New South Wales Auditor-General's Report
Financial Audit

Volume Three 2011

audit office
OF NEW SOUTH WALES

The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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auditoffice OF NEW SOUTH WALES

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Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Three of my 2011 report.

Peter Achterstraat.

Peter Achterstraat
Auditor-General
31 October 2011

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Executive Summary

Audit Result

The audit of the Total State Sector Accounts for the year ended 30 June 2011 resulted in a qualified auditor's opinion within the Independent Auditor's Report.

Qualification

For eight years I have qualified my auditor's opinion because certain parcels of land and related infrastructure within New South Wales may be controlled by the State, but have not been recognised in the financial statements. The State has been trying to identify and value the parcels it owns for eight years and until this exercise is complete, I am unable to obtain all the evidence I require.

Estimates of the value of land not recognised, but potentially controlled, range between $3.0 billion and $4.0 billion, and related infrastructure between $4.0 billion and $5.5 billion.

Uncertainty arising from Taxation Assessment

My Independent Auditor's Report drew attention to a taxation assessment that is subject to appeal in the Supreme Court. Until the matter is resolved, the ultimate outcome on the Net Operating Balances, Operating Results and Net Borrowings cannot be determined. My auditor's opinion is not qualified in this respect.

The carrying value of the assessment receivable at 30 June 2011 was $557 million, which the State has impaired by $143 million.

Budget Result for the General Government Sector

Budget Result

The Budget Result was in surplus by $1.3 billion for the year ended 30 June 2011. Actual revenues and expenses were below Budget by less than one and two per cent respectively.

Monitoring of Agencies

Treasury recently implemented changes to the way it monitors agencies' monthly budgets and results. It needs to continue its improvements in this area to ensure it receives accurate and up to date information that is crucial to decision making and promotes accountability.

Financial Analysis

Significant Transactions

The State's energy reform transactions resulted in proceeds of $5.3 billion, accounting gains of $3.2 billion and asset write downs of approximately $1.8 billion. Asset write downs were offset against the State's reserves.

The sale of part of WSN Environmental Solutions resulted in an accounting loss of $20.0 million. Of the $234 million proceeds, almost $50.0 million has been set aside for rehabilitating land fill sites and $23.9 million was required for costs incurred up to the date of sale.

Revenues and Expenses

Total revenues and expenses for the whole-of-government were $68.6 billion and $67.8 billion respectively. Continuing and discontinuing operations resulted in the State recording a net operating surplus of $1.3 billion. After other economic flows, the whole-of-government Operating Result was a surplus of $4.7 billion.

Taxation revenues increased by 7.2 per cent, reflecting improved economic conditions. Commonwealth grants totalled $25.0 billion, $1.4 billion less than in 2009-10 when the State received high levels of economic stimulus funding.

Employee costs were 46 per cent of total expenditure. The State employs approximately 11 per cent of all people employed in New South Wales. Over the past five years, the public sector has generally increased in line with the overall increase in people employed in New South Wales.

Over the next forty years, modelling predicts increases in the proportion of total expenditure spent on health and welfare, in line with an aging population.

Assets and Liabilities

The value of the State's assets is approaching $300 billion. The assets mostly comprise property, plant and equipment to provide or support service delivery. The value has increased annually by an average of 8.4 per cent over the past five years, reflecting $60.4 billion in capital expenditure.

In addition to the infrastructure assets reflected in the Total State Sector Accounts, the State has over forty public private partnerships to deliver infrastructure and services.

Agencies advise capital projects identified in the 2010-11 Budget Papers are mostly on track to meet completion dates and estimated costs.

The State's total liabilities have increased over the past five years, on average by 14.4 per cent per annum. Much of this increase has occurred in borrowings. The State's superannuation obligations have more than doubled over this period, reflecting movements in investment markets.

Credit Rating

The State has maintained its AAA credit rating.

Quality and Timeliness of Financial Reporting

Financial reporting in New South Wales currently falls short of requirements.

Public Accounts Committee Recommendations

More can be done to address the committee's recommendations to improve the quality and timing of financial reporting. Treasury can expand its 'early close procedures', make them mandatory, help agencies improve monthly financial reporting and streamline the process agencies use to supply financial data to Treasury.

Accountability can be strengthened by updating requirements for Chief Executive Officer performance agreements. Quality of financial reporting can be improved by updating the twelve year old requirements for minimum qualifications for Chief Financial Officers, while Treasury's plans for annual certification of financial systems by Chief Financial Officers would benefit from expanded guidance.

Agency Financial Statements in 2010-11

The timeliness of agencies' financial reporting needs to improve as almost half did not meet Treasury's timetable for collecting financial reporting data. The volume of errors has also not reduced from last year.

Agency restructures severely impacted agencies' financial reporting processes. Significant work was required to effect the changes in financial reporting systems. Agency performance in 2010-11 reflected these challenges, which was further impacted by the Budget process occurring at the same time as year-end financial reporting process.

Follow up of my previous recommendations

Most of the 237 recommendations I made last year have been or are being actioned. However, more can be done. Some recommendations relating to agencies affected by restructures have not been addressed and I am concerned new agencies have not considered the wider implications. Other recommendations not targeted at specific agencies appear to have fallen through gaps, which a whole-of-government audit and risk committee may have prevented, ensuring they were implemented.

Compliance with the *Fiscal Responsibility Act 2005*

Changes to the Act

The *Fiscal Responsibility Act 2005* needs amendments to improve its effectiveness at attributing accountability when targets are not met. A recent review of the Act did not make any proposals for such amendments. I am concerned at the delay in addressing my recommendation, first raised in 2009.

Compliance

The 2011-12 Budget Papers comply with the legislative requirements of the Act.

At 30 June 2011, the State exceeded the long term targets in the Act. Net financial liabilities were 12 per cent, twice the long term target of six per cent or less by 2015. Net debt is 1.8 per cent, one per cent over the target of 0.8 per cent. However, the government expects to achieve the target of eliminated unfunded superannuation obligations by 2030.

Significant Items

This summary shows the items I have highlighted in this report.

Quality and Timeliness of Financial Reporting

Current Status of Previous Recommendations

Other Governance Matters

Compliance with the *Fiscal Responsibility Act 2005*

Audit Result

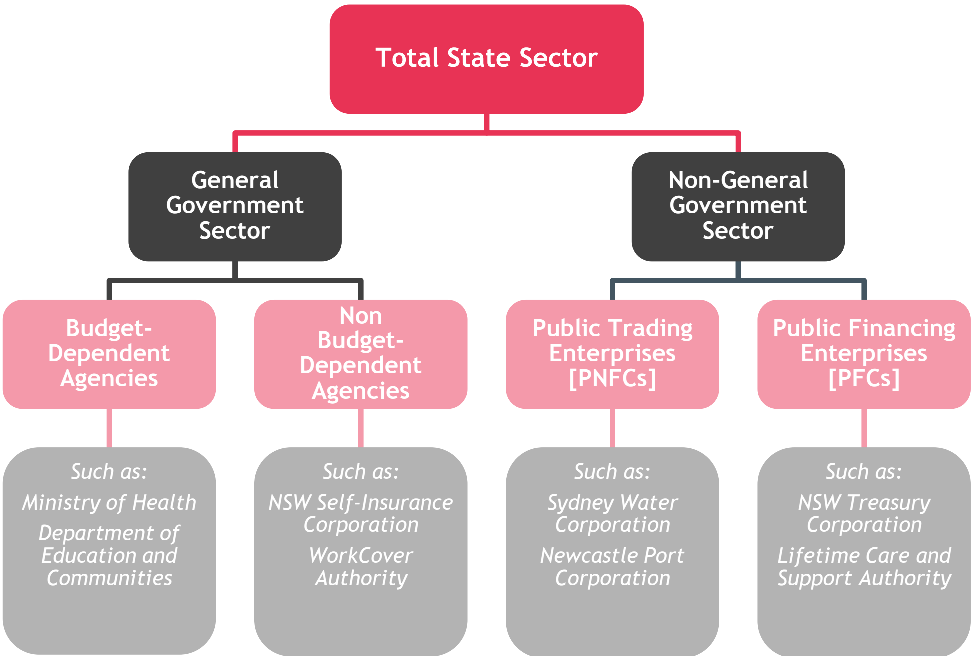
The *Public Finance and Audit Act 1983* requires the Treasurer to prepare and submit consolidated financial statements for the New South Wales General Government and Total State Sectors to the Auditor-General by 15 September each year.

After the financial statements have been audited, the Treasurer presents them to parliament and the Auditor-General reports the results of his audit to parliament, both of which occur by 31 October.

This is the eighth year there is insufficient information to form an opinion on the completeness of land and infrastructure holdings

The General Government Sector and Total State Sector

The General Government and Total State Sectors are structured as shown below:



The Total State Sector comprises all entities under the control of the New South Wales Government. The General Government Sector comprises those entities that provide goods and services not directly paid for by consumers (i.e. largely financed from tax revenues and Commonwealth grants). The Non General Government Sector comprises Public Enterprises that have a market orientation, and provide goods and services such as transport, water and electricity, or participate in financial or other markets.

Qualified Auditor's Opinion

I could not give an unqualified auditor's opinion on the General Government and Total State Sector Accounts.

Certain parcels of land within New South Wales and related infrastructure may be controlled by the State, but these have not been recognised in the financial statements. The State is still identifying and valuing which parcels it controls. Until this exercise is complete, I am unable to obtain all the information I require to form an opinion on the value of land assets and any related infrastructure that should be recognised in the financial statements. This is the eighth year the General Government and Total State Sector Accounts have been qualified because of this issue.

Recommendation

The government needs to address its processes for identifying, valuing and recording land and related assets it controls as a matter of priority so it can effectively manage the full extent of its land and infrastructure holdings.

More than one New South Wales public sector agency could not provide all the information I require to form an opinion on the value of land and infrastructure assets that should be recognised in the financial statements. However, the main issue continues to be Crown reserves.

The government does not know the full extent of its land and infrastructure holdings

There are approximately 39,000 Crown reserves in New South Wales. The government is in the process of identifying and valuing Crown reserves ‘controlled’ by it that should be recognised as assets in the General Government Sector and Total State Sector Accounts.

Treasury has advised that based on its assessment the total value of reserves controlled by the government, but not currently recognised in the financial statements, is between $3.0 billion and $4.0 billion. However, the total value may be greater, depending on the determination and valuation of the assets that are controlled. In addition, the estimated value of infrastructure on Crown reserves is between $4.0 billion and $5.5 billion.

The government will recognise the value of the assets it controls in future General Government Sector and Total State Sector Accounts once the value can be reliably estimated.

I am advised that the process of identifying and valuing Crown reserves ‘controlled’ by the government has cost $31.8 million since 2006-07. However, much work is still required. Until this process is complete, the government does not know the full extent of its land and infrastructure holdings.

Uncertainties

My independent auditor’s report drew readers’ attention to the following matter within the financial statements.

Significant uncertainty about taxation assessment

In 2007, the State recognised as revenue a one-off taxation assessment of $424 million ($259 million of duty and $165 million of interest), which has not been collected. The taxpayer objected to the assessment and the matter is subject to appeal in the Supreme Court. There is significant uncertainty as to whether the assessment will be collected in full or part. With further interest, this assessment is $557 million at 30 June 2011, which the State has impaired by $143 million.

Until this matter is resolved, the ultimate outcome and its impact on the Net Operating Balances, Operating Results and Net Borrowings included in the General Government Sector and Total State Sector Accounts cannot be determined.

Other Matters

Other matters noted during the course of the audit that were not significant enough to impact my Independent Auditor’s Report, include:

Water Filtration Plants

The Total State Sector Accounts do not include a liability of $345 million ($477 million) relating to water filtration plants.

Sydney Water Corporation has agreements with the owners/operators of water filtration plants for the filtration of bulk water. The agreements are for 25 years and require the corporation to pay the owners a fee for the service provided. At the end of the agreement, the corporation has the option to extend the arrangements or to acquire the filtration plants at market value. Agreements are expected to run for approximately a further ten years.

In my opinion, these arrangements effectively transfer to the corporation substantially all the risks and benefits incidental to ownership of the plants. The corporation considers these agreements to be service agreements for the filtration of water. It considers the agreements do not meet the definition of a finance lease as the agreements do not convey the right for the corporation to use the assets.

Electricity Generation Assets

There is uncertainty in the estimates used to value the State's electricity generation assets, which were valued at approximately $4.0 billion at 30 June 2011. These assets are included in the Total State Sector Accounts only.

The Australian Government's proposed Clean Energy Future Scheme was announced in July 2011. Legislation to enact the Scheme has been introduced to parliament, but the final form of the legislation and its impact on the estimates used to value assets is not yet known.

The carrying value of the State's coal fired power stations is determined having regard to estimates of expected future earnings. These estimates are based on complex assumptions, including the extent to which any future carbon costs can be passed on. The scheme may adversely impact the estimates of expected future earnings.

Lifetime Care and Support Scheme

There is uncertainty in the estimate of the State's provision for scheme participants' care and support services, which was $1.4 billion at 30 June 2011 ($1.0 billion). This liability is included in the Total State Sector Accounts only.

The scheme provides treatment, rehabilitation and attendant care services to people severely injured in motor accidents in New South Wales, regardless of who was at fault in the accident. This scheme is funded by a levy on compulsory third party insurance policies.

The uncertainty arises because of the long term nature of the provision and the limited participants' experience to date. This uncertainty will remain until sufficient participants' experience is available.

Sydney Ferries

There is uncertainty as to whether the State will realise the value of its assets and extinguish the liabilities of Sydney Ferries in the normal course of business and at the amounts stated in the financial statements. Affected assets at 30 June 2011 were valued at $121 million ($120 million) and liabilities $36.3 million ($38.1 million).

The uncertainty arises due to an announcement by the Minister for Transport in May 2011 of the franchising of Sydney Ferries to a non-government operator to lease, maintain and operate the fleet. The timing of this arrangement is expected to be in the second half of the 2012 calendar year.

HIH Rescue Package Liability

There is uncertainty in the estimate of the State's liability in respect of home warranty insurance claims on policies issued by the HIH Insurance Group (HIH). This liability is $153 million at 30 June 2011 ($148 million). The uncertainty arises mainly due to variability in claims costs.

HIH collapsed in March 2001. The State provides indemnity for homeowners to the same extent that would have applied under the home warranty policies issued by HIH.

Accounting for the State's investment in Snowy Hydro

The State measures its property, plant and equipment at fair value. When accounting for its interest in Snowy Hydro Limited, it measured that company's assets at cost instead of fair value. I did not consider the potential impact of this divergence significant enough to impact my auditor's opinion.

Snowy Hydro Limited owns and operates the Snowy Mountains Hydro Electric Scheme. The company is owned by the New South Wales, Victorian and Commonwealth governments. The carrying value of the State's 58 per cent interest in Snowy Hydro at 30 June 2011 was $1.1 billion.

Applicable Accounting Framework

The General Government and Total State Sector financial statements are required to be prepared in accordance with Australian Accounting Standards. This includes compliance with AASB 1049 Whole of Government and General Government Sector Financial Reporting.

