NSW Ombudsman, the Independent Commission Against Corruption, the Information and Privacy Commission and the Audit Office, which meets every three months to discuss issues identified by the teams. OLG also works closely with the Audit Office to monitor the financial performance of councils, particularly those having deficiencies or experiencing difficulties.

The audit report also found that responsibility for fraud control oversight was not always clear, as follows:

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48 Submission No. 1, Office of Local Government, p. 2
49 NSW Auditor-General, Performance Audit Report, Fraud controls in local councils, 22 June 2018, Fraud control snapshot, p. 11
50 Mr Christopher Allen, Director, Sector Performance and Intervention, Office of Local Government, Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, p. 16
51 Mr Christopher Allen, Director, Sector Performance and Intervention, Office of Local Government, Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, pp. 16 & 17
- In 35 surveyed councils, the responsibility for oversight of fraud control is part of one or more senior managers’ role descriptions. Rural and regional councils are less likely to include this in senior management role descriptions.

- Of the 83 councils that completed the survey, 48 agreed that they had integrated fraud management with their core business. Forty five agreed that sufficient resources were allocated to the management of their fraud risks.  

6.25 In 2016, the Local Government Act was amended to require councils to establish an audit risk and improvement committee by March 2021. The Auditor-General’s Report on Local Government 2017 found that 53 councils did not have a functioning audit committee as an important part of good governance. The report recommended that councils should establish an audit, risk and improvement committee as a matter of priority.  

6.26 In its Report on Local Government 2019, the Audit Office updated this information, noting that 14 additional councils had established audit, risk and improvement committees during 2018-19, resulting in 111 councils now having such committees.  

6.27 At the Committee’s public hearing on 24 February 2020, OLG advised that a draft internal audit and risk management framework had been developed. This requires councils to ensure that they have the appropriate policies in place, including those under the PID Act.  

6.28 The Office of Local Government added that the establishment of Audit, Risk and Improvement Committees provides a mechanism for councils to continuously review and provide independent advice and assurance on their governance frameworks and risk management of their operational function. This includes oversight of councils’ fraud and corruption control frameworks.  

6.29 In the course of the public hearing, the Committee asked whether there was a delineation of the differing fraud profiles prevalent or likely between metropolitan, regional and rural councils. OLG subsequently responded that they did not undertake work on profiling fraud in local councils, which was undertaken by other agencies such as ICAC. However, OLG would continue to work with ICAC, the Audit Office and other relevant agencies to develop an enhanced understanding of fraud and related issues across the sector.  

6.30 OLG was also asked why there was such a discrepancy between the response rates to the survey in rural versus metropolitan and regional councils and whether they

52 NSW Auditor-General, Performance Audit Report, Fraud controls in local councils, 22 June 2018, Fraud control snapshot, p. 11  
53 NSW Auditor-General, Performance Audit Report, Fraud controls in local councils, 22 June 2018, Fraud control snapshot, p. 11  
54 NSW Auditor-General, Financial Audit, 5 March 2020, Report on Local Government 2019, Governance and internal controls, p. 34  
55 Answers to Supplementary Questions, Office of Local Government, 6 March 2020, pp. 2 - 3.  
56 Answers to Supplementary Questions, Office of Local Government, 6 March 2020, pp 1-2
would expect to see differences in the nature of fraud that might be evident in those areas.

6.31 OLG replied that it is difficult to identify exactly why the response rate from metropolitan and regional councils was higher than those from rural councils. However, one observation would be that rural councils may not have the same corporate governance structures that are in place in many metropolitan and regional councils. Therefore, their capacity to respond to requests such as surveys may be limited. 57

Auditor General’s Comments

6.32 In accordance with the Committee’s practice when conducting follow up hearings on performance audits, the Auditor-General, Ms Margaret Crawford, Acting Deputy Auditor-General, Mr Scott Stanton, and Assistant Auditor-General Ms Claudia Migotto, were given the opportunity to comment on the evidence provided.

6.33 During the public hearing, OLG was asked whether the fraud control procedures of the 45 councils which had not responded to the audit survey had been reviewed. The Committee also enquired how many councils had currently implemented the controls recommended in the Fraud Control Improvement Kit.

