

REPORT ON PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

**EXAMINATION OF SELECTED AUDITOR-GENERAL'S FINANCIAL
AUDIT REPORTS 2021**

At Macquarie Room, Parliament House, Sydney on Thursday 29 September 2022

The Committee met at 9:15.

PRESENT

Mr Greg Piper (Chair)

Mr Dave Layzell
Mrs Nichole Overall

PRESENT VIA VIDEOCONFERENCE

Mr Ray Williams

The CHAIR: Good morning, everybody. We will commence the public hearing, which forms part of the Public Accounts Committee's follow-up of selected Auditor-General's financial audit reports for 2020-2021. I thank everybody for attending this public hearing. Before we commence, I acknowledge the Gadigal people, who are the traditional custodians of the land on which we meet here at Parliament. I also pay my respects to Elders past and present of the Eora nation and extend that respect to other Aboriginal and Torres Strait Islander people who are either present or may be viewing the proceedings on the internet.

Mr TONY FISHER, Director, Finance, Policy and Regulation, Department of Customer Service, sworn and examined

Mr FAROOQ ALI, Finance Manager, Better Regulations Division, Department of Customer Service, sworn and examined

Ms MARGARET CRAWFORD, Auditor-General, affirmed and examined

Mr SCOTT STANTON, Assistant Auditor-General, Financial Audit, sworn and examined

Mr AARON GREEN, Assistant Auditor-General, Financial Audit, affirmed and examined

The CHAIR: I now declare the hearing open. I welcome Ms Margaret Crawford, the Auditor-General; Mr Aaron Green, Assistant Auditor-General, Financial Audit; and Mr Scott Stanton, Assistant Auditor-General, Financial Audit from the Audit Office of New South Wales. They will be staying with us for the entire hearing to provide additional information as required. I also welcome our first witnesses from the Department of Customer Service to provide evidence about the Rental Bond Board. Thank you for appearing before the Public Accounts Committee today to give evidence. Mr Fisher and Mr Ali, would you please confirm that you have been issued with the information about the standing orders that relate to the examination of witnesses?

TONY FISHER: Yes.

The CHAIR: Do you have any questions about this information?

TONY FISHER: No, thank you.

The CHAIR: Mr Fisher, if I can address you, I understand Mr Ali is going to give supporting information?

TONY FISHER: If required, yes.

The CHAIR: Would you like to make a brief opening statement in relation to the questions before the Committee?

TONY FISHER: I've got no particular statement to make, unless there is anything the Committee wants me to outline in relation to the issue.

The CHAIR: No, that's fine. You certainly don't have to. That is one of the quickest opening statements I have had, so I acknowledge and thank you for that. I shall commence with questions, if everybody is ready to go. I would like to ask whether you could outline the uncertainties identified regarding the Rental Bond Board's accounting treatment for rental bonds versus the Residential Tenancies Act 2010, including how uncertainties were first identified?

TONY FISHER: The uncertainty is whether in the financial report of the Rental Bond Board the bonds should be shown as being held on trust, which has been the way it has been disclosed in the financial report for the last 30 years, or whether it is not held on trust. It has been an issue that has been raised by the Audit Office and the Crown Solicitor's advice was that there is the situation where it may not be held on trust, but the fact that it could be held on trust is not out of the question, and the best way to resolve that issue is to have a legislative change to the Acts to make it very clear that the bonds are held on trust.

The CHAIR: As we go through, if it seems like I'm going over questions that you might have felt you've answered, please forgive that. For the process I think that's very important. I'm going to give specific reference to something from the Crown Solicitor. Page 23 of the Auditor-General's *Customer Service 2021* report stated:

Crown solicitors advised that in their view the rental bond funds ... were not moneys held in trust and the *Residential Tenancies Act 2010* (the Act) should be reviewed and amended to remove any uncertainty concerning the treatment of bonds.

That is not out of step with what you have said. The board's submission states that the Department of Customer Service is considering whether legislative amendment is necessary. What non-legislative solutions has the department identified to align legislation and accounting treatment?

TONY FISHER: We have not been able to identify any other solution to the issue. We've discussed it often with the Audit Office—potential ways to resolve it—and we've also discussed it internally. We believe—

The CHAIR: Other than the advice sought from the Crown Solicitor, has the board sought any additional legal advice?

TONY FISHER: We have sought internal legal advice on the matter in relation to recognising the bonds on trust and is there an issue against that.

The CHAIR: The advice there is consistent with the other advice you have received.

TONY FISHER: Yes, that we can.

The CHAIR: Thank you for that. Mr Layzell?

Mr DAVID LAYZELL: The board's response stated that the Department of Customer Service's legal, policy and finance branches are working together to ensure "that the legislative and accounting treatments of rental bond money are aligned". Can you outline what specific actions have been taken by these branches, how the department aims to achieve alignment and when the department will achieve this alignment?

TONY FISHER: We have done some research to determine the implications on the Government Sector Finance Act and the Trustee Act for the funds held on trust. Currently at the moment we're doing further research in relation to that, with a view that that will be finalised in October this year. We will then go and seek external advice from an accounting firm to confirm that the view that we have will satisfy that the bonds are held on trust, from an accounting viewpoint, with a view that that would be finalised in December this year. We would then prepare a brief for the Minister's office for their feedback, but noting that there is an election in March next year, with a view that we would then wait till after the election in March next year and then talk to the relevant Minister to finalise the matter.

Mrs NICHOLE OVERALL: Mr Fisher, based on the information that you've already provided, if the only alignment solution is legislative reform, what if the board isn't able to achieve it? What does it mean for the board's financial reporting, and how likely is this outcome?

TONY FISHER: That is a good question. We are going to be positive that we will get legislative alignment and legislative change put through. If that is not achieved, then we'll seek the feedback for those that don't believe it can be achieved and look at other solutions. But we have alignment across DCS that this is the solution to put forward, and we're confident of trying to pursue that matter.

Mrs NICHOLE OVERALL: So at this point you'd say that those who are being engaged—the stakeholders, et cetera—are more or less on the same path?

TONY FISHER: We haven't engaged stakeholders. That will be part of the process as well.

Mr RAY WILLIAMS: Mr Chair, can I just go a little bit further in relation to that question that was asked? What therefore happens in the interim? What sort of time line are we looking at prior to any possible legislative reform? Are there any ramifications in the interim period before that reform is undertaken?

TONY FISHER: The only ramifications are that it will remain as an action item on the audit management letter as unresolved.

Mr RAY WILLIAMS: At this point in time, are the rental bonds still being disclosed as trust funds?

TONY FISHER: Correct.

The CHAIR: We might have concluded the area of our interest. Before we move on, I turn to the Auditor-General, Ms Crawford, and ask whether or not we've adequately covered the scope of the concerns.

MARGARET CRAWFORD: I just note that our audit, of course, is still in progress for this year. From my perspective, I found the evidence provided helpful and informative. But, obviously, without that legislative solution, there's still an issue. I might defer, if I could, to Scott Stanton for more detailed comment.

SCOTT STANTON: From our perspective, this issue has been raised for quite some time, though it is good to hear a clear plan that sounds like we'll have a solution within the next 12 months or nine months, et cetera. That is good, but it's important to have that clear plan and be working towards that. From our office's perspective, we'll monitor how that goes and report accordingly to Parliament as to the progress taken.

Mrs NICHOLE OVERALL: Could you give us an idea of why it has taken this period of time? You're referring to the fact that it was first reported in the 2020 report. What has resulted in the delay—if it's a delay—or is that a standard time frame that you'd be looking at for this type of potential reform?

SCOTT STANTON: At its core, this is a legal issue that possibly needs legislative amendment to actually correct it. We recognise that that can be a difficult pathway to take and takes some time, especially given the last few years with other issues. That said, it has been a longstanding issue, and I think it's important that there's a clear road map to resolve it within the next six months or so.

The CHAIR: Thank you, Scott. You've finished your comments on that. I also thank the Auditor-General. Mr Fisher and Mr Ali, I believe that is the end of questions. I thank you for appearing before the Committee today. However, 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 to any further questions within seven days?

TONY FISHER: Yes, that is not a problem.

FAROOQ ALI: Yes.

The CHAIR: Thank you very much for that. With that, your period of evidence is concluded.

(Tony Fisher and Farooq Ali withdrew.)

