

Public Accounts Committee



LEGISLATIVE
ASSEMBLY

Examination of selected Auditor-General's Financial Audit Reports 2021



Report 12/57 – November 2022

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

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Membership

Chair	Mr Greg Piper MP, Member for Lake Macquarie
Deputy Chair	Mr Dave Layzell MP, Member for Upper Hunter
Members	Ms Melanie Gibbons MP, Member for Holsworthy Mr Ryan Park MP, Member for Keira Mr Ray Williams MP, Member for Castle Hill Mrs Nichole Overall MP, Member for Monaro
Contact details	Public Accounts Committee Parliament of New South Wales Macquarie Street SYDNEY NSW 2000
Telephone	(02) 9230 3051
E-mail	pac@parliament.nsw.gov.au
Website	https://www.parliament.nsw.gov.au/publicaccounts

Chair's foreword

I am pleased to present this report of the Public Accounts Committee on selected Auditor-General's financial audit reports. This is the second examination of the Auditor-General's financial audit reports conducted by this Committee in the 57th Parliament and the final report of this Parliament. This inquiry selected and examined ten issues reported on by the Auditor-General for the 30 June 2021 financial year.

Overall, the Committee is pleased to note that each agency has worked to address the issues identified by the Auditor-General. We are satisfied that most agencies have either fulfilled or are on track to fulfill the intent of the Auditor-General's recommendations.

The Committee has made five recommendations to agencies. The first recommendation aims to ensure that there is sufficient guidance in NSW Treasury's new accounting policy on General Government Sector investments in State Owned Corporations. The next two recommendations aim to improve the data integrity of Crown land databases and to improve agencies' compliance with the mandatory requirements of the NSW Cyber Security policy. The final two recommendations aim to strengthen the Lord Howe Island Board's user access controls. The recommendations should ensure that the risks identified by the Auditor-General are mitigated and that agencies operate effectively. The Committee selected the following ten issues to examine, based on their relative high risk or the fact that they are repeat issues identified by the Auditor-General:

- There was no formal policy or benchmark to guide expectations for returns on General Government Sector investments in state owned corporations.
- Some agencies again spent monies without an authorised delegation.
- There continues to be significant deficiencies in Crown land records.
- Access to key SAP transactions were not properly restricted and segregated.
- The NSW Public's cyber security resilience needs urgent attention.
- Internal control qualifications and control deficiencies in GovConnect service providers.
- Weaknesses in the management of privileged user access.
- Estimation uncertainty regarding the impairment assessment for Covid-19 inventories.
- Inconsistencies between the accounting treatment for rental bond boards and the Residential Tenancies Act 2010.
- Weaknesses in Insurance and Care NSW's allocation of 'service fees' to schemes.

This inquiry plays an important role in scrutinising and overseeing the work of government agencies. The Committee wrote to agencies asking about the measures they have taken to address these issues and, in some cases, received further evidence from agency representatives at a public hearing in September 2022.

I thank the Auditor-General and Audit Office staff for their assistance in this inquiry. I also wish to thank my fellow Committee members and the Committee secretariat for their contributions and support throughout the inquiry process.

Mr Greg Piper

Chair

Recommendations

Recommendation 1 _____ 1

The Committee recommends that NSW Treasury update its policy 'Returns on Equity Investments' to provide agencies with general principles on:

- what components of an investment a return should be expected on, and
- what is a reasonable timeframe to realise an investment over.

Recommendation 2 _____ 5

The Committee recommends that the Department of Planning and Environment implement processes to:

- (a) assess and report on the accuracy and completeness of the existing Crown land record holdings,
- (b) consider the use of data analytics to identify and fix anomalies in the Crown land databases, and
- (c) undertake proactive and systematic validation of existing Crown land records against newly digitised documentation, prioritising significant parcels, locations or land categories.

Recommendation 3 _____ 10

The Committee recommends that the Department of Planning and Environment, as the principal cluster department, identifies why two cluster agencies did not comply with the mandatory reporting requirements of the NSW Cyber Security Policy. The Department should facilitate technical guidance to these agencies on the requirements of the NSW Cyber Security Policy if necessary.

Recommendation 4 _____ 15

The Committee recommends that the Lord Howe Island Board annually reviews users with administrator rights to its key information systems.

Recommendation 5 _____ 15

The Committee recommends that the Lord Howe Island Board expand their review of users, to include a review of generic accounts usage. This review should check that account passwords have been reset when individuals no longer have a valid need to use these accounts and an annual revalidation of the business need of the account.

Chapter One – NSW Treasury

Expectations for returns on General Government Sector investments in state owned corporations

Recommendation 1

The Committee recommends that NSW Treasury update its policy 'Returns on Equity Investments' to provide agencies with general principles on:

- what components of an investment a return should be expected on, and
- what is a reasonable timeframe to realise an investment over.

- 1.1 The Committee notes that on 8 September 2022, NSW Treasury (Treasury) released a new policy 'Returns on Equity Investments'. As recommended by the Auditor-General, the policy provides guidance on what is considered a realistic rate of return in order for payments to State Owned Corporations to be classified as equity transfers. This policy stipulates that a minimum expected return should at least equal the target long-term inflation rate as defined by the Reserve Bank of Australia. The policy is mandatory for State Owned Corporations.
- 1.2 The Committee notes that this policy does not provide guidance on what components of an investment a return should be expected on and what is a reasonable time period for an investment to be realised over. The Committee considers this to be important information to ensure that the policy has the desired effect.

Issue overview

- 1.3 In 'State Finances 2021', the Auditor-General reported that:

The absence of a policy setting NSW Treasury's expectations as to what it expects as a reasonable rate of return makes it problematic to assess whether returns on [General Government Sector] investments are within or outside expectations. Additionally, there is no guidance regarding the components of the investment a return is expected on, nor whether the rate of return should include or exclude the original investment. There is no guidance on the timeframe over which the investment might be realised, nor is there any guidance as to what is a reasonable timeframe.¹

- 1.4 To address the uncertainty, the Auditor-General recommended that Treasury 'establish a policy to determine the minimum expected rate of return on its equity injections in other public sectors entities'.²

¹ Audit Office of New South Wales, [State Finances 2021](#), 2021, p 16.

² Audit Office of New South Wales, [State Finances 2021](#), 2021, p 17.

- 1.5 This issue arose during the Audit Office's assessment of how equity cash contributions from the General Government Sector to the Transport Asset Holding Entity (TAHE) were classified. The contributions were classified as equity contributions based on a reasonable expectation that the General Government Sector would earn a realistic rate of return on its investment in TAHE. The transfers should otherwise be recorded as a capital transfer expense if the Sector did not expect a reasonable rate of return.³
- 1.6 The Auditor-General reported that because there was no formal policy to assess the transfers against, that auditors instead referred to guidance issued by the Federal Government's Department of Finance. The Department of Finance's guidance noted:
- ... that for an investment to be fully regarded as equity, it should expect to earn a rate of return at least equal to the long-term inflation rate (i.e. currently 2.5 per cent) and there should be a reasonable expectation that the investment will be recovered.⁴
- 1.7 Initial models provided to the Audit Office demonstrated a return of 1.5 per cent and did not include a recovery of TAHE's revaluation loss. Therefore, the Audit Office concluded that evidence did not support that a sufficient rate of return on the investment would be achieved. To avoid receiving a qualified audit opinion on the State's accounts, Treasury revised the model to reflect a 2.5 per cent rate of return and a recovery of TAHE's revaluation loss. These changes were also reflected in a Heads of Agreement between TAHE and its key customers. Further information on the audit of the 'Total State Sector Accounts' can be found in the Auditor-General's report 'State Finances 2021'.⁵

Agency response

- 1.8 On 17 June 2022, Treasury reported that it was consulting with the Audit Office and the Australian Bureau of Statistics on the development and finalisation of a policy. This policy would detail the minimum expected rate of return on equity injections into public sector entities. Treasury also stated that the policy would draw on the principles of the similar Federal Government policy.⁶
- 1.9 From 31 August to 8 September 2022, Treasury provided the Committee with ongoing updates regarding the status of the policy. On 8 September 2022, the Committee was informed that the final policy had been publicly released. It was also provided with a copy of the final policy.⁷

³ NSW Treasury, [Report on the State Finances 2020-2021](#), 2021, p 6-4.

⁴ Audit Office of New South Wales, [State Finances 2021](#), 2021, p 16.

⁵ Audit Office of New South Wales, [State Finances 2021](#), 2021, pp 2, 16.

⁶ [Submission 3](#), NSW Treasury, p 1.

⁷ [Submission 3a](#), NSW Treasury, p 2; [Submission 3b](#), NSW Treasury, p 1; [Submission 3c](#), NSW Treasury, pp 1-4.

1.10 The Committee notes that the final policy issued by Treasury only applies to 'Public non-financial corporations' that are also State Owned Corporations. The policy mandates that the minimum expected rate of return on equity or capital injections in a state-owned corporation must be at least equal to the target long-term inflation rate as defined by the Reserve Bank of Australia. The policy also specifies that, if the minimum expected rate of return is not realised, some or all of the payments to state owned corporations must be treated as a grant expense.⁸

1.11 The policy does not provide guidance on:

- What components of an investment a return should be expected on.
- Over what timeframe an investment should be realised, or what is a reasonable timeframe to realise it.⁹

Agencies spent monies without an authorised delegation

1.12 Delegation instruments are important controls which ensure that expenditure of public monies is authorised by individuals with the appropriate level of skill, knowledge and experience. The Auditor-General had recommended to Treasury that it improve its guidance to agencies to ensure expenditure of public monies is supported by authorised delegations. The Committee notes that the Treasury has taken action to respond to this recommendation.