6.34 When OLG replied that it did not know which councils had not responded to the survey, the Assistant Auditor-General told the Committee that survey data utilised a self-reporting framework and the data was not published or provided to OLG. Rather, it was used to create a snapshot of common weaknesses between metropolitan, rural and regional councils. 58

6.35 The Committee also asked whether OLG was working proactively with councils on fraud prevention and whether it was satisfied with the amount of training provided to counsel staff to identify, respond to and report suspected fraud. OLG replied that it is seeing positive signs towards a more proactive approach in councils.

6.36 While reliant on senior frameworks within councils to actually implement the guidance provided by OLG, it was considered that there would be a clear shift towards a greater understanding of fraud responsibilities within councils in future reports from the Audit Office. 59

Committee Comments

6.37 The Committee notes that the Audit Office undertook a follow up review in 2019 into progress made since the performance audit report into fraud controls in local government. That review concluded that councils have improved their fraud

57 Answers to Supplementary Questions, Office of Local Government, 6 March 2020, p. 3
58 Ms Lynette Brown, Manager, Investigations, Office of Local Government, Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, pp. 16 – 17 and Ms Claudia Migotto, Assistant Auditor-General, p. 19
59 Mr Christopher Allen, Director, Sector Performance and Intervention, Office of Local Government, Department of Planning, Industry and Environment, Transcript of evidence, 24 February 2020, p. 18
control systems and now had sound policies, transparent record keeping and communication activities to manage gifts and benefits.  

6.38 The Committee is therefore satisfied that the Office of Local Government has addressed the recommendations made in the 2018 Audit report into fraud control.

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Chapter Seven – Regulation of water pollution in drinking water catchments and illegal disposal of solid waste

Introduction

7.1 The NSW Environment Protection Authority (EPA) regulates waste and water pollution under the Protection of the Environment Operations Act 1997 (the Act) through its licensing, monitoring, regulation and enforcement activities. Activities regulated by the EPA include manufacturing, chemical production, electricity generation, mining, waste management, livestock processing, mineral processing, sewerage treatment, and road construction.

7.2 For these activities, the operator must have an EPA-issued environment protection licence that may carry conditions limiting the amount and concentrations of substances produced and discharged into the environment and require the licensee to report on its activities.

7.3 The EPA also has general responsibilities under the Protection of the Environment Administration Act 1991 to support sustainable development through the effective integration of social, economic and environmental considerations of decisions made under this Act.

The Performance Audit

7.4 The audit assessed the effectiveness of the EPA’s regulatory response to water pollution in drinking water catchments and illegal solid waste disposal, and identified gaps in the implementation of its regulatory framework.

Major Audit Findings

7.5 The audit found that the EPA had a risk-based regulatory framework consistent with the NSW Government guidelines for regulators. However, the EPA lacked effective governance arrangements to support its regulatory operations and did not monitor the consistency or quality of its regulatory activities conducted across the State. In addition, the EPA did not provide effective guidance for its staff, with many outdated, inconsistent, hard to access, or not mandated policies.

7.6 The report also found that the EPA could not ensure that the correct licence conditions had been set for discharges into water across the State. The audit noted a 2016 Audit of Sydney Drinking Water Catchment recommendation for an investigation into the worsening water quality of Lake Burragorang.

7.7 The audit report recognised that three public authorities have responsibility for activities that impact the water quality in the Sydney drinking water catchment, namely: the Environment Protection Authority (EPA); WaterNSW; and the Department of Planning, Industry and Environment (DPIE). At the time of the
2018 audit, no NSW Government agency had addressed the report’s recommendations to undertake an investigation.

7.8 Furthermore, the EPA did not have reliable practices to detect breaches and non-compliance, including a lack of a consistent or systematic process to validate self-reported information from licensees in annual returns. Weaknesses were also found in the EPA’s governance structure, limiting its effectiveness to consistently apply regulatory action.

7.9 While the EPA had implemented most strategic actions to address illegal dumping, it had not achieved its targets to reduce large-scale dumping. Additionally, the audit found that the EPA had limited performance monitoring for environmental protection outcomes, such as pollution reduction or emission loads permitted by licensees. Overall, the audit report concluded that the EPA was limited in its ability to direct its future strategy to achieve the aims under the Act.

**Auditor-General’s Recommendations**

7.10 The audit report made seven recommendations to the EPA: Recommendations 1, 6 and 7 to be completed by 31 December 2018; and Recommendations 2-5 to be completed by 30 June 2019.