(Short adjournment)

Ms CLAUDIA HUERTAS, Executive Director, Customer and Systems, Crown Lands, NSW Department of Planning and Environment, affirmed and examined

Mr TIM DEVERELL, Director Regional Operations East, Crown Lands, NSW Department of Planning and Environment, affirmed and examined

Ms MELANIE HAWYES, Deputy Secretary, Crown Lands and Local Government, NSW Department of Planning and Environment, affirmed and examined

Ms SARAH LEES, Director, Programs and Partnerships, Crown Lands, NSW Department of Planning and Environment, affirmed and examined

The CHAIR: It being 9.45 a.m., we shall resume the hearing inquiring into various reports of the Audit Office. I welcome the next group from the Department of Planning and Environment who are appearing before us online via videoconference: Ms Claudia Huertas, Mr Tim Deverell, Ms Melanie Hawyes and Ms Sarah Lees. I welcome you online to this morning's public hearing and thank you for appearing before the Public Accounts Committee today. Could you please confirm that you have been issued with information about the standing orders that relate to the examination of witnesses?

MELANIE HAWYES: Yes.

TIM DEVERELL: Yes.

The CHAIR: Do you have any questions about that information?

CLAUDIA HUERTAS: No.

TIM DEVERELL: No.

MELANIE HAWYES: No.

SARAH LEES: No.

The CHAIR: Before I invite one of you—I'm not sure who's going to take that lead but I imagine perhaps it might be Ms Huertas again—to perhaps make a brief introductory statement, if you wish to. I wish to draw your attention to our other guests here, being representatives from the Auditor-General's Office, including the Auditor-General, Margaret Crawford, who are with us today as part of the Committee. I am Greg Piper, the member for Lake Macquarie and Chair of the Public Accounts Committee. Joining me is the member for Upper Hunter, Mr David Layzell, who is the Deputy Chair; the member for Monaro, Ms Nichole Overall, who is with us within the Macquarie Room; and joining us online, as you are, Mr Ray Williams. I wish to thank everybody for being here. Ms Huertas, would you care to make a brief opening statement?

MELANIE HAWYES: Thank you, Chair. Actually, it will be me.

The CHAIR: It will be Ms Hawyes. Thank you.

MELANIE HAWYES: Thank you, Chair, and thank you for inviting us here, Committee. My role is the Deputy Secretary for Crown Lands and the Office of Local Government. I do have a few opening remarks, which I trust will assist the Committee today. Thank you for the opportunity to come here to speak to you about the work that we are doing. It does involve a response to Auditor-General findings in the department's 2021 report. We have had quite a significant year as a portfolio. We launched our overarching State plan—the first one Crown Lands has ever had—last year, and this year we launched our action plan, which provides more detailed commitments and actions that Crown Lands will do to lift the performance of the agency and bring it forward as a more modern contemporary service delivery offering. Those are publicly available and they include commitments to open data and accessibility and a better customer experience.

I note that Crown Lands is a very old institution and, as such, we have known challenges in terms of dealing with old records established since the time of colonisation and white settlement. We have work underway to digitise and improve the way we handle and manage that information, but it is a challenge and it's reflective of the age and history of the portfolio in many ways. The findings in the report are known issues and we acknowledge that there are repeat findings in those reports. We are developing strategies to work through the issues and, as I said, create a system that is contemporary and meets modern customer expectations of service. We have initiatives underway to develop and to continue to implement the Crown Lands data strategy. This is a very foundational piece that will improve the way we use data, understand the data we hold and improve our customer experience.

Since we last responded we've developed that data strategy and there is an action plan that will follow it that has detailed measures and commitments and actions that we'll make to continue to improve the way we manage data within the agency and address some of these issues that the audits persistently find. One of the key initiatives is to convert paper-based ways of working to online, including the forms that customers use to do business with us. We are in a process of trying to begin and really progress digitisation and the integration of online transactional capability into our portfolio. We're developing a live stream interface that will allow direct access for customers to our data and enable them to look at the Crown reserve and understand the parcels of land and the reserve around them. This will assist in the integrity of our information holdings as well, as it will all be in an online format over time.

In terms of the reporting requirements for Crown Lands managers and trusts, again I note that these have a long and proud history of volunteer-based governance. We are exploring options to develop fit-for-purpose reporting that continues to ensure that we have the integrity and the information and accountability, but keeps in mind the fact that we are using and relying on the work of many volunteers to perform those services. We funded Crown land volunteers to assist them to uplift their financial reporting and statements. Over the last two years we've provided more than \$2 million in funding to assist these volunteers to comply with contemporary reporting expectations.

There is a known issue in terms of the loan documentation, or the lack of documentation, about a loan between Wentworth Park Sporting Complex and Greyhound Racing. This is a known issue. I do know that we're not a direct party to that agreement but we are seeking to broker a resolution. I'm sure that will be a subject of discussion today.

Thank you again for the opportunity to come before you and to answer question around these issues. We certainly know how valuable the Crown estate is. We're proud of the work we've done to try to improve its service offering and modernise the agency and we are incredibly proud of our State plan and the action plan that sits beneath that document. Thank you, Committee.

The CHAIR: Thank you for that opening statement. Just before I commence with questions, I want to state that, as we work through a series of issues that we've teased out, you may feel like you're answering questions that you've already answered. I apologise for that, if that's the case, but for the record for our purposes it's very important that we do that to get those specific answers. With that, I'll commence with the first question. The first question is that the department previously stated that there are over half a million individual Crown land parcels in New South Wales. Is there a single digital record for each Crown land parcel and therefore over half a million individual records in the department's Crown Lands Information Database?

MELANIE HAWYES: I might again note the challenge with digitising sometimes incredibly old parish records that date back. Sometimes they're still in parchment format, so that is an ongoing challenge for us and a work in progress. I would ask my colleague, Claudia Huertas, to speak to whether we have a quantified figure for you, but I do note that ongoing challenge and the work we've done to bring all those records into our systems. Claudia?

CLAUDIA HUERTAS: Thanks, Mel. We can quantify the number of records in there. I couldn't specify exactly what the number is today. I can come back—we can come back—and confirm that. There are a number of records and most of the records are kept in our legacy system CLID, which is the Crown Lands Information Database.

The CHAIR: Okay.

MELANIE HAWYES: So we'll take on notice the figure and come back to you with a specific figure for that. I think the half a million was an estimate at the time.

The CHAIR: I appreciate that, yes. I do understand that the figure must be quite large and we do understand it's very complex. Can I just ask: How many, and which agencies, rely on information in the department's Crown Lands Information Database, and what do they use this information for?

MELANIE HAWYES: Thanks. That's a really broad question and the response will be similarly so. Crown Lands is often—there's the immediate business we do where people seek to utilise Crown Lands and, in order to do that, need to understand the status of those parcels of land at a granular level of detail. For example, if people wish to take out a lease or undertake an activity that requires a licence on Crown land, they clearly need to interact with us. We provide a lot of advice to other agencies on a range of matters. An area of particular, sort of, lots of traffic in terms of information people need is to understand the presence of land claims and native title interests over Crown lands. So our advisory remit is quite broad. It can be ranging from all kinds of questions about, "Who owns this particular asset? Is this a parcel of Crown lands?" through to, "Are there land claims and active native title interests over this parcel of land?" The advice we give is, as you would appreciate, a mix—over

the phone, verbal, through networks, as well as formal requests for information about particular parcels. The presence of where reserves are is more readily available, but we take day-to-day queries about what is the status for a particular piece of land.

Mr DAVID LAYZELL: The Audit Office has been reporting issues in the accuracy and completeness of the Crown Lands database since 2017. Is the number of issues identified by the Audit Office increasing or decreasing each year? Can you elaborate on the types and common causes of these issues?

MELANIE HAWYES: Yes, thanks for the question. We have random spot checks about integrity of information. That does a percentage return rather than a set figure. In terms of trends, we would need to take on notice specifics about whether particular types of errors are increasing or decreasing. We are doing a lot of work to improve the governance around the way data is put into the system. There are historical errors that we fix when we find them. The cadastral information is probably the most critical and we ensure that that is correct wherever there is an error identified. I might ask my colleague Claudia to talk a little bit more about the types of errors we find and how we fix them and what we think is occurring in terms of your question, which is, is it getting better, is it stable, or is it getting worse?

CLAUDIA HUERTAS: Thanks, Mel. Again, we will take on notice the trends since 2017, but I can say that we are aware of the known issues and they largely relate to historic manual data entry errors from staff. They also relate to system limitations in terms of lack of integration of different systems and data. They also relate—something we have identified more recently in our reviews—to fragmented workflows. Traditionally in Crown Lands there have been numerous processes that have sat with various different teams across the organisation, and that is something we are looking to address through a functional operating model that will centralise some of those fragmented processes and therefore improve the data quality and the data governance in terms of what goes into the system. They are generally the root causes and we are looking at introducing additional internal controls to address those.

