

**Submission
No 6**

**ADEQUACY OF THE FUNDING ALLOCATION OF THE NSW ELECTORAL
COMMISSION FOR THE 2023 STATE GENERAL ELECTION**

Organisation: Audit Office of New South Wales

Date Received: 11 February 2022

The Hon Lee Evans MP
Chair, Joint Standing Committee on Electoral Matters
By email: electoralmatters@parliament.nsw.gov.au

Contact: Claudia Migotto
Phone no: [REDACTED]
Our ref: D2202124

11 February 2022

Dear Mr Evans

Submission - Inquiry into the adequacy of the funding allocation of the NSW Electoral Commission for the 2023 State General Election

Thank you for your invitation to make a submission to the above inquiry.

As you may be aware, I conducted an audit on the effectiveness of the financial arrangements and management practices in four integrity agencies, which was completed in October 2020. This report did not comment on the adequacy of the funding for the NSW Electoral Commission. However, it did consider the appropriateness of the financial arrangements for the NSW Electoral Commission and three other integrity agencies. The full report is available on the Audit Office of NSW website.

The report found that the current approach to determining and administering annual funding for the integrity agencies presents threats to their independent status. The approach used by NSW Treasury and the Department of Premier and Cabinet (DPC) is consistent with the legislative and Constitutional framework for financial management in New South Wales, but it does not sufficiently recognise that the roles and functions of the integrity agencies are different to other departments and agencies. Specific mechanisms that present threats to the independence of the integrity agencies include:

- the absence of transparency in decisions about funding for the integrity agencies
- the means of applying efficiency dividends and budget savings and reform measures
- the process of providing additional funding from DPC to the integrity agencies
- requests for the integrity agencies to report to DPC on their activities and outcomes.

The report made three recommendations to NSW Treasury and DPC to address these potential threats to independence (see Attachment 1). During 2021, DPC commenced consultation with the integrity agencies on the development of a funding model that responds to the recommendations from the Audit Office's report.

Should you require further information, please do not hesitate to contact me on [REDACTED] or Claudia Migotto, Assistant Auditor-General, Performance Audit, on [REDACTED].

Yours sincerely

Ian Goodwin
Deputy Auditor-General

Attachment 1

Excerpts from Audit Office of NSW special report: The effectiveness of the financial arrangements and management practices in four integrity agencies

Auditor-General's foreword

This audit examined the effectiveness of the financial arrangements and management practices of four integrity agencies. It was conducted with reference to the legislative and Constitutional framework that is currently in place for financial management in New South Wales.

This report appropriately recognises that the government of the day is responsible for the prudent and responsible management of the state's finances. It identifies several areas of ambiguity in the way the current financial arrangements apply to the integrity agencies that are the subject of this audit. It also highlights threats to the independence of the integrity agencies that may arise from the involvement of the Executive Government in the decision making about funding. The report argues these risks are not mitigated sufficiently under the current financial arrangements.

The recommendations in this report outline the principles that should inform the financial arrangements for the integrity agencies. Consistent with the Audit Office of NSW's role in auditing NSW Government departments and agencies, the recommendations are directed to NSW Treasury and the Department of Premier and Cabinet. However, the report recognises that the current role of these entities in the funding arrangements for the integrity agencies poses a threat to their independence. Consequently, it is important to recognise the important role of the NSW Parliament in determining the appropriate funding model for the integrity agencies. The audited agencies should consult closely with the NSW Parliament when considering these recommendations to ensure the views of Parliament are reflected appropriately in any changes arising from the implementation of these recommendations. This recognises the appropriate role of the NSW Parliament in safeguarding the independence of its integrity agencies.

Recommendations

1. Acknowledging that the government of the day is responsible for the financial management of the state, NSW Treasury and DPC should implement a funding model for the integrity agencies that addresses potential threats to their independence while ensuring their accountability. This should be based on the following principles:
 - The integrity agencies are required to demonstrate their accountability as prudent managers of their financial resources
 - Parliament's role in the budget process should be expanded to ensure Cabinet is provided with more independent advice on the funding requirements for the integrity agencies
 - There should be transparency to Parliament and the relevant agency for decisions made about funding for the integrity agencies
 - There should be structured oversight by Parliament of the performance and financial management of the integrity agencies
2. NSW Treasury and DPC should reassess whether the process used to apply efficiency dividends to the integrity agencies is consistent with appropriation legislation and the independence of the integrity agencies.
3. NSW Treasury and DPC should ensure that the use of cluster-based financial management arrangements does not diminish the independence of the integrity agencies and is consistent with the requirements of appropriation acts and other relevant legislation. This includes ensuring that:
 - the provision of additional funding to the integrity agencies outside the budget process is consistent with appropriation legislation and includes sufficient safeguards to protect the independence of the integrity agencies
 - any request for the integrity agencies to report on activities and outcomes as a part of outcome budgeting reforms is consistent with their independence.