**Table 5 – Recommendations made by the Auditor-General in Regulation of water pollution in drinking water catchments and illegal disposal of solid waste performance audit report**

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
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<tbody>
<tr>
<td>1</td>
<td>Implement a more effective performance framework with regular reports to the Chief Executive Officer and to the EPA Board on outcomes-based key result areas that assess its environmental and regulatory performance and trends over time.</td>
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<tr>
<td>2</td>
<td>Progressively update and make accessible its policies and procedures for regulatory operations, and mandate procedures where necessary to ensure consistent application.</td>
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<tr>
<td>3</td>
<td>Implement internal controls to monitor the consistency and quality of its regulatory operations.</td>
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<tr>
<td>4</td>
<td>By 30 June 2019, to address worsening water quality in Lake Burragorang, the EPA should:</td>
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<td></td>
<td>(a) review the impact of its licensed activities on water quality in Lake Burragorang, and</td>
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<tr>
<td></td>
<td>(b) develop strategies relating to its licensed activities (in consultation with other relevant NSW Government agencies) to improve and maintain the lake’s water quality.</td>
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Implement procedures to validate self-reported information, eliminate hardcopy submissions and require licensees to report on their breaches of the Act and associated regulations in their annual returns.

Implement procedures to conduct mandatory site inspections under the risk-based licensing scheme to assess compliance with all regulatory requirements and licence conditions.

Implement procedures to systematically assess non-compliance with licence conditions and breaches of the Act, and to implement appropriate and consistent regulatory actions.

**Agency Response**

7.11 In response to the audit, dated 14 August 2019, the EPA accepted all recommendations and noted that all had been completed.

7.12 The EPA reported that it had reviewed its current performance framework for gaps and improvements to assess its environmental regulatory performance over time, in line with recommendation 1. It has since established a regulatory assurance and performance function and framework, and implemented an improved reporting process to increase transparency to the EPA Board, CEO and EPA executive.62

7.13 In response to recommendation 2, the EPA completed a review of its operational regulatory policy and procedures to ensure they remained current and addressed operational requirements. Following the review, an internal online Regulatory Offices Library was established for all EPA employees to access all EPA regulatory policies, processes, guidelines and factsheets.63 At the public hearing, the EPA reported that its library contained 183 documents and field officers had been mandated to use it.64

7.14 In reporting on the consistency and quality of its regulatory operations, the EPA stated that it currently monitors its regulatory and operational functions and is committed to further improvements in this area. The finalisation of the EPA’s Information Governance Framework also ensures that its information and governance management procedures are aligned with the NSW Government best practice requirements.65

7.15 In relation to recommendation 4, the EPA noted that the responsibilities under the Water Act 2014 and the Water Management Regulation 2013 rest with WaterNSW. The EPA’s regulatory oversight is triggered where a development...
Regulation of water pollution in drinking water catchments and illegal disposal of solid waste

The proposal includes a 'scheduled' activity under the *Protection of the Environment Operations Act 1997*, which requires an environmental protection licence.

7.16 While the EPA noted that it had completed a review of the potential impact of licensed activities on the water quality in Lake Burragorang over longer periods of time, the review did not seek to review impacts on local waterways. The review found that EPA licensed premises pose a negligible potential risk to the water quality in the Lake.

7.17 In an effort to improve compliance monitoring, the EPA reported that it had replaced hardcopy annual returns with a digital reporting portal – eConnect. The EPA had also completed a review of its annual return management policy and compliance reporting and was in the process of implementing the review recommendations at the time of their response in August 2019. As part of the review, the EPA would provide policy advice for all staff on managing misreporting of non-compliance and breaches of the Act.

7.18 Regarding mandatory site inspections for compliance with licence conditions, the EPA reported that the scheme mandates site inspections every five years for all licensed premises. The EPA had also committed to review the scheme three years after implementation, which had been commenced and due to be completed in June 2019. Furthermore, additional continuous improvement activities for the risk-based licensing scheme were underway.

7.19 In response to recommendation 7 to improve enforcement, the EPA reported that it had undertaken a review of current procedures and guidance to ensure their alignment with the EPA’s compliance policy and regulatory requirements. The EPA stated that it will improve transparency of decision-making processes for regulatory action and non-compliance.

**Auditor-General’s Comments**

7.20 Following the EPA’s response, the Auditor-General noted that certain assurances required more detail to guarantee that the recommendations had been properly addressed. This included the EPA’s response to recommendation 1, which lacked detail on the practical implementation of the recommendation. Additionally, while the EPA had provided accessible policies and procedures to staff via its intranet resource library, it was not clear whether the second part of the recommendation was addressed, which included mandating procedures to ensure consistent application.