MELANIE HAWYES: As an example—if I may, through the Chair—we do monthly data quality checks on random samples of the spatial data that we have in the system and that is largely to ensure that updates to the cadastral database are accurate. In the last 12 months, 97 per cent of these updates were accurate when sampled and, of course, we acted where we found errors or inaccuracies in the 3 per cent that came back as showing an error.

Mr DAVID LAYZELL: Am I right to say that most of the errors relate to cadastral or survey information? Is that right?

MELANIE HAWYES: Claudia, happy for you to take that.

CLAUDIA HUERTAS: I was going to say that they can vary from incorrect lot numbers being put into the system, errors in terms of the status of the land, incorrect spelling of a tenure holder's name—it could be quite a variety—right through to, yes, the footprint of a particular lot. It can range. That footprint is something we check on a monthly basis on random samples on the spatial data because our spatial data is held in the NSW Digital Cadastral Database, which is managed by the Department of Customer Service—whole of government.

Mr DAVID LAYZELL: Is it okay to take it on notice and get some information regarding the percentages of issues with the database going forward, to get a feel for where those errors are?

CLAUDIA HUERTAS: Yes, sure.

Mr DAVID LAYZELL: I will finish off with another question. Other than the Audit Office, who typically identifies errors in Crown Lands records? Are they internal department staff—so doing your own checks—or are they external users?

MELANIE HAWYES: It is both. We have our own checks and balances and peer-review systems, but they can be identified when people make a query and we can see that there is an error, or it can be identified when somebody points out that there clearly is an error in a survey or in the way a piece of land is understood. Claudia, if you want to elaborate I am happy for you to. But in answer to your question, it's a mix.

CLAUDIA HUERTAS: Yes, it is a mix and we do have internal audits that are conducted annually as well on business processes and random samples of transactions that occur.

Mr DAVID LAYZELL: And from external inputs, who would be the agency that raises the most issues with the database? Maybe take that on notice again. That goes to that trend.

MELANIE HAWYES: We can try. Again, it is probably a mix because people have either—there is an ebb and flow of interest in working with us, depending on what somebody is trying to achieve. So there will be times when a particular agency is working with us incredibly closely because they have a number of projects

occurring across the State, or we won't hear from them at all for a while. So there is a real mix there. There is a lot of interest around land claims in native title and that does sometimes generate interrogation of whether surveys are correct and how land has been surveyed in the past, or not. But it depends on what an agency is trying to achieve with us, so there will be a mix of agencies like Transport, for example; Regional NSW, in terms of some of its regional planning; and land councils. A range of stakeholders are interested in understanding what's occurring on parcels of Crown land. Councils—it is a range. I am not sure who the heaviest user is. I suspect it ebbs and flows.

Mr DAVID LAYZELL: I am interested to know who the heaviest user is and where those breakdowns are happening with the database. Thank you for that.

Mrs NICHOLE OVERALL: Good morning, everyone. Again, this may be one that you will need to take on notice, but are you able to give us an idea of how many records in the database were updated from 2020-2022? Do we have an idea of that?

MELANIE HAWYES: I think we would need to take that on notice. Do you mean updated because they were identified as incorrect?

Mrs NICHOLE OVERALL: Yes, updated for the reporting of an error or misinformation in relation to the record.

MELANIE HAWYES: We will take it on notice. I am not completely confident we can easily pull that out in terms of a report, but we will endeavour to do so. Claudia, is there anything you wanted to add to that? We will take on notice at least an estimate for you.

Mrs NICHOLE OVERALL: It is very interesting to note, from my perspective, obviously, some of what you are dealing with, with Crown Lands being one of the oldest ongoing portfolios and with those historical errors. I can understand that that would be quite a challenge to be going on with as well, and you are dealing with a number of factors in relation to that. If we jump to some of the financial reporting questions, can you give us a bit of an idea—and it is probably self-explanatory in the title—of CrownTracker, that it is what it says that it is, that you're endeavouring to be able to correctly track all Crown land?

MELANIE HAWYES: Yes. Again, as you said, trying to upgrade a portfolio that started so long ago, with journals and old-fashioned manual systems. CrownTracker is cloud-based, so it can survive changes of software and it brings in a spatial capability that we've never had in the past, and it's a modern supporting hardware in that it can be moved around depending on future changes in direction. So it's the first time we've had that kind of capacity in our business and we have put a number of functions onto that platform already. For example, land councils can use portals to interact with Crown Lands information.

Similarly, Crown reserve managers can use portals to interact with Crown Lands to understand their reserve and to lodge important documents with us such as their annual reporting. That is the kind of capacity that we need as a future modern agency across the business. My vision for it is also that anybody should be able to log on and look at a Crown Lands parcel and understand what's going on with that land. That is easy to say. It takes a lot of work and investment to do, but that is our vision. But in the first instance, CrownTracker is exactly as you say—the very first time we've had a spatially-enabled, modern system to put information into but, more importantly, to build that interface for people who want to use that information.

Mrs NICHOLE OVERALL: That sounds tremendous. That vision for having that opportunity for people to be able to do so is certainly one I personally believe is worth pursuing. On that basis, does the department currently have a timetable for fully implementing it? How far along in that are we? There will be the decommissioning of the—

MELANIE HAWYES: Old system.

Mrs NICHOLE OVERALL: The current old system, that's right. Do we have a timetable that we've articulated at this point?

MELANIE HAWYES: It's difficult to do that with requisite precision because so much of it, to be candid, relies on securing new investment to do it. That is an ongoing process and one that we're fairly fierce advocates for in our portfolio. But it is a contested environment in terms of future funding. We're doing a lot of customer journey mapping to understand what types of systems people need. One of the risks with IT is that you inadvertently replicate the system you've got now because you can't imagine the future. We need to try to imagine how customers will want to interact with Crown Lands, rather than the way they have in the past.

That analysis is really important to inform what technology you bring in. There are many examples where you inadvertently just continue the status quo even if it's inadequate because you haven't done that customer

experience work. We're in the middle of some of those processes with a view to continuing to come forward with investment proposals for government to upgrade our spatial data information holding and customer service capacity. I can't give the Committee, in good faith, a solid time line with set milestones because it is in design and we need to secure investment to achieve those goals.

Mrs NICHOLE OVERALL: As part of that plan—part of the vision for the transition to CrownTracker—will the information be used for financial reporting purposes? Can it be done before the full transition occurs or would that need to be implemented once it has occurred? Would it be occurring in those circumstances?

MELANIE HAWYES: I'll ask Claudia to assist me with responding to this. As I said in answering the previous question, Crown land reserve managers can use the portals that exist on CrownTracker to lodge their reports. That is one use to try to systemise reporting across a very diverse estate and a large number of Crown land managers. I think we can integrate that kind of thing over time. I'm really interested in bringing in online payment capability—those sorts of functions—in the really near future because they're a basic for modern customer service. We don't have those yet, as a system. Claudia?

CLAUDIA HUERTAS: I think in terms of whether we do it off one system or a couple, the phase-out or decommissioning of CLID, the legacy system, will have to be a phased approach. Until we completely decommission CLID, CLID will also still have a requirement to report on financial transactions for certain functionality. While we might have at the moment on CrownTracker the Aboriginal land claims functionality and reserves management, we still have licences and leases in CLID. Until we phase out of CLID all those functionalities into a new system, we'll be utilising both for financial reporting.

MELANIE HAWYES: I would just add to that there are now—as with any IT design project, as soon as you start you're already out of date in terms of the way technology can move. There are whole-of-government platforms that we can look to use in a much more joined-up way. The customer service reforms over the last few years have been fundamental—like, fundamental change. We don't need to necessarily design it all for ourselves again, I guess, is the take-home. So we are working quite closely with Service NSW and the Department of Customer Service to try to plug into some of their basic customer service capabilities.

Mrs NICHOLE OVERALL: That's fascinating. I hope I haven't taken up too much time there, Chair.

The CHAIR: Not enough, Mrs Overall. I follow on with a question in relation to CrownTracker, as you move to completion of that project. I just want to know about how it's being developed. I assume it's a bespoke program, if you like—CrownTracker. Is it being developed internally? Is it something that's being shared with other jurisdictions? Are we drawing from other jurisdictions? How is that being done? As we move into being able to rely on it for purposes more relating to the financial reporting and financial management, what is the security that's being developed around that? Obviously, everything in that digital arena seems to have a high level of risk. Could you address those issues about its development?

