

REPORT ON PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE (PAC)

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

At Waratah Room, Parliament House, Sydney on Monday, 7 November 2016

The Committee met at 9:55 am

PRESENT

Mr B. Notley-Smith (Chair)

Mr S. Bromhead

Mr L. Evans

Mr M. Taylor

The CHAIR: I now declare the hearing open and welcome the Auditor-General, the Deputy Auditor-General and Ms Kathrina Lo from the Audit Office of New South Wales, who will be with us for the entire hearing to provide additional information as required. Our witnesses for the first audit are from the Department of Education and TAFE NSW.

PETER RIORDAN, Deputy Secretary Corporate Services, Department of Education, sworn and examined:

MARK GRANT, Executive Director, Learning Management and Business Reform, Department of Education, sworn and examined:

GREGORY ANDREW PRIOR, Deputy Secretary, Schools Operation and Performance, Department of Education, affirmed and examined:

GLEN PATRICK BABINGTON, Chief Operating Officer, TAFE NSW, sworn and examined:

DAVID MICHAEL BACKLEY, Chief Information Officer, TAFE NSW, affirmed and examined:

MARGARET CRAWFORD, Auditor-General, Audit Office of New South Wales, sworn and examined:

ANTHONY THOMAS WHITFIELD, Deputy Auditor-General, Audit Office of New South Wales, sworn and examined:

KATHRINA LO, Assistant Auditor-General, Performance Audit, Audit Office of New South Wales, affirmed and examined:

The CHAIR: Thank you all for appearing before the Public Accounts Committee today to give evidence. Before we proceed, do you have any questions concerning the procedural information sent to you in relation to witnesses and the hearing process? To any or all of you, would you like to make an opening statement before the commencement of questions?

Mr PRIOR: Chair, if I may, on the Department of Education's behalf, I would just like to make an opening introduction, just to assure the Committee that the eight recommendations from the Auditor-General's report have been implemented and closed, and that the LMBR program is in very sound space with the deployment, at this point in time, of approximately 50 percent of our schools across New South Wales.

The CHAIR: Any other opening statements?

Mr BABINGTON: I just make the comment with respect to the recommendations for TAFE NSW, they also have been implemented and they have been reflected in the way in which we are approaching the replacement of EBS.

The CHAIR: You note that the performance audit recommendations we used to fine tune the stage 3 of the learning management business reform case, could you please outline how the stage 3 business case was amended in response to the performance audit recommendations?

Mr GRANT: I came into the role in April of last year, so I had the recommendations to be a guiding light. One of the key points was to engage much more significantly with the schools area, which was to be the beneficiary of the transformation program. I use it in that sense. I do not see it as an IT roll out, although it clearly has that dependency, but it is more about change management and transformation of our workforce. Some 6,000 staff ultimately trained over the two years as a result of the rollout to the 2,000 additional public schools.

There was a much more significant engagement with our schools, the department moved the program management as a result of stage 2, to stage 3, under Deputy Secretary of the Schools Division and more directly through me. There was also a lot more input from school-based staff, school administrative and support-based staff, SAS staff, our administrative staff and our principals about the types of functional improvement that the system needed, as opposed to potentially somebody's view of what schools needed. That is a very small, but significant, distinction there, because it goes to the heart of the buy-in, but it also goes to the way schools process work as opposed to an assumption about how they should process work.

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

The CHAIR: Could you provide an update on the progress of the stage 3 of the LMBR implementation?

Mr GRANT: I am happy to do that again. Greg has probably stolen a couple of highlights. There are 1,100 schools precisely that are at this time using the LMBR solution; that is 50 per cent of our government school system. The remaining schools are next year. This year the deployments have focused on essentially a triangle from the Blue Mountains to Newcastle and down to Wollongong and next year it will be secondary schools within that area but all other primary schools and secondary schools outside that area. So it is largely a rural and remote deployment next year, with the addition of our secondary schools and the reason for that is to have a timetabling solution that is so critical to the operation of secondary schools for them to use. That trial is going very well and will be rolled out to the secondary schools as of the first deployment next year. The other aspect I think I would like to reassure everyone about is the time line has not shifted in the time I have been in the program. We are still on time; we are still on budget to deliver to that timeframe at the end of next year.

Mr MARK TAYLOR: Going back to the start, Mr Grant you said you had only been on board for a little while, so on reflection if we unpack this right back to 2014 or a few years earlier, what do you think the major causes or the major issues were at the initial stages that led to this extension of the whole program? Is it things like a lack of initial scoping in the actual function, or is it a stakeholder engagement, lack of buy-in?

Mr GRANT: There would probably be some other people who could help out with this given the history but I think truthfully some of the points I mentioned as the learning points you could flip them the other way. The schools division and schools themselves were not as engaged as they are now in stage 3. So our key stakeholders are our two principal groups, our Primary Principals Association and our Secondary Principals Council. I think the modelling that the Primary Principals Association has done up until now has been exemplary in ensuring we have buy-in from primary schools; because it is, as I said earlier, about a leadership and change management program, it is not about a technical roll out. I do not think that was as strong, looking back into the stage 2 aspect of the program. The other thing is I think it is fair to say everyone learnt along the way. We learnt a lot about our own capacities. I think as a department we probably learnt a lot about our relationship with a key vendor, we learnt a lot more about the way in which a large change management activity could be better done. They would be my perceptions from afar. I began in April of last year.

Mr MARK TAYLOR: Did anyone else want to add to that?

Mr RIORDAN: I could. I have been across the program since its inception way back in 2006. It is a very large and complex undertaking brought about by the fact that there had been no real significant investment in back office systems, by that I mean human resources [HR], payroll, finance systems, for some considerable period of time. The finance system in schools had been in place since the late 1980s and we had to do something about that. In approaching that project it was across the whole of the department at the time as it was, which included TAFE New South Wales and a very extensive organisation, well over a hundred thousand employees, 1.25 million students, so a very, very large project. Part of the requirements at that stage, in addition to HR payroll and finance, was also to develop a student administration system for both TAFE and schools, and that was included in the scope of the LMBR project, as I said, way back in 2006. It embarked upon its journey, looking at the finance system initially, and deployed that by 2010 across both the corporate areas and TAFE New South Wales. It then set about implementing an HR payroll system in TAFE New South Wales, which through 2013 to the early part of 2014 for an HR payroll system standard operating procedures [SOP] went quite well. Of course, there were things that the business would have liked as time went by, but it went quite well.