AASB 1049 is designed to provide users with information:

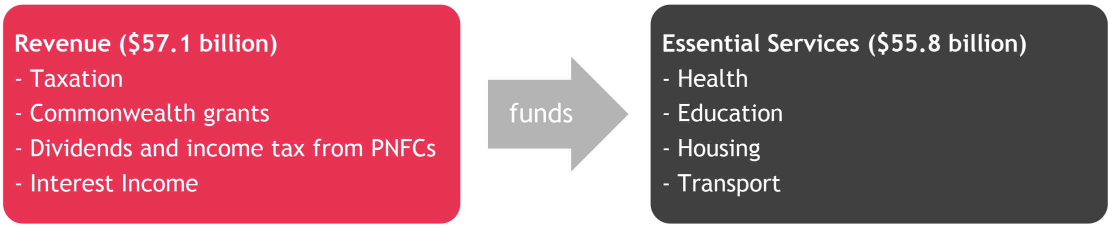
- about the government's stewardship and accountability for the resources entrusted to it
- about the financial position, performance and cash flows of the government and its sectors
- that facilitates assessments of the macro-economic impact of the government and its sectors.

AASB 1049 generally requires compliance with the requirements of Australian Accounting Standards but limits the selection of certain accounting policy options within those standards. It also requires presentation of key fiscal aggregates and disclosures about sectors of government as defined by the Australian Bureau of Statistics publication Government Finance Statistics: Concepts, Sources and Methods.

The presentation of the General Government and Total State Sector Accounts prepared in accordance with AASB 1049 is not generally comparable with that of individual government agencies.

Budget Result for the General Government Sector

The government's Budget Papers focus on the financial and service delivery performance of the General Government Sector. A principal measure of a government's financial performance is its Net Operating Balance, or Budget Result. The Net Operating Balance reports the difference between the cost of general government service delivery and the revenues earned to fund those services.



A principal measure of a government's financial performance is its Budget Result

Net Operating balance – Variance to Original Budget

The table below compares the actual result for 2010-11 with those amounts budgeted in the 2010-11 Budget Papers published in June 2010.

The 2010-11 Budget Result was a $1.3 billion surplus

Financial Information

Year ended 30 June 2011	Actual $m	Budget $m	Difference $m	Difference % of Budget
Revenues				
Taxation	20,395	20,194	201	1.0
Commonwealth grants	24,975	26,100	(1,125)	(4.3)
Other grants and subsidies	642	641	1	0.2
Sale of goods and services	4,658	4,584	74	1.6
Interest	468	325	143	44.0
Dividend and income tax	1,982	1,705	277	16.2
Other dividends and distributions	430	347	83	23.9
Fines, regulatory fees and other	3,594	3,774	(180)	(4.8)
Total Revenues	**57,144**	**57,669**	**(525)**	**(0.9)**
Expenses				
Employee related	24,434	24,693	(259)	(1.0)
Superannuation	3,045	3,073	(28)	(0.9)
Depreciation and amortisation	2,818	3,045	(227)	(7.5)
Interest	1,826	1,953	(127)	(6.5)
Other property	1	1	--	--
Other operating	12,281	12,481	(200)	(1.6)
Current grants and transfers	8,905	8,605	300	3.5
Capital grants and transfers	2,494	3,045	(551)	(18.1)
Total Expenses	**55,804**	**56,896**	**(1,092)**	**(1.9)**
Net Operating Balance - Surplus	**1,340**	**773**	**567**	**73.4**
Net Borrowing	**(2,910)**	**(3,267)**	**357**	**10.9**

2010-11 revenues and expenses are generally consistent with Budget

In accordance with normal budget practice, the 2010-11 Budget did not include the impact of business asset transactions such as WSN Environmental Solutions and divestments arising from the government's Energy Reform Strategy. These were excluded on the basis the transactions were not complete at the time of preparing the Budget.

Small variations in revenues and expenses can have a significant impact on the Budget Result

Generally, the 2010-11 results are relatively consistent with the 2010-11 Budget. Total revenue was $525 million under budget, which represents less than one per cent of the original budget. Total expenses were $1.1 billion under budget, which represents less than two per cent of the original budget. However, these small variations in revenues and expenses had a significant effect on the surplus, which was over 70 per cent higher than budget.

GST revenue grants from the Commonwealth were $881 million less than expected, reflecting weaker than expected consumption growth. The strengthening of the Australian dollar, coal export constraints at Newcastle Port and reduced demand from Japan all impacted mining royalties, which were $524 million less than expected. Offsetting these were greater than expected distributions by public trading enterprises and other investments, which exceeded budget by $503 million in total. This variance is partly attributable to returns on the investment of the proceeds from the government's sale of retail electricity businesses and electricity generation trading rights.

Capital grants and transfers were under budget primarily due to a payment of $350 million for the South West Rail Link late in 2009-10 that had been budgeted for in 2010-11.

Accurate and up-to-date information is crucial to effective decision making and promotes accountability

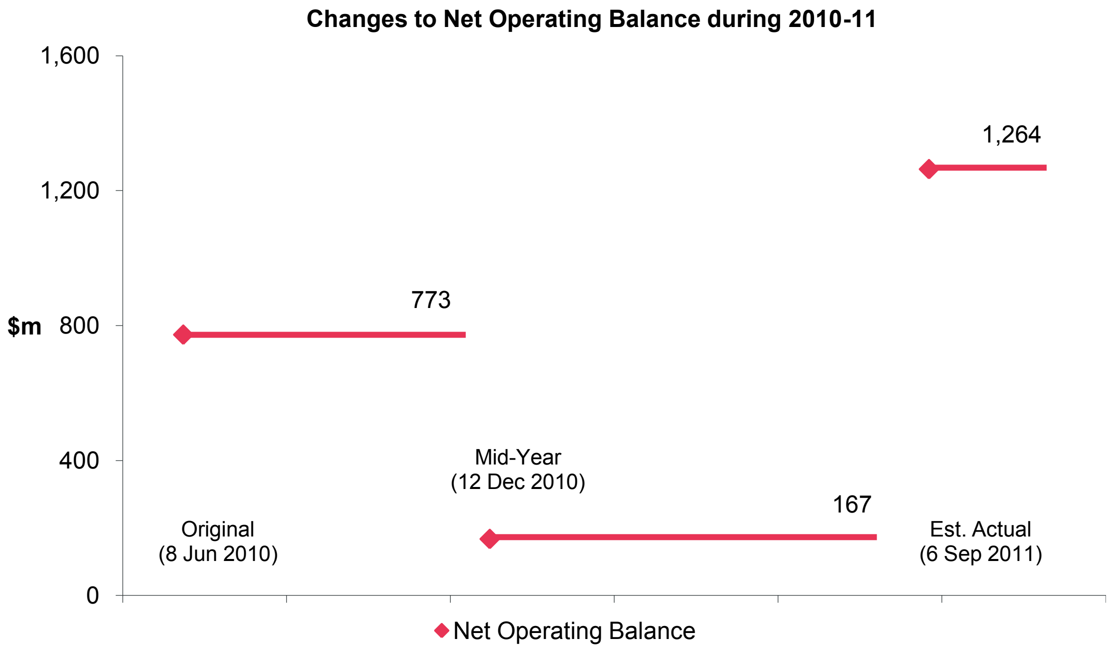
Changes to the Expected Budget Result during 2010-11

The availability of up-to-date information is widely accepted as crucial to effective decision making.

Recommendation

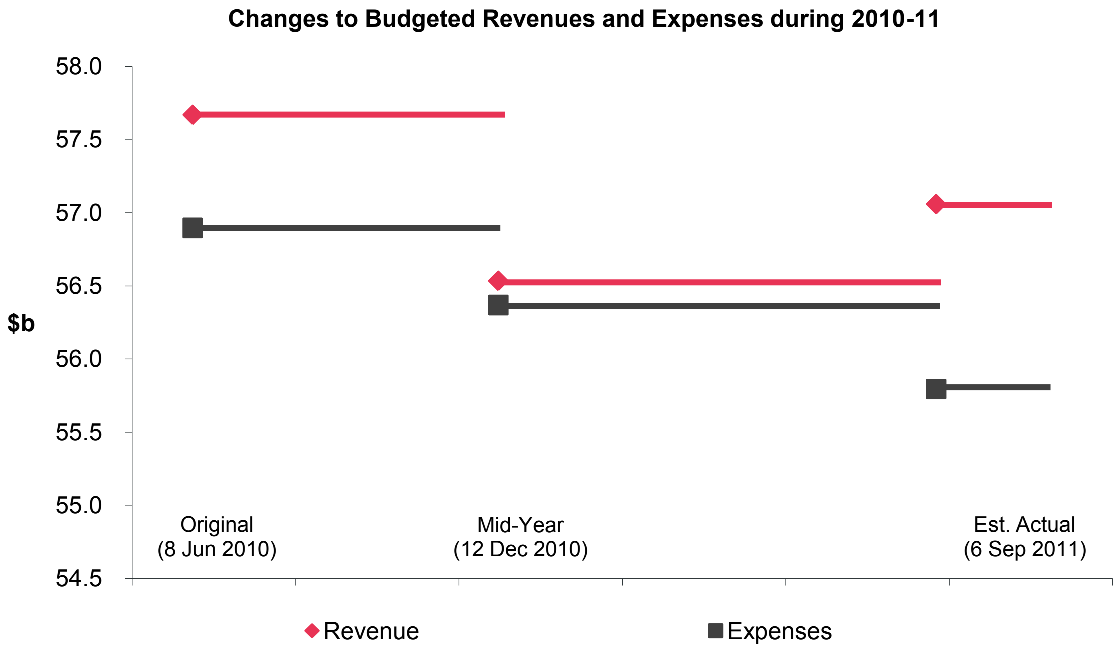
Treasury should continue its efforts in improved monthly monitoring of agencies' results and ensuring the accuracy of results reported to enable effective decision making.

The Budget is currently only publicly revised once each year as part of the mid-year review. The graph below demonstrates how the State's expectations about its net operating balance changed during 2010-11.



Changes to the revised budget and actual revenues and expenses are reflected below.

Expectations about the Budget Result change significantly throughout the financial year



The significant variations shown above do not necessarily reflect poor budgeting processes. Budgets exclude the impact of transactions that have not yet occurred. For example, the mid-year estimation appropriately did not take account of the impact of the sale of the retail electricity businesses and electricity generation trading rights.

The significant variations demonstrate the need for regular updates to reflect the impact of transactions that have occurred. More frequent revisions to the projected financial results would provide users with more accurate information to base decisions on.

Treasury advises that it has recently commenced an improved system of monitoring agency budgets. In October, the Treasury advised all General Government Sector agencies that they are now required to prepare a monthly budget and to report against that budget. More accurate and timely information about agency budgets and results will also improve accountability.

Without accurate and timely information, no opportunities exist for the release of more frequent updated budget projections.

Budget Highlights

The State's Budget Papers provide details on service delivery of the General Government Sector and each of its agencies (and sector level totals for the commercial sector). They also provide parliament and the community with details of additional funding for specific initiatives and areas where services are to be improved.

The Budget Overview details 'budget highlights' in the areas of:

- transport and roads
- health
- police, justice and emergency services
- education and training
- human services
- environment, climate change and water
- jobs and infrastructure.

Highlights may be funded by way of appropriation (from Commonwealth Government grants and taxation revenue), borrowings or met by agency generated revenues.

The 2010-11 Budget Overview identified over 100 budget highlights. A large portion of these highlights show the funding allocated over the four-year period known as the 'forward estimates'. It is difficult to determine if all such highlights have been achieved or are on track to be achieved after the first year. However, I have identified certain budget highlights that have not been realised during 2010-11, such as those set out in the table below.

Agency	Highlight as reported in the Overview	Reason highlight or part thereof was not realised
Department of Transport (formerly Department of Transport and Infrastructure)	$7.0 billion invested in 2010-11 on operating and expanding the NSW public transport system and $4.7 billion on maintaining and upgrading the NSW road network	The capital works program underpinning this Highlight changed slightly during 2010-11 as part of the government's policies. These changes included deferment of the Western Express Rail Service and addition of the North West Rail Link
Ministry of Health (formerly Department of Health)	$918 million in 2010-11 for NSW Health infrastructure with investment in new and improved hospitals and equipment	There were a number of delayed projects due to late approval of Council of Australian Governments (COAG) program of works
Hunter Water Corporation	$358 million towards construction of Tillegra Dam	The government cancelled the Tillegra Dam project
Department of Education and Communities (formerly Department of Education and Training)	$270 million for IT projects	Delays encountered in the rollout of projects
Department of Premier and Cabinet (abolished Department of Environment, Climate Change and Water)	Climate Change Fund will provide $223 million in 2010-11 for a range of initiatives	The government reduced funding of initiatives from the Client Change Fund (CCF) to accommodate increased funding of the Solar Bonus Scheme

Financial Analysis of the General Government and Total State Sectors

This section analyses key financial data in the General Government and Total State Sector Accounts to inform parliament and the community of trends in the State's financial position and its performance.

Snapshot of the Total State Sector Accounts

The General Government and Total State Sectors comprise hundreds of separate agencies with distinct functions.

The Total State Sector Accounts consolidate the financial position and performance of all functions of the New South Wales government. The Total State Sector's annual revenue and expenditure exceeds those of all other states and territories.

Significant Events

Electricity Industry Reforms

Electricity reform proceeds were $5.3 billion and accounting gains $3.2 billion, before asset write-downs of $1.8 billion

On 14 December 2010, the government entered into contracts to sell its retail electricity businesses, part of its electricity generation output and some development sites to the private sector. On that date, the government announced combined gross proceeds from the sales of $5.3 billion, which were completed two and a half months later.

The State recorded an accounting gain of $3.2 billion attributable to the sale of retail electricity businesses. In addition, it recorded write-downs to the values of electricity generation assets of around $1.8 billion as a result of the transactions, but these have been offset against reserves, which is allowable under Australian Accounting Standards.

The State has incurred in excess of $200 million mainly on consultancy costs for energy sector reform over the last four years.

I will comment on the electricity sale transactions in more detail in Volume Four of my 2011 Reports to Parliament.

WSN Environmental Solutions

The sale of WSN realised a $20.0 million loss. Almost $50.0 million has been set aside to fund landfill site rehabilitation

On 31 January 2011, the government sold part of WSN Environmental Solutions, its waste processing, recycling and disposal service, to the private sector. Landfill sites were included in the sale.

The State realised $234 million in sale proceeds, but recorded a $20.0 million loss from the sale transaction.

The government established an agency, Waste Assets Management Corporation, to manage landfill sites not sold. After the sale, this corporation was given $48.9 million of the sale proceeds to fund the rehabilitation of these landfill sites, $13.5 million to settle a long running legal dispute and $10.4 million for various costs incurred up to the date of sale.