1.13 Treasury has engaged agencies through information sessions to help them understand their legislative obligations. It has also issued written guidance to agencies on their responsibilities and the legislative requirements around delegations. The Committee considers it important that agencies ensure that they review and understand the guidance issued by Treasury and proactively seek clarification where required.

Issue overview

1.14 In 2019-20, the Audit Office identified that some agencies spent money without authorised delegations from the relevant Minister(s). The Auditor-General reported that the 2020-21 financial audits identified that further agencies:

... spent money received from an annual Appropriation and/or deemed appropriation money without an authorised delegation from the relevant Minister(s), as required by sections 4.6(1) and 5.5(3) of the [*Government Sector Finance Act 2018*].¹⁰

1.15 As a result of the continued non-compliance, the Auditor-General recommended that Treasury improve its guidance to agencies to ensure that expenditure of public monies is properly supported by authorised delegations.¹¹

⁸ [Submission 3](#), NSW Treasury, p 1; [Submission 3c](#), NSW Treasury, pp 1, 3.

⁹ [Submission 3c](#), NSW Treasury, pp 1-4.

¹⁰ Audit Office of New South Wales, [State Finances 2021](#), 2021, Sydney, pp 56-57.

¹¹ Audit Office of New South Wales, [State Finances 2021](#), 2021, Sydney, p 57.

Overview of statutory requirements

- 1.16 Section 4.6(1) of the *Government Sector Finance Act 2018* (GSF Act) specifies that money cannot be paid out from the Consolidated Fund, except under the authority of an Act. Each year Parliament provides this authority through the annual Appropriation Act. The Appropriation Act authorises office holders including the Premier, Deputy Premier, Treasurer, Attorney General and Ministers to appropriate money from the Consolidated Fund for the delivery of public services.¹²
- 1.17 Given these office holders are supported by accountable authorities and government officers to deliver public services, section 5.5(3) of the GSF Act enables the office holders authority to be subdelegated. This section provides that expenditure can be authorised by accountable authorities and government officers, if it is done in accordance with a delegated instrument from a person with power regarding the expenditure of money.¹³ This means that agencies must maintain up to date delegation instruments, processes and policies, to ensure that government officers only spend money from the Consolidated Fund or deemed appropriations with authorisation.

Agency response

- 1.18 In respect to this finding, Treasury stated that its central priority was to strengthen and reinforce the message that government agencies need to maintain proper delegation practices.¹⁴
- 1.19 Treasury explained that it did this through issuing additional guidance to agencies on 17 July 2022, and conducting information sessions with agencies in August and September 2022. The additional guidance outlined agencies' responsibilities and clarified delegation requirements. It was also made available on Treasury's [website](#). The information sessions helped agencies to understand their obligations.¹⁵
- 1.20 In addition to these measures, Treasury stated that it is improving the process for monitoring expenditure against appropriations throughout the year. It is also developing amendments to simplify and clarify the framework for expenditure against appropriations within the GSF Act.¹⁶
- 1.21 Treasury confirmed that as at 31 August 2022, no agencies had reported any non-compliance with these sections of the GSF Act for the 2021-22 financial year. However, it also noted that agencies are only required to formally report such non-compliance in their own annual financial statements as part of their 'Statement of Compliance'.¹⁷

¹² Section 4.6 [Government Sector Finance Act 2018](#) (NSW); [Appropriation Act 2021 No 18](#) (NSW).

¹³ Section 5.5 [Government Sector Finance Act 2018](#) (NSW).

¹⁴ [Submission 3](#), NSW Treasury, p 1.

¹⁵ [Submission 3a](#), NSW Treasury, p 1.

¹⁶ [Submission 3a](#), NSW Treasury, p 1.

¹⁷ [Submission 3a](#), NSW Treasury, p 1.

Chapter Two – Department of Planning and Environment

Deficiencies in Crown land records

Recommendation 2

The Committee recommends that the Department of Planning and Environment implement processes to:

- (a) assess and report on the accuracy and completeness of the existing Crown land record holdings,**
- (b) consider the use of data analytics to identify and fix anomalies in the Crown land databases, and**
- (c) undertake proactive and systematic validation of existing Crown land records against newly digitised documentation, prioritising significant parcels, locations or land categories.**

2.2 The Auditor-General has reported concerns about the completeness and accuracy of Crown land records since 2017.¹⁸ Given the significant economic, societal and cultural value of Crown lands, the integrity of the Crown land databases is important for effective public administration and decision making.

2.3 The Committee heard about several challenges the Department of Planning and Environment (DPE) faces in managing this portfolio of records, and about the department's current initiatives like the roll out of CrownTracker and the digitisation of paper-based records. While there are controls and processes over the integrity of new updates to Crown land records, the Committee considers there is need to improve the accuracy and completeness of the database as a whole given the existence of historic manual data entry errors. The Committee has made a recommendation to address this issue.

Issue overview

2.4 In 'Planning, Industry and Environment 2021', the Auditor-General reported that significant deficiencies in Crown land records continue to be identified.¹⁹ These deficiencies included:

- the incorrect Crown land manager being recorded,
- inaccuracies in the land size and use,
- the incorrect land status,

¹⁸ Audit Office of New South Wales, [Industry 2017](#), 2017, p 11.

¹⁹ Audit Office of New South Wales, [Planning, Industry and Environment 2021](#), 2021, p 4.

- delays in updating changes in the Crown Land Information Database.²⁰

2.5 To address these deficiencies the Auditor-General recommended:

The Department should prioritise action to ensure the Crown land database is complete and accurate. This will allow the Department and Crown land managers to be better informed about the Crown land they control.²¹

2.6 Crown land is estimated to represent 42 per cent of all land in New South Wales and DPE alone controls \$6.1 billion worth of Crown land.²² The Committee also notes that local councils heavily use Crown land records for information on local roads and reserves.²³

Agency response

2.7 During the public hearing, Ms Melanie Hawyes, Deputy Secretary, Crown Lands and Local Government, NSW Department of Planning and Environment acknowledged the Auditor-General's repeat findings and said that these are known issues. The Deputy Secretary also said that DPE is developing strategies to work through the issues and improve its governance over the input of data.²⁴

2.8 Ms Claudia Huertas, Executive Director, Customer and Systems, Crown Lands, NSW Department of Planning and Environment explained that most deficiencies relate to historic manual data entry errors. Others deficiencies stem from a history of Crown land processes being spread across different teams and system limitations such as systems and data not being integrated.²⁵

2.9 DPE reported that it is taking steps to address the issues. They have recently developed a data strategy and are expecting to complete the 'Crown Lands Data Strategy Action Plan' by November 2022 to support the strategy. DPE outlined that the action plan will include detailed measures, commitments and actions relating to data governance, data quality and validation, data accessibility and capability, and culture.²⁶

2.10 The Deputy Secretary explained that each month it performs sample checks over Crown land spatial data updates in the cadastral database. The Deputy Secretary said that over the last 12 months, these checks found that 97 per cent of updates were accurate and that DPE took action to resolve errors identified in the remaining three per cent.²⁷

²⁰ Audit Office of New South Wales, [Planning, Industry and Environment 2021](#), 2021, p 36.

²¹ Audit Office of New South Wales, [Planning, Industry and Environment 2021](#), 2021, p 36.

²² Department of Planning, Industry and Environment, [Department of Planning, Industry and Environment Annual Report 2020-21](#), p 211; Audit Office of New South Wales, [Planning, Industry and Environment 2021](#), 2021, p 36.

²³ [Answers to questions on notice](#), Department of Planning and Environment, 18 October 2022, p 4.

²⁴ Ms Melanie Hawyes, Deputy Secretary, Crown Lands and Local Government, NSW Department of Planning and Environment, [Transcript of Evidence](#), p 5.

²⁵ Ms Claudia Huertas, Executive Director, Customer and Systems, Crown Lands, NSW Department of Planning and Environment, [Transcript of Evidence](#), p 7.

²⁶ Ms Melanie Hawyes, [Transcript of Evidence](#), p 6; [Answers to questions on notice](#), Department of Planning and Environment, 18 October 2022, p 10.

²⁷ Ms Melanie Hawyes, [Transcript of Evidence](#), p 7.

- 2.11 In terms of trends in the number of errors identified in Crown land records, DPE stated that the number of anomalies in Crown land data has remained stable since 2017. They also said that between 2020 and 2022, they fixed 800 errors in Crown land records.²⁸
- 2.12 To put the number of fixed errors into context, there are 511,755 Crown land parcels recorded in the cadastral database (including roads, water and land parcels). 285,000 of these accounts are also managed in the Crown Lands Information Database for tenure, reserve and Aboriginal land claims.²⁹
- 2.13 DPE highlighted its efforts to digitise Crown land records. They stated that this process improves the accessibility and preservation of historic records. From 2019 to 2021, it digitised road control files and guard books, containing extracts of Government Gazette notices in relation to activity on Crown reserves. This same process is being conducted to digitise records from the Crown Lands Dubbo office. The Dubbo digitisation is expected to be completed in June 2024.³⁰
- 2.14 Despite the measures outlined by DPE, the Committee notes that issues in the accuracy and completeness of Crown land records continue to be identified and reported as an issue. The Committee acknowledges the scale of the portfolio including the number of individual records. However the Committee believes that more needs to be done to improve the integrity of the databases as a whole and not just new updates. This should include proactive and systematic processes to validate existing Crown land records, prioritising significant parcels, locations or land categories. Improved accessibility to source records from digitisation can aid DPE in the validation of its Crown land databases.