The challenge really started when we hit schools. We had adopted a scenario, which was a computer-based learning model, into our school-based staff. So when we went live in the back of 2013 with the finance system and student administration system in schools it really showed up that the computer-based learning modules developed were not adequate to achieve the change management that Mr Grant referred to. It was a pilot at the outset. They were spread across New South Wales, so they were not co-locating in a geographic area, they involved both primary and high schools. So the challenge was how do you provide resourcing across New South Wales for 229 schools with no real synergy between them. And that proved to be quite challenging. We basically put the program on hold and recast how we would develop the program in the future. We did quite a few enhancements in the school space, into the student administration space for schools and the finance space so that we had a very stable product by the time we started going live again in the latter part of 2015. We have had quite some success since then. In terms of TAFE, again the issues that arose were predominantly around changes in the business that were occurring. The initial scope was set.

Nothing stands still in New South Wales, it is a very progressive State. All the way through that period of time changes kept being made. When you are designing software systems designers like to have a point in time. They like a point in time that says this is what we are going to build. The challenge that we had, and we

could have managed better, was that each time we agreed what we were going to build a new essential requirement came along. That was particularly the case—and I know the colleagues here from TAFE were not part of this because they are only recently on board as well—but TAFE constantly had to change its requirements. That impacts the time to deliver and cost of project. I think those changes, both in the TAFE and schools base, led to the project going beyond the initial eight years that was meant to be. It was meant to finish by 2014, it will finish in 2017.

Mr BACKLEY: I might just reiterate the training aspect. I started in August this year and I have reviewed a number of projects and the direction we are going and certainly in talking to the institutes and the train-the-trainer approach that was taken to rapidly roll out especially the student management component, not so much the HR and finance, actually did not stick. So there have been a lot of questions to our help desk about how do I do this, how do I do that. So training is still an issue.

Mr MARK TAYLOR: Thank you.

Mr STEPHEN BROM HEAD: A question to TAFE; your response notes that business cases for the LMBR were developed by the Department of Education and that systems delivered under the LMBR have not met TAFE business requirements or expectations. What steps could be taken to ensure that future programs will meet your business requirements and expectations?

Mr BABINGTON: I will speak to previously what Peter has indicated, it is difficult in dynamic circumstances and certainly the VET Sector over the last two years has been exactly that. We are looking at implementing a student management system and to address those business requirements. We have done a comprehensive analysis of work that had been established on the LMBR and worked on that to align it with our key challenges. Our key challenges include the disparate sources of revenue that we have to reconcile with our enrolments, and that is the major challenge with us in any system going forward. So we have carefully analysed that in terms of getting ready to go for market to find a suitable system. In short the needs of TAFE are quite unique when put in the context of the Department of Education and we are addressing those specific needs based on the lessons learnt over the last few years.

The CHAIR: Mr Evans?

Mr LEE EVANS: Where do I start? Back in 2006 when this whole project started, was it a forward plan of having Nirvana out of this system? Or over time it has developed into a strap on, bolt on, screw on system where we have tried to make it everything for everybody? When did it actually get to a point where somebody said we have to stop this project as it is now and re-evaluate it and start again, in 2006? Was there a point in time where somebody said we are throwing good money after bad?

Mr RIORDAN: I do not think it got to a point of good money after bad. Certainly the original business case was done in 2006. It was an ambitious project, comprehensive replacement of the back office systems across every school in the State, every TAFE institute in the State and all the corporate areas of TAFE and the department. In 2011 we did stop and take stock about what the next stage of the program would be. In the first stage we delivered an operating finance system, quite effective finance system, into both corporate areas of the department and TAFE institutes. We decided to take stock at that point in time and see where the project was up to, what more needed to be done and to review the governance of the program. That resulted in a revised business case in November 2012, which brought together both the HR payroll completion across TAFE and the department, and also the student administration and management across both TAFE and the department and the engagement of a provider to assist us with that. We engaged a private organisation out of the United Kingdom [UK] to do the student administration system, as it was the world leader at the time. It was the only one at that particular point in time that was able to deliver anywhere near the needs of the department.

We also engaged Accenture to work as a business partner, a transformation partner adviser to the department, and KPMG as an independent quality assurance. So those three organisations came on board to work with the department. That was in 2012, so we did take stock at that point in time. By the time we hit the rollout to schools at the back end of 2013 and things became quite challenging, we had a reasonably good HR payroll solution. There were a couple of institutes to go in January 2014. It was the start of 2014 when we realised that the school deployment was not going well that we again took stock. We brought in a new general manager of the program, reviewed the budget situation, reviewed what was going to be delivered and then set about supporting schools, and we put in place a program of support to support the 229 initial pilot schools to further embed training and to make further improvements to the solutions.

To my recollection, there was never a time when the department believed it was throwing good money after bad. Certainly in the original business case, and again in the revised business case in 2014, it was identified that operational costs of the project could not be clearly identified. At the outset, there was a capital-based

program, we would go and spend capital, or design new software and deploy software, and all of those costs were capitalised. The business cases both identified the operational costs, which were yet to be quantified because the problem with business cases is we did not know the nature or the content of the solutions. We had an idea of what they might be, but could not actually quantify precisely what would be needed in the change management process. So we constantly reviewed it. We constantly kept a close eye on what was happening. The project operational costs turned out to be much more significant than we had anticipated, but as Mark Grant has said, predominantly around the change management and the training of staff in TAFE and schools.

We invested a lot more money in training our people to be able to utilise the new system than had been envisaged originally. As I said before, we had hoped the computer-based learning and modules would be sufficient. It proved to be inadequate, as both TAFE and the department realised after the event. That added to the costs. In respect of the overall capital costs of the program, it was adjusted to around \$386 million. By the time the Auditor-General's performance audit was done, it was around \$404 million in capital. So it was higher than we originally anticipated, but not significantly higher in respect of the capital side of things. The real cost that was not anticipated was in those operational costs, predominantly around the change management and staff training.

Mr LEE EVANS: I was going to add, I have an insight relating to the TAFE sector. The time and operational costs are what I am heading for now. The time it is taking teachers to input is well over what we expect the normal input to be for each student, and those costs not only frustrate the teachers, but it is an ongoing cost. There are more and more hours trying to get the stuff into the system because the system is not accepting it and it drops out and you have to start again. The whole process is dragged down. I know you are trying to work on that system, but as far as ongoing costs, that has been a big hit and that has been hidden within budget because it is not necessarily from the project side of things, it is just from teachers' hours inputting information into the computer system. Take that as a comment. I know the hours that are being spent trying to get this system to take up their students. It is most frustrating for the front line.

Mr STEPHEN BROMHEAD: Are you talking about TAFE?

Mr LEE EVANS: I am talking about TAFE.

Mr BABINGTON: Yes, that is true, and we have sought to ameliorate that problem with getting some consistencies with the processes across the 10 institutes, and we have been involved in a data remediation program to assist that over the last nine months.