The General Government Sector Operating Result was $4.6 billion surplus

The Total State Sector Operating Result was $4.7 billion surplus

Financial Information

Statement of Comprehensive Income

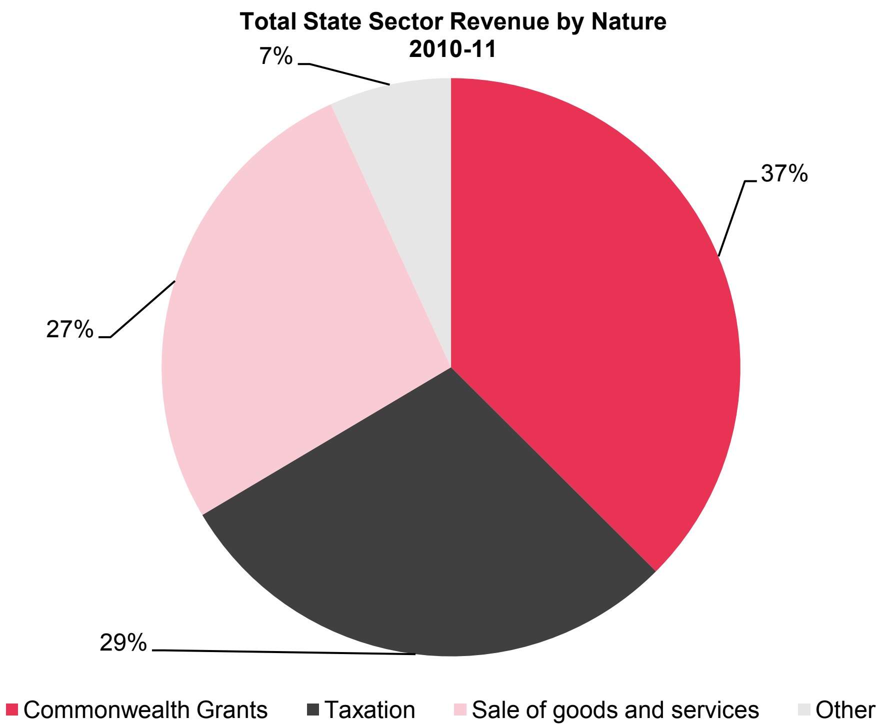
Year ended 30 June	General Government		Total State Sector	
	2011 $m	2010* $m	2011 $m	2010* $m
Revenues				
Taxation	20,395	19,129	19,318	18,028
Grants and subsidies	25,617	26,983	25,414	26,799
Sales of goods and services	4,658	4,316	17,809	15,656
Interest	468	322	1,477	1,085
Dividends and income tax equivalents	1,982	2,037	--	--
Other dividends and distributions	430	285	446	285
Fines, regulatory fees and other	3,594	3,256	4,180	3,878
Total Revenues	**57,144**	**56,328**	**68,644**	**65,731**
Expenses				
Employee costs	27,479	26,144	31,538	30,087
Depreciation and amortisation	2,818	2,769	5,958	5,580
Interest	1,826	1,653	4,149	3,509
Grants and subsidies	11,399	13,184	8,250	7,689
Other	12,282	11,589	17,894	16,002
Total Expenses	**55,804**	**55,339**	**67,790**	**62,867**
Transactions From Discontinuing Operations	**--**	**--**	**395**	**1,044**
Net Operating Balance – Surplus	**1,340**	**989**	**1,249**	**3,908**
Other Economic Flows – Included in the Operating Result				
Gain/(loss) from liabilities	86	(238)	86	(242)
Other net gains/(losses)	72	874	3,544	(753)
Share of earnings from associates (excluding dividends)	153	173	153	173
Dividends from asset sale proceeds	3,406	--	--	--
Deferred income tax expense/(benefit) from other sectors	(174)	925	--	--
Other losses	(304)	(90)	(299)	(189)
Operating Result	**4,579**	**2,633**	**4,733**	**2,897**
Other Economic Flows – Other Comprehensive Income				
Revaluations	976	5,476	4,989	11,214
Actuarial gain/(loss) from superannuation	447	(3,156)	425	(3,538)
Net gain on equity investments	4,347	5,709	--	--
Net gain/(loss) on financial instruments	--	--	71	(31)
Other	46	88	177	208
Comprehensive Result - Total Change in Net Worth Before Transactions With Owners as Owners	**10,395**	**10,750**	**10,395**	**10,750**

* 2010 amounts have been restated for - changes made in accordance with Australian Accounting Standards.

Unless otherwise stated, the following commentary relates to the Total State Sector.

Revenues

Total State Sector Revenue by Nature



Taxation revenue increased by 7.2 per cent, reflecting improved economic conditions

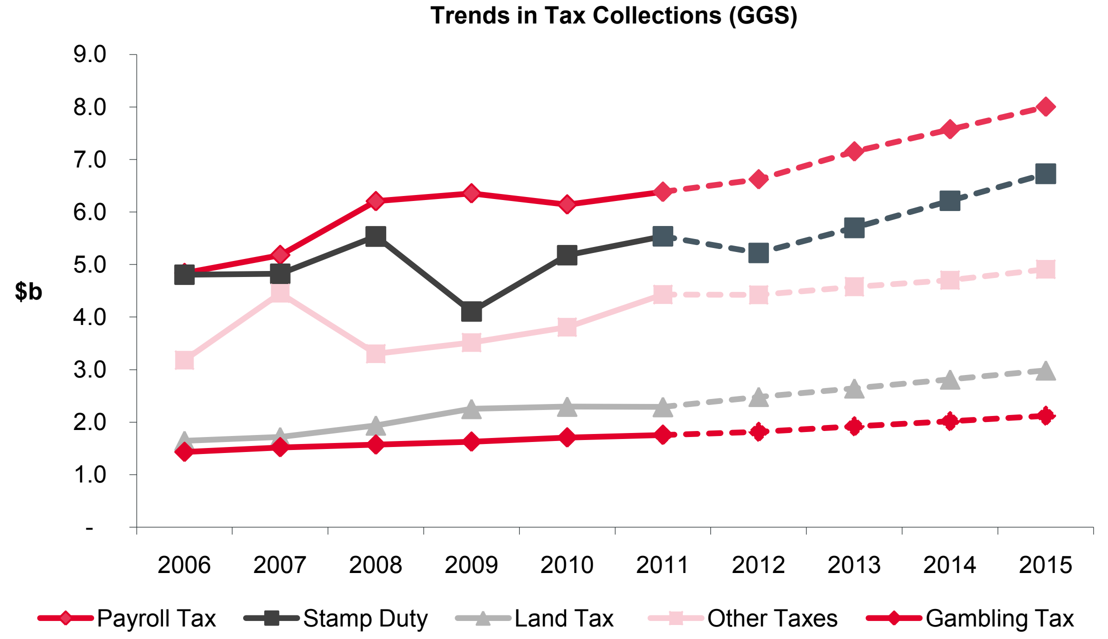
Taxation

Taxation revenue for the Total State Sector increased by $1.3 billion (7.2 per cent) compared to 2009–10. All sources of taxation revenue increased with the exception of land tax, which was stable. The increases largely reflect continued recovery of the New South Wales economy from the global financial crisis.

Over the last five years, total taxation revenue increased from $17.3 billion to $19.3 billion, which represents average annual growth of 2.9 per cent.

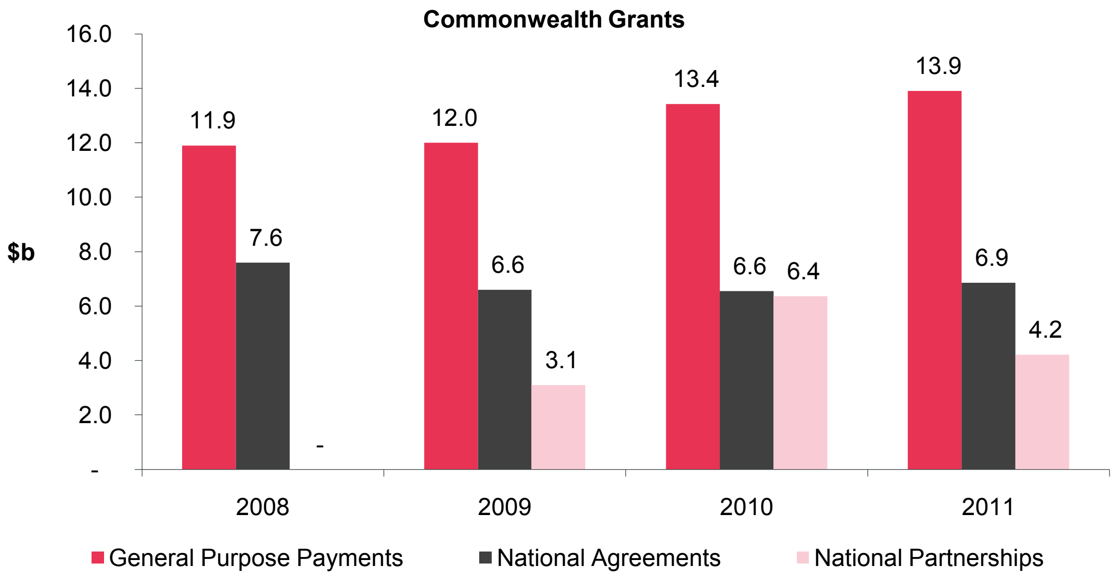
The following chart details tax collected between 2006 and 2011 and the Treasury's forecasts for General Government Sector tax collections over the next 4 years to 2015.

The State received $25.0 billion in Commonwealth grants



Commonwealth Grants

The State received around $25.0 billion from the Commonwealth Government in 2010–11. The money is provided to the State under various arrangements. These arrangements fall into three broad categories – general purpose payments, national agreements, and national partnerships.



General Purpose Payments

Commonwealth General Purpose GST grants increased by $481 million from 2009–10. The increase reflects the State's marginal increase in its share of the total GST pool available for distribution to the States and Territories and general economic growth. Despite the increase, GST revenue is $927 million less than what was budgeted by the State. This reflects weaker than expected consumption growth by Australian consumers.

National Agreements (excludes stimulus funding)

National Agreements set out the policy objectives in six key service delivery areas, covering healthcare, education, skills and workforce development, disabilities, affordable housing and Indigenous reform. Each agreement establishes the roles and responsibilities between levels of government and sets out the high level objectives, outcomes and performance indicators, as agreed by all jurisdictions (source: 2011–12 Budget Statement).

Commonwealth grants received in 2010–11 are slightly less than last year, which included higher levels of economic stimulus payments

In 2010–11, the State received $6.9 billion in National Agreement payments ($6.6 billion), including the following significant items:

National Agreements	Amount $m
Healthcare	3,935
Education	1,186
Affordable Housing	388
Home and Community Care	375
Skills and Workforce Development	443

National Partnerships (includes stimulus funding)

National Partnerships are time limited arrangements that focus on delivering specific outputs or projects in areas of nationally significant reform or on achieving service delivery improvements. The Australian Government gives payments to support National Partnerships to help progress the reforms and/or reward jurisdictions for achieving agreed performance benchmarks (source: 2011–12 Budget Statement).

In 2010–11, the State received $4.2 billion in National Partnership Payments ($6.3 billion), including the following significant items:

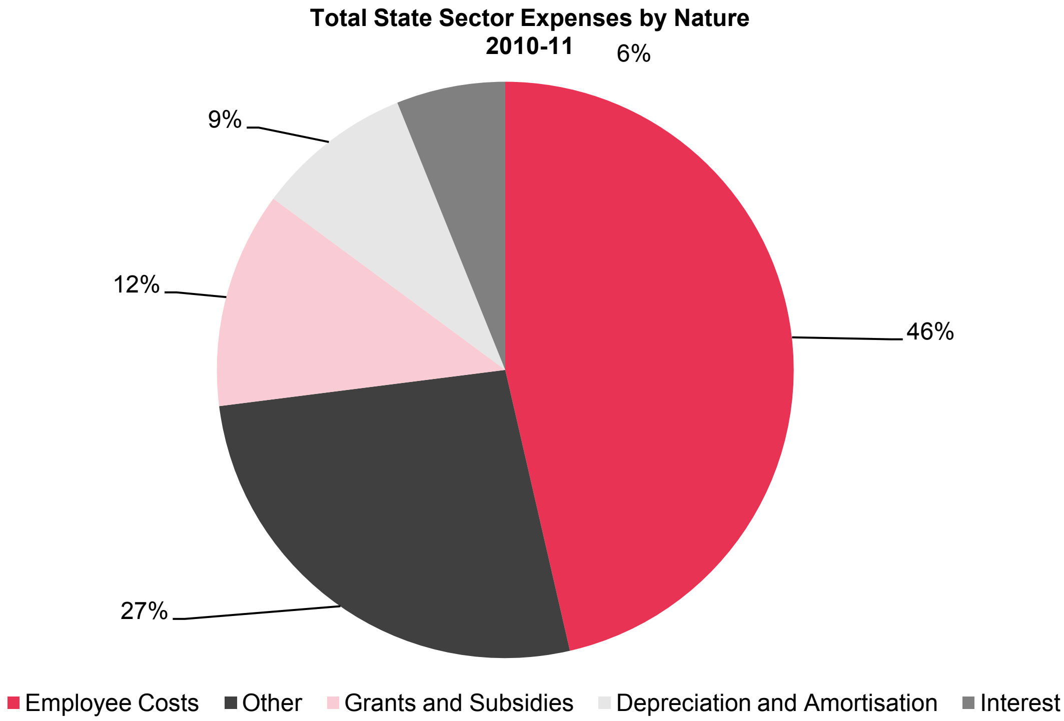
National Partnerships	Amount $m
Economic Stimulus Plan	1,631
Transport	783
Nation Building for the Future	455
Education	427

The reduction in National Partnership payments is mainly due to the completion of projects under the Commonwealth Government's Economic Stimulus Plan.