Restricted and segregated access to key SAP transactions

- 2.15 The Committee notes that the Department of Planning and Environment (DPE) has either implemented or will implement system solutions to address a number of the user access issues reported by the Auditor-General in 'Planning, Industry and Environment 2021'. The Committee further notes that a system solution to ensure segregation of duties for manual journals is on hold until DPE implements a new financial management information system. Until system solutions are fully implemented, DPE has introduced a series of mitigating controls. DPE's mitigating controls are largely detective in nature and may have technical limitations until preventive controls are implemented.

Issue overview

- 2.16 In 'Planning, Industry and Environment 2021', the Auditor-General reported that DPE had not properly segregated and restricted access to key SAP transactions in 2020-21. The Audit Office identified user access control deficiencies relating to HR and payroll management, vendor master data management and finance

²⁸ [Answers to questions on notice](#), Department of Planning and Environment, 18 October 2022, pp 3-4.

²⁹ [Answers to questions on notice](#), Department of Planning and Environment, 18 October 2022, p 2.

³⁰ [Answers to questions on notice](#), Department of Planning and Environment, 18 October 2022, p 10.

journal processing. These issues were across the three SAP financial management information systems operated by DPE: SAP DPE; SAP OEH; and SAP MyHQ.³¹

Agency response

- 2.17 The Assistant Auditor-General told the Committee that DPE has a large IT dependency and that it processes a lot of transactions through its SAP systems.³²
- 2.18 The Committee questioned why the SAP user access issues, which were first reported on in 2018, remain unresolved and whether there are any particular roadblocks for the department. Mr Shaun Smith, Deputy Secretary – Corporate Services, NSW Department of Planning and Environment explained that while the nature of some of the issues remains consistent, the issues have changed over time because of additional management controls which DPE has implemented. The Deputy Secretary also explained that SAP systems are technically complex and require investment to implement solutions.³³

HR and payroll management issues

- 2.19 Regarding users who had the ability to change their own salary data in MyHQ, DPE reported that a fix was implemented in June 2021 to prevent these users from being able to update their own basic pay record.³⁴
- 2.20 In the public hearing, the Committee heard that a system fix to prevent these users from changing other types of their own pay, such as allowances and superannuation was more complicated. Mr Christopher Martin, Cluster Chief Financial Officer, NSW Department of Planning and Environment, said that DPE is working with its vendor on a separate fix. Potential system solutions were tested in May, August and September 2022, however, these solutions failed and were sent back to the vendor for reworking.³⁵
- 2.21 Following the public hearing, DPE reported that they are testing a fix to prevent these users from being able to update the majority of the 'other types' of their own pay. If successful, the new function will be implemented in November 2022. A fix for the remaining 'other types' of pay is still being worked on by the vendor. The Committee understands that in the interim DPE is using manual checks to obtain assurance that it can detect defects or fraud.³⁶
- 2.22 Based on the evidence provided it appears DPE has either partially addressed or is working towards fully addressing the Auditor-General's recommendation for HR and Payroll management issues.

³¹ Audit Office of New South Wales, [Planning, Industry and Environment 2021](#), 2021, p 33.

³² Mr Aaron Green, Assistant Auditor-General, Financial Audit, Audit Office of New South Wales, [Transcript of Evidence](#), 29 September 2022, p 21.

³³ Mr Shaun Smith, Deputy Secretary – Corporate Services, NSW Department of Planning and Environment, [Transcript of Evidence](#), 29 September 2022, p 16.

³⁴ [Submission 4](#), Department of Planning and Environment, p 1.

³⁵ Mr Christopher Martin, Cluster Chief Financial Officer, NSW Department of Planning and Environment, [Transcript of Evidence](#), 29 September 2022, p 17.

³⁶ [Answers to questions on notice](#), Department of Planning and Environment, 7 October 2022, p 2; Mr Chris Martin, [Transcript of Evidence](#), 29 September 2022, p 17.

Vendor master data management issues

- 2.23 The Deputy Secretary told the Committee that DPE has created new user roles in both the SAP OEH and SAP DPE systems which ensure that there is segregation of duties when creating or modifying vendor master data.³⁷
- 2.24 Based on the evidence provided to the Committee, it appears that DPE has addressed the intent of the Auditor-General's concerns about the segregation of duties in vendor master data management within SAP OEH and SAP DPE.

Finance journal processing issues

- 2.25 The Cluster Chief Financial Officer, confirmed that SAP OEH still does not have system enforced functionality to prevent the preparers of manual journals from also posting the journals in the financial management information system.³⁸ System enforced controls which require manual journals to be reviewed by an independent officer help to ensure that manual journals are appropriate and accurate.
- 2.26 DPE plans to implement this functionality when it migrates to a new financial management information system. In the interim, two-step approval processes using workflows in SharePoint or document-management systems have been implemented for significant journals handled by the shared service centre. In other parts of the business, there is a requirement to document the separate preparers and reviewers, but this is an off-system control.³⁹

Preventative versus mitigating controls

- 2.27 At the public hearing, Mr Aaron Green, Assistant Auditor-General, Financial Audit, Audit Office of New South Wales acknowledged that DPE has put in place mitigating controls and made system changes to address the audit findings. Mr Green noted that while the mitigating controls implemented respond to the issues, they are largely detective. This means that they respond to issues after they have occurred. Mr Green also noted that there are technical limitations to this approach.⁴⁰

³⁷ Mr Shaun Smith, [Transcript of Evidence](#), 29 September 2022, pp 19-20.

³⁸ Mr Christopher Martin, [Transcript of Evidence](#), 29 September 2022, p 20.

³⁹ Mr Christopher Martin, [Transcript of Evidence](#), 29 September 2022, p 20.

⁴⁰ Mr Aaron Green, [Transcript of Evidence](#), 29 September 2022, p 21.

Chapter Three – Department of Customer Service

The NSW Public Sector's cyber security resilience needs urgent attention

Recommendation 3

The Committee recommends that the Department of Planning and Environment, as the principal cluster department, identifies why two cluster agencies did not comply with the mandatory reporting requirements of the NSW Cyber Security Policy. The Department should facilitate technical guidance to these agencies on the requirements of the NSW Cyber Security Policy if necessary.

- 3.1 The Committee found that not all agencies are completing mandatory cyber security reporting. It is unclear whether the agencies which have not completed their mandatory reporting requirements have assessed their cyber security resilience, identified their residual cyber security risks or identified whether they have any systems or information which are operationally vital.
- 3.2 However, the Committee is pleased to see that Cyber Security NSW's 2020-21 directive, appears to have resulted in a significant increase in the number of NSW Government staff who have received cyber security training. The Committee also notes Cyber Security NSW is playing a key role in assisting agencies with their cyber security uplift applications to the Digital Restart Fund.

Issue overview

- 3.3 In 'Customer Service 2021', the Auditor-General reported that weaknesses in cyber security resilience and the management of cyber risks continue to be identified. The Auditor-General recommended that Cyber Security NSW and NSW Government agencies need to prioritise improvements to their cyber security resilience as a matter of urgency.⁴¹
- 3.4 Cyber Security NSW is a business unit within the Department of Customer Service (DCS). Cyber Security NSW centrally integrates the NSW Government's approach to preventing and responding to cyber security threats.⁴² Given its important and central role, the Committee has chosen to follow up on this recommendation with Cyber Security NSW.

Agency response

- 3.5 In response to the inquiry, DCS outlined a broad range of activities it does to improve cyber security resilience across the NSW Government. These activities appear to broadly fall into three categories: policies and directives, training and awareness, and funding.

⁴¹ Audit Office of New South Wales, [Customer Service 2021](#), 2021, p 31-32.

⁴² Department of Customer Service, [Annual Report 2019-20](#), p 46.