Mr STEPHEN BROMHEAD: In answer to my previous question, basically TAFE has said we are not going ahead with the learning management and business reform [LMBR], we are doing something different now. Is that right?

Mr BABINGTON: Not at this stage. We are in a procurement process, and we will go through that, and we will go through the normal procurement guidelines to get the system that best suits us. I think it would be fair to say to the Committee that our approach is to recognise that one of the challenges of a system like this is that all the processes have been complex processes, so we are seeking to go to market to get a provider that can provide the majority of those processes that are well grounded in the experience of the vendors and have been proven, rather than create all of our processes from scratch, which is obviously another option. We are seeking a provider that can provide the majority of the processes and we will have a major change management challenge in front of us to take staff now on to these new processes that are in these systems, and our expectation is that that will be a much more controllable environment to go into rather than build it up from the bottom completely.

Mr MARK TAYLOR: I wanted to run over the benefits realisation register. I have not come across it. Can you give me an idea about that and the detail of the baseline and the benefits and whether it is assisting you now?

Mr GRANT: On the school side, the benefits realisation register was a reasonably exhaustive component of my 18 months in the role, certainly the last eight or nine months up until May this year. It required the baseline to be reviewed; it had been done previously. We have an independent quality assurer through PwC who provide a range of external assurances to the Steering Group to provide the validation of direction, et cetera. One of those is around the benefits work. That register is now in play. It has got software attached to it that attracts the development of realising the benefit against the owner identified and that is reported internally to me monthly, and it is reported to the owner on the same basis, and it is reported three-monthly, from memory, to the steering group. I think the Minister made an announcement on 27 June about the quantum and we are still confident that that quantum is in play.

The CHAIR: Mr Riordan, you referred to the change management process and the financial implications of that which were unforeseen in 2006. The publicity about the LMBR has not only dealt with its long rollout but also the extra costs that were involved. How were those costs so grossly underestimated?

Mr RIORDAN: The answer to that is that they were not quantified in the business cases, neither the 2006 or the 2012 revised business cases, because we had rolled out in stage one the finance system to staff in TAFE and the departments at office areas. So the change management process had been far simpler because we were dealing with people who worked in finance as part of their day-to-day job and they were moving from one finance system to another finance system, but the accounting rules remained the same so that the training required for that did not alert us to the challenges that we faced until we started moving out to both paid staff and skilled staff who were not having HR payroll or student administration or detailed financial obligations as part of their normal role. At that point in time, when we were assessing the 2012 business case, for example, we still did not have a clear understanding beyond what we had predicted, which was computer-based learning and some train-the-trainer approaches. We had anticipated having to go face-to-face, as we are doing now, pulling staff out of schools, doing intensive training over many days to build an understanding of the system. It was just not contemplated as being a requirement of the solution at that point in time. The vendors were not saying it was either, so it is not like we were flying blindly. We had Accenture, KPMG, and Tribal and SAP Australia, all involved overlooking our processes.

The CHAIR: I invite the Auditor-General to comment, if she wishes.

Ms CRAWFORD: I was not here for this audit. I have only read the reports. I might ask Kathrina Lo or Tony Whitfield whether they would like to comment. I know, from my reading of the report, that we did comment on quantifying and mitigating the risk, which was omitted from the business cases. That probably goes to what Mr Riordan is saying in that it was a known risk that there may be operational issues, but that was not explicitly quantified or arrangements made to mitigate. That is my understanding from reading the report.

Mr WHITFIELD: That is correct.

Mr MARK TAYLOR: According to the documentation, all the recommendations have been completed or, it says here, are ongoing. I assume there is nothing outstanding.

Mr WHITFIELD: When we are conducting our financial audit, we will be looking at those aspects to make sure that those things are carried through and completed. If they are not, we will be raising further recommendations on those. I know that in respect of TAFE there was a great deal of effort put into cleaning the data so that we could remove the qualification from its financial statements, which arose out of the inability of the system to provide the information to enable us to form a view on the revenue—the deferred revenue that was in the TAFE annual financial statements last year. That has been resolved this year but the underlying issue still rests with the ability of the system to provide that information.

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

The CHAIR: There are no further questions. Thank you for appearing before the Committee today. The Committee may wish to send you some additional questions in writing, the replies to which will form part of your evidence and be made public. Would you be happy to provide a written reply within five days to any further questions?

Mr GRANT: Yes.

The CHAIR: Thank you again for appearing.

(The witnesses withdrew)

The CHAIR: The Committee resolved earlier to take the evidence of the next witnesses in camera, in which case I will ask members of the public to leave the public gallery.

(Short adjournment)

The CHAIR: I now welcome representatives from NSW Treasury and Infrastructure NSW. Thank you for appearing before the Public Accounts Committee today.

CARALEE McLIESH, Deputy Secretary Fiscal and Economic Group, NSW Treasury, sworn and examined:

KAREN SANDERSON, Executive Director, Fiscal Estimates and Financial Reporting, NSW Treasury, sworn and examined:

JAMES GEORGE BETTS, Chief Executive Officer, Infrastructure NSW, affirmed and examined:

ANISSA LOUISE LEVY, Deputy Chief Executive Officer, Infrastructure NSW, affirmed and examined:

The CHAIR: Do you have any questions concerning the procedural information sent to you in relation to witnesses and the hearing process?

Ms LEVY: No.

Ms McLIESH: No.

The CHAIR: Would any or all of you like to make an opening statement before the commencement of questions?

Ms LEVY: I do have some opening remarks to make. Thank you very much for the opportunity of appearing here today. I think we have a very positive story to tell you about the progress made. Since the publication of the Auditor-General's report last year, considerable work has been undertaken to strengthen the investor oversight across government's capital infrastructure program. A government decision in June 2016 saw a significant enhancement to the role of Infrastructure NSW, including assuming responsibility for capital project assurance for projects with a value of \$10 million or more.

This is governed by the New South Wales Gateway Policy and the Infrastructure Investor Assurance Framework, a risk-based approach, which means that different levels of assurance are applied proportionate to a project's risk profile. NSW Treasury initiated a detailed review of the policy in late 2015, which recommended a number of changes. Our responses today are focused on the approach to the assurance for capital projects. We will be happy to take any project specific questions on notice, subject to any Cabinet confidentiality requirements.

NSW Treasury's considerations in relation to the overhaul of the New South Wales Gateway Policy support the move to a risk-based assurance approach, nominating gateway coordination agencies that are responsible for developing, implementing and managing the relevant gateway framework. Infrastructure NSW is responsible for the Infrastructure Investor Assurance Framework which fulfils the capital elements of the policy changes. The proposals to update the policy have been widely consulted within central government and delivery agencies.

