

AWARENESS

Accounting and Auditing Developments ISSUE 9 - NOVEMBER 2007

AUDIT OFFICE UPDATE

Auditor-General's Report to Parliament: Financial Audits Volume Three

This report includes:

- the audit opinion on the Total State Sector Accounts
- analysis of financial trends
- comments on the State Plan (non-financial reporting)
- the audit opinion on the Statement of the Budget Result
- comments on budget initiatives included in the 2006-07 Budget Summary
- comments on appropriation payments and supplementary funding made during 2006-07
- discussion of future Whole of Government and General Government Sector (GGS) reporting.

Total State Sector Accounts

The audit of the Total State Sector Accounts for the year ended 30 June 2007 resulted in a qualified Independent Auditor's Report.

The Report was qualified because we were unable to obtain all information required to form an opinion on the value of Crown Reserves that should be recorded as land (the report was similarly qualified last year). The total value of the land reserves controlled, but not currently recognised in the Total State Sector Accounts, is estimated at between \$1.0 billion and \$7.0 billion, but may be greater.

The State is in a strong financial position and its credit rating remains AAA.

The State has reduced its unfunded superannuation liability primarily due to a one-off payment to STC Pooled Fund by the Crown Finance Entity of \$7.2 billion. Financial assets held by the State decreased by a similar amount.

The Government may not meet all the medium-term net debt and net financial liability targets as detailed in the *Fiscal Responsibility Act 2005*. As required by this Act, NSW Treasury has disclosed in the Budget Statement why these medium-term targets are not likely to be achieved.

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THE AUDIT OFFICE
OF NEW SOUTH WALES

Statement of the Budget Result

The audit of the Statement of the Budget Result for the year ended 30 June 2007 was not qualified. However, the auditor's report included an emphasis of matter due to significant uncertainty regarding an objection to a significant taxation assessment of \$424 million. Until this matter is resolved the ultimate outcome and its impact on the Budget Result cannot be determined.

NSW Treasury has disclosed this matter in the notes to the Statement of the Budget Result.

The State Plan (non-financial reporting)

Previous Reports to Parliament have recommended the Government provide better non-financial information to the public to complement the Treasurer's Report on State Finances and the Budget Papers.

In Volume 3 of the Auditor-General's 2006 report, we recommended the Government authorise the Auditor-General to verify the completeness, reliability and comparability of performance indicators supporting the State Plan and the Budget. We also recommended that performance indicators be reported annually, either in conjunction with the Treasurer's Report on State Finances, or shortly thereafter.

The Government is taking steps to implement measures to address both recommendations. There is provision in the State Plan for the Auditor-General to verify the accuracy of performance data annually. We anticipate reporting our findings in the first half of 2008.

Expenditure on Significant Budget Initiatives (from Budget Summary)

The 2006-07 Budget Summary identified 'additional funding or service improvements' in key policy areas. We asked agencies to supply information on expenditure incurred and the status of relevant initiatives as at 30 June 2007. Agency comments are included in this report.

Appropriation Payments

We reviewed amounts appropriated to agencies and analysed approvals for additional funding. The *Public Finance and Audit Act 1983* allows savings in one agency to be transferred to another agency with the approval of the Treasurer. The review indicated that, on average over the last five years, 87.5 per cent of all transfers were made from the Crown Finance Entity. These transfers totalled \$288 million in 2006-07 (2005-06 \$438 million).

Whole of Government and General Government Reporting

The Australian Accounting Standards Board is working towards harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP). The first phase of this project will impact the Statement of Budget Result and Total State Sector Accounts (TSSA).

The New South Wales Government will have to prepare the 2009 TSSA financial report in accordance with the new Australian Accounting Standard AASB 1049 'Whole of Government and General Government Sector Financial Reporting'.

We provided brief commentary in this report on the new reporting requirements.

Further information

The full report is available from our Internet site: www.audit.nsw.gov.au.

Auditor-General's Report to Parliament: Financial Audits Volume Four

This volume summarises the results of a number of our financial audits. Significant items include:

Department of Education and Training

The Department exceeded its target for Year 7 literacy while Year 7 numeracy levels declined.

Although expenditure per primary student in New South Wales has increased, it has fallen below the national average and is the second lowest expenditure.

