

# Department of Trade and Investment, Regional Infrastructure and Services

## Audit Opinion

I qualified my audit opinion on the Department of Trade and Investment, Regional Infrastructure and Services' 30 June 2012 financial statements. In my opinion, the Department:

- incorrectly included transactions and balances of the former Department of Primary Industries in its 30 June 2011 financial statements, which materially impacts the comparability of 2011-12 disclosures and balances with 2010-11
- has not evaluated each of its 4,000 plus long term leases to determine if they are appropriately classified as finance or operating leases under Australian Accounting standards
- had not been provided with audited financial statements of the Murray Darling Basin Authority and Dumaresq-Barwon Border Rivers Commission joint ventures as the audits were incomplete. Therefore, I was unable to form an opinion on the Department's investment in joint ventures and its shares in joint venture net income. The investments in the joint venture are carried at \$863 million in the Statement of Financial Position and the joint ventures share of net income of \$49.5 million is included within the Statement of Comprehensive Income.

I issued an adverse opinion on the Department's 30 June 2011 financial statements due to the first item above.

The 2011-12 audit of the Department's controlled entity, Milk Marketing (NSW) Pty Limited, is ongoing.

## Key Issues

### Crown Land Reserve Trusts

#### *Recommendation*

**The government should resolve outstanding issues on control and financial reporting for remaining Crown Land Reserve Trusts uncertainties.**

The annual accounts for the audit opinions on the Total State Sector accounts were qualified for the past eight years since 2003-04 due to uncertainty of control over Crown Land Reserve Trusts. On 1 July 2011, the former Land Property Management Authority was transferred into the Department with the accompanying responsibility of resolving ownership/control and financial reporting issues for certain Crown Land Reserve Trusts. At 30 June 2012, Crown Land Reserve Trusts comprised 692,633 hectares of land valued at \$5.0 billion.

The following significant progress was made in resolving the issue in 2011-12:

- local councils, not the NSW Government, were confirmed to control most Reserve Trust lands, valued at \$3.6 billion
- Livestock Health and Pest Authorities, not the NSW Government, were confirmed to control other Reserve Trust lands, valued at \$416 million.

The Department will need to help the government resolve outstanding uncertainties around the control of the remaining Reserve Trust lands.

The Department has not evaluated the accounting treatment of its 4,000 long-term leases

Significant progress was made by resolving most Crown Reserve Trust issues

## Financial Statements (Repeat issue)

### *Recommendation*

The Department should continue improving the quality of its financial reporting.

The Department's financial reporting process significantly improved in 2011-12. The improvements included resolving the long standing qualification around Crown Land Reserve Trusts, and the previously reported expenditure classification issues, classifying expenditure consistently by nature as required by Treasury policy and Australian Accounting Standards.

The transfer of other agencies' functions into the Department continues to create financial reporting challenges, including unresolved accounting issues. I will continue working with the Department to ensure the quality and timeliness of its financial reporting process continues to improve in 2012-13.

## Internal Controls (Repeat Issue)

### *Recommendation*

The Department should continue to address my recommendations and have processes in place to implement strategies for improvement.

Several previously reported issues still existed in 2011-12, including:

- no reconciliation of the Department's land holdings with the Government Property Register
- general journal control deficiencies
- fixed assets control deficiencies
- mining security deposits control deficiencies.

These were reported to the Department in the interim management letter issued in July 2012. The Department advised the matters will be addressed in 2012-13, assisted by the implementation of its new information technology system.

## Fishery Trust Funds

### *Recommendation*

The Department should review the reporting requirements of each of the six fishery trusts to determine whether they are reporting entities.

Six fishery trust funds were set up under the *Fisheries Management Act 1994* to help:

- conserve and promote ecologically sustainable development
- promote viable commercial fishing
- promote quality recreational fishing.

I was unable to obtain sufficient evidence to support the recognition and disclosure of trust funds, including the Department's six fishery trusts, in the Department's financial statements. Based on our reading of the *Fisheries Management Act 1994* I currently believe the trust funds are not controlled by the Department and should not be included in its financial statements. The combined cash assets of the fishery trusts totals \$8.2 million at 30 June 2012. Trust fund revenue is mainly derived from recreational and commercial fishing licence fees and can only be spent in accordance with fulfilling the above objectives.