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

NSW Treasury performs a compliance role through the budget process and when releasing funding. NSW Treasury requires all general government agencies and nominated public trading enterprises to provide information about all current and proposed projects over a 10 year period as part of the annual budget returns process and this information is shared with Infrastructure NSW. NSW Treasury policies also require agencies to submit business cases for projects over \$5 million for review. These reviews are not gateway reviews but complement the assurance process by identifying projects that have not been registered and appropriately assured by Infrastructure NSW. These projects can then be referred back to Infrastructure NSW as required.

All New South Wales Government agencies have been made aware of the assurance protocols for capital projects. During the implementation of the framework and post its endorsements, Infrastructure NSW has issued several letters to agency heads, undertaken road shows and extensive agency consultation to ensure that delivery agencies are sufficiently equipped to understand the assurance requirements within the framework. Delivery agencies are required to register all capital projects valued at \$10 million or more and at the end of last financial year there were 330 projects registered worth a capital value of more than \$145 billion.

The framework addresses key recommendations made in the Auditor-General's report, including ones in relation to the relatively low monetary threshold for mandatory gateway reviews. The foundation upon which the framework has been developed is to ensure that the assurance efforts and scrutiny are targeted to wards projects which need it most. The framework also addresses the Auditor-General's definition of risk as going beyond just cost and now our framework considers a further five qualitative criteria against which projects are also assessed.

While the risk assessment is applied to all projects with a value of \$10 million and above, the project tiering allows for some lower risk and lower value projects to be delivered by agencies with no requirements for external assurance and others to have very intense assurance efforts applied. Another key feature of the framework is its agile approach to dealing with major scope variations. Depending on the scale, a project can be subject to a project tier review, which may then mean additional gates and greater scrutiny can be applied.

Also, under NSW Treasury's policy for budget control, agencies must manage their capital expenditure within their authorisation limits and all variations must be approved by either the cluster minister or the treasurer, depending on the scale and approval limits. Infrastructure NSW recognises the need for public and transparent reporting on capital project assurance and has committed to reporting as part of its annual report process. This year it will include that 58 gateway reviews and health checks have been conducted on tier one projects to June 2016 and 32 for non-tier one projects. This level of reporting strikes the balance between protecting the confidentiality of sensitive project related information which is intended to support project delivery.

A version of the framework showing the measures in place to facilitate on time and on budget delivery of projects will soon be publicly released. Regular project reporting to government records and assesses project implementation against time, cost, quality, risks and impediment to project development and delivery. The first tier one reports commenced reporting to Cabinet in July 2015, with tier two and three reporting commencing in the second half of this year. Infrastructure NSW and NSW Treasury are committed to ensuring that government's investor assurance arrangements are operating optimally and that they represent best practice in order to achieve maximum value. While numerous positive outcomes have been achieved to date, we will continue to identify areas which can be improved, while also keeping abreast of trends across other jurisdictions. In addition to a 12 month operational review, regular monitoring and evaluation activities to assess the effectiveness of the framework are built into the framework itself.

The CHAIR: I think we have run out of time for questions. Thank you for that opening. Because it was a very comprehensive opening statement. I might ask the Auditor-General and her office whether they would like to make any comment.

Ms CRAWFORD: We had raised the issue of reporting, which I think you just updated us on. So on the surface seems satisfactory. We obviously note it when it happens.

Ms LEVY: Thank you.

Ms CRAWFORD: Anything else?

The CHAIR: I notice that the ministers are required to seek approval from Treasury for all projects costing over \$10 million, but they have an authorisation limit, approval is not needed for projects where changes to the scope of works that are less than 10 per cent of the original approved project cost, so even if that is more than \$10 million. Can you advise why this is the case and do you feel that this provides adequate compliance by the agencies? Did you understand the question?

Ms McLIESH: I believe I do, yes, thank you. I can speak a little about the budget controls framework. That framework works in concert with the Infrastructure Investor Assurance Framework, which is now significantly enhanced and also supports the assurance processes around major scope variations. But in terms of the budget controls framework, you are correct that capital expenditure needs to be managed within an agency's overall expenditure authorisation limits. And for any increase in a project scope that involves an increase to the estimated total cost of 10 per cent or more then Treasurer approval is required.

For increases to projects estimated total cost of less than 10 per cent, then the cluster Minister's approval is required, but in the event that that increase, even if it less than 10 per cent in an ETC leads to a project going over the capital expenditure authorisation limit, the Treasurer approval would also be required. Now, to the extent that the increases to project scope are within an agency's overall authorisation limit, while it is the case that a cluster minister can approve those changes it is also the case that the infrastructure assurance framework can also identify the changes in scope, so remedial action can be taken accordingly. Perhaps Anissa can talk a little bit more about the infrastructure assurance framework IIAF and how that deals with scope variations.

Ms LEVY: The risk assessment that we undertake on a project looks at those five qualitative criteria and compares that against cost to assign a project tier to a project under the IIAF. It is very clear that the responsibility sits with agencies to inform us of any changes in the risk profile that could impact on that project's risk tier. We also rely on our colleagues in Treasury to inform us of any variations as they are coming through. We could then reassess the project to see whether that would result in a change to a project's tier and its assurance requirements, for example, a more intense reporting or more additional gates to be reviewed. If there are any concerns around the variation we can also call for a health check to be conducted on that project if it has not been picked up through the normal gateway review process.

The CHAIR: Mr Taylor?

Mr MARK TAYLOR: The audit states that there is a load monetary threshold for mandatory gateway reviews compared to other jurisdictions in other States. So the trigger amounts for the review, how do you compare to other jurisdictions?

Ms LEVY: There is quite a variety of thresholds around the jurisdictions, ranging from 10 to 30, to 100 in other jurisdictions. What we have done is started a pathway where the risk profiling starts at \$10 million, but does not mean the assurance requirements applied are applicable to all projects. So, for example, if a project is tier 4 under our current framework there are no assurance requirements for a tier 4 project. That would typically be a low-risk project. A value of less than \$50 million could be a tier 4 project. Then, as I said, no assurance requirements are applied. Having the framework that lets us have a look at all of these projects could still identify those projects that whilst low value could represent a significant risk to government. We have some projects that whilst under \$50 million are very prominent projects that need the scrutiny and intensity of investor assurance applied to them. So this process allows us to have a look at all projects over \$10 million, but still directing our attention to those with the highest risk and profile.

Mr MARK TAYLOR: So you are certainly not advocating for any change in there, you believe there are benefits in the current triggers?

Ms LEVY: That is right. What we will have now under this current system, and as time goes on after the twelve month review we can do an assessment of all the projects profiled and have a look at the evidence base that we have before us about what projects ended up in what tier and where we got it right and where some might have been better in an alternate tier. So in the future we could look at that but we will have much better evidence base to do so if we do consider that in the future. But at this point in time the framework is very clear that \$10 million and above requires a risk assessment.