Policies and directives

- 3.6 DCS highlighted that the 2019 'NSW Cyber Security Policy' contains mandatory requirements for agencies which aim to enhance planning and governance, develop a cyber security culture and strengthen resilience against attacks.⁴³ The policy also contains mandatory reporting requirements, including the requirement that agencies must annually report on their maturity against the Australian Cyber Security Centre Essential Eight for the previous financial year and provide a list of their 'crown jewels'. An agency's crown jewels are what they have identified as their 'most valuable or operationally vital systems or information'.⁴⁴
- 3.7 The Committee inquired about the level of agency compliance with the mandatory reporting requirements. DCS confirmed that 192 out of 194 eligible agencies met their 2020-21 reporting obligations. They explained that two small agencies within the Planning and Environment cluster did not submit their mandatory reports for the 2020-21 reporting period. DCS made multiple attempts to contact the agencies through the cluster Chief Information Security Officer but these were unsuccessful. They do not expect that the agencies will provide reports for the 2020-21 period.⁴⁵ Based on the evidence provided to the Committee, it is unclear why these agencies did not comply with the reporting requirements.
- 3.8 The Committee notes that section 2.1 of the NSW Cyber Security Policy specifies that 'cluster CISOs, and or central cluster cyber security teams, are to coordinate Policy reporting across the entirety of their cluster'.⁴⁶ As two agencies within the Planning and Environment cluster failed to complete their mandatory reporting requirements and given the agencies were not disclosed to the Committee, the Committee has made a recommendation to the Planning and Environment lead agency to identify why this happened and whether these agencies require technical help to meet the reporting requirements.
- 3.9 DCS explained that Cyber Security NSW continually updates and improves cyber security policies and procedures. They use experiences from previous cyber security incidents, customer feedback and the analysis of best practice in other jurisdictions.⁴⁷ Cyber Security NSW also engages with agencies on changes to the NSW Cyber Security Policy and impacts.⁴⁸
- 3.10 DCS highlighted that 'DCS-2020-05 Cyber Security NSW directive – Practice Requirements for NSW Government' includes mandatory requirements for all NSW public servants (and contractors) to do annual cyber security training.⁴⁹

⁴³ [Submission 2](#), Department of Customer Service, p 2.

⁴⁴ Department of Customer Service, [NSW Cyber Security Policy](#), policy version 5.0, pp 4-5, 19.

⁴⁵ [Submission 2a](#), Department of Customer Service, p 1.

⁴⁶ Department of Customer Service, [NSW Cyber Security Policy](#), policy version 5.0, p 4.

⁴⁷ [Submission 2a](#), Department of Customer Service, pp 4-6.

⁴⁸ [Submission 2a](#), Department of Customer Service, p 2.

⁴⁹ [Submission 2](#), Department of Customer Service, p 2.

Cyber security training and awareness

- 3.11 The following table shows the significant increase in the number of NSW Government staff trained in 2021-22 compared to in 2020-21.⁵⁰ The mandatory requirements in DCS 2020-05 likely led to the significant increase in the number of NSW Government staff Cyber Security NSW provided live and e-module training to in 2021-22.

NSW Government staff trained	2020-21	2021-22
Live and e-module training	9,035	126,404

- 3.12 The Committee is pleased to see that there has been a significant increase in NSW Government staff completing cyber security training.
- 3.13 DCS noted that Cyber Security NSW conducted five cyber security exercises with agencies in the past 12 months. One of the exercises was a large scale whole-of-government exercise. These exercises seek to improve agencies' cyber security awareness, understanding and resilience by helping agencies and clusters to prepare for an 'inevitable cyber incident' and to understand their roles and responsibilities during a cyber security incident. The exercises are also an opportunity for agencies to test incident response plans in a simulated environment so that they can identify weaknesses or gaps in the plans. DCS stated that the exercises resulted in recommendations which aimed to improve agencies' incident response plans.⁵¹

\$315 million allocated over three years in the Digital Restart Fund for cyber security uplift

- 3.14 DCS reported that Cyber Security NSW assisted agencies in their bids to the Digital Restart Fund. Cyber Security NSW's involvement helps to prevent duplication against sector wide aims.⁵² As at 7 September 2022, 47 cyber security uplift business cases had been submitted to the Digital Restart Fund. DCS explained that Digital Restart Funding is being prioritised around uplifting areas of low cyber security maturity and the mitigation of high and critical cyber security risks.⁵³

Internal control qualifications and control deviations in GovConnect service providers

- 3.15 The Committee notes that the Department of Customer Service (DCS) has taken steps to centralise the management and governance of shared services provided through its GovConnect arrangement. The implementation of the new Service Integration and Application Management model and dedicated Service Integration team within DCS, appear to be reasonable measures to ensure that GovConnect control issues are managed and addressed in an appropriate and timely manner.

⁵⁰ [Submission 2a](#), Department of Customer Service, p 2.

⁵¹ [Submission 2](#), Department of Customer Service, p 2; [Submission 2a](#), Department of Customer Service, pp 3-4.

⁵² [Submission 2](#), Department of Customer Service, p 2.

⁵³ [Submission 2a](#), Department of Customer Service, p 5.

- 3.16 Given the timing of the Committee's review, the results of the 2021-22 assurance review of GovConnect controls were not available. The Committee is interested to know the outcome of the 2021-22 review, particularly whether DCS's changes have resulted in a decrease in the magnitude and number of internal control qualifications. The Committee will continue to monitor the results the 2021-22 assurance reports on the GovConnect service organisation controls in the Auditor-General's financial audit report.

Issue overview

- 3.17 GovConnect is a shared services arrangement used by multiple NSW Government agencies like the Department of Customer Service, the Department of Premier and Cabinet and NSW Treasury.⁵⁴ The Corporate Services division within DCS is responsible for overseeing the delivery of shared services by GovConnect to other GovConnect client agencies.⁵⁵ Each year DCS engages an external auditor to review controls at GovConnect service providers (internal and external).⁵⁶ The auditor then issues reports outlining their findings and provides an opinion.

- 3.18 In 'Customer Service 2021', the Auditor-General reported that:

The magnitude and number of internal control qualification issues from GovConnect service providers have increased. Ineffective controls at service providers increase the risk of fraud, error and security to data. Urgent attention is required to remediate the internal control exceptions in information and technology services.⁵⁷

- 3.19 The Auditor-General assessed this matter as high-risk. The high-risk assessment was based on the potential material fraud and error in DCS's financial statements and the potential reputational damages.⁵⁸

Agency response

- 3.20 DCS reported that the transition away from service provider 'Unisys' contributed to the increase in control qualifications. DCS explained that due to the timing of this 'auditors were unable to access records relating to several IT GovConnect controls in an acceptable format'. DCS further stated that, as at May 2021, all the identified exceptions had been remediated and closed.⁵⁹

- 3.21 DCS stated that it has appropriate governance controls in place to support a strong GovConnect operating environment. It made improvements to the GovConnect service delivery model by introducing a Service Integration and Application Management (SAIM) model in August 2021. Under the new model there is a dedicated team within DCS to coordinate the integrated services of multiple internal and external suppliers. The new model aims to achieve desired end-to-end service levels to support agencies' business goals.⁶⁰

⁵⁴ Department of Customer Services, [Annual Report 2020/2021](#), 2021, p 37.

⁵⁵ Department of Customer Services, [Annual Report 2020/2021](#), 2021, p 15.

⁵⁶ Audit Office of New South Wales, [Customer Service 2021](#), 2021, p 29.

⁵⁷ Audit Office of New South Wales, [Customer Service 2021](#), 2021, p 25.

⁵⁸ Audit Office of New South Wales, [Customer Service 2021](#), 2021, p 27.

⁵⁹ [Submission 2](#), Department of Customer Services, p 1.

⁶⁰ [Submission 2](#), Department of Customer Services, p 2; [Submission 2b](#), Department of Customer Service, p 1.

- 3.22 In terms of DCS's processes to manage GovConnect control exceptions, it explained that its Service Integration team:
- Engages with GovConnect customers via strategic, operational and workstream forums to brief them on identified control exceptions and to seek endorsement on plans to mitigate their risk.
 - Updates the Audit Office of NSW and DCS' internal audit branch on control exceptions at regular intervals and seeking feedback from these stakeholders.
 - Oversees open audit items through to resolution.⁶¹
- 3.23 DCS also outlined its processes for responding to each failed control. It implements interim controls and manual checks until formal treatment plans are agreed. Formalised treatment plans are then managed through contractually agreed measurers and processes. When treatment plans are rolled out, the controls are retested by independent auditors during formal assurance and attestation processes. This verifies whether control exceptions have been sufficiently addressed and risks sufficiently mitigated.⁶²
- 3.24 Now that the SIAM model has been implemented for twelve months, DCS stated that it has seen improved service quality, delivery and governance. It also stated that it is anticipating a reduction in control exceptions for the 2021-22 financial year.⁶³

Unisys post-transition review

- 3.25 DCS outlined the results of its post transition review, which was completed in 2021-22. The review:
- ... considered whether the lessons learned from the transition of GovConnect ICT services from Unisys had been considered and that plans for ongoing improvements and enhancements of value, service, and performance were in place.⁶⁴
- 3.26 The review found that the transition objectives were met in a low-risk manner. It also determined the revised GovConnect service delivery model should enable the shared service arrangement to realise its intended outcomes and benefits.⁶⁵

⁶¹ [Submission 2b](#), Department of Customer Service, p 2.

⁶² [Submission 2b](#), Department of Customer Service, p 2.

⁶³ [Submission 2b](#), Department of Customer Service, pp 1-2.

⁶⁴ [Submission 2b](#), Department of Customer Service, p 2.

⁶⁵ [Submission 2b](#), Department of Customer Service, p 2.

Chapter Four – Lord Howe Island

Privileged user access rights to key information systems

Recommendation 4

The Committee recommends that the Lord Howe Island Board annually reviews users with administrator rights to its key information systems.

Recommendation 5

The Committee recommends that the Lord Howe Island Board expand their review of users, to include a review of generic accounts usage. This review should check that account passwords have been reset when individuals no longer have a valid need to use these accounts and an annual revalidation of the business need of the account.