7.21 The Auditor-General stated that the EPA’s response to recommendation 3 fulfilled the intent of this recommendation to implement internal controls to monitor the consistency and quality of its regulatory operations.

7.22 In addressing the worsening water quality of Lake Burragorang, the Auditor-General considered that the EPA did not provide enough detail on the NSW Government’s responsibility to address the issue. While the pollution in Lake Burragorang may not be due to a breach of licence conditions, it is possible that mining activity permitted under licence and discharging at specific locations could contribute to the worsening water quality.
7.23 The EPA’s response does not address this possibility, as it advised that its regulatory responsibility only extended to the effectiveness and compliance with licence conditions for discharges into water from mining operations. The EPA does not assume regulatory responsibility when licensed mining activity may indirectly result in pollution of water.

7.24 However, the Auditor-General noted that the EPA’s 2016 Operational Guidance on Water Pollution states that the EPA regulates any pollution arising from activities at licensed premises. As Lake Burragorang is the primary storage dam supplying drinking water to the Sydney metropolitan area, it is important to obtain more information on how the review addressed salinity from EPA licensed coal mining operations.

7.25 The EPA response indicated partial completion of recommendation 5 regarding compliance monitoring and the elimination of hard copy annual returns. Although the EPA noted they had conducted a review and were implementing its recommendations, the review’s recommendations were not detailed. Further information was needed about the review’s recommendations and their implementation.

7.26 The EPA’s response to recommendation 6 indicated that would develop and mandate procedures and guidance for conducting mandatory site inspections under the risk-based licensing scheme. However, the response did not address the substance of the recommendation to ensure a consistent approach to mandatory inspections to obtain complete and accurate information of the licensees’ compliance. The response also did not advise whether implementation of these procedures and guidelines had occurred.

7.27 The EPA indicated that it had completed recommendation 7 in relation to improving enforcement by implementing procedures to systematically assess non-compliance and breaches of the Act and to implement appropriate regulatory actions. However, the Auditor General noted that the EPA had not indicated the status of the initiatives taken to address this recommendation.

Committee Comments

7.28 At the public hearing on 24 February 2020, the EPA assured the Committee that its new regulatory assurance and performance framework complemented its existing assurance operations, such as internal audits and environmental audits. The framework includes monitoring, evaluating and reporting on its regulatory activities to ensure they remain appropriate.66

7.29 Since it last reported to the Committee, the EPA has established a risk, governance and planning branch with a focus on developing a risk framework and planning functions, reporting directly to the CEO. This branch is separate from its operational activities and corporate services function.

7.30 The EPA confirmed its stance on its responsibilities for water quality in Lake Burragorang. A review of the potential impact of the 81 licensed premises in the

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66 Mr Richard Bean, Chief Executive Officer, NSW Environment Protection Agency, Transcript of evidence, 24 February 2020, p21.
catchment area found that the majority of the pollutant load came from eight sewage treatment plants and four coalmines in the area, two of which have ceased operating.

7.31 The EPA asserted that the impact of the licensed activity was negligible and the contribution from licensed premises to Lake Burragorang nutrient and salt loads was calculated to be less than 0.6% of total nitrogen, 0.1% of total phosphorus and 0.1% of the total salt load. Given this, the EPA reported it was confident that it had adequately addressed the activities within its remit that have contributed to the worsening water quality.

7.32 The EPA stated that it has rigorous processes for assessing applications for new environment protection licences and reviewing existing licences. This includes environmental improvement programs targeting mine water and sewage treatment plant discharges, and the consideration of background water quality data to identify possible sources of salinity entering Lake Burragorang. Other measures were detailed to include:

- additional reviews of licences with a direct discharge to a waterway to ensure conditions are appropriate for minimising pollution;
- sharing information and liaising with partner agencies, including WaterNSW, to manage catchment pollutant sources; and
- contributing to the planning process through the provision of advice and conditions for consideration and application in the development approval process.

7.33 The EPA confirmed that all responsible agencies are now working together to properly regulate activities affecting water quality in the Sydney drinking water catchment area.

7.34 The EPA also noted that it has taken steps to create more consistency and transparency of its regulatory action to ensure that any breaches are captured. This included centralising procedures and guidance materials for access by operational staff and upgrading IT systems to support case and licence management. In this case, IT interfaces have been adapted to display a 'dashboard' of real time case and license management, including volume of breach reports and absence of reports, and outcomes and trends in action taken.