MELANIE HAWYES: Yes. Again it will be a little bit of a team effort, if that's okay.

The CHAIR: Sure.

MELANIE HAWYES: It began really as a more modern version of previous systems with a very in-house mindset. As we've gone along that path and we've seen changes occur in Customer Service, we've also formed a much closer connection with our own cluster with the information office and the lead for information there. So it's now becoming more of an outward-looking, not necessarily Crown Lands-specific mindset about some aspects of the data strategy and some of the capabilities we need. They apply to any agency. What we have done is move a lot of our functions and some of our information onto a software that can be moved around easily and isn't reliant on a very bespoke management team to keep a legacy system going beyond its useful life. That's a very important milestone.

But now we are looking to connect with other whole-of-government tools. There are many tools to manage licensing and leasing functions. You don't necessarily need one in-house system. I think so many agencies are going through this process of trying to decommission these legacy systems when they've reached the end of their useful life that the current approach is to think about a cloud-based system but different units that can be plugged into that and can each change to perform their function, without relying on one system and keeping that going forever. That was probably a bit of a longwinded way of saying it, but we've changed our mindset a little bit and we've diversified out, if that's a way of looking at it.

The CHAIR: How are issues pertaining to security of data and potential for misuse of information being managed?

MELANIE HAWYES: Now we are working very closely with the whole cluster around its cybersecurity provisions and protections. There's a range of them that have been put in place around CrownTracker. We can get you the specifics on notice, but I might ask Claudia to talk you through a little bit of that at a high level, and we'll get some of the specific protections documented for the Committee on notice. But we're very cognisant of that, and we are working to make sure that we meet standards set across the whole cluster and across government around cybersecurity and the integrity of information.

CLAUDIA HUERTAS: Thanks, Mel. We rely and work under the framework that the cluster—the digital information office provides us that cybersecurity framework and we fall within that framework. CrownTracker, CLID all go through. They've been recognised—this is actually an IT phrase—as "crown jewels" in terms of the systems. But they need to have oversight by the department, not just the agency, for the cybersecurity requirements. At least one for CrownTracker—prior to any release we need to run the necessary checks with DIO that there are the cybersecurity requirements in place. We can come back with some more details around what this actually entails if you like.

The CHAIR: Okay. The system is stress tested, I would imagine. You would have people who are looking at that to make sure that it has integrity there for its cybersecurity. It's not specific to the report we were dealing with, but I think it's really important. If you could take that on notice—that there is interest in that—and come back and provide us with any further information on that, that would be appreciated.

MELANIE HAWYES: Absolutely.

Mr RAY WILLIAMS: Good morning, Melanie and Claudia. In regard to your databases, are you able to ascertain if there are currently any perpetual leases of Crown land that are still held by landholders across New South Wales at this time?

MELANIE HAWYES: There are perpetual leases held. I might ask Claudia to answer the question about what we have in the different databases. But certainly there are Crown Lands perpetual leases in play at the moment.

CLAUDIA HUERTAS: Yes, that's correct, Mel. There are, and they are held in CLID and CrownTracker, in terms of the information on those perpetual leases.

Mr RAY WILLIAMS: So we could expect that, ultimately, once CrownTracker becomes publicly available—if it isn't yet—that is information that the public would be able to ascertain from CrownTracker?

MELANIE HAWYES: We're really mindful of public interfaces and the need to preserve privacy for individuals—addresses and details that could allow people to be identified—so some of those leases would fall into that category because they are people's homes and landholdings, particularly out in western New South Wales.

Mr RAY WILLIAMS: Is the current policy to continue to dispose of those perpetual leases by virtue of selling those back to landholders, or even selling them on the open market?

MELANIE HAWYES: There is a legislative provision that was built into the Act to permit that, and there is a process to go through to do that. It has certain limitations. It can only be done in certain circumstances. We can provide the Committee with the list—the legislative provisions that govern where it is permissible to convert a lease. In terms of whether that will continue, we are preparing for a statutory review and that would be one of the questions considered in terms of looking at refreshing the legislation from 2023. So, that was the policy and legal setting at the time and it would be a matter for government, through the consultative process of refreshing the Act, to determine whether that setting will continue into the future.

Mr RAY WILLIAMS: So, given that's the case, is the same policy in place whereby those perpetual leases would have been for sale at a vastly reduced rate of 3 per cent of the current market value?

MELANIE HAWYES: This has been the subject of some discussion in a number of Committee hearings. The 3 per cent reflects the residual value of that land to the State, given that it is a perpetual lease. There is information I can provide to the Committee more specifically on notice around how that was put in place in the legislation, but it reflects a residual value given that a perpetual lease, by its very name, has provided ownership and certainty to an individual in perpetuity.

Mr RAY WILLIAMS: With that said—and perhaps you would have to take this on notice—could I request that the Committee be provided with information regarding how many current perpetual leases of Crown land are currently available, and how many perpetual leases have been sold for that reduced rate of 3 per cent of market value? Could I ascertain also what the amount is that was raised from the sale of those particular properties and perhaps what the market rate was at the time that those properties were sold? I'm sorry if that's multifaceted.

MELANIE HAWYES: That's okay.

Mr RAY WILLIAMS: But, ultimately, I'm happy for you to take it away on notice and for that information to come back to the Committee.

MELANIE HAWYES: Yes, absolutely. It reflects, again, the history of the portfolio. Those leases were established to encourage, at the time, pastoral grazing and agricultural productivity in the western parts of the State. Once a lease has been made in perpetuity, the provision for conversion reflected again that commitment to productivity in those parts of the State. It's not necessarily a market decision. It reflects the history of the portfolio and a longstanding practice to provide for agricultural productivity and settlement in those parts of the State. Those provisions to allow that conversion to occur are in legislation and any decision to change that—it's appropriate that that's looked at through a statutory review, which is due and forthcoming.

Mr RAY WILLIAMS: Yes, okay. Given you've gone to those lengths to describe that, how do you actually ascertain whether or not the agricultural value is going to be continued in relation to those particular areas? Or is it just a landowner seeking a larger landholding for a vastly reduced price?

MELANIE HAWYES: As I said, there are restrictions or limitations as to which leases are able to be converted, but it was set in legislation for a reason. As I said previously, a statutory review is a time for government to consider whether it wants to continue that policy setting. The Act puts it in place. We implement it. There is some uptake. It's not wholesale uptake. I can get you those figures on notice about how many people have opted to pursue conversion and the circumstances where conversion is permissible. In some circumstances, it's not permissible. I don't have those stats to hand but we can certainly get those for you.

Mr RAY WILLIAMS: And also, in line with the question, could I get the value of what that land was purchased for and what the market value was of that land at the time, and how many of those particular sales have taken place since there was a change in that reflective policy?

MELANIE HAWYES: Yes, absolutely.

The CHAIR: So we can take that as a given—that you've agreed to take those questions on notice—but obviously that will have to reflect the context of your explanation as to the legislative provisions. Thank you for that.

Mr DAVID LAYZELL: My question is again around the accuracy of the database, knowing that it is a very much talked-about and longstanding issue. We've talked about the CrownTracker program. Are there targeted programs at the moment looking at, particularly, data entries or particular types of data entries to try to improve the database, particularly focusing on those things that are causing issues for other agencies and external parties?

MELANIE HAWYES: Excellent question. We have put in things to better govern the way data goes in. As I said, we're still correcting—I suppose, for want of a better word—the sins of the past. If somebody finds an error and then they bring it to us, we will endeavour to get that corrected as soon as we're aware of it. There's peer review and there's oversight of data going in within our system, so there's governance to try to ensure that the quality of the data when it's put in is correct and appropriate, and there are audits to look back in time and make sure that we did get it right. Claudia, do you want to add a bit more detail? But there's certainly governance around the way data goes in now and we have a process for trying to correct some of the errors of the past.

CLAUDIA HUERTAS: Yes. That's right, Mel. So, there are three sort of key areas that we focus on in the current internal controls. Number one, we've got set delegation controls within our system, so in CLID and CrownTracker, and they represent mandatory steps that staff must follow before data can actually be accepted in the systems. They also force the delegated officers at various stages throughout the transaction to check the information that was previously put in during the transaction process. That happens at the beginning, in the middle of the transaction process, and then again at the end when the delegated officer is finally approving the licence application or the lease application et cetera.