- 4.1 The Committee notes that the Lord Howe Island Board (the Board) has and is undertaking action to address the user access issues reported by the Auditor-General. It is unclear whether the Board has implemented the review of users with administration rights as an ongoing control or if this was a one off exercise.
- 4.2 The Committee also notes that there are still external service providers with privileged access rights using generic accounts. It is unclear whether the Board has taken action to address this. The Committee considers that it would be appropriate to assess whether generic accounts are still required. The Board should also ensure there is ongoing monitoring to check who has access to these passwords and whether passwords are being reset when individuals no longer require access to these accounts.

Issue overview

- 4.3 In 'Planning, Industry and Environment 2021' the Auditor-General reported that:

The Lord Howe Island Board ... has a number of staff who are super users or administrators at the network, application and database levels. External service providers also have privileged access rights using generic accounts. [Lord Howe Island Board] does not regularly review these user access rights or monitor the activities of the privileged users.⁶⁶

- 4.4 The Auditor-General assessed this as a high-risk finding given these issues increase the risk of inappropriate or unauthorised transactions and changes to the Board's systems.⁶⁷

⁶⁶ Audit Office of New South Wales, [Planning, Industry and Environment 2021](#), report, p 34.

⁶⁷ Audit Office of New South Wales, [Planning, Industry and Environment 2021](#), report, p 34.

Agency response

- 4.5 The Board stated that it has reviewed and reduced the number of users with administration rights.⁶⁸ It is unclear whether the Board has implemented this review as an ongoing control or if this was a one off occurrence.
- 4.6 The Board also confirmed that generic accounts are still being used by internal staff and external service providers, to access the Board's domain and servers. Some generic accounts are being used by multiple people.⁶⁹
- 4.7 The Board reported that it has implemented measures to monitor the activities of privileged users. It clarified that this is limited to monitoring updates to its financial system only. This includes updates to the payroll and accounts payables modules. Once generated activity reports are reviewed by an independent officer who is not a privileged user.⁷⁰
- 4.8 On 31 August 2022, the Board commenced a major Information Communication Technology project working with the Department of Planning and Environment and an external specialist. The project aims to obtain an understanding of the Board's current needs and issues and identify the viable parts of its ICT landscape and business applications. The outcome of this project is to develop an interim and target state for the Board's ICT landscape and operating model which addresses the Board's ICT risks.⁷¹

⁶⁸ [Submission 5](#), Lord Howe Island Board, p 1.

⁶⁹ [Submission 5a](#), Lord Howe Island Board, p 2.

⁷⁰ [Submission 5](#), Lord Howe Island Board, p 1; [Submission 5a](#), Lord Howe Island Board, p 2.

⁷¹ [Submission 5a](#), Lord Howe Island Board, p 1.

Chapter Five – NSW Health and HealthShare NSW

Estimation uncertainty regarding the impairment assessment for COVID-19 inventories

- 5.1 The Committee notes that HealthShare NSW has made several improvements in processes and procedures to address the issues highlighted by the Auditor-General. In particular the Committee notes that HealthShare NSW has worked with its warehousing vendor to implement additional controls and checks to improve the validation of best before dates. HealthShare NSW also introduced a systematic automated model to improve the integrity of its impairment assessment.

Issue overview

- 5.2 HealthShare NSW, part of the Health Administration Corporation, is responsible for providing key shared services to the NSW health system. These services include, financial, payroll, linen, food and other services such as medical and surgical supplies.⁷² During 2020 and 2021 the procurement and distribution of medical and surgical supplies increased to protect, test and treat suspected and confirmed COVID-19 patients. HealthShare NSW manages and holds these inventories for distribution to the health system.⁷³
- 5.3 During 2020-21 auditors identified several issues when testing HealthShare NSW's COVID-19 inventories, including:
- Unsubstantiated best before dates for 14 per cent of samples tested.
 - Consumption forecasts used to assess inventory impairment which did not include post balance date usage, a period of time which included the Delta outbreak.
 - Weaknesses in the general stocktaking methodology, such as not requiring best before dates to be verified.⁷⁴
- 5.4 To address these issues the Auditor-General recommended that HealthShare NSW:
- review the current stocktaking methodology to incorporate validation of data, such as the best before date, which is key to the impairment model, and

⁷² Health Administration Corporation, [Audited Financial Statements 2020-21](#), 26 October 2021, p 6.

⁷³ Health Administration Corporation, [Audited Financial Statements 2020-21](#), 26 October 2021, p 26.

⁷⁴ Audit Office of New South Wales, [Health 2021](#), 15 December 2021, p 15.

- consider recent developments and other data to help accurately predict future patterns of inventory consumption.⁷⁵

Agency response

Validation of inventory data, including best before dates

- 5.5 NSW Health explained that in 2020-21 the validation of best before dates was approached on an ad hoc basis. They advised that there were significant volumes of stock being received and dispatched across 22 different warehouses during this period to support the pandemic response. The pandemic response was delivered through Whole of Government Warehouse operations which used a number of temporary warehouses and varying inventory processes.⁷⁶
- 5.6 NSW Health also told the Committee that HealthShare NSW has responded to this issue, through a full best before date validation program and improved monitoring. This included:
- a physical review of all batches of inventory across six warehouses;
 - adjustment to product batch and expiry data in the vendor's warehouse management system;
 - the creation of new dashboards to improve data visibility; and
 - a review of systems and controls.⁷⁷
- 5.7 NSW Health stated that HealthShare NSW has worked with Linfox, the warehouse operator, to update the 2022 Stocktake Management Procedure. Several controls were introduced to these procedures, such as data entry directly into the warehouse vendor's system, direct system adjustment of inventory data in the event of a variance and sampling methodology to include all products in inventory checked for best before date and batch information. HealthShare NSW will also attend all live stocktake events and document observations and sampling.⁷⁸

Consideration of post-balance date events when assessing inventory impairment

- 5.8 NSW Health explained that the 2020-21 financial statements were prepared in early July 2021. As a result of the preparation timing, the inventory impairment assessment did not factor in significant surges in inventory consumption relating to the COVID-19 Delta outbreak. They also explained that in preparing the impairment assessments, inconsistent report iterations were used across different teams.⁷⁹
- 5.9 To address the issues raised by the Auditor-General, HealthShare NSW has agreed that teams will consistently use the 'NSW Health Oracle Inventory

⁷⁵ Audit Office of New South Wales, [Health 2021](#), 15 December 2021, p 16.

⁷⁶ [Submission 7](#), NSW Health, p 1; [Submission 7a](#), NSW Health, p 2.

⁷⁷ [Submission 7](#), NSW Health, p 1; [Submission 7a](#), NSW Health, p 2.

⁷⁸ [Submission 7](#), NSW Health, p 1; [Submission 7a](#), NSW Health, pp 2-3.

⁷⁹ [Submission 7](#), NSW Health, pp 3-4.

Assurance' report for inventory consumption estimates. This report captures all inventory movement within the Whole of Government Warehouse and it is reconciled daily by the warehousing team. HealthShare NSW has also replaced the manual calculation model with a systematic automated model.⁸⁰

Ongoing management of expiring inventory

- 5.10 The Committee also asked about unused COVID-19 inventories. NSW Health reported that, as at 30 June 2022, HealthShare NSW held \$246.7 million in inventory which it has assessed as unlikely to be consumed prior to best before dates. Options are being considered, including options to: use the inventory; donate it; repurpose it; or seek alternate uses through NSW government entities. NSW Health stated that if this inventory cannot be consumed, it will focus on environmentally friendly and financially responsible disposal methods.⁸¹
- 5.11 The Committee notes that HealthShare NSW has attempted to obtain formal extensions to expiration dates. NSW Health told the Committee that 18 companies which supply 34 products were contacted to enquire about extensions to expiry dates. Eight suppliers offered extensions to gowns, face shields, goggles and sanitiser. No extensions options have been exercised however, as they came with a transfer of liability to HealthShare NSW. HealthShare NSW deemed the transfer of liability as not acceptable.⁸²

⁸⁰ [Submission 7](#), NSW Health, pp 4-5.

⁸¹ [Submission 7a](#), NSW Health, p 6.

⁸² [Submission 7a](#), NSW Health, pp 2-3.

Chapter Six – Rental Bond Board

Inconsistencies between the accounting treatment for rental bonds and the *Residential Tenancies Act 2010*

6.1 The Committee finds that the Department of Customer Service, which acts on behalf of the Rental Bond Board, appears to have a clear plan of action to align the *Residential Tenancies Act 2010* with its current accounting treatment of rental bonds within the next nine to 12 months. The Committee considers this to be appropriate action to enact the recommendations made by the Auditor-General.

Issue overview

6.2 At 30 June 2021, the Rental Bond Board (the Board) held 929,015 residential rental bonds with a combined value of \$1.7 billion. These rental bonds were disclosed in the Board's financial statements as trust funds.⁸³

6.3 This means that the rental bonds balance was disclosed in the trust funds note which accompanies the financial statements and was not recognised in the Board's statement of financial position.