The CHAIR: Mr Bromhead?

Mr STEPHEN BROMHEAD: Nothing, thank you Mr Chair.

The CHAIR: Just on that point Auditor-General.

Ms CRAWFORD: On the threshold?

The CHAIR: On the threshold.

Ms CRAWFORD: On the surface I think the response is totally appropriate. More generally, I think how this audit has been responded to is really very promising. It is something obviously that we will continue to monitor over time, but the processes and arrangements have definitely been strengthened and at this stage I think we are pretty comfortable with how this audit has been responded to.

The CHAIR: Recommendation 4, this recommendation requested compliance with gateway review and other reporting and monitoring requirements for capital projects costing less than \$100 million by December 2015 to be reported publically. Can you elaborate on your response that the infrastructure investment assurance framework seeks to strike a balance between disclosure and confidentiality to maximise value?

Ms LEVY: As I said earlier, the public reporting will be on wrapped up figures, the number of projects registered, the number of gateway reviews conducted by tier so we can provide that assurance to the public that we are monitoring and reviewing our major infrastructure projects. As I said, the risk based assessments whether a project is \$10 million or \$10 billion, if it is a high enough risk and high enough profile for a tier to warrant assurance activities, they will be conducted and reported on. The balance that we try and strike is to ensure that the advice that we provide to agencies through their gateway reviews and processes is used to improve the project, and we encourage open and frank dialogue with our reviewers so that they can provide the advice to the agencies that they need to hear. And having a confidential arrangement means we can make sure we encourage our delivery agencies to be forthright with the information provided. Furthermore, all of our

reports and the information conducted under the assurance activities is provided through to Cabinet, so it sits within a Cabinet in confidence arrangement for our project reviews.

M s CRAWFORD: The intent of the recommendation I do not think was ever that individual gateway reviews be made public. It was much more I think in the context that while the arrangements and the framework were quite sound, compliance against it at that time was pretty mixed. So what the reporting was aiming for was to have reporting on the level of compliance against the framework. Provided that is going to be tackled, we would be comfortable.

The CHAIR: Thank you. Do you have a comment on that?

M s LEVY: No. Through our annual reporting, as I said, we will be providing the number of projects, what risk profile they sit at and the number of reviews conducted, and some further information about reporting and other activities that we conduct.

Mr BETTS: We would be happy to have further dialogue with the Auditor-General after the annual report has been published to see that our reporting in that document is fit for purpose.

The CHAIR: Excellent. Mr Evans?

Mr LEE EVANS: I am fine.

The CHAIR: For clarity, I want to ensure that we have covered this point. You may have already touched on it. Recommendation 6 asks NSW Treasury and Infrastructure NSW to regularly monitor and evaluate the effectiveness of Government's large capital projects external assurance arrangements. One of the recommendations of the Auditor-General is that there should be a review and evaluation of the Infrastructure Investor Assurance Framework [IIAF] performance. Can you advise how the Infrastructure Investor Assurance Framework intends to evaluate its own performance, and has Infrastructure NSW reviewed the implementation of the IIAF with NSW Treasury following its first 12 months of operation?

M s LEVY: I will answer the last part first, which is that the framework, albeit implemented over the period from June 2015 to June 2016, was under more informal arrangements where Infrastructure NSW [INSW] had been directed to strengthen its role. The outline of the framework was really only an outline. It was not endorsed by Cabinet until 30 June this year, so we are considering the formal commencement of our operation to have started at 1 July this year, albeit significant progress was made in the 12 months preceding that with implementation being worked up towards that official start date, so we have commitments under the framework to undertake several performance management activities. The first one is a 12-month review that will occur at the end of the 12-month period, starting from 1 July this year, which is the first of our formal period. We will be developing reporting around cluster assurance plans, which is for each cluster to note what their assurance requirements are for the 12-month period, and assessment of our expert reviewer panel capabilities.

We have a governance committee that looks at the constituent members of our panel to ensure that they have the requirements to undertake gateway reviews. We then look at the individual performance of gateway reviewers and report on that. We will also be preparing performance of closing out of recommended actions so that we will be reporting on the agencies actual closing out of the recommendations made under gateway reviews. We will also be developing twice a year reports on trends and analysis of key issues and learnings that we need to make sure have captured and passed across to the whole of the Government sector so that the lessons learnt are passed along. We have quite a strong commitment to doing that self-monitoring along the way to make sure that we are informing Cabinet of our progress and to ensure that we are capturing the lessons learned along the way. We will be working closely with Treasury at the end of the first full year of operation to make sure that that performance monitoring of our own efforts under the assurance have led to the improvements that we want to see.

M s SANDERSON: That is absolutely right. We will then look to see based on that evidence coming forward whether the IIAF is doing what it is intended to do and work with INSW to see if there are any further recommendations or changes they want to make to improve it further.

M s CRAWFORD: As I have said, I think the response to this audit has been really good. Time will tell whether it improves project management overall, but it looks good.

The CHAIR: Thank you for appearing before the Committee today. The Committee may wish to send you some additional questions in writing, the replies to which will form part of your evidence and be made public. Will you be happy to provide a written reply within five days to any further written questions the Committee may have?

M s LEVY: Yes.

Ms SANDERSON: Yes.

The CHAIR: Thank you once again for appearing today.

(The witnesses withdrew)

SANDRA CHIPCHASE, Chief Executive Officer, Destination NSW, sworn and examined

ANTHONY LAVER, General Marketing Manager, Destination NSW, sworn and examined

ROSS PEARSON, Chief Operating Officer, Destination NSW, sworn and examined

The CHAIR: I welcome representatives of Destination NSW. Thank you for appearing before the Public Accounts Committee today. Do you have any questions concerning the procedural information that was sent to you in relation to witnesses and the hearing process?

Ms CHIPCHASE: No.

The CHAIR: Would any or all of you like to make any opening statements?

Ms CHIPCHASE: No.

The CHAIR: Recommendation one, Destination NSW rejected the call to stop splitting related campaigns to avoid triggering the cost benefit analysis [CBA] threshold. Would you expand on your rejection of recommendation one to ensure that related advertising campaigns not be split to avoid subjecting them to a cost benefit analysis?

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

The CHAIR: With that in mind, how does your response comply with Government advertising requirements under the Government Advertising Act 2011 and associated regulations?

Ms CHIPCHASE: As you will see, as the audit identified, we follow all of the Government Advertising Act rules, so relating to peer review, relating to submission of campaigns, relating to evaluation of campaigns, and relating to the fact that Destination NSW, unlike any other agency, we do not do political advertising.