The State employs around 11 per cent of people employed in New South Wales

Expenses

Total State Sector Expenses by Nature



Employee Costs

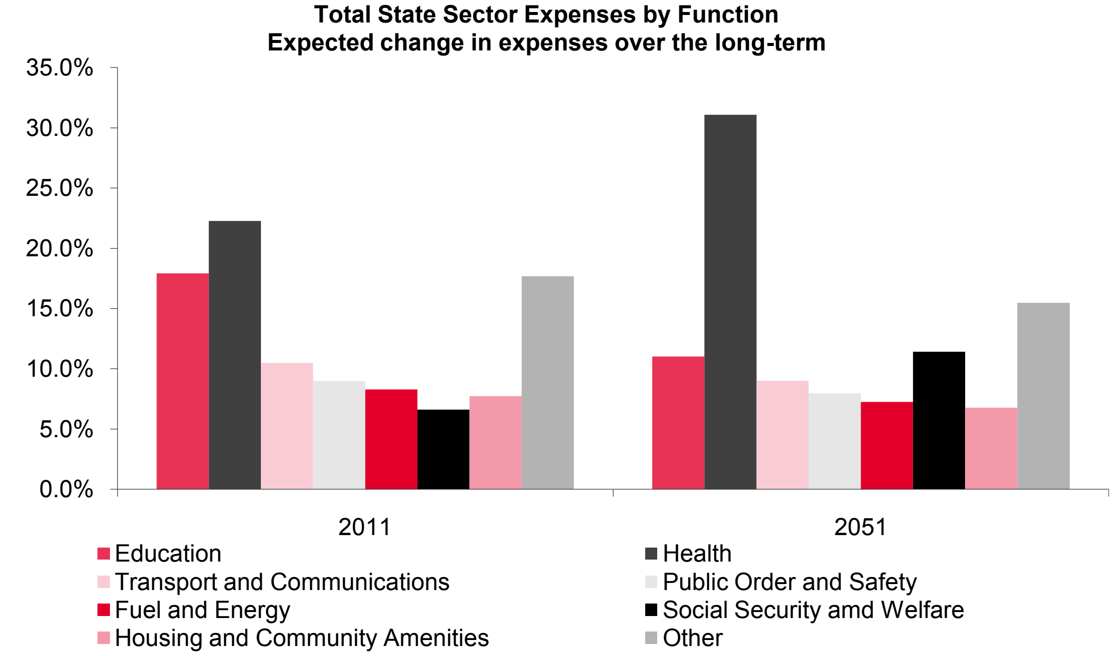
The State employs approximately 385,000 people, representing around 11 per cent of all people employed in New South Wales. The size of the New South Wales public sector has increased 1.4 per cent over the five-year period to 2010. This growth is consistent with the increase in people employed in New South Wales (1.5 per cent).

Most employees are within the General Government Sector. The health and education sectors employ about 60 per cent of all full time equivalents.

Employee costs increased by approximately 4.8 per cent compared to the prior year. Employee costs do not include increases and decreases in superannuation obligations resulting from changes to assumptions used to calculate these obligations (e.g. movements in discount rates and other economic assumptions). These costs are reported in Other Economic Flows – Other Comprehensive Income.

Expected changes in expenses over the long-term

As part of the 2011–12 Budget, the Treasurer released the first five-yearly update on the NSW Long-Term Fiscal Pressures Report (NSW Intergenerational Report). The report identifies the expected change in expenses over the long-term as a result of changing demographics and pressures placed on government services.



Source: Audit Office calculations using 2011 financial statements and NSW Long-Term Fiscal Pressures Report 2011–12 (unaudited).

Different rates of growth for each functional area result in changes in their relative share of total expenses over the 40-year period. The biggest rise is expected to come from health, which is projected to increase its share by 8.9 per cent. The next largest change is for education, whose share is projected to fall by 6.9 per cent. The share of expenses going to social security and welfare is also expected to rise, by 4.8 per cent. Although these changes are expected to occur gradually over the next 40 years, they represent major reallocations of government resources. The report attributes these changes to an aging population and the changing need for government services.

Long term modelling predicts proportionally increased spending on health and welfare, in line with an aging population

Statement of Financial Position

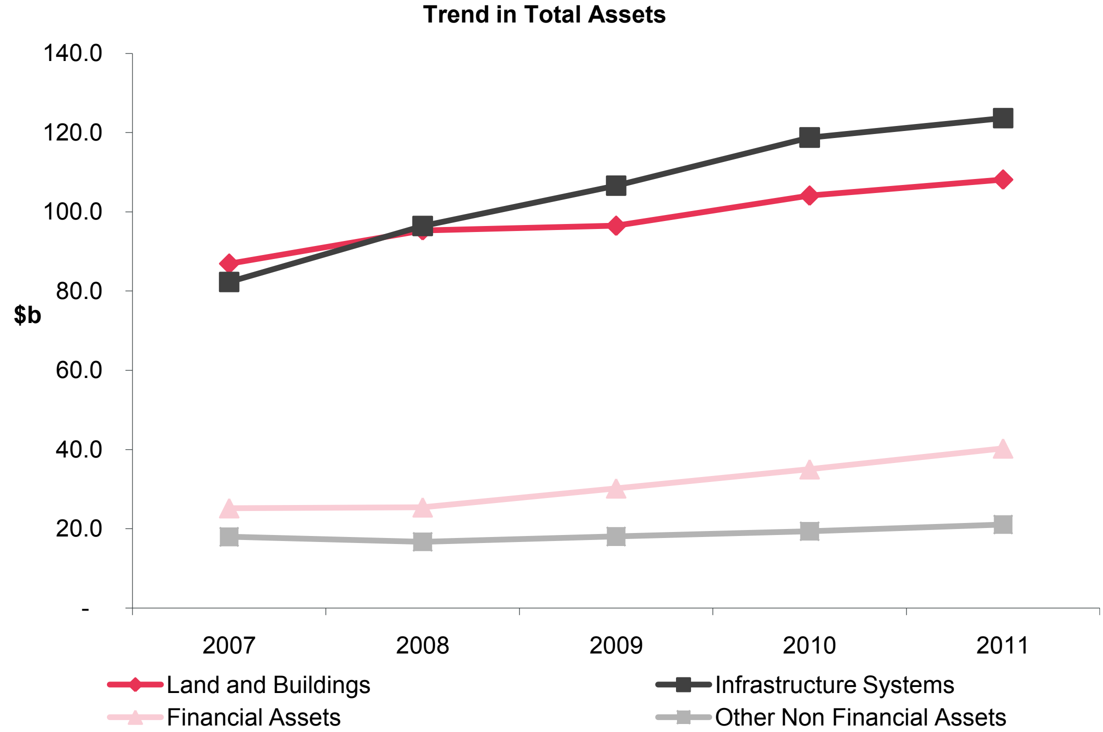
Year ended 30 June	General Government		Total State Sector	
	2011 $m	2010* $m	2011 $m	2010* $m
Assets				
Financial Assets				
Cash and cash equivalents	8,258	3,071	11,758	6,299
Receivables	5,785	6,176	6,763	6,775
Tax equivalents receivable	408	286	--	--
Financial assets at fair value	7,577	6,824	19,987	20,209
Advances paid	891	905	447	434
Deferred tax equivalents asset	5,363	5,734	--	--
Equity investments	85,568	80,131	1,343	1,305
Total Financial Assets	**113,850**	**103,127**	**40,298**	**35,022**
Non Financial Assets				
Inventories	276	276	1,340	1,349
Forestry stock and other biological assets	9	7	759	669
Assets classified as held for sale	153	133	293	267
Investment properties	592	269	782	825
Property, plant and equipment	127,454	123,103	245,167	234,955
Intangibles	1,425	1,245	2,961	2,628
Other	1,235	1,116	1,532	1,497
Total Non Financial Assets	**131,144**	**126,149**	**252,834**	**242,190**
Total Assets	**244,994**	**229,276**	**293,132**	**277,212**
Liabilities				
Deposits held	1,378	76	1,858	206
Payables	3,937	3,739	6,710	6,541
Tax equivalents payable	47	19	--	--
Borrowing and derivatives at fair value	21	20	59,271	56,866
Borrowings at amortised cost	22,509	19,053	2,721	2,411
Advances received	770	811	770	805
Employee provisions	11,627	10,910	13,737	12,944
Superannuation provision	32,333	32,722	34,054	34,530
Deferred tax equivalent provision	660	796	--	--
Other provisions	5,878	5,717	7,939	7,326
Other	2,547	2,521	2,785	2,691
Total Liabilities	**81,707**	**76,384**	**129,845**	**124,320**
Net Assets	**163,287**	**152,892**	**163,287**	**152,892**
Net Worth				
Accumulated funds	30,437	24,329	69,957	61,927
Reserves	132,850	128,563	93,330	90,965
Total Net Worth	**163,287**	**152,892**	**163,287**	**152,892**

* 2010 amounts have been restated for changes made in accordance with Australian Accounting Standards.

Assets

Total assets increased from $212 billion in 2007 to $293 billion in 2011, an increase of 38.1 per cent over five years, which equates to an average annual growth rate of 8.4 per cent. Almost 80 per cent of this growth has occurred within property, plant and equipment, two-thirds of which occurred in infrastructure systems.

The State's total assets are approaching $300 billion. Most of these are property, plant and equipment assets



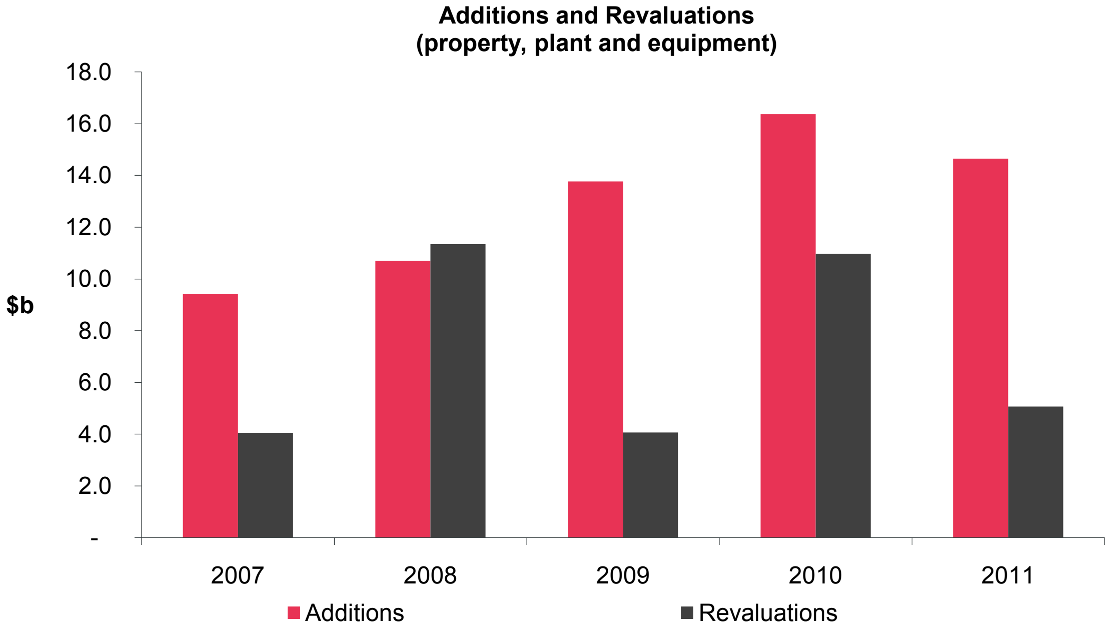
Property, Plant and Equipment

Property, plant and equipment assets represent 84 per cent of the State's total assets (85 per cent). Physical assets of land and buildings, infrastructure systems and plant and equipment are used to provide or support service delivery.

The State measures these assets at fair value, which is usually represented by the price it would cost to replace the remaining service potential of the asset. This is considered more useful information for government decision-making and is allowable under Australian Accounting Standards. Measuring at fair value means movements in carrying values year on year can be caused by the purchase or disposal of assets or revaluation of existing assets.

The State has spent over $60.0 billion on capital works over the past five years

The State appears to have adequate insurance coverage



Over the last five years, the State has spent $60.4 billion on capital expenditure (an average of $12.1 billion per year). In 2010–11, additions to property, plant and equipment totalled $14.6 billion, funded, in part, by capital grants of $3.7 billion from the Australian Government.

Major revaluations that took place during 2010–11 included:

- rail trackwork and infrastructure upwards by $3.3 billion and rail buildings by $1.1 billion
- electricity transmission and distribution assets upwards by $1.4 billion.

Offsetting these upward revaluations were write-downs of approximately $1.8 billion in the value of the State's electricity generation assets. The carrying values of relevant power stations were adjusted to the expected proceeds from the sale of their future generation output.

Maintenance Spending

The State spent $4.4 billion during 2010–11 ($4.4 billion) maintaining its property, plant and equipment including relevant employee costs. Expenditure on asset maintenance is equivalent to 2.3 per cent of the State's property, plant and equipment (excluding land) (2.6 per cent) and represents 6.5 per cent of total expenses (seven per cent).

Adequacy of Insurance Arrangements

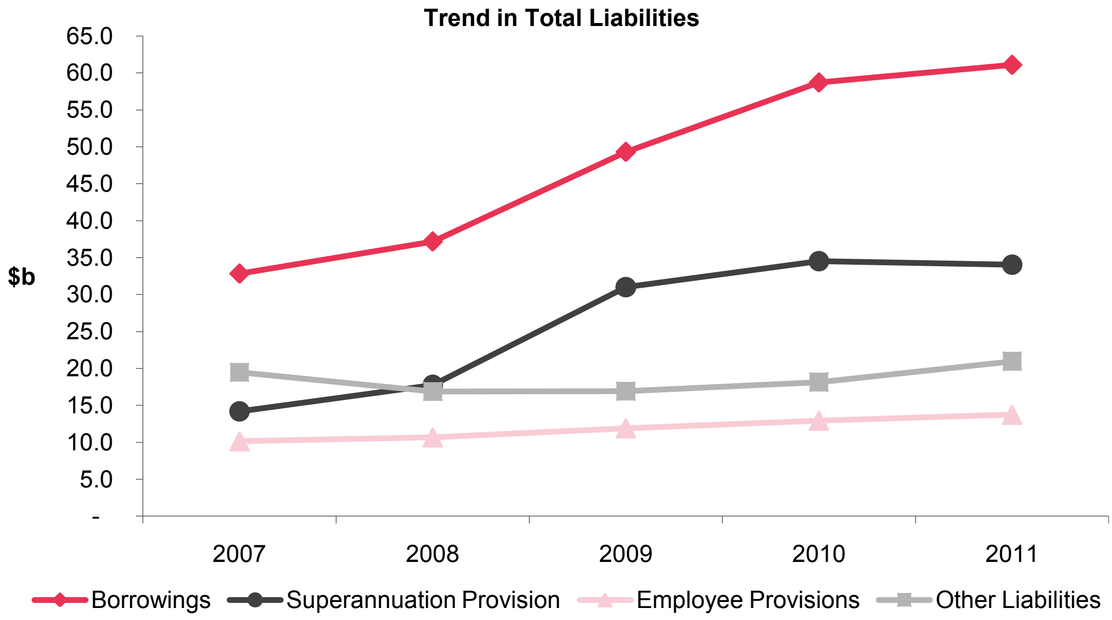
The State obtained an independent assessment of its insurance arrangements in September 2011 to comply with Commonwealth natural disaster funding arrangements. The independent assessment concluded that the State appears to have adequate insurance coverage.

The assessment noted that the State's roads and water and sewerage assets are generally not covered by insurance, but that this is generally consistent with other States and Territories. The assessment acknowledged that natural disaster losses to these types of assets are typically met by reprioritising maintenance and/or capital expenditure within the agency involved.

Liabilities

Total liabilities increased from $76.6 billion in 2007 to $130 billion in 2011, an increase of 69.4 per cent over five years, which equates to an average annual growth rate of 14.1 per cent. Over half of that growth has occurred in borrowings.

The State's liabilities have increased markedly in the past five years. Much of this increase has occurred in borrowings



Borrowings

Domestic and foreign borrowings increased by $2.4 billion during 2010–11. This increase was primarily for the management of operating cash flow needs.