6.4 In 'Customer Service 2021' the Auditor-General reported that there are uncertainties in legislation to support the current accounting treatment of rental bonds as funds held in trust.⁸⁴ The audit team has accepted the Board's accounting treatment of rental bonds, however it has also recommended that the Board seek to have the *Residential Tenancies Act 2010* (the Act) amended to remove any uncertainty.⁸⁵

6.5 The Board also obtained similar advice from the Crown Solicitors that rental bond funds held in the rental bond account were not moneys held in trust and the *Residential Tenancies Act 2010* should be reviewed and amended.⁸⁶

6.6 If the current accounting treatment is not adequately supported, it has the potential to result in material misstatements in the Board's financial statements.⁸⁷

Agency response

6.7 The Board does not have employees, its functions are managed by the Department of Customer Services (DCS). As such DCS has provided responses to the inquiry in this capacity.

⁸³ Rental Bond Board, [Annual Report 2020-21](#), annual report, pp 9, 41.

⁸⁴ Audit Office of New South Wales, [Customer Service 2021](#), report, p 26.

⁸⁵ Audit Office of New South Wales, [Customer Service 2021](#), report, p 23.

⁸⁶ Audit Office of New South Wales, [Customer Service 2021](#), report, p 28.

⁸⁷ Audit Office of New South Wales, [Customer Service 2021](#), report, p 28.

- 6.8 Ms Natasha Mann, Deputy Secretary, Department of Customer Service, acknowledged the importance of aligning the legislation and the accounting treatment of rental bonds. Ms Mann noted that the use of these funds is strictly regulated by the requirements of the *Residential Tenancies Act 2010*, and that money must be available to pay out to landlords and tenants when a valid claim is made.⁸⁸
- 6.9 Mr Tony Fisher, Director, Finance, Policy and Regulation, Department of Customer Service confirmed that DCS was unable to identify a non-legislative solution to align the legislation and accounting treatment.⁸⁹
- 6.10 DCS plan to seek legislative amendments to the *Residential Tenancies Act 2010*. Mr Fisher said that DCS is researching the potential implications of aligning the legislation and the accounting treatment of rental bonds on the *Government Sector Finance Act 2018* and the *Trustee Act 1925* for the funds held on trust. It expects to conclude this research in October 2022, at which point external accounting advice will be sought to confirm the view that the Board will satisfy the bonds are held on trust. The external confirmation is expected to be finalised in December 2022. Following this and noting the state election in March 2023, DCS will prepare a Ministerial brief to support the legislative change and provide this to the new Minister after the election.⁹⁰
- 6.11 Until legislative alignment is achieved, the Committee was informed that the only ramification is that this will remain as an action item in the Board's management letter from the Audit Office. Mr Fisher also confirmed that for the 30 June 2022 reporting period, rental bonds continue to be disclosed as trust funds.⁹¹
- 6.12 At the public hearing, Mr Scott Stanton, Assistant Auditor-General, Financial Audit, Audit Office of New South Wales noted that the Audit Office has been raising this issue for some time. He also acknowledged that legislative amendment can be a difficult pathway and that it can take time. Mr Stanton said that it was good to hear that DCS has a clear plan and that a solution sounds like it will be achieved within the next nine to 12 months.⁹²

⁸⁸ [Submission 1](#), Rental Bond Board, p 1.

⁸⁹ Mr Tony Fisher, Director, Finance, Policy and Regulation, Department of Customer Service, [Transcript of Evidence](#), p 2.

⁹⁰ Mr Tony Fisher, [Transcript of Evidence](#), p 3.

⁹¹ Mr Tony Fisher, [Transcript of Evidence](#), p 3.

⁹² Mr Scott Stanton, Assistant Auditor-General, Financial Audit, Audit Office of New South Wales, [Transcript of Evidence](#), p 3.

Chapter Seven – Insurance and Care NSW

Weaknesses in icare's allocation of 'service fees' to schemes

- 7.1 The Committee notes that Insurance and Care NSW (icare) has made refinements to its internal controls and processes around the allocation of service fees. Based on the evidence provided to the Committee, the refinements appear to address the intent of the Auditor-General's recommendations.

Issue overview

- 7.2 Icare incurs costs when it administers services for statutory insurance schemes. These costs are subsequently recovered from the relevant scheme via the allocation of service fees.⁹³ In 2019-20 and 2020-21 icare recovered the following service fees⁹⁴:

Service fee revenue recovered from:	2020-19	2021-20
Lifetime Care and Support Authority of NSW	44,137	64,499
New South Wales Self Insurance Corporation	193,531	195,736
NSW Workers Insurance Scheme	538,569	627,802
Sporting Injuries Compensation Authority	170	192
Workers Compensation (Dust Diseases) Authority	11,944	37,407
Building Insurers' Guarantee Corporation	303	214
Generators and Transgrid	76	157

- 7.3 In 'Central Agencies 2020', the Auditor-General reported that icare had not been able to demonstrate that its allocation of administration costs to the schemes were reflective of the actual costs incurred by each scheme.⁹⁵
- 7.4 In 2020-21 icare responded to this finding by updating its cost allocation process. The revised approach now uses more quantifiable inputs to measure the effort each support service cost centre spends on each scheme. Icare also obtained legal advice which confirmed its approach to allocating service fees was not inconsistent with the *Workers Compensation Act 1987*.⁹⁶
- 7.5 The Auditor-General's report 'Treasury 2021' noted that when the audit team reviewed icare's revised cost allocation approach for 2020-21 it found that while amounts charged to each scheme could be supported by icare, there were instances where the inputs were not correct.⁹⁷

⁹³ icare, [Annual Report 2020-21](#), 24 September 2021, p 14.

⁹⁴ icare, [Annual Report 2020-21](#), 24 September 2021, p 15.

⁹⁵ Audit Office of New South Wales, [Treasury 2021](#), 20 April 2022, p 39.

⁹⁶ Audit Office of New South Wales, [Treasury 2021](#), 20 April 2022, p 39.

⁹⁷ Audit Office of New South Wales, [Treasury 2021](#), 20 April 2022, p 39.

Agency response

- 7.6 In response to the Committee's questions, icare explained that they have simplified their allocation model ensuring appropriate allocations to respective schemes.⁹⁸ They did this through simplifying and consolidating the spreadsheets used to calculate allocations into a single model. The insurer explained that this reduced the risk of error when consolidating its cost allocation information.⁹⁹
- 7.7 Icare also outlined several levels of approval and review processes which it has in place to ensure allocations are accurate. One of these levels includes a 'board sign off of allocations included in the budget, as part of the overall budget sign off'.¹⁰⁰
- 7.8 Icare also provided the Committee with an overview of their recent reasonableness assessment of service fee cost allocations for the period ended 30 June 2022.¹⁰¹

⁹⁸ [Submission 6](#), icare, p 1.

⁹⁹ [Submission 6a](#), icare, p 1.

¹⁰⁰ [Submission 6a](#), icare, p 2.

¹⁰¹ [Submission 6a](#), icare, p 2.

Appendix One – Terms of reference

Under section 57 of the *Government Sector Audit Act 1983 (NSW)*, the functions of the Committee include the examination of any report of the Auditor-General laid before the Legislative Assembly.

On 19 May 2022, the Committee resolved the following terms of references for the inquiry:

That the Committee inquires into and reports on any circumstances connected with the Auditor General's Financial Audit Reports 2021 which the Committee considers ought to be brought to the notice of the Legislative Assembly, with particular reference to repeat and/or significant findings.

Appendix Two – Conduct of inquiry

On 19 May 2022 the Public Accounts Committee resolved to examine and report on matters in the Auditor-General's financial audit reports for the year ended 30 June 2021. The aim of this inquiry was to scrutinise whether agencies are appropriately responding to the issues and/or recommendations reported by the Auditor-General.

This is the Committee's second systematic examination of the Auditor-General's financial audit reports in the 57th Parliament. The Terms of Reference for this inquiry can be found in Appendix One.

The Committee identified ten issues raised by the Auditor-General that it would follow-up. These issues were repeat issues or those considered high-risk. On 6 June 2022 the Committee resolved to write to agencies seeking submissions about the status of the following matters:

Agency	Matter
NSW Treasury	There was no formal policy or benchmark to guide expectations for returns on GGS investments in state owned corporations.
	Some agencies again spent monies without an authorised delegation.
Department of Planning and Environment	There continues to be significant deficiencies in Crown land records.
	Access to key SAP transactions were not properly restricted and segregated.
Department of Customer Service	The NSW Public Sector's cyber security resilience needs urgent attention.
	Internal control qualifications and control deficiencies in GovConnect service providers.
Lord Howe Island Board	Weaknesses in the management of privileged user access.
NSW Health	There is a high degree of estimation uncertainty regarding the impairment assessment for COVID-19 inventories.
Rental Bond Board	There are inconsistencies between the accounting treatment for rental bonds and the <i>Residential Tenancies Act 2010</i> .
Insurance and Care NSW	Weaknesses in Insurance and Care NSW's allocation of 'service fees' to schemes.

Submissions were received from all relevant agencies. A list of these can be found at Appendix Three and copies can be found on the Committee's [website](#).

Once received, the submissions were forwarded to the Audit Office of New South Wales (the Audit Office). The Auditor-General provided comments to the Committee on 27 June 2022 and 29 June 2022.

The Committee reviewed the submission and the comments from the Auditor-General. On 17 August 2022, it resolved to

- Write to selected agencies to request supplementary submissions.
- Conduct a public hearing to seek evidence from the Department of Customer Services regarding the accounting for rental bonds and the Department of Planning and Environment regarding deficiencies in Crown land records and user access management within its SAP systems.