In fact, the Government Advertising Agency [GAA] have approved our annual plan, and we have appeared before the GAA on several occasions to report and give progress reports, and also to answer any questions. So we fully comply. The audit found that we had not breached any rules. They had a personal opinion and so did we.

The CHAIR: I think the Auditor-General would like to make a point.

Ms CRAWFORD: I was not here at the time so I do not have a personal opinion. I would defer to Kathrina Lo to speak to this matter.

Ms LO: The only comment that I would make is that on pages 20 and 21 of our report we set out the evidence upon which we based our opinion. As Ms Chipchase said, it is a difference of opinion. We believe that there is evidence for where we landed in terms of our opinion. In the response from Destination NSW to recommendation 1 it is noted that the Cabinet Committee approved 111 individual campaigns for the last financial year.

Ms CHIPCHASE: That is correct.

Ms LO: I would be interested to know how many cost-benefit analyses were required to be done for the last financial year.

Ms CHIPCHASE: At the last GAA meeting we were asked to undertake three, to give an example of each: one campaign that we did internationally; one domestic campaign; and one for events. We are, of course, complying with that request.

The CHAIR: With respect to the central Media Agency Services, what is your understanding of them, and your approach to them? I believe that you operate pretty much outside of that.

Ms CHIPCHASE: That is incorrect. We follow the Government Procurement Guidelines, and utilise the agency UM [Universal McCann] that has been retained—that has won the Government contract. The advantages of that are that we get discount rates—the Government rate. The difficulty we have is that within the

GAA process the Visitor Economy Taskforce report and the subsequent Visitor Economy Industry Action Plan that was endorsed by Cabinet said that Destination NSW should be exempt from this process because we do not do political advertising. Our whole reason for being is to promote New South Wales and to promote the events. Regardless of that recommendation and the fact that we are still required to go through this process—even though we are supposed to be operating in a commercial environment and be able to do deals, make decisions and enter long-term agreements for advertising for events—we have always complied and we have always followed that process.

The CHAIR: Do you think that this central Media Agency Service is an appropriate model?

Mr LAVER: The way that it has been structured is that the Government is able to track through one major agency—Universal McCann—the activities of the whole of Government advertising. So from a Government point of view it is certainly efficient to be able to have that done within the same rules. If you had a competitive situation, with every single Government agency going to multiple advertising agencies you would have less consistency of quality of services and delivery. We comply with that because in our media buying—which is through Universal McCann—we have the flexibility also to do media planning through the other three agencies. We think that it is efficient. We also can compare like for like with other agencies if we have any issues in terms of the provision of services. So for us it is the nature of how we work.

The CHAIR: From a cost perspective do you think it delivers best value for money? If so, how would that be tested?

Mr LAVER: There are two things. The first is that the contract is negotiated by the New South Wales Government directly with Universal McCann. We do not negotiate the rates directly. Having said that, the buying power of all of the agencies together with Universal McCann should produce a better cost outcome and a more effective outcome. The second is that we work with other agencies on the Destination NSW [DNSW] panel, which have a much smaller content production. Whilst we do get some cost advantages it is a lot of work to go out to do multiple tenders for each project. So there are some efficiencies that we could attribute to having Universal McCann as the master agency. Having said that, it is the environment that we have worked in for many years, so it is sort of what we know.

Mr MARK TAYLOR: In relation to social media policy regarding content and Government requirements, I note in the response to the audit you advise that "Destination NSW has revised its existing social media policy with reference to the use of content requirements and also developed formalised digital policy" for communications policy. Could you indicate what you have changed in relation to that. What was the issue and what changed?

Mr LAVER: There are two things that are important to note. One is that previously the New South Wales Government Advertising Act did not specifically include social media; it was mostly paid media—traditional television, radio and what have you. There was a grey area that all agencies worked within with regard to social media. However, we worked within whatever guidelines were provided. Post the audit, it was made clear that there could be some areas which may be interpreted as not being within those guidelines. So we have completely reviewed all of our social media, whether through Facebook, Twitter or Instagram accounts to make sure that the images, the copy and everything that is used is consistent with what we would do in traditional advertising, to ensure that we do not breach the Government Advertising Act. Whilst it was not included, or foreseen, in the advertising Act it is important that we are consistent.

Mr STEPHEN BROMHEAD: Recommendation 6 asks that Destination NSW improve its management systems to support efficient and reliable integrated tracking of marketing programs and campaigns by June 2016. I have three questions. The first is: Can you tell the Committee what steps have been taken to enhance existing management systems to enable tracking of marketing programs and advertising campaigns. The second is: Can you expand on the development of the new integrated campaign management technology system referred to in response to recommendation 6. The third is: On the M1, near Wahroonga, as you enter Sydney there is a sign saying "Welcome to Sydney. Destination NSW". When can I look forward to receiving the same for Taree and Forster?

Ms CHIPCHASE: Let us talk about budget appropriation, shall we? I am more than happy to organise that for you, but I simply do not have the money.

Mr STEPHEN BROMHEAD: Thank you. That is recorded, now.

Ms CHIPCHASE: I did not say how big that sign would be! I will work through the answers to your questions. We have a system of pinks. You can see in the documents that I am holding up that there are five approvals. That existed before the audit. The approval of the art work goes through a process. Since the audit we have made upgrades to this form so that it very clearly states, GAA, that it has been approved. Then we have an

automatic system, so I might hand over to Anthony and then to Ross to talk about how we track the financials of the campaign.

Mr LAVER: I think the audit highlighted some areas where we could have more efficiencies in terms of the pink approvals, the way we track through our campaign systems approvals, and the outputs, which were the campaigns and reporting on those campaigns. I will hand over to Ross in a moment to talk about the systems process and how we are developing it. As Sandra noted, we wanted to make sure that when team members—new members or contractors or whatever—come in, they understand straight away that there are compliance requirements for Government and for our agency. That is now built into the whole process to ensure that any advertising or images that are used comply. That then goes through the system to me, and then is endorsed by the CEO. That is tracked and kept on record.

We do about 5,500 of those per year. It is a very robust system. In parallel with that, Ross will give you an update of how we track the campaigns to ensure that the campaigns that we submit to GAA—the 111—are consistent with the budgets and what we have put in. Keep in mind—and it is very important—that we forecast those campaigns a year before they occur, so there are always minor variations for commercial reasons. We track those campaigns through a separate system.

Mr PEARSON: In terms of the financial recording and management of the advertising spend, following the audit the finance team and marketing team at Destination NSW collaborated to make modifications to our shared service provider system, which is a system applications products [SAP] system, to modify the project management recording to ensure we could clearly see the transparency through recording these campaigns as against the GAA sub missions. We were also developing a project to look at a customer relationship management [CRM] type system, which will also add to the visibility across the entire divisional functions within Destination NSW to ensure that we are tracking these quite transparently.