Superannuation Provisions

The State's superannuation obligations for past and present employees have more than doubled in the past five years

The State's superannuation liability of $34.1 billion represents obligations for past and present employees, less the value of assets set aside to meet those obligations.

The net liability decreased by $476 million during 2010–11, a reduction of 1.4 per cent. The decrease was mainly due to a 0.1 per cent increase in the discount rate used to calculate the present value of the liability. The discount rate changed to reflect the increased rate of return on Australian Government bonds. Slightly better than expected investment returns on assets set aside to meet the obligations also reduced the liability.

The State's net obligation has increased markedly since the advent of the global financial crisis, reflecting movements in investment markets.

Employee Provisions

Over the past five years, employee provisions have increased slightly, in line with movements in employee costs.

Other Liabilities

Other liabilities increased by $2.8 billion during 2010–11. This was partly due to a $1.3 billion security deposit held by the State under contracts entered into as part of electricity industry reforms. This security deposit is offset by an equal increase in assets arising from the contracts. The Lifetime Care and Support Scheme obligations also increased by $400 million.

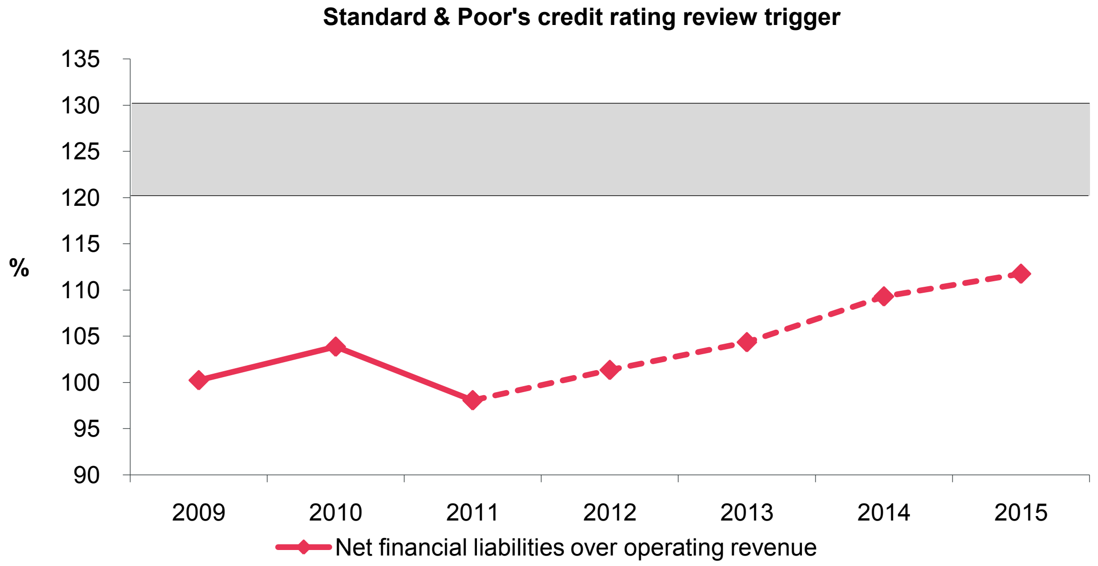
The State of New South Wales maintained its AAA credit rating

AAA Credit Rating

The State of New South Wales has maintained its credit ratings of AAA from Standard & Poor's, Aaa/Stable from Moody's Investors Service and AAA from FitchRatings. Each of the ratings agencies has assessed the State's credit rating outlook as being stable. The 2011–12 Budget did not impact on ratings or outlooks.

Whilst the ratings agencies note that New South Wales is well placed compared to other Australian jurisdictions, they also acknowledge a need to maintain fiscal discipline. In September 2011, Standard & Poor's noted the government's achievement of Budget forecasts is based on the implementation of ambitious savings and revenue measures. It also reiterated that the AAA credit rating could be downgraded if the expected debt and net financial liability levels exceed relevant rating thresholds over the medium term.

The following graph shows a predicted increase in the ratio of net financial liabilities to operating revenue over the medium term, which Standard and Poor's have identified as needing to stay below 120–130 per cent to avoid triggering a rating review:



Source: 2011–12 budget papers (unaudited).

Note: Standard & Poor's definition of net financial liabilities is net debt plus unfunded superannuation liabilities.

Major Capital Projects

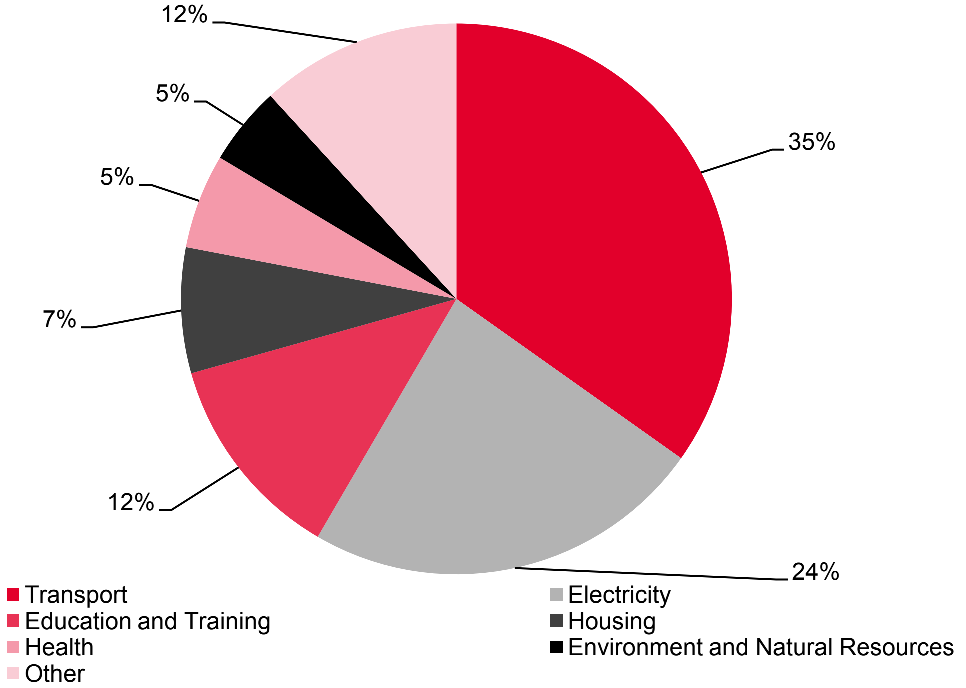
The government publishes its capital infrastructure plans for the current and forward estimates periods in Budget Paper 4: Infrastructure Statement. In the 2010–11 Infrastructure Statement the Treasurer announced:

'Over the four years to 2013–14, New South Wales will undertake an infrastructure investment program worth $62.2 billion, including $16.6 billion in 2010–11.'

The government's 2010–11 capital infrastructure plan included over 700 major capital projects estimated to cost $16.6 billion.

Agencies advise that major capital projects are mostly on track to meet completion dates and estimated costs

Total State Sector Infrastructure Investment by Policy Area 2010-11



I have considered the status of major capital projects as set out in the Infrastructure Statement for 2010–11. I focused my attention on projects with anticipated costs exceeding $30.0 million or more over the life of the project. Information provided by agencies shows most projects are on track to meet their completion date and estimated project cost.

My analysis identified that many of the projects expecting cost overruns are due to subsequent changes to the project's scope. Revising the scope of projects is not necessarily poor decision-making, but may demonstrate the need to improve how projects are initially scoped as cost overruns will need to be funded.

Some of the major projects expecting delays and/or cost overruns are:

Project Description	Estimated Project Cost $m	Reasons for expected delays and/or cost overruns
Barangaroo Delivery Authority		
Headland Park and Northern Cove (Design and Construction)	N/A	Additional scope was added to the project, which will result in increased costs
Ministry of Health (formerly the Department of Health)		
Hornsby Hospital Adult Acute Mental Health Unit and Child Adolescent Mental Health Unit	33.6	Additional scope was added to the project, which will result in increased costs and delayed completion
Royal North Shore Hospital Clinical Services Building	91.8	Additional scope was added to the project, which will result in increased costs

Project Description	Estimated Project Cost $m	Reasons for expected delays and/or cost overruns
Wollongong Elective Surgery Unit	83.1	Additional scope was added to the project, which will result in increased costs
Business Information Strategy	35.9	Delays experienced in testing core infrastructure and testing at the Local Health Districts. As a result, the project's scope has reduced
Liverpool Hospital Redevelopment (Stage 2)	395.9	Additional scope was added to the project, which will result in increased costs
Nepean Hospital Redevelopment (Stage 3)	83.5	Additional scope was added to the project, which will result in increased costs
Shared Corporate Services	56.6	Project delayed pending outcome of the department's new governance arrangements
Hunter Water Corporation		
Kooragang Island Recycled Water Plant	67.6	Project delayed as works did not commence until commercial agreement with a third party was signed. Increased costs expected due to land purchased for potential expansion of the scheme in the future
Tillegra Dam	477.3	Project cancelled by the government
NSW Police Force		
Upgrade of Core Operating Policing System	45.9	Additional costs identified during progression of the project
Port Kembla Port Corporation		
Outer Harbour (Stage 1A) – New Bulk Goods Berth	96.5	More recent and detailed plans have resulted in higher costs for construction
Rail Corporation New South Wales		
Western Express CityRail Service	4,530.0	As part of the government's policies, the capital works program changed during 2010–11, including the deferment of the Western Express Rail Service
Roads and Traffic Authority of New South Wales		
Holbrook Bypass – Dual Carriageways	N/A	Delays in obtaining approval resulted in the invitation for construction tenders not being issued on time. This will impact on the expected completion date of the project
Central Coast Highway (Carlton Road to Matcham Road) – Widen to Four Lanes	100.0	Wet weather delays will impact on the expected completion date of the project
State Water Corporation		
Burrendong Dam Upgrade (Phase 1)	31.6	Project postponed due to reprioritisation
Keepit Dam Upgrade (Phase 1)	131.6	Project postponed due to re-prioritising projects at Chaffey Dam
Wyangala Dam Upgrade (Phase 1)	38.0	Project postponed due to reprioritisation

N/A indicates the estimated project cost was not disclosed in the 2010-11 Budget Papers as the project was in the planning phase.

Summary of Public Private Partnerships

The State controlled $245 billion of property, plant and equipment assets at 30 June 2011 ($235 billion). Of this, $124 billion ($119 billion) relates to infrastructures systems. Infrastructure can be provided via other mechanisms than State owned, financed and operated.

Public Private Partnerships (PPPs) are long-term contracts between the public and private sectors where government generally pays the private sector to deliver infrastructure and related services to meet government's service responsibilities. PPPs rely on borrowing or equity funding from private sources.

The State has over 40 public private partnerships to provide facilities and services

The State currently uses four broad types of PPP arrangements:

- purchase arrangements with deferred payments, which include infrastructure that is State owned and controlled, and which has been financed by the private sector
- finance lease arrangements, which include infrastructure owned and financed by the private sector, but which is controlled by the State
- Build (Own) Operate Transfer arrangements, which include infrastructure that is financed, built, and operated for a certain period of time by the private sector, after which ownership and control of the infrastructure is transferred to the State. The private sector recovers its investment through charges paid by the infrastructure users
- Build Own Operate arrangements, which include infrastructure that is financed, built, and operated by the private sector generally for the life of the infrastructure. The private sector recovers its investment through charges paid by the State.

The State currently has over 40 active PPPs that cover a wide range of government services:

PPP	PPP commencement (a)	PPP term (years)
Purchase arrangements with deferred payments		
Royal North Shore Hospital (RNSH) Redevelopment – Stage 2	2011	26
Bathurst, Orange & Associated Health Services	2011	24
Bonnyrigg Living Communities Project	2010	27
Newcastle Mater Hospital Redevelopment	2009	25
Long Bay Prison and Forensic Hospitals	2008	26
Ten new schools (New Schools Project 2)	2007–2009	29
Nine new schools (New Schools Project 1)	2004–2005	29
Finance lease arrangements		
Electric Passenger Rollingstock replacement	2011	33
Rollingstock Maintenance Facility	2010	30
Metropolitan Buses	2005	7
Parramatta Police Headquarters	2004	20
Hawkesbury Hospital	1996	20
Blue Mountains Sewage transfer tunnel	1996	35
Macarthur Water Treatment Plant	1995	35
Sydney Harbour Tunnel	1992	30
Build (Own) Operate Transfer (BOT or BOOT) arrangements		
M2 Motorway Widening	(b)	(b)
Lane Cove Tunnel	2007	30
Westlink M7 (Western Sydney Orbital) Motorway	2005	32
Cross City Tunnel	2005	30
Airport Line Stations	2000	30

Proposed public private partnerships include M5 widening, extending light rail and upgrade of convention facilities

PPP	PPP commencement (a)	PPP term (years)
St George Hospital Car Park	1999	25
Eastern Distributor Motorway	1999	49
Stadium Australia	1999	32
Sydney SuperDome	1999	31
Randwick Hospital Car Park	1998	25
Light Rail System	1997	31
M2 Motorway	1997	45
Bowral Private Medical Imaging	1996	15
Sydney Hospital Car Park	1995	25
Opera House Car Park	1993	50
M4 Motorway Service Centres	1993	25
M5 Motorway	1992	31
Build Own Operate (BOO) arrangements		
Rosehill Camellia Recycled Water Project	2010	21
Pindari Mini Hydro Power Station	2001	(c) 30
Woronora Water Treatment Plant	1997	25
Prospect Water Treatment Plant	1996	25
Illawarra Water Treatment Plant	1996	25
Burrendong Mini Hydro Power Station	1996	(c) 30
Copeton Mini Hydro Power Station	1995	(c) 30
Liverpool Hospital Car Park	1994	19
Glenbawn Mini Hydro Power Station	1994	(c) 30
Wyangala Mini Hydro Power Station	1991	(c) 30

Source: The Treasury (unaudited)

a PPP commencement is the year the project was ready for operation.

b The M2 Motorway widening is in its construction phase. Construction is split into four stages with planned completion dates ranging from 2012–2013. Completion of the construction phrase will extend the original M2 Motorway term by four years (ending in 2046).

c Excludes options to extend PPP term.

The Treasury advised of the following proposed PPPs:

Proposed PPP	Nature of proposed PPP
M5 upgrade	Widening the M5 Motorway from two lanes to three lanes in each direction
Sydney Light Rail Expansion (Stage 1) – Inner West Extension	Extend the existing light rail system 5.6 kilometres from Lilyfield to Dulwich Hill
Sydney International Convention, Exhibition and Entertainment Precinct	Procurement of the expansion and enhancement of the existing convention, exhibition and entertainment facilities at Darling Harbour

Quality and Timeliness of Financial Reporting

Timely and accurate financial reporting is essential for effective decision making, more effective and timely management of public funds and enhancing public accountability. Financial reporting occurs within hundreds of New South Wales government agencies annually and this financial information is used to prepare the General Government and Total State Sector Accounts. Significant effort and resources are expended by agencies in discharging their reporting obligations. This section of my report identifies opportunities for improved financial reporting across the New South Wales public sector.