7.35 The EPA reported that these measures have allowed it to monitor approximate numbers of regulatory action. At the time of the hearing, their statistics indicated

67 Answers to subsequent questions, Environment Protection Authority, 6 March 2020, p3.
68 Mr Richard Bean, Chief Executive Officer, NSW Environment Protection Agency, Transcript of evidence, 24 February 2020, p24.
69 Answers to subsequent questions, Environment Protection Authority, 6 March 2020, p3.
70 Answers to subsequent questions, Environment Protection Authority, 6 March 2020, p3.
71 Answers to subsequent questions, Environment Protection Authority, 6 March 2020, p3.
that 7,500 penalty notices had been issued in the last financial year, totalling $3.7 million in fines, and their prosecution success rate was at 100 per cent. 72

7.36 In relation to the self-reported nature of their compliance audits, the EPA noted that it was necessary to rely on self-reported data due to the limited resources available to perform random audits. However, the EPA provided a reassurance that this self-reported data could be validated by inspections of high-risk licensees.

7.37 Despite an internal audit finding that a number of licensees had submitted faulty reports, the EPA was confident that their system of regular check-ups on those high-risk self-reported licensees was more cost-effective than widespread inspections.73

7.38 At the public hearing, the Committee questioned whether iron oxide levels would have an impact on the water quality in dams that are located near coalmining activities, including Woronora, Cataract, Avon and Cordeaux catchment areas. The EPA responded that WaterNSW is the regulator with responsibility for monitoring water quality in potable supply dams and that mining subsidence is tightly regulated under the *Environmental Planning and Assessment Act 1979* and the *Mining Act 1992*.

7.39 Following the EPA’s evidence at public hearing, the Auditor-General acknowledged that the EPA works within a large, complex and devolved system and that the key is providing good guidance to frontline officers to ensure appropriate reporting on regulatory action. Given this, the Auditor General considered that the EPA was taking steps in the right direction to address the audit report recommendations.

7.40 The Committee agrees that the EPA has taken steps to implement the report’s recommendations, including establishing a regulatory assurance and performance framework to monitor its regulatory activities, and establishing a separate risk, governance and planning branch.

7.41 The Committee supports the measures the EPA has taken to improve oversight of its regulatory actions and encourages the continuation of these measures to ensure appropriate steps are taken in response to breaches, non-compliance and enforcement of the Act.

7.42 In view of the evidence provided at the public hearing and the further comments made by the Auditor-General, the Committee is satisfied that the EPA has fulfilled the requirements of the audit.

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72 Mr Richard Bean, Chief Executive Officer, NSW Environment Protection Agency, Transcript of evidence, 24 February 2020, p24.

73 Mr Richard Bean, Chief Executive Officer, NSW Environment Protection Agency, Transcript of evidence, 24 February 2020, p23.
Appendix One – Terms of reference

EXAMINATION OF THE AUDITOR-GENERAL’S PERFORMANCE
AUDIT REPORT FEBRUARY 2018 – JULY 2018

Under section 57 of the Public Finance and Audit Act 1983, the functions of the Public Accounts Committee includes 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 21 November 2019, 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:

• Report No. 296 - Council reporting on service delivery

• Report No. 297 - Detecting and responding to cyber security incidents

• Report No. 298 - Managing risk in the NSW public sector: risk culture and capability

• Report No. 299 - Grants in non-government schools

• Report No. 300 - Regional assistance programs

• Report No. 301 - HealthRoster benefits realisation

• Report No. 302 - Shared services in local government

• Report No. 303 - Fraud controls in local councils

• Report No. 304 - Regulation of water pollution in drinking water catchments and illegal disposal of solid waste

• Report No. 305 - Matching skills training with market needs
Appendix Two – Submissions

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<tr>
<th>No.</th>
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<td>2</td>
<td>Department of Customer Service</td>
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<td>3</td>
<td>NSW Treasury</td>
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<td>4</td>
<td>NSW Department of Education</td>
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<td>5</td>
<td>Department of Premier and Cabinet</td>
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<td>Transport for NSW</td>
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<td>11</td>
<td>NSW Department of Education</td>
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</tbody>
</table>
Appendix Three – Witnesses

