



THE AUDIT OFFICE  
OF NEW SOUTH WALES

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Mr Paul Gibson MP  
Chair  
Public Accounts Committee  
Legislative Assembly  
Parliament House, Macquarie Street  
SYDNEY NSW 2000



25 June 2010

Dear Mr Gibson

**Examination of Auditor-General's performance audit report  
*Sustaining Native Forest Operations***

We have reviewed the submission provided by NSW Forests concerning the recommendations in the above report.

We are pleased that the Department's submission indicates that it has accepted our recommendations and is making progress in implementing them.

Please find attached our assessment of the extent to which each response addresses the issue raised in the original report, along with a comment on progress. We have not substantiated the submission.

I plan to forward a copy of this correspondence to the Chief Executive of NSW Forests and Director General of Department of Industry and Investment.

I am happy to provide any further assistance the Committee may need in completing its examination.

Peter Achterstraat  
Auditor-General

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Audit Office response to PAC follow-up of performance audit: *Sustaining Native Forest Operations*

Recommendations in the Performance Audit

Auditor-General's Recommendations Report 185: Sustaining Native Forest Operations April 2009	Does NSW Forests' response show appropriate action has started?	NSW Audit Office comments on progress reported in NSW Forests' response.
<p>1 Upgrade its forestry management system for native forests to capture all harvesting results and other events which impact on yield.</p> <p>By Dec 2010.</p>	<p>Yes</p>	<p>The native forest event management system proposed by NSW Forests should address this issue.</p> <p>However it is unclear whether this system replaces or is linked to existing forestry management systems. That is, to ensure operational and strategic databases are better linked.</p>
<p>2 Finalise its net area and strike rate modifier studies to improve the accuracy of its estimates.</p> <p>By Sep 2009.</p>	<p>Yes</p>	<p>The new technology being introduced by NSW Forests should improve harvesting operations including estimates of exclusion areas and boundaries. Therefore it seems reasonable to postpone net area studies. However a clearer timeframe for when these will be completed would be useful. NSW Forests says operational changes will be bedded down over the next "12 months or so". Therefore while improvements are underway these studies will not be undertaken for some time.</p> <p>It is also unclear whether the results of the strike rate modifier studies already completed (ie south coast, red gum, cypress), have been used to improve yield estimates.</p>
<p>3 Undertake and publicly report the results of:</p> <ul style="list-style-type: none"> <li>▪ a review of yield estimates for native forests in Southern Region including Eden, South Coast and Tumut</li> <li>▪ a review of yield estimates for hardwood plantations.</li> </ul> <p>By June 2010.</p>	<p>Yes</p>	<p>It is unclear from the response whether all yield review estimates have been completed.</p> <p>NSW Forests initially states "reviews completed". However it then says that Eden and Tumut have not yet been completed as resources have been tied up elsewhere.</p> <p>Which estimates were used as part of its 2009 DCF valuation? NSW Forests reports that South Coast and plantation estimates have been reviewed, were these included?</p>
<p>4 Publicly report the results of yield estimates for high quality large sawlogs, high quality small sawlogs, low quality logs and pulpwood for each region.</p> <p>By June 2010.</p>	<p>Yes</p>	<p>Could NSW Forests also publish these on their website sooner, rather than wait until their 2009-10 report is released?</p>

Auditor-General's Recommendations Report 185: Sustaining Native Forest Operations April 2009	Does NSW Forests' response show appropriate action has started?	NSW Audit Office comments on progress reported in NSW Forests' response.
5 Compare harvest results against its yield estimates over five year periods as a means of testing the accuracy of estimates. Report the results annually starting June 2010.	In part	It is unclear the extent to which 'allowable cut' is based on yield estimates, especially as allowable cut differs in forestry agreements and wood supply agreements.  What progress is NSW Forests making regarding comparing actual versus predicted yield for harvested area in each sub-region? That is, checking modelling estimates for a group of compartments against actual results.
6 Investigate the reasons for not meeting its private property targets for hardwood timber and develop better ways of addressing these.	Yes	What is the status of the Private Property Timber Supplementation Unit? Has it had much success to date?
7 Investigate the potential for developing commercial markets for waste.	Yes	No comment
8 Simplify and improve timber pricing by introducing a new pricing system by December 2009 that: <ul style="list-style-type: none"> <li>▪ ensures log production costs are recovered</li> <li>▪ is transparent.</li> </ul> By Dec 2009.	Yes	No comment
9 The Minister responsible for native forest operations include yield review requirements that allow for non-compensable reduction in allocation, in all future wood supply agreements.	Yes	No comment