Timely and accurate financial reporting is essential for effective decision making and enhancing public accountability

Public Accounts Committee Report

Recommendation

The Premier and Treasurer should continue implementing the Public Accounts Committee recommendations relating to the quality and timeliness of financial reporting.

In October 2010, the Public Accounts Committee released a report on the Quality and Timeliness of Financial Reporting. The committee reported that financial reporting needed to be of a higher standard to better inform budget decisions, enable more effective and timely management of public funds by government agencies, and to improve accountability for public expenditure.

Financial reporting in New South Wales falls short of requirements

The committee made several recommendations, which the government formally responded to in April 2011. Overall, the government supported the recommendations and developed responses to address the committee's concerns. A summary of the recommendations and government responses appears below.

No.	Public Accounts Committee's recommendations	Summary of government response
1	The Treasurer require all agencies to conduct a hard close of their accounts at 31 March from 2011.	After relevant consultation, Treasury concluded a full hard close was impracticable, and instead started implementing a series of 'early close procedures' for larger agencies. This involved conducting some aspects of year-end financial reporting processes before year-end.
2	The Treasurer propose amendments to the *Public Finance and Audit Act 1983* requiring chief financial officers to certify their financial reporting systems.	Treasury requested all chief financial officers to express an opinion as to the effectiveness of the information prepared by their agencies by 15 April 2011.
3	The Premier ensure that accountability for accurate and timely financial reporting is included in all chief executive officers' performance agreements.	Recommendation to be incorporated as part of a broader reform of accountability of chief executive officers.
4	The Treasurer develop and implement a program to bring forward the deadline for the tabling of annual reports in Parliament to three months after the end of the financial year by 2013 at the latest.	'Early close procedures' designed to facilitate earlier tabling of annual reports.
5	The Treasurer consider proposing amendments to prescribe minimum qualifications of chief financial officers in the *Public Finance and Audit Act 1983*.	Premier's Circular 99-69 'Qualifications for Senior Financial Management and Accounting Positions' is still current and the government believed this issue could be managed more flexibly through current arrangements rather than legislative amendment.

The 2011 year-end financial reporting process is almost complete and I have considered the measures implemented to address the committee's recommendations.

Early Close Procedures

Recommendation

The Treasurer should mandate adoption of early close procedures for all agencies' 2011-12 year-end reporting.

Treasury's 'early close procedures' are a step in the right direction, but need to go further

It is generally accepted that timely year-end financial reporting is an indicator of sound financial management processes. Accordingly, measures aimed at earlier tabling of agency annual reports in parliament should be a priority. Treasury's 'early close procedures' are a step in the right direction, but more can be done.

In its Circular 11/01 'Early Reporting Program – Strategy to improve the quality and timeliness of financial statements and Annual Reports', Treasury strongly encouraged large and medium sized agencies to perform various aspects of their year-end reporting processes before 30 June 2011. Agencies were encouraged to:

- prepare pro-forma financial statements
- identify and resolve complex or significant accounting issues, including changes to accounting policies or estimations
- conduct asset valuations
- identify matters that caused delays in prior years and develop action plans to address such matters.

Treasury invited agency financial reporting staff to a briefing session on the circular's contents. It also wrote to agency audit and risk committees to alert them of the circular's existence and request their support in encouraging agency compliance.

Whilst most relevant agencies conducted some aspects of the 'encouraged' early close procedures, the circular's requirements were not 'mandatory'. In my experience, mandatory requirements are more likely to achieve agency compliance. The Treasurer has the ability to impose mandatory requirements legislatively by issuing a direction under section 9 of the *Public Finance and Audit Act 1983*.

Recommendation

Treasury should consider developing minimum requirements for agencies' month end reporting.

Agencies' monthly financial reporting processes contribute significantly to accurate and timely year-end reporting and need to improve

Treasury Circular 11/01 also encouraged agencies to make improvements to their monthly financial reporting processes. Performing effective financial reporting practices throughout the year contributes significantly to accurate and timely year-end reporting.

Many agencies view year-end financial reporting as a significant one-off annual event. As a result, monthly financial reporting falls far short of what is considered best practice. In better practice organisations, year-end financial reporting is simply an extension of regular month end reporting.

Until agencies' monthly reporting processes improve, the benefits of additional/improved 'early close procedures' or more comprehensive 'hard close procedures' will not be realised.

Certification of Financial Systems

Recommendation

Treasury should continue with its plans for annual certification of systems and consider:

- articulating the requirement within a Treasury Circular or Policy and Guideline Paper
- providing further guidance and details of its expectations as to what constitutes effective financial systems and processes
- informing audit and risk committees of the certification requirements.

Agencies need effective systems and processes to generate the financial data required by Treasury

It is important that accurate and complete agency financial data is available on a timely basis because it underpins whole-of-government financial information. To promote this, Treasury asked agency chief financial officers (CFOs) to formally assert that their agency had effective systems and processes to generate the financial information required by Treasury. Most CFOs provided these assertions as at 31 March 2011.

In April 2011, a restructure of government agencies resulted in significant changes to the processing of transactions and transfer of account balances. Accordingly, the systems and processes certified by CFOs at 31 March 2011 were often not the same as those used to generate the financial data for the 2011-12 Budget Papers or the 2010-11 General Government Sector and Total State Sector Accounts. This significantly impacted the effectiveness of Treasury's early close initiative.

I understand Treasury plans to make CFO assertions about the effectiveness of financial systems an annual requirement. I support this and believe Treasury could strengthen the robustness of the certification process.

Treasury surveyed agencies about the certification process. Almost half the agencies surveyed asked for guidance to help facilitate effective certification. Many agencies undertook internal audits of their financial systems and processes to inform the 31 March 2011 certification process. The scope of the internal audits varied across agencies increasing the risk of inconsistencies in CFO assessments.

Almost half the agencies surveyed also reported that their agency's audit and risk committee had no involvement in the certification process. In my view, audit and risk committees should exercise oversight of the certification process to improve the rigour with which it is performed and to achieve greater consistency across agencies.

Recommendation

Treasury should ensure all agencies adopt its improved processes for submitting financial reporting data.

Opportunities exist to streamline reporting of financial data to Treasury

Agencies use financial data from their financial systems to populate Treasury's Online Entry System (TOES). During 2010-11, Treasury has recently developed an improved agency process of uploading agency financial data to TOES, aimed at eliminating manual aspects of the data submission process. Not all agencies adopted the new processes for 2010-11 year-end financial reporting.

Implementing seamless processes for collecting agency data will facilitate more regular and timely collection of financial information, improve data consistency and reduce the risk of errors.

CEO performance agreements need updating to reflect their accountability for accurate and timely financial reporting

The timeliness of tabling agency annual reports needs to improve

Accountability of Chief Executive Officers

Recommendation

The Premier should update memoranda to ensure all Chief Executive Officers' (CEOs) performance agreements reflect their accountability for accurate and timely financial reporting.

Treasury advises that CEO performance agreements for principal departments now reflect their accountability for accurate and timely financial reporting. In my view, more can be done to address the committee's recommendation. The current requirements applicable to most CEOs need updating and clarification of the principal agency CEO accountabilities is required.

Premier's Memoranda M2008-04 'Chief Executive Performance Agreement Guidelines' and M2006-09 'Chief Executive Performance Agreements' are listed as current on the Department of Premier and Cabinet's website. Attached to M2008-04 are performance agreement guidelines and a performance agreement template.

The memoranda do not have broad mandatory application. The guidelines and template apply to 'Lead Chief Executive Officers' (an outdated term from the 2006 State Plan). All other CEOs are encouraged to use the guidelines and templates as a basis for their agreements, with the exception of CEOs of State owned corporations (SOCs) whose agreements may adopt relevant aspects, but should refer to Treasury's Policy and Guideline Paper TPP06-1 'CEO Contract Guidelines for Government Businesses'.

M2008-04, M2006-09, and the performance agreement guidelines and template do not make reference to accurate and timely financial reporting. However, TPP 06-1 does require performance agreements to include measures for accountability in respect of financial management and an appendix lists examples of performance measures.

M2008-04's performance guidelines and template were both due for review on 30 June 2011. This has not occurred. However, I understand the Department of Premier and Cabinet drafted an updated pro-forma 'Director-General Performance Agreement' in August 2011, which has been used as the basis for current agreements between the Premier and the Directors-General of the nine principal departments listed in Schedule 1 to the *Public Sector Employment and Management Act 2002*, and for the Department of Planning and Infrastructure.

The updated pro-forma agreement includes a section on budget compliance and financial reporting, which states that accurate and timely financial reporting is mandatory. However, performance against this requirement is simply assessed as 'yes' or 'no'. There is no guidance on the meaning of accurate and timely financial reporting nor are there any criteria as to how performance should be assessed. In my view, published pro-forma performance agreements should indicate what constitutes achievement of the mandatory requirement for accurate and timely financial reporting.

Earlier Tabling of Annual Reports

Recommendation

The Treasurer should consider mandating:

- earlier dates for submission of financial statements for audit
- earlier annual report tabling dates.

In my view, the timeliness of tabling agency annual reports should and can be improved. Some other Australian jurisdictions have shorter timeframes than those applicable to New South Wales public sector agencies.

Currently, legislation requires agencies to provide annual reports to relevant ministers within four months of the financial year-end and ministers to table those reports in parliament within one month of receipt. Audited financial statements are included in agency annual reports.

The *Public Finance and Audit Act 1983* requires agencies to submit financial statements for audit within six weeks of year-end. Treasury's Circular 11/01 'Early Reporting Program – Strategy to improve the quality and timeliness of financial statements and Annual Reports' encouraged agencies to submit their annual reports to ministers earlier than the legislative deadline. The circular set out a financial reporting timetable that was earlier than the legislative one, aimed at facilitating earlier tabling of annual reports.

TC 11/01 was issued in January 2011. The significant restructure of agencies that occurred in April 2011 meant that the circular's financial reporting timetable ceased to have relevance in many instances. Accordingly, Treasury developed a new timetable, which in many instances abandoned the earlier dates to allow for the impact on agencies of having to update financial reporting processes and systems to reflect the restructured arrangements. To an extent, the restructure derailed Treasury's response to the Public Accounts Committee's recommendation.

In 2011, whilst almost all agencies met the legislative requirement for submission of financial statements for audit, almost half the agencies did not meet aspects of the earlier timetable created by Treasury. I believe that creation of a legislative requirement will create a greater incentive for agency compliance.

Minimum Qualifications for Chief Financial Officers

Recommendation

The government's reliance on Premier's Department Circular 99-69 'Qualifications for Senior Financial Management and Accounting Positions' to address the Public Accounts Committee's recommendation for minimum qualifications for CFOs should be reviewed. In my view, this circular has limitations.

Requirements for CFO qualifications may not reflect the broad range of skills needed in today's environment

Preparing agency financial statements requires a broad range of skills, which are not limited to an understanding of accounting concepts and requirements. Year-end financial reporting requires project management and stakeholder consultation, as well as knowledge of agency operations. In addition to formal accounting qualifications, agency CFOs need experience in financial management and corporate governance, including compliance and risk management, technology and internal controls.

The government's response to the Public Accounts Committee's recommendation for minimum qualifications for CFOs appears to rely on Premier's Department Circular 99-69 'Qualifications for Senior Financial Management and Accounting Positions'. In my view, this circular has the following limitations:

- it is only mandated for government departments. Statutory bodies, including State owned corporations, are only encouraged to adopt the minimum qualification requirements
- low rates of attrition across the sector have reduced its effectiveness because it only applied to future recruitment into financial management and accounting roles and exemptions were available for existing officers taking on new roles within the sector
- it includes other exemptions that mean not all financial management and accounting roles require minimum qualifications.

I am concerned reliance on the current circular will not achieve the outcome intended by the committee's recommendation.

2010-11 Agency Financial Statements

Quality of Financial Statements

Recommendations

The level of errors in agency financial statements is too high

- Treasury should consider issuing further accounting policy guidance in certain areas, especially for revenue and provisions.
- Agencies should implement more effective review into their financial reporting processes.

Generally, users of financial statements will accept a level of inaccuracy in order to receive timely financial information. However, the level of error cannot be significant enough to affect their ability to make sound decisions based on that information.

Agencies do not appear well placed to accommodate future reductions in financial and annual reporting timetables

The nature and extent of errors in agencies' financial statements provides valuable insight into the quality of financial reporting. Agencies' 2010-11 financial statements submitted for audit contained 25 (24) errors each exceeding $20.0 million.

	Number of Errors	
	2010-11	**2009-10**
$20 - $50 million	14	11
$50 - $100 million	4	5
$100 million - $1 billion	6	6
Greater than $1 billion	1	2
Total errors greater than $20 million	25	24

Agencies' financial statements were corrected as necessary to ensure compliance with Australian Accounting Standards and the requirements of the *Public Finance and Audit Act 1983*.

My review of these errors identified the following common causes:

- mistakes in spreadsheet formulae and data entry errors when calculating carrying values of property, plant and equipment
- errors in applying Australian Accounting Standard requirements applicable to revenue, resulting in recognition of revenue in the wrong financial year
- deficiencies in determining year-end accruals
- use of inappropriate and inaccurate assumptions when calculating provision balances
- errors in inter-agency payables and receivables, indicating agencies do not regularly reconcile these balances as part of effective monthly reporting processes.

These issues indicate insufficient review mechanisms in agency financial reporting processes and insufficient expertise in accounting standard requirements when accounting for complex transactions.

Timing of Financial Statements

Recommendation

Treasury should liaise with agencies to identify key impediments perceived by agencies in meeting an earlier financial and annual reporting timetable.

Whilst almost all agencies met the legislative deadline for submission of their 2010-11 financial statements for audit, most agencies submit on the last possible day. Combined with the poor performance against Treasury's timetable for data collection previously discussed, this indicates agencies are not well placed to accommodate future reductions in the financial and annual reporting timetables.

It is not clear whether current performance by agencies in the area of timeliness reflects insufficient resources, capability gaps, the need for additional support from Treasury, or other factors. To help establish priorities for Treasury in implementing plans for an earlier reporting timetable, a solid understanding of the challenges faced by agencies is necessary.

The Impact of Agency Restructures on Financial Reporting

A great deal of work is required to effect restructures in agencies' financial systems

Many New South Wales public sector agencies have been restructured in recent years, and in some instances, functions have been transferred more than once during the same period.

The Public Sector Employment and Management (Departmental Amalgamations) Order 2009 significantly impacted agencies' financial reporting process for the year ended 30 June 2010. This order created 13 new 'super departments' effective 27 July 2009.

The quality and timing of financial reporting is generally adversely impacted by restructures

The Public Sector Employment and Management (Departments) Order 2011 created nine 'principal departments' effective 4 April 2011. The Public Sector Employment and Management (Departments and Ministers) Amendment Order 2011 amended the April Order. The restructures significantly impacted agencies' financial reporting process for the year ended 30 June 2011.