A public hearing was held on 29 September 2022, at which representatives from each agency gave evidence. Representative from the Audit Office of NSW also attended and provided comments during the hearing. Details on the witnesses who attended is included in Appendix Four. A transcript of the hearing can be found on the Committee's [website](#).

Following the public hearing, the Committee sent questions on notice both groups of representatives from the Department of Planning and Environment. Responses to these questions can be found on the Committee's [website](#).

The further supplementary submissions from agencies were also published on the Committee's [website](#).

Appendix Three – Submissions

No.	Author
1	Rental Bond Board
2	Department of Customer Service
2a	Department of Customer Service
2b	Department of Customer Service
3	NSW Treasury
3a	NSW Treasury
3b	NSW Treasury
3c	NSW Treasury
4	NSW Department of Planning and Environment
5	Lord Howe Island Board
5a	Lord Howe Island Board
6	icare
6a	icare
7	NSW Health
7a	NSW Health

Appendix Four – Witnesses

29 September 2022 – Parliament House, Macquarie Room, Sydney, NSW

Witness	Position and Organisation
Mr Tony Fisher	Director Finance Policy and Regulation, Department of Customer Service
Ms Claudia Huertas	Executive Director – Customer and Systems, Crown Lands
Mr Tim Deverell	Director – Regional Operations East (Crown Lands and Local Government), Crown Lands
Ms Melanie Hawyes	Deputy Secretary – Crown Lands & Local Government, NSW Department of Planning and Environment
Ms Sarah Lees	Director, Programs and Partnerships, NSW Department of Planning and Environment
Mr Shaun Smith	Deputy Secretary – Corporate Services, NSW Department of Planning and Environment
Mr Christopher Martin	DPE Cluster Chief Financial Officer, NSW Department of Planning and Environment

Appendix Five – Extracts from minutes



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 34

TIME & DATE	09.35AM, 19 MAY 2022	LOCATION	JUBILEE ROOM
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MEMBERS PRESENT

Greg Piper (**Chair**), Dave Layzell (**Deputy Chair**), Melanie Gibbons, Nichole Overall, Ryan Park, Ray Williams.

OFFICERS PRESENT

Leon Last, Alison Buskens, Amy Pond, Anna Tran and Nicolle Gill.

APOLOGIES

Nil.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 33**

Resolved, on the motion of Mr Layzell, seconded by Ms Gibbons: That the draft minutes of deliberative meeting No. 33 on 31 March 2022 be agreed to.

2. **Committee Membership**

The Chair informed the Committee of the appointment of Stephen Bromhead, in place of Lee Evans, as recorded in item 17(2) of the Legislative Assembly Votes and Proceedings of 31 March 2022.

The Chair informed the Committee of the appointment of Nichole Overall, in place of Stephen Bromhead, as recorded in item 13(2) of the Legislative Assembly Votes and Proceedings of 18 May 2022.

3. ***

4. ***

5. **Consideration of Financial Audit Reports 2021**

The Committee considered its treatment of financial audit reports for FY2021 tabled by the Auditor-General.

Resolved, on the motion of Mr Park, seconded by Mr Layzell:

- That the Committee inquires into and reports on any circumstances connected with the Auditor General's Financial Audit Reports 2021 which the Committee considers ought to be brought to the notice of the Legislative Assembly, with particular reference to repeat and/or significant findings.
 - That the secretariat prepare a recommended list of agencies to follow up on, and that the Chair write to those agencies, requesting responses to information about the current status and action taken on the issues identified.
-

6. ***

7. ***

8. ***

9. **Next meeting**

The meeting adjourned at 10.35am until 9.30am on Thursday 23 June 2022.



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 35

TIME & DATE	9.48AM, 6 JUNE 2022	LOCATION	MEETING ROOM 814/815 AND WEBEX
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MEMBERS PRESENT

Greg Piper (**Chair**), Dave Layzell (**Deputy Chair**), Melanie Gibbons (by Webex), Nichole Overall, Ryan Park, Ray Williams (by Webex),

OFFICERS PRESENT

Clara Hawker, Leon Last, Alison Buskens, Nichole Gill, Ze Nan Ma, Amy Pond and Anna Tran.

APOLOGIES

None

AGENDA ITEM

1. **Deliberative meeting**
 - 1.1. **Confirmation of minutes**
Resolved, on the motion of Mr Layzell, seconded by Mr Williams: That the minutes of the meeting of 19 May 2022 be confirmed.
 - 1.2. **Examination of selected Auditor-General's Financial Audit Reports 2021**
Resolved, on the motion of Mr Williams, seconded by Mr Park: That the Committee writes to the agencies identified in the recommendations table provided, requesting responses to information about the current status and action taken on the issues identified, and once received, that the responses be forwarded to the Audit Office for comment.

2. ***

3. **Next meeting**

The Committee adjourned at 12.18pm until 9.30am, Thursday 23 June 2022.



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 36

TIME & DATE	09.40AM, 23 JUNE 2022	LOCATION	MEETING ROOM 1254
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MEMBERS PRESENT

Greg Piper (**Chair**), Dave Layzell (**Deputy Chair**), Melanie Gibbons, Nichole Overall, Ray Williams.

OFFICERS PRESENT

Leon Last, Alison Buskens and Anna Tran.

APOLOGIES

Ryan Park.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 35**

Resolved, on the motion of Mr Williams, seconded by Ms Gibbons: That the draft minutes of the deliberative meeting and public hearing held on 6 June 2022 be confirmed.

2. ***

3. ***

4. **Examination of selected Auditor-General's Financial Audit Reports 2021**

4.1. **Publication of submissions**

The Committee considered the following submissions received from agencies as part of its examination of selected Auditor-General's Financial Audit Reports 2021:

-
- From the Better Regulation Division, Department of Customer Service in relation to the Auditor-General's recommendation that the Rental Bond Board seek to have the *Residential Tenancies Act 2010* amended to clarify certain matters.
 - From the Department of Customer Service in relation to issues reports by the Auditor-General, including, internal control exceptions in information and technology services provided by GovConnect service providers and NSW Public Sector's cyber security resilience needing urgent attention.

Resolved, on the motion of Mr Williams, seconded by Ms Gibbons: That the submissions responding to recommendations made and issues reported in the Auditor-General's report on Customer Services 2021 be received, authorised for publication and published on the Committee's webpage.

5. ***

6. ***

7. ***

8. **Next meeting**

The meeting adjourned at 10:47am until a date and time to be determined.



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 37

TIME & DATE	09.30AM, 17 AUGUST 2022	LOCATION	MEETING ROOM 1254 AND VIA WEBEX
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MEMBERS PRESENT

Greg Piper (**Chair**), Melanie Gibbons (by Webex), Nichole Overall (by Webex), Ryan Park (by Webex) and Ray Williams.

OFFICERS PRESENT

Clara Hawker, Leon Last, Alison Buskens, Amy Pond (by Webex), Anna Tran, Nicolle Gill and Gerard Rajakariar.

APOLOGIES

An apology was received from Dave Layzell.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 36**

Resolved, on the motion of Mr Williams, seconded by Ms Gibbons: That the draft minutes of the deliberative meeting on 23 June 2022 be confirmed.

2. ***

3. **Examination of selected Auditor-General's Financial Audit Reports 2021**

3.1. **Publication of submissions**

Resolved, on the motion of Mrs Overall, seconded by Mr Williams: That the following submissions responding to recommendations made and issues reported in the Auditor-General's Financial Audit Reports 2021 be received, authorised for publication and published on the Committee's webpage:

-
- From NSW Treasury - in relation to NSW government expected rate of return and authorised delegations for expenditure - received 17 June 2022.
 - From the Department of Planning and Environment - in relation to SAP user access and Crown lands - received 20 June 2022.
 - From the Lord Howe Island Board - in relation to system super users or administrators - received 20 June 2022.
 - From icare - in relation to embedding new methodology and allocation of costs across schemes - received 21 June 2022.

3.2. Conduct of inquiry

The Committee considered its treatment of the selected Auditor-General's Financial Audit Reports 2021.

Resolved, on the motion of Mr Williams, seconded by Mr Park:

- That the Committee writes to the agencies identified in the recommendations table provided, requesting responses to questions about the current status and action taken on the issues identified.
- That the Committee requests representatives of further identified agencies to provide additional information at a public hearing on 19 September 2022.

4. ***

5. ***

6. Next meeting

The meeting adjourned at 10.06 am until Monday, 19 September 2022 in the Jubilee Room.



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 38

TIME & DATE	08.38AM, 21 SEPTEMBER 2022	LOCATION	MACQUARIE ROOM AND VIA WEBEX
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MEMBERS PRESENT

Greg Piper (**Chair**), Melanie Gibbons (by Webex), Nichole Overall, Ryan Park and Ray Williams (by telephone).

OFFICERS PRESENT

Clara Hawker, Leon Last, Alison Buskens, Anna Tran and Gerard Rajakariar.

APOLOGIES

An apology was received from Mr Layzell.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 37**

Resolved, on the motion of Mrs Overall, seconded by Mr Park: That the draft minutes of the deliberative meeting on 17 August 2022 be confirmed.

2. ***

3. ***

4. **Examination of selected Auditor-General's Financial Audit Reports 2021**

4.1. **Publication of submissions**

The Committee received the following submissions from agencies regarding the examination of selected Auditor-General's financial audit reports 2021:

Initial submission from

- NSW Health - in relation to HealthShare inventory - 28 June 2022.