Ms CHIPCHASE: And that we get it in real time. We can do that now, but we think there is room for improvement always, so we are looking at what system could we get so that we could have a look automatically, otherwise we have to take a few steps to have a look at how the campaign spend against the approved budget is tracking. But, again, we all have systems to do that. Thirdly, signposting is a Roads and Maritime Services responsibility through the Tourist Attraction Signposting Assessment Committee [TASAC] and we have a seat at the table with TASAC, so if we could streamline that process, we would be more than happy to assist you in that activity.

Mr STEPHEN BROMHEAD: I think she has just given herself an out.

Ms CHIPCHASE: That is right.

The CHAIR: It is called kicking the can down the road. Would the Audit Office like to comment on the last piece?

Ms CRAWFORD: Only to say that we consider that the actions reported and the further commentary today would adequately address the intent of our intent recommendations. That is specific and then more generally, as you know Chair, we regularly review under the Act various campaigns of government and we intend to do another one of these early in the New Year that will cover the 2015-16 and 2016-17 years. We have not decided if that would be in relation to Destination NSW but it would be looking across government at various campaigns that have run.

The CHAIR: Mr Evans?

Mr LEE EVANS: I am a bit scared of asking a question. The audit found the Destination NSW had posted political images in its social media accounts. What processes do you have in place to safeguard the requirement under the government social media policy for all content to be apolitical?

Ms CHIPCHASE: At the time the audit was undertaken there was no such policy, so having a photograph, as you would be aware, for our social media posts, the bulk of the activity is around event announcements or perhaps launching a campaign, so clearly our Minister is there to launch the campaign, or in some cases, the Deputy Premier or the Premier. If they are making a major event announcement like the L'Etape Tour de France, cycling classic in the Snowy Mountains, it might be that the local member is also at that announcement. We uploaded photographs of the event proponent, the Minister or New South Wales Government representative making the announcement, in some cases myself or members of my team, for social media posts saying: Isn't it great, X, Y, Z has been announced today for New South Wales. I understand that since that time, again there was no rule about having a photograph of a politician in a government newsletter or a social media post at that time.

The CHAIR: Just so we are clear, do you have a peer review process in place for your advertising campaigns?

Ms CHIPCHASE: Yes we do, through GAA at the moment and that is for any campaign over \$50,000. I think you can imagine with how many campaigns.

Mr LAVER: This year is 137, last year was 111.

Ms CHIPCHASE: That is quite an onerous process and clearly, for an organisation like mine that is set up to deliver commercial results in a commercial timeframe, having to wait weeks for a peer review, is a challenge, to say the least.

The CHAIR: Audit Office?

Ms CRAWFORD: That is a matter of policy that we could not comment on.

Mr LEE EVANS: You may or may not answer this, but have you got a global budget? Is there a budget that they say you have got to stick?

Ms CHIPCHASE: We have an agency budget, but the difference for us, again we are the outlier for the general group, we have co-operative partners. We have airline partners, wholesale partners, event owners that want us to help them promote their event and in many cases, to secure an event for New South Wales, we make advertising commitments to help secure the event.

We have literally hundreds of partners that join with us in advertising programs. We may start with a budget—for argument's sake—\$18 million and then we might secure, over the course of the year, another \$18 million in co-op marketing support. Our whole focus is on trying to build that advertising support and get more co-op funding and more marketing support. It is not about reducing advertising, it is about getting more people on board and I am very pleased to say that since Destination NSW was established, we have more than doubled and is very close now to tripling the co-op support. In fact, this year we have over \$18 million in co-operative funding that we have secured for our campaigns. Why? Because they are delivering for New South Wales.

Mr LEE EVANS: You did a fantastic job with the Port Kembla ship coming in on the weekend.

Ms CHIPCHASE: Very exciting for that part of New South Wales.

Mr STEPHEN BROMHEAD: I was going to say what are you doing for my area—no I will not.

The CHAIR: Audit Office, is there anything you would like to reply?

Ms CRAWFORD: No.

The CHAIR: Thank you for appearing before us today.

Ms CHIPCHASE: Thank you Chairman. Thank you for the opportunity.

The CHAIR: The Committee may wish to send you some additional questions in writing, replies to which will form part of your evidence and be made public. Would you be happy to provide a written reply to the Committee within five days to any further questions?

Ms CHIPCHASE: Absolutely.

The CHAIR: Thank you once again for appearing.

(The witnesses withdrew)

Ms SHARON AZMI, Manager, Assurance and Review, affirmed and examined

Mr STEPHEN BRADY, Chief Commissioner of State Revenue, sworn and examined

Ms NANCY ARYA, Director, Strategy and Service Improvement, affirmed and examined

The CHAIR: I now welcome representatives of the Office of State Revenue. Thank you for appearing before the Public Accounts Committee today. First of all do you have any questions concerning the procedural information sent to you in relation to witnesses and the hearing process?

Mr BRADY: No, thank you.

The CHAIR: Would all or any of you like to make an opening statement?

Mr BRADY: Happy to proceed with questions.

The CHAIR: Recommendation 2 of the Auditor-General's report asks the Office of State Revenue to better demonstrate its effectiveness in collecting tax revenue. Could you explain why you only partially accepted recommendation 2?

Mr BRADY: Thank you, Chair. The recommendation is premised on work in relation to the tax gap. The reason for our partial acceptance of the recommendation is really for two reasons. The first one being that the tax gap, as acknowledged by the audit office's report, is an evolving approach that is being developed around the world. It has significant methodological limitations. It has been applied predominantly in income tax around the world, with some work around the application to Value Added Tax [VAT]. Its applications to taxes of the nature that we have in New South Wales has not been demonstrated to a great degree in other jurisdictions. Whilst we accept that the tax gap methodology is something which we should investigate, we are investigating that there is value in expending the resources to look into tax gap, we do think there are limitations and we need to be cautious in the way in which we apply the tax gap methodology.

Secondly, its application varies depending on the nature of the tax. For some taxes that we collect we believe there will be value, but for some of the other taxes we think that the value might be quite limited and not warrant significant investment in measuring the tax gap. For instance I give the example of gaming revenue, which is run through the machines, it is fully audited. There is very limited benefit for the tax gap in that tax.

Mr MARK TAYLOR: Did you do some work around payroll tax with the methodology of the gap in payroll tax?

Mr BRADY: Historically we have been looking at the tax gap on and off since the 1990s, done various studies and as it has been evolving over time we have been keeping an eye on where the methodology is up to. As set out in the audit report, we did indicate that we were going to do further work on the tax gap and in fact we are proceeding with a feasibility study around payroll tax, tax gap at the moment.