The Department has estimated the ratio of students to computers in government schools has improved from 22:1 in 1995 to around 6:1 in 2007.

The Department estimates the backlog of school maintenance has fallen from \$114 million in 2006 to \$82.6 million in 2007.

Overview of the electricity industry

High electricity wholesale prices significantly impacted reported financial positions of electricity generators and distributors. The average wholesale price for 2006-07 was 58 per cent higher than in 2005-06. Total net assets for generators decreased by 80 per cent, while distributors' net assets increased by 48 per cent. This was because the high prices resulted in accounting adjustments for electricity hedged contracts. Since 30 June 2007 prices have dropped, resulting in improved net assets for generators and reduced net assets for distributors.

Available electricity capacity in New South Wales is forecast to fall below a minimum reliability reserve level in 2013-14. The previous forecast was 2010-11. There are a number of proposed and committed projects to increase electricity supply. A government inquiry concluded a new baseload plant would be required by 2013-14.

Electricity agencies' will need to have adequate systems and processes in place for capturing, measuring and reporting their emissions from 1 July 2008.

The New South Wales electricity industry continued to out perform national averages for financial performance.

Electricity agencies' accrued distributions to the Government were \$1.4 billion. Electricity agencies' debt increased from \$9.4 billion to \$10.7 billion.

Banana Industry Committee

The Australian Banana Growers Council, a national body, is currently proposing all growers pay a compulsory levy at the first point of sale. Should that occur, New South Wales growers may discontinue their association with the Committee. This would significantly impact the Committee's operations.

Overview of Rail Services

Corporate Governance has been weakened following the portfolio Minister becoming a shareholder of RailCorp, Transport Infrastructure Development Corporation and Rail Infrastructure Corporation.

The Rail industry has a shortage of signal engineers qualified to test and commission new infrastructure assets such as the Epping Chatswood Rail Line and rail Clearways projects. Insufficient qualified signal engineers may lead to delays in completing projects and increased project costs.

To encourage more rail employees to accept voluntary redundancy, an enhanced voluntary redundancy package exists. Employees with 25 years of service can receive double the standard New South Wales Public Sector redundancy entitlement.

Rail Corporation New South Wales

The new Hunter Valley rail cars, and the Outer Suburban rail cars Stages 1 and 2 are running 30, 17 and 6 months later than their original completion date schedule. On 7 December 2006 RailCorp concluded the Rolling Stock Public Private Partnership contract with Reliance Rail for the manufacture and 35 year maintenance of 626 new double deck carriages.

CityRail's on-time running improved and was above target.

RailCorp's capital expenditure program was \$148 million below budget.

Transport Infrastructure Development Corporation

The planned completion date of the Epping Chatswood Rail Line was scheduled for mid 2008. Passenger Services on the Epping to Chatswood Rail Line are scheduled to commence in late 2008. The delay has mainly arisen from scheduling difficulties with certain works needing to be done in a particular order. The cost impact from the deferred commissioning date is being reviewed by the Transport Infrastructure Development Corporation.

Sydney Water Corporation

The construction costs of the desalination plant are likely to result in higher water prices.

Further information

The full report is available from our Internet site: www.audit.nsw.gov.au.

Audit Office of NSW 2007 Annual Report

The Annual Report provides an appraisal of the Audit Office of NSW's performance for 2006-07. It includes extensive comment on whether agencies have accepted and acted on our audit recommendations - a good measure of how successful we have been. Also reported is how satisfied Parliamentarians and our audit clients are with our services and the efficiency of our processes. The full report is available from our Internet site: www.audit.nsw.gov.au.

ACCOUNTING UPDATE

Compiled standards and interpretation

The AASB has issued the following compiled pronouncements, which include amendments arising from AASB 2007-4, AASB 2007-7 and Erratum:

- AASB 107 'Cash Flow Statements'
- AASB 127 'Consolidated and Separate Financial Statements'
- AASB 128 'Investments in Associates'
- AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'
- AASB 138 'Intangible Assets'
- AASB 139 'Financial Instruments: Recognition and Measurement'
- AASB 141 'Agriculture'
- AASB 1023 'General Insurance Contracts'
- AASB 1038 'Life Insurance Contracts'
- Interpretation 113 'Jointly Controlled Entities - Non-Monetary Contributions by Venturers'

These compiled pronouncements apply from 1 July 2007. Copies of compiled standards and interpretations are available from the AASB's website: www.aasb.com.au.