In addition to that, we've got internal controls and, as I said earlier, we're centralising processes wherever possible. This is also increasing the capability of our staff to understand the data that's relevant to that particular transaction because they're working on that as a specialist sort of capability. The third area is the data quality checks that we talked about earlier—the monthly spatial data checks, quarterly data checks against our valuations of the land that occur on a quarterly basis, and then the annual audits that occur, both internal audit checks that occur on our data as well. Then, in addition to that, the data strategy action plan will also look at improving those internal controls wherever possible.

Mr DAVID LAYZELL: My understanding is that the checking of the data occurs through the normal course of business as entries are raised or as part of your normal business through the agency—that those will be checked as they're raised—and there's not a specific program at the moment. You started talking by saying that

there's quite a program there to get it all from parchment across into data entry input—digitised. Is there a specific program to look at that and check the accuracy of those data entries?

CLAUDIA HUERTAS: Well, the information that we currently have in CLID and CrownTracker—and CLID's a 30-year-old system, so there's a lot of data already in there. That is in the system. Access to that information isn't as timely as we would all like, and so there are various initiatives looking at trying to access data a little bit easier and therefore digitise it, analyse it, and be able to report on it a lot easier than we can now. There are records; we have still got status records—maps, which are some of the things that Mel's talking about in terms of old paper-based records—that, as they're utilised for a particular transaction, might be then inputted into the system as required. But the correction of information is correcting data that is already in the system and going back into the system and rectifying that.

Mr DAVID LAYZELL: So there are two different parts to it at the moment. There is a digitisation program, which is happening. Is that right?

CLAUDIA HUERTAS: Yes, looking at digitising our manual processes so that we can become better at capturing data more accurately.

MELANIE HAWYES: But, to your question, just because something is digitised, doesn't make it accurate. So both occur, and often our work is, particularly in terms of the status of a parcel of land—it has to be to a high level of confidence that we can ascertain who owned, occupied or used that land at a point in time. That generally involves looking at the digital holdings we have, but also verifying it against often old records to map that history for a parcel of land.

Mr DAVID LAYZELL: And you are doing audit controls and going back and checking the actual digital—and that is what you are referring to, checking that digital record and doing a regular audit, whether it's monthly, quarterly or continual?

MELANIE HAWYES: Yes, and a reality check too; a reality check as in what we know about and can see on the land and surveys where we need to. So you triangulate data around that too because sometimes we might find something—particularly in the land claims space, we often do a survey as well.

Mr DAVID LAYZELL: Would you describe that as over-the-horizon stuff that we are always aiming for—a more and more accurate database—but, based on the history, based on the type of information you are pulling together, it will be a long time before this is fully accurate?

MELANIE HAWYES: It depends on how quickly we can successfully ensure and secure investment and some step change but, yes, it's a work in progress. New errors are made, but the sins of the past is a big piece of work to be really confident that we've knocked out errors from those. Sometimes they do only become apparent when we are required to work on a particular parcel of land, but that will be ongoing for a while.

Mr DAVID LAYZELL: Just one final question, just so I get a feel for—in that digitisation process, I don't want to put a percentage on it, but how far through that process are you?

MELANIE HAWYES: I would probably take that on notice so that we can give you not just an off-the-cuff response but a sense of what we've achieved over the last few years and where we are at, if that's okay?

Mr DAVID LAYZELL: That's perfectly fine. I'm just trying to get a feel. It's not to the actual number. I guess it's, you know, 50 per cent or that sort of thing.

The CHAIR: Following on from some of Mr Layzell's questions, do you feel that you have internally, or have you been able to acquire through Treasury, sufficient resources to be able to keep pace with what you can do, or are you still looking for further resources there to advance the modernisation of your CrownTracker and other processes?

MELANIE HAWYES: We're always looking for resources. I don't suppose you interviewed many public servants who would say that they weren't. We would really welcome Digital Restart funding and initiatives that DCS have been opening up, and we are always on the lookout for things that will improve how we work. Internally, we are receiving support to run smaller projects, proof-of-concept projects, start-up pilots or very quick online projects—for example, the conversion of paper-based forms to online forms. We are supported internally to do those quick things. We always try to access funding where that's made available across particularly customer service initiatives in government, and we are developing business cases to put to Treasury through the normal budget processes to improve our business. We use all of those avenues whenever windows of opportunity open up.

The CHAIR: If there were further financial resources made available, you would be able to access, internally, enough human resources that you would need, or would you have to go externally to try to advance this program?

MELANIE HAWYES: It depends what it is, but mostly for BAU, internally we have the capacity to think through what the investment needs would be. If there was something where we needed external support, we would obviously look at that. I think some of the benefits of being in the broader cluster now are the synergies and joined-up parts so that we can use other people's technology. For example, the planning portal is an area where we can perhaps work more closely with our colleagues in planning with our data, and there are other benefits from being in the cluster where we can take the best of breed from other parts of the cluster and use it in our own business. We work very closely with the information technology part of the cluster at the moment to try to do that.

The CHAIR: Ms Hawyes, could I rewind right to the start of your evidence? You were referring to volunteers within the system. Could I ask you to go back and explain it to me? It might have just gone straight over my head. I'm not sure how I missed that. I would like to know where the volunteers fit within this whole process—how you make use of them, where they are sourced from and how they are deployed.

MELANIE HAWYES: It is such an interesting portfolio. It goes right back to its history, which was around settlement and community cohesion and civic life as well as things like attracting production in local economies. I will throw to Sarah in a second because she works very closely in this space around our interaction with volunteers. Essentially, the Crown estate now is quite a diffuse portfolio of lands and assets. Volunteers have always been involved with the portfolio in terms of running things like scout halls, surf lifesavers clubs, local reserves, parks and trusts. That network of volunteers remains. Sarah's division works really closely to support those volunteers, to work with them, help them plan out their reserves and help them access funding through our CRIF fund to improve, upgrade and maintain the assets and lands that they are involved with. Sarah?

SARAH LEES: Thanks, Mel. To put it in a bit of context, we have council Crown land managers and we have non-council Crown land managers. It is in the non-council area where our volunteers sit. We have just over 600 statutory land managers, and they are boards made up of volunteers. Where they come from is the local community. They are mums and dads and brothers and sisters and children of people in the community who just want to contribute and give back to the community. They completely volunteer their free time to manage the land that they are allocated. It could be that they get out and they mow it on the weekend or it could be that they get the community together to run a social event. They run showgrounds, they run parks, they have sporting grounds. As a government and as a public, we rely so heavily on these volunteers to look after the estate and give that sense of social cohesion back into the community. My team's role is to support those volunteers, and how we do that is we provide them with training and development, we explain to them their roles and responsibilities as volunteer land managers and we provide them with resources and tools to help them in their role as land managers.

The CHAIR: Thank you very much for that further explanation. Of course, I do recognise many of those people who you are referring to. It is very broad in that sense. In that assistance that they are given, are those volunteers generally working to a specific plan of management, for example, for some of that land or, if there is not, is there a generic plan of management for a lot of those types of facilities—reserves, parkland? How does that work? How do they structure what they are doing?

MELANIE HAWYES: Sarah, do you want to? This is completely your—

SARAH LEES: Yes, thanks, Mel. For some of the larger land managers, yes, they do have to work to a plan of management. For a lot of the smaller reserves we encourage multipurpose use, but they are very much smaller facilities in a particular local area, so they actually need to operate in accordance with the reserve purpose. What we do is we give them a descriptor about what they can do on that particular reserve. If they want to do anything beyond that, they need to come back to us. They do need to operate in accordance with what the purpose of the reserve is. We also have teams out in the regions, through our land and asset management team, that actually provide support and advice on the ground to these land managers as well.

Mr RAY WILLIAMS: I'm loath to go into this, but given it's been raised I just can't help myself because I actually had quite a few of these across the Hawkesbury LGA when I represented that particular area at the time. I understand that some of these boards or trustees or the directors of the trustees—that their make-up, their constitutions and their management plans can be quite historic, quite different and, in some cases, I imagine that Sarah would know, quite troublesome. I think I've even heard things like the directors of some of these trusts, of some of these Crown land holdings, like halls that have been mentioned, could be like a life tenure. They don't change until the person passes away. Like I say, I think there are a lot of differences in the make-up of those constitutions. I don't think it's like a one-size-fits-all approach, but ultimately you're dealing with volunteers in the community who are undertaking these roles on behalf of the broader community, as has been suggested. But I don't necessarily think that it's at all an easy task sometimes to keep everybody in the tent, can I say.