The Department is implementing a new IT system, by January 2013

## Information System Control Deficiencies (Repeat Issue)

I have previously reported on deficiencies in general information system controls. Management is implementing a major information system project, procuring - software as a service Enterprise Resource Planning System (SAP ByDesign) using cloud technology.

The Department expects this project will enable former agencies' systems, transferred to the Department as part of the 2011 restructure, to integrate in the one accounting system. The Department expects this to create process efficiencies and significant cost savings for the State. It also expects the new system to address financial reporting deficiencies, including the Department's inability to reliably attribute asset and liability balances to service groups.

The Department advised this project began in July 2012 with expected implementation of the Finance system by 10 December 2012 and payroll by the end of January 2013.

On my recommendation, the Department has engaged an external party to review the project's governance arrangements and monitor progress.

## Aboriginal Land Claims

Over the last four years, outstanding Aboriginal Land Claims have increased by 18,152 or 236 per cent. During 2011-12, 486 (394 in 2010-11) claims were determined leaving 25,834 (25,549) claims remaining at 30 June 2012. The Department expects to take over 52 years to clear the current backlog of land claims based on current trends and resources.

In my previous report, I recommended an urgent review and evaluation of the approach to the processing of Aboriginal Land Claims with the intent of developing and implementing a plan to quickly reduce the number of unprocessed claims.

The Department has developed a pilot project with the Bahtabah Local Aboriginal Land Council to speed up processing of land claims, which it expects will start in November 2012.

The intent of the pilot project is that a similar approach could be applied to resolving claims lodged by the NSW Aboriginal Land Council. Of the total backlog of claims, 73 per cent were lodged by the Council.

Whilst the project is being negotiated, the Department is focusing on assessing claims less likely to be appealed to the Land and Environmental Court to maximise the number of claims resolved with the current resources. However, as claims continue to be made, the actual number outstanding is increasing.

Year 30 June	Number of outstanding claims at year end	Number of claims determined during the year	Value of land transferred to aboriginal land councils \$m
2012	25,834	486	23.5
2011	25,549	394	10.3
2010	16,875	1,226	116.0
2009	8,786	1,086	11.9
2008	7,682	406	13.4

## Contaminated Land

The Environment Protection Agency has issued notices to the Department on four land sites. These are now subject to regulatory action under the *Contaminated Land Management Act 1997*. One order requires the Department to remediate a site and this is expected to be done by December 2013.

Given the nature of vacant Crown land there may be significant unknown instances of contamination. The Department has identified over 400 sites as potentially contaminated.

A database for contaminated sites on Crown land has been developed by the Department and is being tested. It is expected to be operational by July 2013.

The Department has identified over 400 sites as potentially contaminated

## Other Information

### Derelict Mines

There were approximately 573 derelict mine sites in New South Wales at 30 June 2012. In 2011-12, the Derelict Mines Program rehabilitated 27 sites with funding of \$2.1 million.

Major projects included:

- Belmont Mineral Sands - reduced the potential radiological exposure the mine had to visitors of the former site as well as making it available for recreational purposes
- Ardlethan tin open cut mine - rehabilitated to help the long-term stability of the site
- the gold mine at Home Rule - rehabilitated to reduce the chance of the road collapsing.

### Overseas Trade Offices

The NSW Government has established four overseas trade offices in China (Shanghai and Guangzhou), India (Mumbai) and the United Arab Emirates (Abu Dhabi) with a new office in the United States (California). The offices are part of the Investment and Export Services (IES) Division of the Department.

The offices' major investment function is to identify business leads that will eventually result in investment and/or employment in New South Wales. Each trade office has a target Return on Investment (ROI), which was set by Cabinet when the Offices were approved in 2009.

Phase of project	Return on Investment expected
First 12-18 months	1:20
Once established	1:40

Source: Department of Trade and Investment, Regional Infrastructure and Services, July 2012. (unaudited).

The Department advised the ROI is difficult to apply as a key performance indicator (KPI) because trade offices do not deliver investment and trade outcomes in isolation making it impossible to specifically isolate the exact value they add.

Because it is not separately measured, trade offices' performance is captured within the team-wide KPIs of the IES Division in which they operate. The following table shows the KPIs achieved relative to targets for 2010-11 and 2011-12.

KPI	Target 2012	Actual 2012	Target 2011	Actual 2011
Investment wins (\$m)	800	1,213	200	351
Export (\$m)	300	599	110	400
Jobs	4,000	5,632	550	1,857
Companies assisted	6,000	7,353	5,000	6,760

Source: NSW Trade and Investment July 2012.