Source: AASB website.

AUDITING UPDATE

Australian Auditing and Assurance Standards Board

Meeting 22-23 October 2007

At its meeting, the AUASB:

- discussed revising and reissuing Australian Auditing Standards based on the new 'clarity' format versions of the International Standards on Auditing. Refer below for more information
- approved new Guidance Statements for issue. Refer below for more information
- approved an exposure draft of an assurance standard on compliance engagements for issue. This Exposure draft will issue in December 2007
- considered a revision of a proposed assurance standard on performance engagements
- considered a revision of a proposed guidance statement on audit implications on the use of service organisations for investment management services
- received an update on the progress on a proposed guidance statement on self managed superannuation funds
- approved a project plan to revise AGS 1002 'Bank Confirmations'
- approved a project plan to revise AGS 1014 'Privity Letter Requests'.

Source: AUASB website.

Revision and reissue of Australian Auditing Standards

The AUASB has agreed to revise and reissue Australian Auditing Standards (ASAs) based on the new 'clarity' format versions of the International Auditing Standards (ISAs).

The IAASB has a program to redraft existing auditing standards and develop new and revised auditing standards following new drafting conventions. The aims of the program include clarity and consistency. The IAASB is currently redrafting the Standards, which will apply to audits of financial reports for periods beginning on or after 15 December 2009.

Once the ISAs are finalised, the AUASB will revise the ASAs. The revised ASAs will apply to audits of financial reports for periods beginning on or after 1 January 2010.

Source: AUASB Media Release 26 October 2007.

New auditing pronouncements

The AUASB has issued three new Guidance Statements. Guidance Statements address procedural matters or industry specific matters. They do not establish new principles or amend the requirements of existing Standards.

The new Guidance Statements apply from their date of issue, 31 October 2007. Copies of all Guidance Statements and other AUASB pronouncements are available from the AUASB's website: www.auasb.gov.au.

GS 003 Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001

This Guidance Statement identifies the auditor's responsibilities when auditing Australian financial services (AFS) licensees. It provides guidance on additional factors the auditor may consider when planning, conducting and reporting on the audit of an AFS licensee.

GS 003 replaces AGS 1068 'Audit Requirements for Australian Financial Services Licensees under the Corporations Act 2001'.

GS 004 Audit Implications of Prudential Reporting Requirements for General Insurers

This Guidance Statement provides guidance to auditors of general insurers that must report to APRA. It was developed in consultation with the Australian Prudential Regulation Authority (APRA).

GS 004 supersedes both AGS 1064 'Audit Implications of Prudential Reporting Requirements for General Insurers' (issued March 2003) and the Addendum to AGS 1064 (issued October 2006).

GS 005 Using the Work of an Actuary

Mandatory requirements for auditors using the work experts are contained in ASA 620 'Using the Work of an Expert'. This Guidance Statement contains guidance specifically for the use of an actuary.

GS 005 supersedes AUS 524 'The Auditor's Use of the Work of an Actuary and the Actuary's Use of the Work of the Auditor in Connection with the Preparation and Audit of a Financial Report'. Guidance to the actuary is provided by the Institute of Actuaries in Australia and the Australian Prudential Regulation Authority.

Source: AUASB Media Release 1 November 2007.

ETHICAL UPDATE

Australian Professional and Ethical Standards Board (APESB)

APES 220 Taxation Services

APES 220 includes mandatory requirements for members of accounting professional bodies who provide taxation services, such as preparation and lodgement of returns. This new Standard replaces former professional accounting standards APS 6 'Statement of Taxation Standards'.

A copy of APES 220 is available from the APESB's website: www.apesb.org.au.

Source: APESB Media Release 24 October 2007.

INTERNATIONAL UPDATE

International Accounting Standards Board (IASB)

Meeting 16-19 October 2007

At this meeting, the IASB discussed:

- conceptual framework
- fair value measurements
- financial instruments
- puttable financial instruments and obligations arising on liquidation
- financial statement presentation
- IAS 37 redeliberations
- leases
- annual improvements process
- post employment benefits
- IAS 24 'Related Party Disclosures'
- share-based payment
- XBRL (extensible business reporting language).