In my view, the two month delay between the original order and the amending order is likely to have created uncertainty amongst agencies in understanding the impacts of the government's decisions. The Department of Premier and Cabinet publishes details of government structure on its website. These details were not updated to reflect the April 2011 restructure until 17 August 2011. This delay is indicative of the complexities associated with the impacts of government restructures.

Recommendation

I again recommend Treasury and Department of Premier and Cabinet take a lead role in monitoring, supporting and reporting on the implementation of common financial reporting and support systems within the new departments.

Given the work required to update accounting records to reflect the impact of restructures and the necessary changes to financial reporting systems and processes, the quality and timing of financial reporting is generally adversely impacted by restructures. This is especially so when restructures occur part way through a financial year. In this event, agencies have to prepare financial reporting information for two reporting periods within the same financial year, both of which have to be audited, resulting in additional costs.

Restructures, particularly those occurring during a financial year, increase the risk of errors in agency financial statements, which can have negative consequences for the quality, timing and audit of the financial statements.

As I reported in 2009-10, many agencies impacted by restructures in that year were yet to make significant progress in implementing common financial reporting and other support systems to leverage the synergies expected from the restructures. This is the same in 2010-11. I also expect additional costs associated with the 2010-11 restructures are not readily identifiable and systems have not been put in place to capture and report cost savings achieved by the restructures. My expectation is based on findings within my March 2008 Performance Audit on 'Managing Departmental Amalgamations'.

This audit reported that amalgamating departments requires careful management as amalgamations create risks of dislocation and uncertainty for the organisation, its staff, its suppliers, and its clients and customers. Based on case studies in that report, I believe that advance notice of amalgamations and restructures allows agencies to plan and implement changes to achieve objectives. It is also more likely to result in better measurement of the success of the restructure.

The Impact of Budget Timing on Financial Reporting

Increased demand on agency staff increased the risk of errors in 2010-11 financial statements

Budgets are traditionally delivered in May or June. Not since the 1995-96 Budget was handed down on 10 October 1995, has preparation of the Budget coincided with year-end financial reporting. In addition to concurrent timetables for both processes, the 2011-12 Budget was completed in a shorter timeframe than in recent years.

Agency personnel responsible for year-end financial reporting are often also responsible for preparing data for the Budget. Most agencies managed the concurrent requirements of both processes by having staff work additional hours. Treasury, which was significantly impacted, also seconded staff from other areas of the agency. I recognise that the demands on Treasury's resources to prepare both the Total State Sector Accounts and the Budget were substantial and it is to the agency's credit that both were delivered on time.

The increased demand on agency resources increased the risk of errors in agencies' 2010-11 financial statements.

The Impact of Significant Transactions on Financial Reporting

It takes too long to resolve accounting for major complex transactions

Recommendation

Treasury should implement better processes for identifying and resolving accounting implications arising from significant transactions and ensure relevant staff are fully conversant with the application of its policies.

During 2010-11, the government entered into various transactions to restructure the electricity industry. These transactions were several and complex, as were the accounting implications. Five State owned corporations in the electricity sector were impacted, as were the Crown Entity, entities involved in the planned Cobbora mine operations and the General Government Sector and Total State Sector Accounts.

Treasury and affected agencies' financial reporting staff started to identify the possible accounting implications immediately the contracts were entered into in December 2010. However, many of these implications were still being resolved in July 2011, and in some instances led to errors in agency financial statements submitted for audit.

It appears that delays in identifying implications and determining appropriate resolution occurred partly because of poor interaction between Treasury Directorates on matters relevant to financial reporting. The provision of relevant documentation to financial reporting staff did not occur on a timely basis.

Further, agencies relied on advice and instructions from Treasury staff that were in some instances incorrect and inappropriate, having regard to Treasury's own policies and legislative requirements.

Current Status of Previous Recommendations

Progress on 2010 Recommendations

In my 2010 Reports to Parliament, I made 237 recommendations for the government and its agencies, excluding the university sector and performance audits, to improve their operations. I made 157 recommendations in 2009. The significant increase in 2010 was mainly due to my focus on workforce management issues across the New South Wales public sector.

Most of the 237 recommendations I made last year have been or are being actioned

I reviewed the status of these recommendations and found the majority had either been actioned or were in the process of being actioned.

Some of my recommendations relating to agencies affected by amalgamations or restructures have not been addressed. I am concerned that the new agencies have not considered the wider implications of my recommendations.

I will provide details on the current status of all recommendations made in 2010 throughout my remaining 2011 Reports to Parliament. Some significant unactioned recommendations include:

Recommendation	Current status
Whole-of-government	
Government agencies need to focus on improving their fraud prevention and detection systems. Specifically, they need to improve their fraud risk assessments, employee and consumer awareness programs and detection systems. Useful detection systems include data mining and early warning systems to receive information from staff, contractors, suppliers and the public about potential frauds.	Central agencies could support individual agencies to improve their systems by way of policies and guidance. For example, agencies would benefit from sector wide policies in respect of fraud control. I have seen no evidence that this sort of activity has occurred or is planned.
The government should seek amendments to the Fiscal Responsibility Act 2005 so that it provides targets and priorities within the control of government as part of the five-yearly review.	Whilst I understand changes to the Act are under consideration, I am concerned about delays in actioning a recommendation first raised in 2009.
Treasury and the Department of Premier and Cabinet should take a lead role in monitoring, supporting and reporting on the implementation of common financial reporting and support systems within the amalgamated departments.	I have previously mentioned the challenges faced by agencies implementing the impacts of restructures. Such agencies would benefit from practical guidance in this area. I have seen no evidence to demonstrate improved support from central agencies since my recommendation was first made after the July 2009 amalgamations.
Land and Property Management Authority (the Authority) (functions transferred to other government agencies during 2011)	
The Authority needs to identify and value all assets under its control so they can be recognised in its financial statements.	Whilst I understand the Authority has performed some work in this area, I am concerned the project is taking a long time to complete.
The Authority needs to establish an appropriate centralised record of all Crown land in New South Wales to meet its responsibilities under the Crown Lands Act 1989.	I was provided no evidence to demonstrate my recommendation is being actively considered or implemented.
Since 2007, I have been recommending that the Authority significantly reduce the time taken to process Aboriginal Land Claims and transfer legal title to successful claimants. I have also been recommending legal title over land granted to successful Aboriginal land claimants be issued as soon as practicable.	Whilst I understand the Authority has performed some work in this area, I am concerned the project is taking a long time to complete.

Many of the unactioned recommendations are those I did not direct to an individual agency. Because of this it would appear that no central agencies believed they had any responsibility to ensure my recommendations were considered and implemented where appropriate.

Recommendation

The NSW Government should establish a distinct, independent Audit and Risk Committee dedicated to the whole-of-government.

Governance arrangements for the whole-of-government can improve

Independent audit and risk committees are widely accepted as a fundamental component of a good corporate governance structure. Treasury's Policy and Guideline Paper TPP 09-05 'Internal Audit and Risk Management for the NSW Public Sector' states 'Effective corporate governance arrangements are *essential* to the performance, integrity and transparency of public sector organisations'.

A separate independent audit and risk committee for whole-of-government would demonstrate better practice

Audit and risk committees typically focus on issues relevant to the integrity of financial reporting and oversee risk management, internal control, compliance and internal audit activities. TPP 09-05 requires that most New South Wales government agencies operate an independent audit and risk committee, but does not apply to the whole-of-government.

The scope of the work for a dedicated independent audit and risk committee for the whole-of-government is extensive and significantly broader than reviewing the General Government and Total State Sector Accounts.

In my view, all New South Wales government agencies would benefit from a dedicated independent audit and risk committee for the whole-of-government. The existence of such a committee would enable greater focus on issues and risks common across the New South Wales public sector or that warrant a coordinated response.

Public Accounts Committee inquiry will follow up certain Audit Office recommendations

Individual agency audit and risk committees monitor compliance with central agency directives. A whole-of-government audit and risk committee would monitor whether central agency directives were appropriate and effective in achieving the government's policy intentions. This committee would also monitor overall agency compliance and follow up on whole-of-government recommendations included in my Reports to Parliament and those raised by the Public Accounts Committee.

In line with the requirements of TPP 09-5, the committee should comprise a majority of independent members. These members would require an understanding of public sector issues and whole-of-government financial reporting requirements. Non-independent members should include suitably senior staff representing all central agencies. Treasury is unlikely to have responsibility for all matters addressed by the committee. Accordingly, I would suggest the Department of Premier and Cabinet, as a key policy setting agency, and the Department of Finance and Services, as the agency generally responsible for implementing whole-of-government initiatives, should be represented.

Few Australian jurisdictions operate an effective separate independent whole-of-government audit and risk committee, despite such arrangements arguably representing better practice. New South Wales can exercise leadership by implementing better practice arrangements.

Public Accounts Committee Inquiry

The Public Accounts Committee has announced an inquiry to follow up certain recommendations made in my 2010 Reports to Parliament. I welcome this inquiry.

The committee will focus on repeat recommendations it considers a high priority based on an assessment of their importance to the relevant agency and to the public sector as a whole. The committee has written to twelve agencies seeking further information about nineteen matters before deciding whether to hold public hearings.

Other Governance Matters

Internal Audit and Risk Management in Agencies

In 2010, I surveyed agencies' readiness to attest compliance with the core requirements of Treasury's policy on internal audit and risk management. Based on survey responses, I made recommendations to agencies and to Treasury.

Treasury is reviewing its policy on internal audit and risk management

Treasury has commenced a review of its policy, which it expects to complete by December 2011. Key inputs to the review include:

- experience from the first implementation cycle
- stakeholder consultation and feedback
- my recommendations
- introduction of new Risk Management Standard ISO 31000
- consultation with a policy reference group.

Expected outcomes from the review include:

- an updated policy on internal audit and risk management
- legislative changes, if required
- a risk management toolkit for the New South Wales public sector
- additional guidance on shared services arrangements, if required.

Treasury's Policy and Guidelines Paper 09-05 'Internal Audit and Risk Management Policy for the New South Wales Public Sector' was released in August 2009. Treasury Circular 09/08 'Internal Audit and Risk Management policy', released at the same time, implemented the policy and applies to years ending on or after 30 June 2010.

The policy requires most New South Wales government agencies to comply with six core requirements aimed at meeting minimum internal audit and risk management standards.

Compliance with the *Fiscal Responsibility Act 2005*

Recommendation

I again recommend the government seek amendments to the *Fiscal Responsibility Act 2005* that will improve the effectiveness of the Act.

The *Fiscal Responsibility Act 2005* needs changes to make it more effective at attributing accountability when targets are not met

The *Fiscal Responsibility Act 2005* (FR Act) sets out principles for fiscally sustainable financial management of the State. The Act provides a framework for managing the State's revenues and expenses to ensure the State's finances are sustainable in the medium and long term.

I have previously reported that the fiscal targets within the FR Act are unlikely to be met, largely because they are significantly affected by variables outside the government's control. For example, the value of superannuation liabilities is affected by movements in rates used to discount liabilities to present value, over which the government has no control. This makes it difficult to attribute accountability when targets are not met and reduces the overall effectiveness of the FR Act.

I have previously recommended the government review the measures and related variables to identify and differentiate between controllable and non-controllable events that will allow a reasonable analysis and assessment of the policy decisions of government. An opportunity for such review has occurred, but there is no evidence of action taken to implement my recommendation.

The scope of the statutory review of the *Fiscal Responsibility Act 2005* does not appear consistent with legislative requirements

Five Year Review of the *Fiscal Responsibility Act 2005*

The Treasurer was required to review the Act as soon as possible after 16 June 2010 to assess whether:

- the policy objectives of the FR Act remain valid
- the terms of the FR Act remain appropriate for securing those objectives.

The Treasurer tabled this review on 10 June 2011 and concluded that the policy objectives of the FR Act remain valid. However, in my view, his review did not consider whether the terms of the FR Act remain appropriate. The review focused instead on whether targets had been achieved and principles adhered to, which was beyond the scope of the statutory review.

Last year, I recommended the Treasurer's review encompass amending the FR Act to include more appropriate fiscal targets. The review has not addressed my concerns. The review did advise that proposed revisions to the FR Act were expected to be submitted to parliament later in 2011, but did not provide any details of such proposals.

The timeframe for proposing revisions already appears delayed. The 2011-12 Budget Papers indicate that an updated FR Act will now be introduced into parliament during 2011-12.

The 2011-12 Budget Papers comply with legislative requirements

Timeline

October 2009	I recommended the government seek amendments to the FR Act to provide targets and priorities within the control of government.
October 2010	I again recommended the government seek amendments to the FR Act to provide targets and priorities within the control of government, this time as part of the upcoming statutory review.
June 2011	The Treasurer tabled the review in parliament on 10 June 2011. This review did not address my recommendation, and did not appear to address the second limb of the legislative requirement applicable to the review.
	The review stated that any proposed revisions to the FR Act were expected to be submitted to parliament later in 2011 and that proposals were to come from a review undertaken by the government's 'Commission of Audit'.
September 2011	The 2011-12 Budget Papers indicate any findings and responses from the 'Commission of Audit' will not be released until after January 2012, and stated that an updated FR Act will be tabled later in 2011-12.

Compliance

Budget Papers

The *Public Finance and Audit Act 1983* requires that Budget Papers include:

- an assessment of progress achieved against the fiscal targets and fiscal principles of the FR Act
- a projection of the ability to achieve those fiscal targets in the future and to progress the achievement of those fiscal principles.

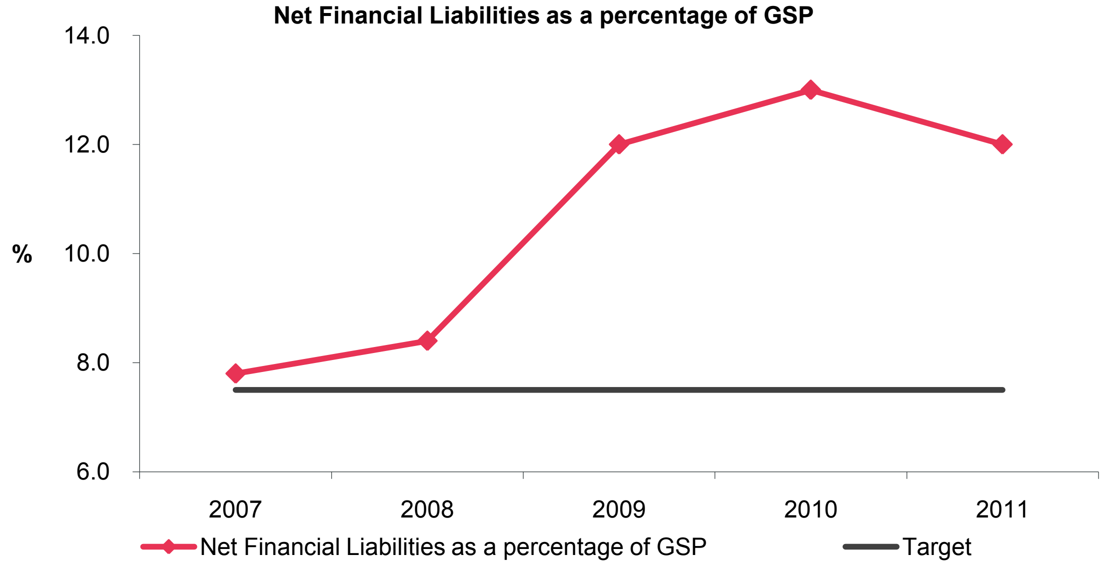
The 2011-12 Budget Papers addressed these requirements. Progress achieved against the long-term fiscal targets appears below.

