
Audit Opinions: Total State Sector Accounts and the Statement of Budget Result

TOTAL STATE SECTOR ACCOUNTS

Under the *Public Finance and Audit Act 1983* (the Act), the Treasurer must prepare consolidated financial statements for the Total State Sector every year. After the Auditor-General audits the statements, the Treasurer presents them to Parliament. Under the Act, the Auditor-General also reports to Parliament on the results of the audit.

We issued our qualified Independent Audit Report on the 2005-06 Total State Sector Accounts on 18 October 2006.

Audit Opinion with Repeat Qualification

We issued a qualified audit opinion on the Total State Sector Accounts because we were unable to obtain all the information we required to form an opinion on the value of those Crown reserves that should be recognised as land in the Accounts.

Our audit report for the year ended 30 June 2005 referred to the same matter.

There are approximately 33,000 Crown reserves in New South Wales. The Government is in the process of identifying and valuing Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

To determine which entity controls the Crown reserves requires an evaluation of the Crown Lands Act 1989, the Local Government Act 1993 and the concept of control under accounting standards, including AASB127 Consolidated and Separate Financial Statements, AAS31 Financial Reporting by Governments and AAS27 Financial Reporting by Local Governments and AASB117 Leases.

Treasury has advised us that based on its preliminary assessment the total value of reserves controlled by the NSW Government, but not currently recognised in the Total State Sector Accounts, is between \$1.0 billion and \$7.0 billion. However, the total value may be greater, depending on the current valuation of the controlled assets.

Removal of Audit Qualification

We did not qualify the Accounts for excluding the WorkCover Scheme Statutory Funds. Our audit opinions on the Total State Sector Accounts for the years 2000 to 2005 were qualified because we considered that they should include the Scheme. This was because, in our opinion, the State had the capacity to dominate decision making in relation to the Scheme's financial and operating policies and, because of the significant net deficit of the Scheme, that the State had a financial exposure to the Scheme. As the Scheme is now in surplus, we consider that the State no longer has a financial exposure. Accordingly, in our opinion, the Total State Sector Accounts for 2005-06 properly exclude the WorkCover Scheme Statutory Funds and we have not qualified our audit opinion regarding this.

STATEMENT OF BUDGET RESULT

The Statement of Budget Result covers only the General Government Sector. It is prepared using Government Finance Statistics (GFS) data classification principles, with some departures. GFS is a set of statistical standards for presenting public sector expenses, revenues and financing transactions on an accrual basis. It is based on standards developed by the International Monetary Fund and is similar in most (but not all) respects to the system advocated by the United Nations. In Australia, the GFS is used by the Australian Bureau of Statistics in classifying public sector finances.

The Statement is presented on a net operating result basis, consistent with the Government's current reporting policy. This basis (equal to all revenues less expenses) is broadly consistent with the agency budget control measure of net cost of services (equal to expenses less operating revenues). They both include accounting accruals and provisions such as monies to be paid or received at the end of the year and non-cash expenses for depreciation of assets and long service leave entitlements. However, the GFS principles require that valuation changes are excluded from the net operating result. These include sales of assets and property revaluations.

We issued an unqualified Independent Audit Report on the 2005-06 Statement of Budget Result on 18 October 2006.