Note: 2010-11 the figures are for the then International Markets and Trade Division. In 2011-12 this division was combined with the then Investment Attraction Division to form the IES division. The above is unaudited financial data.

New South Wales trade offices cost the State \$1.5 million in 2011-12 (\$1.7 million in 2010-11). The table below shows the total actual operating costs for each office.

	2012 \$	2011 \$
Abu Dhabi	384,000	477,000
Shanghai	440,000	459,000
Mumbai	421,000	426,000
Guangzhou	286,000	299,000

Source: Department of Trade and Investment, Regional Infrastructure and Services, July 2012. (unaudited).

27 of 573  
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mine sites were  
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2011-12

## Financial Information

The restructure of the Department in 2010-11 caused significant variances to the previous year's financial performance and financial position.

### Abridged Consolidated Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2012 \$'000	2012 \$'000	2012 \$'000	2011 \$'000
Employee related expenses	755,180	755,180	755,180	441,270
Grants and subsidies	587,279	587,279	587,279	382,816
Depreciation and amortisation	75,184	75,184	75,184	43,347
Other expenses	288,274	288,150	288,150	306,701
<b>Total expenses</b>	<b>1,705,917</b>	<b>1,705,793</b>	<b>1,705,793</b>	<b>1,174,134</b>
Government Contributions	1,013,202	1,013,202	1,013,202	807,993
Sales of Goods and Services	175,468	175,468	175,468	95,804
Investment Income	77,909	77,884	77,884	22,488
Retained taxes, fees and fines	19,691	19,691	19,691	13,351
Grants and Contributions	118,493	118,493	118,493	96,978
Other revenue	30,628	30,628	30,628	21,246
Personnel services revenue	346,701	346,701	346,701	104,961
<b>Total revenue</b>	<b>1,782,092</b>	<b>1,782,067</b>	<b>1,782,067</b>	<b>1,162,821</b>
Gain/(loss) on disposal	5,816	5,816	5,816	(16,963)
Other gains	50,000	50,000	50,000	23,041
<b>Net result - surplus/(deficit)</b>	<b>131,991</b>	<b>132,090</b>	<b>132,090</b>	<b>(5,235)</b>
<b>Other comprehensive income</b>				
Increase in revaluation of assets	103,316	103,316	103,316	22,516
Other net increases/(decreases) in equity	(92,208)	(92,208)	(92,208)	50,385
<b>Total other comprehensive income</b>	<b>11,108</b>	<b>11,108</b>	<b>11,108</b>	<b>72,901</b>
<b>Total comprehensive income</b>	<b>143,099</b>	<b>143,198</b>	<b>143,198</b>	<b>67,666</b>

### Abridged Consolidated Statement of Financial Position

At 30 June	Consolidated		Parent	
	2012 \$'000	2012 \$'000	2012 \$'000	2011 \$'000
Current assets	546,935	546,415	546,415	488,762
Non-current assets	8,093,843	8,093,843	8,093,843	7,904,752
<b>Total assets</b>	<b>8,640,778</b>	<b>8,640,258</b>	<b>8,640,258</b>	<b>8,393,514</b>
Current liabilities	252,911	252,893	252,893	261,759
Non-current liabilities	790,251	790,251	790,251	718,231
<b>Total liabilities</b>	<b>1,043,162</b>	<b>1,043,144</b>	<b>1,043,144</b>	<b>979,990</b>
<b>Net assets</b>	<b>7,597,616</b>	<b>7,597,114</b>	<b>7,597,114</b>	<b>7,413,524</b>

## Department Activities

The Department works with and supports a range of businesses and industries across New South Wales with the aim of advancing investment, innovation, activity and business improvement across all sectors.

The Department's activities include:

- promoting trade and investment within the State and key international markets
- providing business support, technical knowledge and science and research capabilities to industries
- developing and sustaining profitable food and fibre industries, and best practice natural resource management
- securing and regulating energy and mineral resources for the State
- supporting tourism, hospitality, racing and cultural sectors.

For further information on the Department, please refer to [www.trade.nsw.gov.au](http://www.trade.nsw.gov.au).

The Department is subject to the control and direction of the Minister for Trade and Investment and Minister for Regional Infrastructure and Services the Hon. Andrew Stoner.