Net financial liabilities were 12 per cent at 30 June 2011, twice the long term target of six per cent or less by 2015

Net debt is 1.8 per cent of GSP at 30 June 2011, one per cent over the target of 0.8 per cent

General Government Sector Net Financial Liabilities

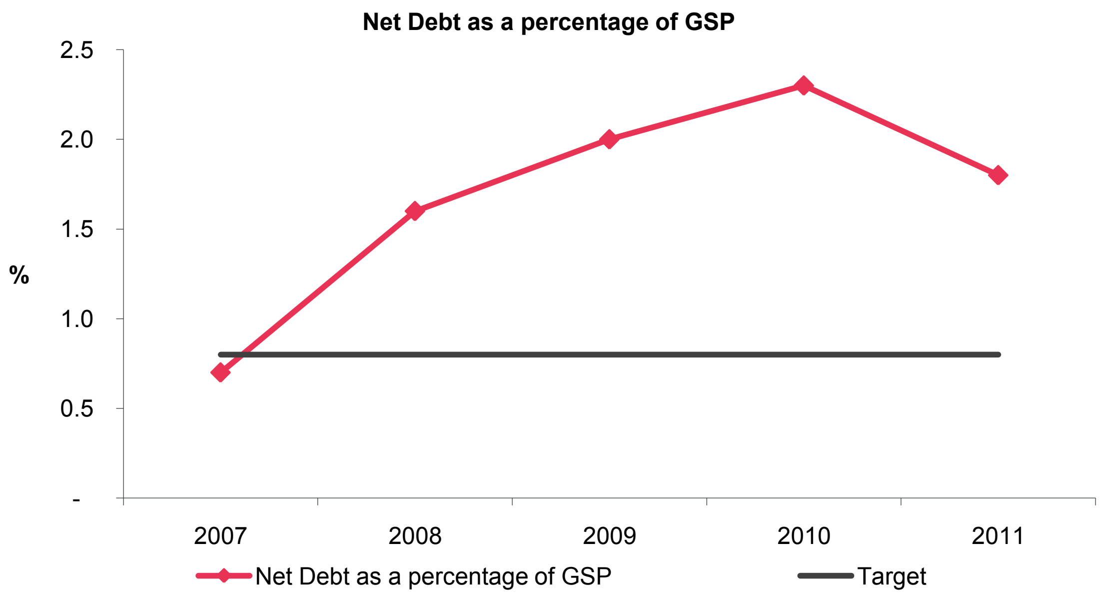
General Government Sector net financial liabilities were $52.1 billion at 30 June 2011 ($52.2 billion at 30 June 2010), equivalent to approximately 12 per cent (13 per cent) of Gross State Product (GSP). The long term fiscal target is six per cent or less by 30 June 2015. The government predicts net financial liabilities will be 10.8 per cent of GSP at 30 June 2015.



General Government Sector net financial liabilities include all liabilities of the General Government Sector less all financial assets (except for the government's equity in the public financing and public trading enterprise sectors).

General Government Sector Net Debt

General Government Sector net debt was $8.0 billion at 30 June 2011 ($9.2 billion) at 30 June 2011, equivalent to 1.8 per cent (2.3 per cent) of GSP. Net debt at 30 June 2011 is one per cent above the long term fiscal target of 0.8 per cent of GSP. The government predicts net debt will be 2.7 per cent of GSP at 30 June 2015.

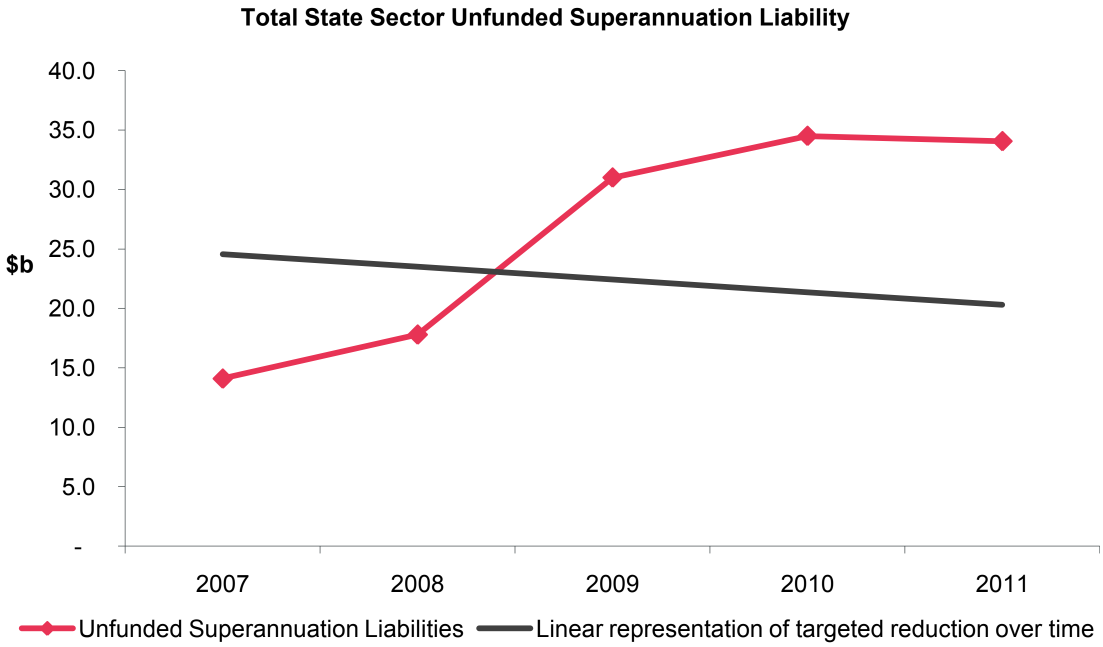


General Government Sector net debt is the sum of all deposits held, advances received and borrowings made by the General Government Sector, less the sum of cash and deposits held, advances paid and investments, loans and placements made by that sector. It excludes financial assets that are allocated to fund other liabilities through legislation or contract.

Total State Sector Unfunded Superannuation Liability

The government predicts unfunded superannuation liabilities of $34.1 billion will be eliminated by 2030

Total State Sector unfunded superannuation liabilities were $34.1 billion ($34.5 billion) at June 2011, almost all of which resides within the General Government Sector. The long-term fiscal target is to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030. Notwithstanding the impact of the global financial crisis, the government predicts that this target will be achieved.



Further background on the *Fiscal Responsibility Act 2005*

The FR Act requires government to manage financial risks and financial shocks in future periods without having to introduce significant and economically or socially destabilising expenditure or revenue adjustments in those future periods. What is considered consistent with fiscal sustainability will vary depending on:

- the strength and outlook for the economy
- the structure of expenditure and revenue of the budget
- the outlook for the State's credit rating
- demographic and social trends that will affect the budget
- the nature of financial risks faced by the government at any given time.

The FR Act requires the government to pursue its policy objectives in accordance with the fiscal targets detailed below:

- to reduce the level of general government net financial liabilities as a proportion of GSP to 7.5 per cent or less by 30 June 2010
- to reduce the level of general government financial liabilities as a proportion of GSP to six per cent or less by 30 June 2015
- to maintain underlying general government net debt as a proportion of GSP at or below its level as at 30 June 2005, unless an increase is required in net debt to reduce one or more components of general government net financial liabilities
- to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030.

Appendix A: Legal Opinions Provided by the Attorney General or Crown Solicitor

I am required by section 52(2) of the *Public Finance and Audit Act 1983* (PF&A Act) to publish any requests for a legal opinion submitted to the Attorney General or the Crown Solicitor under section 33 of the PF&A Act. I am also required to publish their responses.

There were no such legal opinions since my last report contained in Volume Three 2010, released on 27 October 2010.

Appendix B: Prescribed Entities

Section 45 of the *Public Finance and Audit Act 1983* requires I perform audits of the financial statements of entities prescribed for the purposes of that section. I am required by section 45(2A) of the *Public Finance and Audit Act 1983* to publish a list of any such audits.

The following were prescribed entities as at 30 June 2011:

Entity	Latest financial statements audited	Type of audit opinion issued
Agricultural Scientific Collections Trust	30 June 2010 (a)	Unmodified
Ambulance Service of NSW	30 June 2006 (b)	Unmodified
AustLII Foundation Limited	31 December 2010	Unmodified
The Australian Institute of Asian Culture and Visual Arts Limited	30 June 2010 (a)	Unmodified
Belgenny Farm Agricultural Heritage Centre Trust	30 June 2010 (a)	Unmodified
The Brett Whiteley Foundation	30 June 2010 (a)	Unmodified
Buroba Pty Ltd	30 June 2011	Unmodified
C. B. Alexander Foundation	30 June 2010 (a)	Unmodified
CCP Holdings Pty Limited	30 June 2011	Unmodified
Cobbora Coal Unit Trust	30 June 2011	Unmodified
Cobbora Management Company Pty Limited	30 June 2011	Unmodified
Cobbora Unincorporated Joint Venture	30 June 2010 (e)	Unmodified
Coffs Harbour Technology Park Ltd	30 June 2011	Unmodified
Cowra Japanese Garden Maintenance Foundation Limited	31 March 2011	Unmodified
Cowra Japanese Garden Trust	31 March 2011	Unmodified
Dumaresq-Barwon Border Rivers Commission	30 June 2011	Unmodified
Eif Pty Limited	30 June 2011 (a)	Unmodified
Gosford City Council, being a water supply authority listed in Schedule 3 to the Water Management Act 2000	30 June 2010 (a)	Qualified
Illawarra Health and Medical Research Institute Limited	30 June 2010 (a)	Unmodified
Local health networks within the meaning of the Health Services Act 1997:	--	--
Sydney Local Health Network	N/A (a)	--
South Western Sydney Local Health Network	N/A (a)	--
South Eastern Sydney Local Health Network	N/A (a)	--
Illawarra Shoalhaven Local Health Network	N/A (a)	--
Western Sydney Local Health Network	N/A (a)	--
Nepean Blue Mountains Local Health Network	N/A (a)	--
Northern Sydney Local Health Network	30 June 2011	Unmodified
Central Coast Local Health Network	30 June 2011	Unmodified
Hunter New England Local Health Network	30 June 2011	Unmodified
Murrumbidgee Local Health Network	30 June 2011	Unmodified
Southern NSW Local Health Network	30 June 2011	Unmodified
Western NSW Local Health Network	N/A (a)	--
Far West Local Health Network	N/A (a)	--
Mid North Coast Local Health Network	30 June 2011	Unmodified

Entity	**Latest financial statements audited**	**Type of audit opinion issued**
Northern NSW Local Health Network	30 June 2011	Unmodified
Marine Parks Authority	30 June 2010 (a)	Unmodified
Minister administering the Environmental Planning and Assessment Act 1979 (a corporation)	30 June 2010 (a)	Qualified
Minister administering the Heritage Act 1977 (a corporation)	30 June 2010 (a)	Unmodified
NSW Businesslink Pty Limited	30 June 2010 (a)	Unmodified
NSW Fire Brigades Superannuation Pty Limited	30 June 2010 (a)	Unmodified
State Super Financial Services Australia Limited	30 June 2011	Unmodified
Trustees of the Farrer Memorial Research Scholarship Fund	31 December 2010	Unmodified
The trustees for the time being of The Art Gallery of New South Wales Foundation	30 June 2010 (a)	Unmodified
Trustee of the Home Purchase Assistance Fund	30 June 2010 (a)	Unmodified
Each board of management, state conservation area trust and trust board established for a state conservation area within the meaning of the *National Parks and Wildlife Act 1974*	(d)	--
The trustees for the time being of each superannuation scheme established by a trust deed as referred to in section 127 of the *Superannuation Administration Act 1996*:	--	--
Energy Industries Superannuation Scheme Pool A	30 June 2010 (a)	Unmodified
Energy Industries Superannuation Scheme Pool B	30 June 2010 (a)	Unmodified
UNILINC Limited	31 December 2010 (c)	Unmodified
Uniprojects Pty Limited	30 June 2010	Unmodified
United States Studies Centre Limited	31 December 2010	Unmodified
Universities Admissions Centre (NSW and ACT) Pty Limited	30 June 2010 (a)	Unmodified
Valley Commerce Pty Ltd	30 June 2011	Unmodified
Wyong Council, being a water supply authority listed in Schedule 3 to the *Water Management Act 2000*	30 June 2010 (a)	Unmodified
Crown Employees (NSW Fire Brigades Fire Fighting Staff Death and Disability) Superannuation Fund	30 June 2010 (a)	Unmodified
Energy Investment Fund	30 June 2010 (a)	Unmodified
NSW Treasury Managed Fund	30 June 2010 (c)	Qualified
Macquarie University Professorial Superannuation Scheme	30 June 2010 (a)	Unmodified
State Super Allocated Pension Fund established by State Super Allocated Pension Fund Trust Deed dated 23 November 1993	30 June 2011	Unmodified
State Super Fixed Term Pension Plan established by State Super Fixed Term Pension Plan Trust Deed dated 14 July 1999	30 June 2011	Unmodified
State Super Personal Retirement Plan established by State Super Personal Retirement Plan Trust Deed dated 3 April 1990	30 June 2011	Unmodified

Entity	Latest financial statements audited	Type of audit opinion issued
State Super Investment Fund established by State Super Investment Fund – Cash Fund Constitution dated 22 November 1991, State Super Investment Fund – Capital Stable Fund Constitution dated 22 November 1991, State Super Investment Fund – Balanced Fund Constitution dated 22 November 1991 and State Super Investment Fund – Growth Fund Constitution dated 24 April 1997	30 June 2011	Unmodified
The superannuation fund amalgamated under the Superannuation Administration Act 1991 and continued to be amalgamated under the Superannuation Administration Act 1996	30 June 2011	Unmodified
University of Sydney Professorial Superannuation System	31 December 2010	Unmodified

N/A Added as a prescribed audit during 2010-11

a 30 June 2011 financial statements have been submitted for audit. My audit is still in progress as at 14 October 2011.

b No financial statements submitted for individual audit since 2006. The NSW Ministry of Health advises that action has commenced to have the entity removed from the list of prescribed entities.

c Removed as a prescribed entity in July 2011.

d No financial statements have been submitted for audit since this group of entities was prescribed.

e The Director of Cobbora Holding Company Pty Limited advises that the entity will be removed from the list of prescribed entities.

Our vision

To make the people of New South Wales proud of the work we do.

Our mission

To perform high quality independent audits of government in New South Wales.

Our values

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

Professional people with purpose

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Professional people with purpose

Making the people of New South Wales proud of the work we do.

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