Supplementary submissions from

- NSW Treasury - in relation to expected rate of return policy and authorised delegations for expenditure – 31 August, 6 and 8 September 2022.
- Lord Howe Island Board - in relation to system super users or administrators - 1 September 2022.
- Department of Customer Service - in relation to GovConnect and Cyber Security – 7 September 2022.
- icare - in relation to the allocation of administration costs across schemes – 12 September 2022.

Resolved, on the motion of Mrs Overall, seconded by Mr Williams: That the submissions be received, authorised for publication and published on the Committee's webpage.

4.2. Public hearing

The Committee has received correspondence from the Department of Customer Services and NSW Health indicating that their nominated witnesses are unable to attend the rescheduled public hearing on Thursday, 29 September.

Given the time remaining in the sitting calendar, it is proposed that written questions be sent to these agencies to gather the relevant evidence.

Resolved, on the motion of Mr Park, seconded by Mrs Overall: That written questions be sent to:

- the Department of Customer Services in relation to GovConnect; and
- NSW Health in relation to HealthShare NSW's stocktaking and inventory management.

5. ***

6. Next meeting

The meeting adjourned at 8.51 am until the public hearing at 9am on Thursday, 29 September 2022.



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 39

TIME & DATE	9:04AM, 29 SEPTEMBER 2022 (PUBLIC HEARING)	LOCATION	MACQUARIE ROOM AND WEBEX
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MEMBERS PRESENT

Greg Piper (**Chair**), Dave Layzell (**Deputy Chair**), Ray Williams (by Webex) and Nichole Overall.

OFFICERS PRESENT

Clara Hawker, Leon Last, Alison Buskens, Nicolle Gill, Amy Pond, Gerard Rajakariar and Anna Tran.

APOLOGIES

Resolved on the motion of Mr Layzell, seconded by Mrs Overall: That the Committee note the apologies from Ms Gibbons and Mr Park

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 38**

Resolved, on the motion of Mrs Overall, seconded by Mr Williams: That the draft minutes of the deliberative meeting on 21 September 2022 be confirmed.

2. ***

3. **Pre-hearing deliberative meeting: examination of selected Auditor-General's Financial Audit Reports 2021**

3.1. **Public hearing**

Resolved on the motion of Mr Layzell, seconded Mrs Overall: That the Committee invite the witnesses listed in the notice of hearing for Thursday, 29 September 2022 to give evidence in relation to the examination of selected Auditor General's Financial Audit Reports 2021.

The Committee discussed the conduct of questioning witnesses during the public hearing.

3.2. **Media orders**

Resolved on the motion of Mr Layzell, seconded Mr Williams: That the Committee authorises the audio-visual recording, photography and broadcasting of the public hearing on Thursday, 29 September 2022, in accordance with the Legislative Assembly's guidelines for the coverage of proceedings for parliamentary committees administered by the Legislative Assembly.

The deliberative meeting adjourned at 9.10 am.

4. **Public hearing: Examination of selected Auditor-General's Financial Audit Reports 2021**

Witnesses and the public were admitted. The Chair opened the public hearing at 9.16am and made a short opening statement.

The following witnesses from the Department of Customer Service were admitted:

- Mr Tony Fisher, Director Finance Policy and Regulation, Department of Customer Service was sworn and examined.
- Mr Farooq Ali, Finance Manager, Better Regulations Division, Department of Customer, was sworn and examined

The following witnesses from the Audit Office of NSW were admitted:

- Ms Margaret Crawford, Auditor-General was affirmed and examined.
- Mr Scott Stanton, Assistant Auditor-General, Financial Audit, Audit Office of NSW was sworn and examined.
- Mr Aaron Green, Assistant Auditor-General, Financial Audit, Audit Office of NSW was affirmed and examined.

The Committee questioned the witnesses from the Department of Customer Service. Evidence concluded and the witness withdrew.

The following witnesses from Crown Lands and the NSW Department of Planning and Environment were admitted by Webex:

- Ms Claudia Huertas, Executive Director – Customer and Systems, Crown Lands was affirmed and examined.
 - Mr Tim Deverell, Director – Regional Operations East (Crown Lands and Local Government), Crown Lands was affirmed and examined.
 - Ms Melanie Hawyes, Deputy Secretary – Crown Lands & Local Government, NSW Department of Planning and Environment was affirmed and examined.
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- Ms Sarah Lees, Director, Programs and Partnerships, NSW Department of Planning and Environment was affirmed and examined.

Ms Hawyes made a brief opening statement.

The Committee questioned the witnesses. Evidence concluded and the witnesses withdrew.

The following witnesses from the NSW Department of Planning and Environment were admitted by Webex:

- Mr Shaun Smith, Deputy Secretary – Corporate Services, NSW Department of Planning and Environment was affirmed and examined.
- Mr Christopher Martin, DPE Cluster Chief Financial Officer, NSW Department of Planning and Environment was affirmed and examined.

Mr Smith made a brief opening statement.

The Committee questioned the witnesses. Evidence concluded and the witnesses withdrew.

The public hearing concluded at 11.33am.

5. **Post hearing deliberative**

The Committee resumed a deliberative meeting at 11.34am.

5.1. ***

5.2. **Publication of transcript**

Resolved on the motion of Mr Williams, seconded Mr Layzell: That the corrected transcript of evidence given on Thursday, 29 September 2022 be authorised for publication and uploaded on the Committee's website.

5.3. **Answers to questions taken on notice and supplementary questions**

Resolved on the motion of Mr Williams, seconded Mr Layzell: That witnesses be requested to return answers to questions taken on notice and supplementary questions within 7 days of the date on which the questions are forwarded to the witnesses.

6. ***

7. **Next meeting**

The meeting adjourned at 11.42am until Thursday, 20 October 2022 in Room 1254.



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 40

TIME & DATE	9.43AM, 20 OCTOBER 2022	LOCATION	MEETING ROOM 1254
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MEMBERS PRESENT

Mr Greg Piper (**Chair**), Mr Dave Layzell (**Deputy Chair**), Mr Ryan Park and Mr Ray Williams.

OFFICERS PRESENT

Clara Hawker, Leon Last, Alison Buskens, Amy Pond, Anna Tran, Nicolle Gill and Gerard Rajakariar.

APOLOGIES

Apologies were received from Ms Gibbons and Mrs Overall.

AGENDA ITEM

1. **Confirmation of minutes - Minutes of Meeting No. 39**

Resolved, on the motion of Mr Park, seconded by Mr Williams: That the draft minutes of the deliberative meeting and public hearing held on 29 September 2022 be confirmed.

2. ***

3. ***

4. **Examination of selected Auditor-General's Financial Audit Reports 2021**

4.1. **Answers to questions on notice**

Resolved, on the motion of Mr Williams, seconded by Mr Layzell: That the answers to questions on notice from the Department of Planning and Environment regarding SAP user access and segregation be received, authorised for publication and published on the Committee's webpage.

4.2. Publication of submissions

The Committee received supplementary submissions from the following agencies:

- NSW Health, regarding stocktaking and inventory management, dated 7 October.
- The Department of Customer Services regarding GovConnect, dated 10 October.

Resolved, on the motion of Mr Park, seconded by Mr Williams: That the supplementary submissions be received, authorised for publication and published on the Committee's webpage.

5. ***

6. Next meeting

The meeting adjourned at 10.17am until Thursday, 17 November 2022.



LEGISLATIVE ASSEMBLY

Public Accounts Committee

Minutes

Meeting no 41

TIME & DATE	9:31 AM, 17 NOVEMBER 2022	LOCATION	MEETING ROOM 1254 AND VIA WEBEX
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MEMBERS PRESENT

Greg Piper (**Chair**), Dave Layzell (**Deputy Chair**), Nichole Overall, Ryan Park and Ray Williams.

OFFICERS PRESENT

Leon Last, Alison Buskens, Anna Tran, Nicolle Gill and Gerard Rajakariar.

APOLOGIES

An apology was received from Melanie Gibbons.

AGENDA ITEM

1. ***

2. **Confirmation of minutes – Minutes of Meeting No. 40**

Resolved, on the motion of Mr Layzell, seconded by Mr Park: That the draft minutes of the deliberative meeting on 20 October 2022 be confirmed.

3. ***

4. **Examination of selected Auditor-General's Financial Audit Reports 2021**

4.1. **Answers to questions on notice**

The Committee considered the answers to questions taken on notice at the public hearing on 29 September 2022, received from the Department of Planning and Environment regarding Crown Lands, dated 18 October 2022.

Resolved, on the motion of Mr Park, seconded by Mr Layzell: That the answers to questions on notice from the Department of Planning and Environment regarding Crown Lands, dated 18 October 2022 be received, authorised for publication and published on the Committee's webpage.

4.2. Consideration of Chair's draft report

The Committee considered the Chair's draft report, as previously circulated.

Resolved, on the motion of Mr Layzell, seconded by Mr Park, *in globo*:

- That the Committee adopts Chapters 1 to 7 of the Chair's Draft Report.
- That the Committee adopt the recommendations of the Chair's Draft Report.
- 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. ***

9. Next meeting

The meeting adjourned at 10.34am until a time and date to be determined, if necessary.