MELANIE HAWYES: I think you would be right. It can be very challenging. People are challenging. Sarah?

SARAH LEES: I absolutely completely agree. Having been involved in volunteerism for a long time in my personal life and my career, I understand that sometimes things can become a little bit difficult. Some of the strategies that we have to support that are through mediation. We actually offer a mediation service where we can support land managers where there are particular conflicts between board members, for example. We are trying to bring younger people into the management of Crown land as volunteers—so just kind of bringing in that by helping them to open the doors to different ideas and becoming innovative and looking at ways differently can be a little bit difficult, so we do actually offer mediation support.

Mr RAY WILLIAMS: Trying to push the old fogies and the sticks-in-the-mud out the door?

MELANIE HAWYES: You're looking to the future!

The CHAIR: Mr Layzell has a burning question on his mind. Following that, I will look once again to the Audit Office for any further matters that they think need to be addressed or any comments they wish to make.

Mr DAVID LAYZELL: I appreciate the fact that we're running out of time, but I just wanted to get an update on the issues regarding Wentworth Park. We mentioned it at the very start. Can the Committee get an update on where we're at in trying to resolve that particular issue with Greyhound Racing NSW?

MELANIE HAWYES: Yes, thank you. My colleague Tim is deeply involved in this. This is quite challenging. It's not something we're directly involved in, but we've been asked to play a brokerage role. The challenge is documentation of the loan arrangement. We have not been able to source documentation, so we're continuing to work with Greyhound Racing NSW and the Wentworth Park Crown land manager around sourcing the documentation and around options for resolving the matter in the event that it can't be sourced. It's a really challenging issue because we haven't been able to provide that fundamental proof of the arrangement in the first place. Tim?

TIM DEVERELL: Thanks, Mel. The loan exists between what is now the Wentworth Park land manager and what is now Greyhound Racing NSW, which has had various iterations over the last couple of decades. In relation to the loan, it was provided for grandstand construction in the 1980s.

Mr DAVID LAYZELL: Sorry, Mr Deverell, you might just have to speak a little bit more into your microphone. It's great information but I'm missing it, unfortunately.

TIM DEVERELL: Sorry about that. Can you hear me now? Is that better?

The CHAIR: That's good.

TIM DEVERELL: The loan is between the Wentworth Park land manager and what is now Greyhound Racing NSW. That body has changed over the years. It relates to the construction of the grandstand in the 1980s. The department has approached all the parties—the land manager, Greyhound Racing NSW, the New South Wales Office of Racing—and also done its own investigations. There is no loan contractual documentation available to support the loan. However, there is evidence that a loan was given and that the money was obviously given for the construction of a grandstand. So the department is working with Greyhound Racing and the land manager to try to negotiate a solution to that particular issue.

The CHAIR: Thanks, Tim. I'm glad you got a question too. Where are you? In Maitland? Where are you based, Tim?

TIM DEVERELL: I'm in Port Stephens today, Chair.

The CHAIR: I'm glad you got something in there. I'm now going to turn once again to the Audit Office and the Auditor-General.

MARGARET CRAWFORD: Thank you, Chair, and thank you, everyone, for your evidence. The Audit Office absolutely acknowledges the challenges of old records, old systems and old processes. But, as you've also indicated, these records are really important to many users of that system. Listening to the evidence today, I did sense a change of direction in relation to CrownTracker. But I will defer to Aaron just to pick up on any other issues.

AARON GREEN: I think the department has laid out some of the issues quite clearly. This is an old, legacy system. It's been around for 30 years. It wasn't designed for financial reporting purposes; it was designed for a specific purpose. Therefore, there are inherent limitations in the system. I think it's fair to say that the department and the auditors have identified some transactions where there are errors, and those have been addressed through our audits. But I guess the significance of the issue and why it keeps being reported is it does

cover such a large portion of land in the State. There are many users to the system. It doesn't take too many errors in transactions for there to begin to be material errors in Crown land managers' and councils' financial statements. So it's definitely something that we're working with the department on. Obviously we've heard some of the strategies that they've put in place or planned to put in place. It's likely that we'll continue to report the current status and the reforms, moving forward.

The CHAIR: If they are all the comments from the Audit Office, I thank Margaret and Aaron for that. I thank our witnesses for appearing before our 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 to any further questions within seven days?

MELANIE HAWYES: Yes, thank you, Chair.

The CHAIR: I also note that there were a number of matters raised—either requested and certainly agreed—that you would take on notice. I appreciate that. Once again, I thank you for appearing before the Public Accounts Committee public hearing today. That concludes this part of evidence taking.

(Claudia Huertas, Tim Deverell, Melanie Hawyes and Sarah Lees withdrew.)

(Short adjournment)

SHAUN SMITH, Deputy Secretary – Corporate Services, NSW Department of Planning and Environment, before the Committee via videoconference, affirmed and examined

CHRISTOPHER MARTIN, Cluster Chief Financial Officer, NSW Department of Planning and Environment, before the Committee via videoconference, affirmed and examined

The CHAIR: We now resume the public hearing into selected audits of the Audit Office. I welcome representatives from the Department of Planning and Environment to provide evidence about the SAP system. Thank you for appearing before the Public Accounts Committee today. Also joining us are representatives from the Audit Office of New South Wales: Ms Margaret Crawford, Mr Scott Stanton and Mr Aaron Green. I once again thank everyone for appearing before the Public Accounts Committee today. Can you please confirm that you have been issued with information about the standing orders that relate to the examination of witnesses?

SHAUN SMITH: Yes.

CHRISTOPHER MARTIN: Yes.

The CHAIR: Do you have any questions about this information?

SHAUN SMITH: No.

CHRISTOPHER MARTIN: No.

The CHAIR: Would one of you like to make a brief opening statement?

SHAUN SMITH: Yes. Good morning, Chair and Committee. Thank you for having us here to the Public Accounts Committee to talk through the work we do at the Department of Planning and Environment. My role is Deputy Secretary for Corporate Services in the Department of Planning and Environment, and I'm joined today by Christopher Martin, who is the cluster Chief Financial Officer. We're here to provide an update to the Committee on the work we've been doing to improve the control environment since the audit report issued by the Auditor-General for the 2021 financial year. It's fair to say that the control environment within the department is a combination of both technical controls, which are examined by DPE as part of the audit process; management controls, including assurance exception reporting; and some detective controls that we can talk to you about today. That provides the overall control environment with respect to the various SAP systems.

The other context for the Committee is that the department is currently operating three SAP systems and we are effectively clients of another two SAP systems provided by the Department of Customer Service and the Department of Communities and Justice. Those two systems are not reviewed as part of the scope of the audit in front of the Committee. They're reviewed as part of the scope of the audit for those other two clusters. But we're here to answer any questions that you may have, and thank you for the opportunity.

The CHAIR: Thank you for that opening statement. At the end of questions from the Committee, we will be deferring to representatives from the Auditor Office and to the Auditor-General to see if there's any further advice for our Committee or any questions that they may have. Last year the Auditor-General reported that some of the department's HR and payroll management user access issues were first identified in 2018. Why does the department have unresolved user access issues since 2018? Are there any particular roadblocks which the department has experienced in addressing these issues?

SHAUN SMITH: I'll start with some general comments and then give Mr Martin an opportunity to jump in with any specifics as well. In terms of the resolution of items since 2018, some of the items have been the same nature of item but they've been changed over time because of the additional management controls we put in place. SAP systems are technically complex and require a bit of investment to make the necessary changes, and we have made some changes we're happy to talk to you about—Mr Martin will talk to you about today—since that 2018 initial finding to segregate some of those matters.

Where the segregation has proved technically difficult, we've put in place a number of other management controls in order to make sure that we have an appropriate controls environment. Now, any controls environment is effectively a layering of technical controls and other management controls. No control environment is 100 per cent perfect; we accept that, and that's why we have a range of detective controls that we put in place as well, just to determine if there are any ongoing concerns. With respect to some of the systems that are called out in that audit, there was a restriction that has now been moved into production in the myHQ system, which segregates the duties of payroll staff so they can't amend their own basic pay record, and there is a series of other changes that I might hand over to Mr Martin just to cover off for us.