- Mr Greg Wells, NSW Government Chief Information and Digital Officer, Department of Customer Service
- Mr Tony Chapman, NSW Government Chief Cyber Security Officer, Department of Customer Service
- Mr Simon Draper, Chief Executive Officer and Co-ordinator General, Infrastructure NSW
- Mr Chris Hanger, Executive Director, Regional NSW Group, NSW Department of Planning, Industry and Environment
- Ms Susie Mackay, Executive Director, Freight, Strategy and Planning, Transport for NSW
- Ms Sharon Bennett, Director, Freight Strategy and Planning, Transport for NSW
- Ms Melissa Gibbs, Director, Policy and Sector Development, Office of Local Government, NSW Department of Planning, Industry and Environment
- Mr Chris Allen, Director, Sector Performance and Intervention, Office of Local Government, NSW Department of Planning, Industry and Environment
- Ms Lyn Brown, Manager, Investigations, Office of Local Government, NSW Department of Planning, Industry and Environment
- Mr Richard Bean, Chief Executive Office, NSW Environment Protection Agency
- Ms Margaret Crawford, Auditor-General, Audit Office of NSW
- Mr Scott Stanton, Acting Deputy Auditor-General, Audit Office of NSW
- Ms Claudia Migotto, Assistant Auditor-General, Performance Audit, Audit Office of NSW
Appendix Four – Extracts from minutes

NOTICE OF MEETING No. 7
21 November 2019
10:00am, Room 1254

Members Present:
Mr Greg Piper (Chair), Mr Ryan Park, Mr Lee Evans, Mr Adam Crouch, Ms Felicity Wilson

Officers in attendance:
Mr Bjarne Nordin, Ms Jacqueline Linnane, Ms Cheryl Samuels, Mr Ze Nan Ma

1. Apologies

2. Minutes of Meetings No. 6 (attached)
The Committee resolved on the motion of Mr Evans, seconded by Mr Crouch:
That the draft minutes of deliberative meeting No. 6 of 24 October 2019, be confirmed.

3. Correspondence attached
   3.1. ***
   3.2 ***

4. ***

5. Examination of the Auditor-General’s Performance Audit Reports – February 2018 – July 2018

The Committee considered proposed action on performance audits 296 – 305.

The Committee resolved, on the motion of Mr Evans, seconded by Mr Crouch:
That the Committee adopts the action proposed for performance audits 296-305.

The Committee considered the Terms of Reference for the conduct of a public hearing on a date to be determined and a proposed witness list, as part of an Examination of the Auditor-General’s Performance Audit Reports 296-305.

The Committee resolved, on the motion of Mr Evans, seconded by Mr Crouch that:
• That the Committee adopts the draft Terms of Reference for an Examination of the Auditor-General’s Performance Audit Reports February 2018 – July 2018.
• That the Committee confirms that the public hearing will be conducted at Parliament House on a date to be determined.
• That the Committee invites representatives of identified organisations on Attachment A 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 orders that they be placed on the Parliament’s website.
7. ***
8. ***
9. ***

10. **Next meeting**
    10:00am, 27 February 2020 in Room 1254

**NOTICE OF MEETING No. 8**
24 February 2020
1:00pm, Preston Stanley Room

**Members Present:**
Mr Greg Piper (Chair), Mr Ryan Park, Mr Lee Evans, Mr Adam Crouch, Ms Felicity Wilson

**Officers in attendance:**
Mr Bjarne Nordin, Ms Jacqueline Linnane, Ms Caroline Hopley, Ms Cheryl Samuels, Mr Ze Nan Ma

1. **Apologies**
   Mrs Tanya Davies (Deputy Chair)

2. **Change of Committee membership**
   Mr Crouch ceased his membership of the Committee in accordance with the provisions of s54(5)(b) of the Public Finance and Audit Act upon his appointment as Parliamentary Secretary for the Central Coast, with effect from 20 December 2019.
   Mr Clancy appointed as member of the Public Accounts Committee by resolution of the House on 6 February 2020 (V&P No 42, p544).

3. **Conduct of hearing**
   The Chair discussed the conduct of the hearing.

   The Committee resolved, on the motion of Ms Wilson, seconded by Mr Clancy:
   - That the Committee authorises the audio-visual recording, photography and broadcasting of the public hearing on 24 February 2020 in accordance with the NSW Legislative Assembly's guidelines for coverage of proceedings for parliamentary committees administered by the Legislative Assembly.
   - That the corrected transcript of evidence given on 24 February 2020 be authorised for publication and uploaded on the Committee's website.
   - That witnesses be requested to return answers to questions taken on notice within five days 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**  
10:00am, 27 February 2020 in Room 1254

**Public Hearing: Examination of the Auditor-General’s Performance Audit Reports February 2018 – July 2018**

The public and press were admitted.