Source: IASB Update October 2007.

International Financial Reporting Interpretations Committee (IFRIC)

Meeting 1 November 2007

At this meeting, the IFRIC discussed:

- IAS 18 'Revenue' - customer contributions
- IAS 19 'Employee Benefits' - death in service benefits
- IAS 27 'Consolidated and Separate Financial Statements' - accounting for distributions of non-cash assets to owners
- IAS 29 'Financial Instruments: Recognition and Measurement' - scope of paragraph 11A and application of AG33(d)(iii)
- IFRIC agenda decisions and work in progress.

Source: IFRIC Update November 2007.

MISCELLANEOUS PUBLICATIONS

Australian Capital Territory Auditor-General's Office

- Annual Report

This publication is available at www.audit.act.gov.au.

Australian National Audit Office

- Management of the FFG Capability Upgrade
- Administration of High Risk Income Tax Refunds in the Individuals and Micro Enterprises Market Segments
- The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risk

These publications are available at www.anao.gov.au.

Queensland Audit Office

- Auditor-General of Queensland Report to Parliament No. 7 for 2007: Addressing Skills Shortages in Queensland
- Annual Report

These publications are available at www.qao.qld.gov.au.

Tasmanian Audit Office

- Special Report No. 70 - Procurement in government departments and payment of accounts by government departments
- Annual Report

These publications are available at www.audit.tas.gov.au.

Victorian Auditor-General's Office

- New Ticketing System Tender
- Public Sector Procurement: Turning Principles into Practice

These publications are available at www.audit.vic.gov.au.

Independent Commission Against Corruption

- Providing Advice on corruption issues - a guide for community leaders
- Annual Report

These publications are available at www.icac.nsw.gov.au.

PREMIER'S DEPARTMENT UPDATE

Premier's Department Circulars

C2007-46 Christmas Leave Arrangements

Agencies are to maximise leave taken over the Christmas/New Year period. This Circular addresses public holidays, the public service holiday and concessional leave. C2007-46 supersedes C2006-40.

C2007-47 Annual Determination for Judges, Magistrates and Related Groups and Public Office Holders

The Statutory and Other Offices Remuneration Tribunal has made its 2007 determination in relation to judges, magistrates and related group public office holders. C2007-47 supersedes C2006-43.

C2007-48 Leading Well: The Role of Leadership in Improving the Prevention and Management of Psychological Injury

The Leading Well Psychological Injury Strategy provides guidance to agencies to make improvements in leadership performance and minimising the incidence and impact of psychological injury in the workplace. The Strategy and related Action Plan applies to all public sector agencies. The Public Employment Office recommends State Owned Corporations also adopt them.

C2007-49 Nominations for the Public Service Medal

Nominations for the Queen's Birthday Awards in 2008 close 1 February 2008.

C2007-50 Survey of Electronic Information Security

The Information Security Guidelines in M2007-04 state that agencies should report their security status at least annually to the Government Chief Information Office. This Circular outlines the reporting process for 2007.

C2007-51 Variation to Crown Employees (Public Service Training Wage) Award 2005

The NSW Industrial Relations Commission varied the *Crown Employees (Public Service Training Wage) Award 2005* on 31 October 2007.

C2007-52 Leave for Staff Affected by Lismore Storms - October 2007

This Circular outlines flexible working provisions for staff unable to attend work as a result of storms in Lismore on 9 and 26 October 2007.

The Circulars are available at: www.premiers.nsw.gov.au.

Premier's Department Memoranda

M2007-17 2007 Annual Determination of Remuneration for Chief Executive and Senior Executive Services

The Statutory and Other Offices Remuneration Tribunal has determined a general increase to CES and SES remuneration packages of 2.5%. This Memorandum supersedes M2006-15.

M2007-18 Customer Satisfaction State Plan Commitment - S8

This Memorandum outlines elements of the Priority Delivery Plan designed to achieve the State Plan goal of 'Customer Friendly Services'.

Premier's Memoranda are available at: www.premiers.nsw.gov.au.

TREASURY UPDATE

Treasury Circulars

TC 07/15 Repeal of Outdated Circulars

Under NSW Treasury's policy, Treasury Circulars older than 5 years lapse as at 31 December each year. Exceptions are specified on NSW Treasury's website. This Circular supersedes TC 02/19 of the same name.