Mr MARK TAYLOR: From my understanding then you are still only assessing its applicability, if I can use that word, to applying it to payroll tax, you actually have not started that process?

Mr BRADY: That is right. Just to give you an indication of how embryonic the tax gap work is in this area, we went to a number of universities which have strong research areas in tax to seek support for our work on tax gap and received no responses that were able to be actioned as a result of that. So the level of knowledge within the Australian jurisdiction is limited to the Australian Taxation Office [ATO] and some of its advisors. What we have done is established a panel where the ATO are kindly supporting us in our work in developing tax gap around State-based taxes. We have engaged two of the experts that are on the ATO's expert panel. Those experts are Richard Highfield and Neil Warren. Neil Warren is a professor at the University of New South Wales in tax and has written numerous papers, both here and internationally on tax gap. And Richard Highfield, who is a former senior officer at the ATO and for the International Monetary Fund [IMF] and was the head of the—

Ms ARYA: Tax Administration Division in the OECD, Centre for Tax Policy and Administration.

Mr BRADY: So we have tried to secure the best knowledge and skills within the Australian market to support us, but it is an embryonic area, it is the first detailed attempt to apply tax gap to a State-based tax in New South Wales. One of the lessons coming out of the work that has been done by other jurisdictions is unless you plan and work through the methodology very carefully you can spend a lot of time, effort and resource and have almost nothing at the back end. There are issues to do with the data availability, the degree of accuracy in that data you are using, the timeliness of the data you are using and how you apply that to come to some sort of measure of tax gap. There are serious issues for us to consider in terms of what methodology to apply. Generally

there is an approach where you can take a top down approach to tax gap, which is based on using macro economic data and other forms of data to try and understand the difference between the theoretical tax take based on the policy settings and what we are actually collecting. Or a bottom up approach where we might look at doing some sampling and some random audits to try and get a feel for what we are actually collecting versus what may potentially be available. That obviously brings in a lot of issues around sampling, selection, trying to minimise the adverse impact on taxpayers through an audit, which is random. Whereas generally we would try to take a risk-based approach to our auditing to make sure we are not imposing red tape on businesses that do not have risk profile that would warrant such an approach. There are significant issues to work through as we do this to make sure that (a) we get something that is meaningful at the back of the process and (b) we are not imposing undue burden on the community.

Mr MARK TAYLOR: What are you using then for your key performance indicators [KPIs]? You were asked to review your performance measurement frameworks and your KPIs.

Mr BRADY: We have done that. We have gone through a process of assessing our KPIs. We now have them structured along the lines of efficiency, effectiveness, quality and customer service. We have done the mapping of those KPIs through to our strategic plans and ensured that we have got an alignment so that what we are measuring at the top levels flows through to the detailed measurements that we have within the organisation. We have a business metrics committee which meets monthly, which I chair and we have the relevant business owners of those metrics attend and we analyse how we are tracking on those KPIs relative to the benchmarks and whether there are any areas we should be investigating. We also maintain our ISA900 certification. We were audited in August of this year and that certification was maintained through that process.

The CHAIR: Would the Audit Office like to make any comment?

Ms CRAWFORD: Only to note the action that Steve has reported. It is probably too early for us yet to be able to assess that, but as reported, it looks okay, but we will have a look as it matures.

Mr BRADY: The area of KPIs is somewhere you never actually say you are finished. We work in a dynamic environment. We will continuously look at our KPIs. We know there are areas we would like to do some further work, particularly around customer education. As we drive our strategy more and more to educating the community to try to drive voluntary compliance as much as using an active audit-type compliance, we are penetrating with our education, how effective that is is very important to us. We have some measures in place around that. We think there is certainly opportunity for us to look further and come up with further measures that can again demonstrate to us whether we are being effective and whether we need to tweak our programs.

Mr LEE EVANS: Recommendation 5, the Office of State Revenue [OSR] accepted the recommendations to publish more performance information publicly and noted that it publish the 2014-15 year in review document on its website, and will continue to publish the year in review by 31 August each year. The Committee notes that the 2015-16 year in review document is not yet available on the OSR website.

Mr BRADY: It is up today.

Mr LEE EVANS: How convenient.

Mr BRADY: The issue we are finding with meeting the August time frame is that it is reliant on audited data, so we cannot do it within that August time frame, but we certainly move to do it as quickly as we can. As you saw from last year's year in review, we have placed a lot more performance information into the document. I am very happy to provide that to the community, so it is not an issue from our perspective. The timing with August when working with the audited data is not something that we can actually achieve.

Mr STEPHEN BROM HEAD: The Committee notes that since the performance audit was conducted, the Office of State Revenue has become part of the Department of Finance Services, and Innovation. Has this change in administrative arrangements had any impact on the ability of the OSR to implement the recommendations of the performance audit report?

Mr BRADY: I think we were administratively part of the department when the audit report was finalised, and so that change has not necessarily impacted, but where it has changed is with the appointment of Martin Hoffman as the secretary of the department. He has been taking a much stronger interest. I say this because—I must be careful a little bit here—I joined the department in July last year, so I have no experience of working under previous secretaries or the arrangements that were in place. I can say that there is a robust quarterly performance meeting that is held with the secretary and all the OSR executive, as it is with other divisions of the department, when we look at our achievement of the projects that form part of the department's strategy plan, how we are progressing against OSR's plan, and how we are progressing revenue targets,

operational metrics, human resources, and performance to budget, so it is quite a rigorous process that is coordinated through the central program and performance office of the department. That is certainly keeping us held to account for how we are contributing to the department as a whole.

The CHAIR: If you have come under that Minister, you are likely to be put out for a long-term lease.

Mr MARK TAYLOR: If you do work out the tax gap, can you do the IP for us?

Ms CRAWFORD: Yes.

The CHAIR: Unless the Audit Office has anything that requires classification, I think that is it. Again, thank you for appearing before the Committee today. The Committee may wish to send you some additional questions in writing, the replies to which will form part of your evidence and be made public. Will you be happy to provide the Committee with a written reply in five days to any further questions provided?

Mr BRADY: Happy to do so. Thank you, chair.

The CHAIR: Thank you very much for coming.

(The witnesses withdrew)

The CHAIR: That concludes our public hearing. I place on record my thanks to the witnesses who appeared today. Thank you also to the Committee members for the wonderful contributions that they have made. Thank you, Hansard, Committee staff and the Auditor-General, Deputy Auditor-General and Kathrina from the Audit Office of New South Wales for coming along. Your attendance was informative and appreciated.

Mr MARK TAYLOR: It may have been the deputy auditor's last public appearance.

The CHAIR: I note that it is the Deputy Auditor-General's last public inquiry prior to his well-earned retirement at the end of the month. I declare the hearing closed.

The Committee adjourned at 12:20