CHRISTOPHER MARTIN: The main recommendation has been about the basic pay editing where staff would edit their own pay, theoretically. There is a range of additional checks that I'll come back to in a moment that help us protect against that, anyway. The other main technical change that we've been asked to make on the payroll side is around other types of pay—whether it's allowances, superannuation et cetera. That's still unresolved as a result of technical defects. In May we attempted to resolve that and had to send it back for further work, and we attempted again in August and September to implement that, but failed again and it's gone back for rework with our vendor. So we've been attempting to close all of those issues, as identified, that allow staff to, in theory, edit their own pay.

How we protect against that day to day is that we've got a suite of checks that we do manually around the system to try and assure ourselves that we would uncover any such defect or fraud. These include things like checking there is no net pay over \$15,000 for any individual in any pay that we run and all of those would be investigated. Any material attempt at fraud would be caught by that threshold. There is also another lower level check that does plus or minus 5 per cent variances on anyone's pay from pay-to-pay per person, so if anyone attempted to significantly modify something using identified weaknesses, there are checking processes where two or more staff review reports.

As the Audit Office identified, none of those is foolproof, either, but we have a layer of tests that we rely on to give ourselves reasonable assurance that it would be very difficult for someone to enact that, and then we wrap all that up with retrospective checks. Because we're aware of the weaknesses, we've got to review the entire year's worth of transactions to make sure that none of the affected people could possibly have done anything that they shouldn't have, and we've found no defects that we're concerned about in those reviews. Audit notes in their report to Parliament that they also did additional testing in the audit process to similarly assure themselves that there was nothing there that warranted attention.

The CHAIR: Just on the answer, I just want to forecast that some of the questions that will be coming forward might touch on some of those issues again; so bear with us on that, if you don't mind. It's the way we've teased out questions from the information, the report and the response. You've dealt with a number of matters that we would've had further questions on, so you may still be asked questions in that vein. Thank you for that answer. The department's submission listed several payroll controls and mitigation strategies to address the HR and payroll management issues reported by the Auditor-General. Are these new controls and strategies, or did the department modify existing controls and strategies to address the issues reported by the Auditor-General?

SHAUN SMITH: I think the broad summary is we constantly take feedback from our internal audit teams and the Auditor-General in terms of any control deficiencies or weaknesses that they find. We have a process to continually look at our control environment with both the support of the Audit Office and also with the support of some external vendors. We recently had our controls environment review done by an external third party just to continually assess those controls. Where the Audit Office has identified a specific issue that they are concerned about, then we work with the Audit Office to frame up a control that effectively mitigates that issue or mitigates it as far as is possible within the technical constraints that we currently have.

Then with other reports we take the outcomes of any weaknesses that they have identified and develop up additional controls. I think the broad summary is that some of the controls that are now in place are in direct response to some of the feedback we've got from the Audit Office, but also from the other internal work that we do—whether it's our own internal audit function or external service providers we bring in to look at the control environment and identify things we may not have identified on our own. So we have a continuous process to evolve our controls environment. Is there anything further you wanted to add in relation to that one, Chris?

CHRISTOPHER MARTIN: Yes, I think some of the more complex technical fixes have been put in place over the last year or year and a bit in response to the issues raised. Some of the manual testing processes were already there for six or seven years reasonably consistently. I think probably the things that we have changed as a result of more recent feedback, noting the comments that we are constantly looking for ways to evolve it, is that basic pay system enforced fix, which was put in in June 2021, and then the more recent attempts to close out the other aspects of pay. I should have mentioned earlier, the reason it keeps failing testing is that it precludes the staff members from actually operating as staff members.

They can no longer put leave or time entries or anything in for themselves. It locks them out too effectively, which is why we've had to send it back. The payroll team can't actually operate if we turn it on. I think those ones we have changed. The other thing we've done is to try to look forward as we are designing our systems and the new system that we are looking to do for a large chunk of the sector, called Path, and to take on board more of those segregations that we currently haven't got in place. So if one team is able to run and check things, we are looking at splitting those roles into two teams as we go forward, for instance. So we are constantly looking

at it. There are only a couple of items being changed recently. A lot of these controls have been in place for a while.

The CHAIR: The question was specifically about whether these are new controls and strategies or did you modify existing ones? It sounded to me like you've worked within the existing controls where you could and made modifications in there as well.

CHRISTOPHER MARTIN: Yes, a mix of both I think would be fair.

SHAUN SMITH: Yes, a mix of both.

CHRISTOPHER MARTIN: That would be the short answer.

Mr DAVID LAYZELL: I apologise if this may be going over some of that same ground, but I think it is important to put on record. One of the payroll controls listed identified employees with net pay over \$15,000. Is that an amount per week, per fortnight or per month? I know it is a pay listing but we are not quite sure of that. The second part of the question is how many people actually appear on the report on average, and how did you come up with that threshold mark?

SHAUN SMITH: My understanding is that that is per pay, so that would be fortnightly for people remunerated under the normal arrangements of government. The original threshold was about \$12,000 and it was recently increased to \$15,000 just in line with where some of the senior executives are remunerated within the cluster. The intent of that is to make sure that no-one can have a one-off pay that is significant and results in significant fraud. The arrangements have been in place since about 2016, so we've had to look at the value over time. With respect to the number of people who regularly appear on that report, we might have to take that one on notice, Mr Layzell, and bring it back to the Committee. Those are not details that I have in front of me today.

Mr DAVID LAYZELL: No problems at all. I think we are just after a general number as opposed to an exact number—a quantum. That would be much appreciated if you could do that. Thank you. I will move on. The *Planning, Industry and Environment 2021* report stated:

Users with access to change employee master data ... could change their own salary.

Are these users still able to change their own salary data and, if so, how does the department monitor whether individuals have made changes to their own employee master data?

SHAUN SMITH: In terms of basic pay, users are no longer able to do that. There was a fix put in place to address that issue in June 2021. There are some other allowances that Mr Martin was talking about briefly before where they may or may not be able to make some changes. Because of that we've got a suite of controls we do. So 100 per cent of any manual changes that are made or processing undertaken by the payroll team is checked and validated by a second person. So you can't make the change and be the person who does the check as well. We also run a fortnightly suite of reports centrally by the production and governance team and they are checked and validated prior to the live pay run.

These reports are designed to monitor changes in pay allowances over time and other employee benefits. They are the things that are still potentially able to be changed because of that technical fix Mr Martin was mentioning before. We also do a full payroll reconciliation process, including single-touch payroll, with the ATO, which covers income tax and superannuation. That is undertaken following each live pay. So whilst there are still some allowances that people may be able to change because of the technical limitations, we have put all of those checks in place and we have been working with the vendor to put in place that hard stop so people can't make those changes. Unfortunately, as Mr Martin said, that stops them from putting in leave, which tends to make them a little cranky, so we've had to take that out so that they could effectively operate as employees.

Mr DAVID LAYZELL: Absolutely. The vendor, is that Accenture—is that the name?

SHAUN SMITH: That is Accenture, yes.

Mr DAVID LAYZELL: You said it has been sent back to Accenture now, the vendor, to fix that part of the system. What is the time frame that the vendor has indicated to you it will take for another system test?

SHAUN SMITH: I am not sure if Mr Martin has specific details on that. We might have to take that one on notice. What I do understand is that it is a complicated fix, which is why it has been challenged a couple of times. I think they are going to have to be creative about how they do it. It is not standard functionality in SAP, the underlying platform, so they are going to have to be creative about how they address that. But we can take that on notice and come back to you, Mr Layzell, in terms of the time frame for that fix.

Mr DAVID LAYZELL: It would be good to know what the timetable is for the fixed program.

Mrs NICHOLE OVERALL: Gentlemen, you will forgive us, I'm sure—obviously this is very complex stuff for those of us who are not experts in this particular field. Apologies if we are touching on or requesting clarification on matters that you feel have been addressed—but, again, to have that correct information on record and for a better understanding from our point of view as well. My question is did the department perform another retrospective review of changes to bank files for the 2021-22 financial period? If so, what were the results?

SHAUN SMITH: In terms of bank files, I will defer to Mr Martin in a minute. I know that we have done a number of retrospective reviews that haven't identified any anomalies that we would have any particular concerns about. Bank files are one of the retrospective reviews, but I will see if Mr Martin has specifics in relation to that question.

CHRISTOPHER MARTIN: Sorry, I am just referring to my notes here. We might have to come back and confirm on notice. My recollection of the conversations I have had is that the bank details are all routinely checked the whole time, so the answer would be yes. But the response we have given you is for the relevant financial year, I believe. As far as bringing that forward to 2021-22, I will just have to go and confirm what the stats were. We have provided you with the 46 per cent and 51 per cent numbers in the response we have written. We could get that corresponding data.