TC 07/16 Reserve Accounting

All agencies cannot create reserve accounts except those required by specific legislation or Australian Accounting Standards. This Circular supersedes TC 02/13 of the same name.

Treasury Circulars are available at www.treasury.nsw.gov.au.

AUDIT OFFICE BETTER PRACTICE GUIDES

The Audit Office produces guides to better practice to assist agencies. The following is a list of those guides and the dates that they were published. All these guides are available on the Audit Office website at www.audit.nsw.gov.au.

Title of Guide	Date issued
Fraud Control Improvement Kit - Meeting your Fraud Control Obligations	20 July 2006
Fraud Control: Current Progress and Future Directions	9 February 2005
Shared Corporate Services: Realising the Benefits	November 2004
Management of Intellectual Property	October 2001
E-ready, e-steady, e-government: e-government readiness assessment guide	September 2001
Monitoring and Reporting on Performance Audit Recommendations	June 2001
Internal Financial Reporting	June 2001
Reporting Performance: A guide to preparing performance information for annual reports	November 2000
Contracting Out Review Guide	June 1999
Public Sector Corporate Governance - ready reckoner	April 1999
Methodology for the review of Residential Services for People with Disabilities	June 1998
On Board: guide to better practice for public sector governing and advisory boards	April 1998
The Corporate Credit Card: guidelines for internal control	January 1997
Ambulance Service of New South Wales: debtors administration	September 1996
Ethnic Affairs Commission: administration of grants	December 1995
Joint operations in the Education Sector: a review of establishment, management and effectiveness issues	September 1995
Fraud Control: developing an effective strategy Volume 1: conceptual framework Volume 2: strategy Volume 3: diagnostics Volume 4: Fraud control self audit kit	March 1994 March 1994 March 1994 March 1998

ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
AIFRS/AEIFRS	Australian Equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
AUASB	Auditing and Assurance Standards Board
ED	Exposure Draft
FASB	Financial Accounting Standards Board (USA)
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GG	Government Gazette
GG SS	Government Gazette Special Supplement
GGs	General Government Sector
GPFR	General Purpose Financial Report
IAASB	International Auditing and Assurance Standards Board
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
PCAOB	Public Company Accounting Oversight Board
UIG	Urgent Issues Group

COPIES OF REPORTS AND PUBLICATIONS

All performance audit reports are available on The Audit Office web site at www.audit.nsw.gov.au and can be purchased from the NSW Government Information Service (telephone 9743 7200).

Publications of the Australian Auditing and Assurance Standards Board (AUASB) including auditing and assurance standards, guidance statements, other guidance and exposure drafts are available direct from the AUASB as follows:

Australian Auditing and Assurance Standards Board
Phone: (03) 8080 7400
Fax: (03) 8080 7450
Postal Address: PO BOX 204 Collins Street West, Victoria 8007
Website: www.auasb.gov.au.

Publications of the Australian Accounting Standards Board (AASB), including Accounting Standards and Exposure Drafts are available direct from the AASB as follows:

Phone: (03) 9617 7600
Fax: (03) 9617 7608
Postal Address: PO BOX 204 Collins Street West, Victoria 8007
Website: www.aasb.com.au

Copies of International Federation of Accountants (IFAC) publications may be obtained direct from IFAC, 535 Fifth Avenue, 14th Floor, New York, NY 10017, USA (tel 212/286.9344 or fax 212/286.9570 or by visiting the IFAC web site at www.ifac.org).

Copies of International Accounting Standards, Exposure Drafts and International Accounting Standards Board (IASB) publications may be obtained direct from the IASB, 30 Cannon Street, London EC4M 6XH, United Kingdom (tel +44 (020) 7332-2730 or fax +44 (020) 7332-2749 or email publications@iasb.org or Internet www.iasb.org).

Copies of NSW Government legislation including changes to legislation can be purchased from the NSW Government Information Service. The legislation is also on the Internet at www.legislation.nsw.gov.au.

Treasury publications may be viewed by visiting the NSW Treasury web site at www.treasury.nsw.gov.au

Copies of Premier's Department Circulars and Premier's Memoranda may be viewed by visiting the Premier's Department website at www.premiers.nsw.gov.au.

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