The public hearing commenced at 1.12pm. The Chair welcomed witnesses and the gallery.

The following witnesses representing the Audit Office of NSW were admitted:
- Ms Margaret Crawford, Auditor-General, affirmed and examined.
- Mr Scott Stanton, Acting Deputy Auditor-General, sworn and examined.
- Ms Claudia Migotto, Assistant Auditor-General, Performance Audit, affirmed and examined.

The following witnesses representing the Department of Customer Service were admitted:
- Mr Greg Wells, Chief Information and Digital Officer, sworn and examined.
- Mr Tony Chapman, Chief Cyber Security Officer, sworn and examined.

Evidence concluded, the witnesses withdrew.

The following witnesses were admitted:

**Representing Infrastructure NSW**
- Mr Simon Draper, Chief Executive Officer and Co-ordinator General, affirmed and examined.

**Representing the Department of Planning, Industry and Environment**
- Mr Chris Hanger, Executive Director, Regional NSW Group, affirmed and examined.

**Representing Transport for NSW:**
- Ms Susie Mackay, Executive Director, Freight Strategy and Planning, affirmed and examined.
- Ms Sharon Bennett, Director, Freight, Strategy and Planning, affirmed and examined.

Evidence concluded, the witnesses withdrew.

The following witness representing the Department of Planning, Industry and Environment was admitted:
- Ms Melanie Gibbs, Director, Policy and Sector Development, Office of Local Government, affirmed and examined.

Evidence concluded, the witness withdrew.

The following witnesses representing the Department of Planning, Industry and Environment were admitted:
• Mr Chris Allen, Director, Sector Performance and Intervention, Office of Local Government, affirmed and examined.
• Ms Lyn Brown, Manager, Investigations, Office of Local Government, affirmed and examined.

Evidence concluded, the witnesses withdrew.

The following witness representing the NSW Environment Protection Agency was admitted:
• Mr Richard Bean, Chief Executive Officer, affirmed and examined.

Evidence concluded, the witness withdrew.

The Chair thanked the witnesses, committee members and the secretariat.

The public hearing adjourned at 4.17pm.

MINUTES OF MEETING No. 11
7 May 2020
9:30am, Room 1254

Members Present:
Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair) (by teleconference), Mr Justin Clancy (by videoconference), Mr Lee Evans (by teleconference), Ms Felicity Wilson (by videoconference).

Officers in attendance:
Jonathan Elliot, Bjarne Nordin, Jacqueline Linnane, Caroline Hopley (by videoconference), Cheryl Samuels (by videoconference), Ze Nan Ma

1. Apologies
   Mr Ryan Park

2. Minutes of Meetings Nos. 9 and 10
   Resolved, on the motion of Ms Wilson, seconded by Mr Evans:
   That the draft minutes of deliberative meetings No. 9 of 27 February 2020 and No. 10 of 30 April 2020 be confirmed.

3. ***
   3.1 ***
   3.2 ***

4. Examination of Auditor-General’s Performance Audit Reports February 2018 – July 2018 – Consideration of Chair’s Draft Report
   Resolved, on the motion of Mrs Davies, second by Ms Wilson:
   • That the Committee considers the Chair’s draft report as circulated.
   • That the Committee adopts the draft report and 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. **Next meeting**
   The Committee adjourned at 10:50am until 9:30am, 4 June 2020 in Room 1254.
Appendix Five – Glossary

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>CEO</td>
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<td>DCS</td>
<td>Department of Customer Service</td>
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<td>DFSI</td>
<td>Department of Finance, Services and Innovation</td>
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<td>DPC</td>
<td>Department of Premier and Cabinet</td>
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<td>DPIE</td>
<td>Department of Planning, Industry and Environment</td>
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<td>NSW Environment Protection Authority</td>
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<td>Integrated Planning and Reporting Guidelines</td>
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<td>Local Health Districts</td>
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<td>Memorandum of Understanding</td>
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<td>NSW Education Standards Authority</td>
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<td>Transport for NSW</td>
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<td>VET</td>
<td>NSW Vocational Education and Training</td>
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