Mrs NICHOLE OVERALL: From the answers that you have already been able to provide us, the suggestion is from you that, for 2021-22, there weren't any inappropriate transactions identified?

CHRISTOPHER MARTIN: In the changes to bank details, yes.

Mrs NICHOLE OVERALL: Sorry, for the user access issues generally speaking for the 2021-22 period—sorry, I jumped ahead there—for those inappropriate transactions occurring across the user access issues for that financial audit period.

SHAUN SMITH: For the financial audit period to end FY21, we've done a retrospective review and I didn't identify any anomalies of concern. I will just confirm that back in writing under notice if there's any deviation from that, but certainly that's my understanding as we've done a full review for that period. I do believe you may have just asked about 2021-22, which is outside the scope of this particular audit report. That process hasn't yet concluded with the Audit Office and we can provide details once that process has been completed. We have been looking back during 2021-22; I can confirm that for you, that we are doing retrospective reviews. My understanding is we haven't found anything, but I'm happy to provide some more details on notice.

Mr RAY WILLIAMS: I just wanted to just note that the solution that was provided by Accenture in regard to restricting access to payroll staff—that testing failed. What's the update in regard to the current status of the situation, given that that solution has been ruled out?

SHAUN SMITH: That was referred back to Accenture, the vendor, to undertake further works in order to bring that back to us for more testing. The status of that is it's still sitting with the vendor, Accenture. We can get an update for the Committee on notice about when they're intending to bring us back, which goes to Mr Layzell's earlier question, and then we can also provide an update to the Committee in terms of the testing that follows that just to close that issue out if that's useful for you.

Mr RAY WILLIAMS: Yes, that would be good, thanks.

CHRISTOPHER MARTIN: I was just going to note the previous comment. We've only just done the most recent tests in August or September, so it hasn't been a lengthy period since we've last tested it that it's been sitting there. We've undertaken to get the update on the ETA.

Mr RAY WILLIAMS: Right.

The CHAIR: These issues around vendor master file data management, the *Planning, Industry and Environment 2021* report noted that access to approve vendor master data changes was not properly restricted in the department's OEH SAP system—page 33. What action has the department taken to address this?

SHAUN SMITH: This is in relation to the vendor master data, Chair?

The CHAIR: Yes.

SHAUN SMITH: We've completed an access review with the ERP systems admin team to investigate the changes required to implement the same controls and configuration that's in one of our other SAP systems that assists with that. The OEH SAP system process allows blocks during the vendor master data change process, and that means that you can continue to transact on that vendor, i.e., raise purchase orders, et cetera. Vendor master data change requests have been raised to try to address that. Since the initial response we provided to the Committee we've removed the ability for approvers of master data changes to also be able to make changes to

vendor master data in SAP OEH, so there's a segregation of duties there now. This was achieved by creating new roles in SAP OEH to segregate the following actions and then assign these roles to different staff members within the team. Someone can maintain the vendor master data record, i.e., change it, but it requires someone else, a different person, to then confirm it. We've split those two roles in the system and someone can't hold those two roles.

We're also currently reviewing the audit logs to satisfy ourselves that no inappropriate actions have been taken during that time, and we have done an examination of them over the last 12 months and in all of the instances it's my understanding that if someone enacted a change, it was a second reviewer who then confirmed the change. So we haven't found any evidence of any concerns in that regard, but that's a process that we're just implementing. We've also created new segregated roles within the SAP DPE system and provided access to different team members to unblock and block the vendor status and then make the master data changes. That prior ability to unblock a vendor whose changes had yet to be approved could not result in payment being released to the vendor. System configurations and restrictions means nothing is able to get paid on an adjusted account until a second person has approved the workflow. I'll bring it up a level for the Committee. In effect, it requires two people to make changes now and there's a proposer and an approver. I think that's a fair summary of the system controls we've now put in place for those systems.

The CHAIR: Thank you for that. I want to move on to issues around the finance journal processing, and the question is: Is the department taking any actions to ensure there are system controls preventing individuals preparing manual journals from also posting the journal entry in its OEH SAP system?

SHAUN SMITH: With respect to journals, I'll get Mr Martin to jump in here in a minute. Journals are about the allocation of costs within the department. This is a correct financial statement concern as opposed to a fraud risk type concern. That's just a bit of background for the Committee. Mr Martin, did you want to provide an update on the journals for us?

CHRISTOPHER MARTIN: Yes. I think there are two parts to this. The park and post functionality that's not present in the system—I think our formal response back to this recommendation had been that we would implement it when we moved to the new Path system rather than making the technical changes in the existing significantly aged OEH system. In the meantime, though, what we've done is put in place additional controls around the system. So there are workflows done in SharePoint or document-management systems to have a two-step approval for any of the significant journals being handled by the shared services centre. In other parts of the business that post journals they've got, again, a requirement for record keeping of an approver and a preparer as separate individuals who can be checked. But they are off-system controls, and our intent is to resolve the park and post when we move to Path.

The CHAIR: I'm just going to look to my colleagues again and see if there are any further questions. Obviously, there are issues there for the current financial year, or learnings that you would have incorporated there. We won't go too far into that. I'll see if there are any further questions.

Mr DAVID LAYZELL: We've probably touched on this already, but I will go through it again. The 2021-22 financial audit—I think I might have spoken about that before. Have any of the 2020-21 user access issues been accepted as resolved by the external audit team in the 2021-22 financial audit?

CHRISTOPHER MARTIN: I think that's probably something that's premature because we're not closed yet. There was a meeting this morning as well. We would expect that the basic pay one is noted as closed, unless the Audit Office has an objection to that. That was in place in June 2021. So it was not in place in time to be closed for the report that's before you, but it was in place for the entire subsequent financial year. I think that's probably the main one. Most of the rest of them were implemented during the 2021-22 year as improvements flowing from that previous year, so there would still be a defect for at least part of the year that the Audit Office would want to know in its report. Probably the other thing I would like to say is that we have regular catch-ups with the Audit Office during the course of the in-progress year's audit, and they will regularly share with us any findings so that we can get onto resolving them straightaway and we don't have to wait for the publication of a report to Parliament or anything. We might meet with the audit team weekly, and they bring things to our attention and we can get moving on trying to fix them.

The CHAIR: Does anybody else have any other pressing questions? Otherwise, we might look to the Audit Office. I will defer to the Auditor-General, Margaret.

MARGARET CRAWFORD: Thank you, Shaun and Chris. As you said, the financial year 2022 audit is yet to complete, so there's probably not much more that we can add at this point. But I will ask Aaron if there is anything else at this stage.

AARON GREEN: No. I think that the evidence provided by the department explained the issues quite well. Obviously, it's an issue that's been around for some time, and there are controls that are being put in place and changes being made to systems to address these observations. I would note that there are a lot of transactions processed by the department. There's a large IT dependency. Therefore, when we come in and do our work, what we're looking for are preventative controls. We want to see controls that are in place to prevent things going wrong. The department has put in place a lot of mitigation, which are largely detective controls that happen after the fact. That's great in order to respond to these issues, but there are technical limitations. I guess that's where we're still working with management to look at what can be put in place. I expect we'll continue to report this issue this year.

MARGARET CRAWFORD: Perhaps maybe off the record, which is impossible, I know.

The CHAIR: It is impossible.

MARGARET CRAWFORD: It is. Shaun, surely the only person whose name would repeatedly come up as earning more than \$15,000 every pay would be your good self, perhaps?

SHAUN SMITH: I believe that would probably be the secretary, Margaret.

MARGARET CRAWFORD: Noted.

The CHAIR: It's quite a complex issue. I'm sure we'll be looking at how the 2021-22 audit has been informed by how you've dealt with issues that have been raised in this particular one, so I wish to thank you for that. Thank you, gentlemen, 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 seven days to any further questions?

SHAUN SMITH: Yes, Chair.

CHRISTOPHER MARTIN: Yes.

The CHAIR: Thank you very much for that. That concludes the public hearing on the examination of selected financial audit reports. Again, I place on record my thanks to the witnesses who appeared today. I also thank Committee members for their contributions, and Hansard and committee staff, whose work makes these hearings possible. Of course, I thank the Auditor-General and members of her staff, who inform this Committee and without whom we could not undertake these public hearings.

(The witnesses withdrew.)

The Committee adjourned at 11:32.