

Appendix 1 – Key audit matters

Key Audit Matter	How my audit addressed the matter
Consolidation of financial information	
<p>The Total State Sector Accounts (TSSA) is a consolidation of the financial information of the controlled entities of the state, in accordance with AASB 1049 ‘Whole-of-government and General Government Sector Financial Reporting’ and AASB 10 ‘Consolidated Financial Statements’.</p> <p>I consider this to be a key audit matter because of the risk of material misstatement in the TSSA consolidation process arising from:</p> <ul style="list-style-type: none"> • entities applying inconsistent financial reporting frameworks, accounting standards and accounting policies in the preparation of their individual financial statements • elimination adjustments, including manual entries relating to mismatches in inter-agency transactions and balances • incorrect classification of other economic flows and transactions • incorrect mapping of transactions within and outside government • deficiencies in key accounting information to support judgements, estimates and interpretations that are unique to whole of government accounting • the harmonisation or alignment of certain information prepared under generally accepted accounting principles (GAAP) with the Government Financial Statistics (GFS) requirements developed by the Australian Bureau of Statistics (ABS), as published in the ABS GFS Manual, to the extent it does not conflict with GAAP. 	<p>Key audit procedures included the following:</p> <ul style="list-style-type: none"> • reviewed the completeness and accuracy of the financial information of entities consolidated in the TSSA • reviewed the consolidation process, elimination journals, material adjusting and reclassification entries in PRIME (the financial reporting system used by NSW Treasury), including: <ul style="list-style-type: none"> – manual adjustments to eliminate mismatches in inter-agency transactions and balances – the recognition of equity investments held by the GGS in the net assets of entities within the Public Non-Financial Corporation and Public Financial Corporation sectors – the alignment of various accounting policies to those used at the TSSA – the consolidation of TCorpIM Funds and non-significant controlled entities • confirmed the consistency of accounting policies adopted by significant controlled entities • obtained information on audit issues and misstatements from the component audit teams • engaged our Systems Assurance Auditors to review the Information Technology General Controls and automated controls in Prime relevant to the preparation of the TSSA • reviewed the materiality of balances relating to controlled entities not consolidated into the TSSA • assessed the sufficiency and appropriateness of financial statement disclosures in the TSSA against the requirements of applicable Australian Accounting Standards.
Valuation of property, plant and equipment (PPE)	
<p>At 30 June 2024, the TSS reported \$554 billion in PPE measured at fair value. The closing balance of PPE includes a net revaluation increment of \$49.8 billion recorded during the year ended 30 June 2024.</p> <p>I consider this to be a key audit matter because of the:</p> <ul style="list-style-type: none"> • financial significance of the PPE balances to the Consolidated Statement of Financial Position • extent of significant management judgements underpinning key assumptions used in the valuation process 	<p>Key audit procedures included the following:</p> <ul style="list-style-type: none"> • obtained an understanding of management’s approach to estimating the fair value of PPE • assessed the accuracy and completeness of assets included in the revaluation • assessed the competence, capability and objectivity of experts engaged by management • assessed significant judgements made in determining the valuation approach for specialised and unique assets, including impairment

Key Audit Matter

- sensitivity of fair value to changes in key assumptions
- specialised and unique nature of the assets impacting on judgement and complexities in applying AASB 13 'Fair Value Measurement' requirements.

Details of the valuation techniques, inputs and processes for major asset classes are disclosed in Note 15 'Property, Plant and Equipment'.

How my audit addressed the matter

- reviewed the reasonableness of key assumptions and sensitivity of the conclusions to changes in those assumptions
- assessed the sufficiency and appropriateness of the valuation methodologies and fair value assessments against the requirements of applicable Australian Accounting Standards
- assessed the sufficiency and appropriateness of financial statement disclosures against the requirements of applicable Australian Accounting Standards.

Valuation of financial instruments

At 30 June 2024, the TSS reported financial instruments measured at fair value totalling \$106 billion in financial assets and \$217 billion in financial liabilities.

I consider this to be a key audit matter because:

- financial assets and financial liabilities measured at fair value are significant to the Consolidated Statement of Financial Position
- small changes to market observable inputs and assumptions can significantly impact the fair value of these financial assets and financial liabilities
- significant judgement is applied to determine the classification of financial instruments measured at fair value
- management applies significant judgement in the selection of assumptions used to value financial instruments classified as 'level 3' according to the fair value hierarchy under Australian Accounting Standards.

Further information on the valuation of financial instruments is disclosed in Note 28 'Financial Instruments'.

Key audit procedures included the following:

- obtained an understanding of, and assessed the valuation models applied to each category of financial instrument
- assessed the design and tested the operating effectiveness of the key operational and information technology controls supporting the valuation of financial instruments
- tested the inputs to the valuation system by comparing them to independent market observable data
- compared the calculations of fair value to independent recalculations across a sample of financial instruments
- reviewed the key valuation inputs and significant assumptions used by management to value 'level 3' financial instruments for reasonableness, and where data was available, agreed these inputs to market observable data
- confirmed the existence and completeness of balances at 30 June 2024 with external counterparties
- assessed management's judgement applied to the classification of financial instruments measured at fair value in accordance with applicable Australian Accounting Standards
- assessed the adequacy of financial statement disclosures against the requirements of applicable Australian Accounting Standards.

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Valuation of defined benefit superannuation and long service leave liabilities

At 30 June 2024, the TSS reported net defined benefit superannuation liabilities totalling \$39.2 billion and employee long service leave liabilities totalling \$13.2 billion.

I consider this to be a key audit matter because:

- these liabilities are financially significant to the Consolidated Statement of Financial Position
- the underlying valuation models used to value the liabilities are complex due to the significant degree of judgement required to determine key assumptions used to value these liabilities
- the total value of the liabilities is sensitive to minor changes in valuation inputs.

Further information on the valuation of defined benefit superannuation and long service leave liabilities are included in Note 24 'Employee Benefit Liabilities' and Note 25 'Superannuation Provisions'.

Key audit procedures included the following:

- obtained an understanding of the processes and key controls in place supporting the defined benefit superannuation liability and long service leave liability calculations
- assessed the completeness and accuracy of data used in the valuation models
- reviewed the methodology and key assumptions for reasonableness (with the assistance of actuarial experts for defined benefit superannuation liabilities)
- assessed the qualifications, competence and objectivity of actuarial experts
- assessed the adequacy of the financial statement disclosures against the requirements of Australian Accounting Standards and NSW Treasurer's Directions.

Valuation of outstanding claims liabilities

At 30 June 2024, the TSS recorded \$9.8 billion in self-funded workers' compensation claims liabilities and \$21.3 billion in other outstanding claims liabilities.

In determining the valuation of the liabilities, management engages actuarial specialists to model and develop assumptions to estimate the outstanding claims liabilities.

I consider this to be a key audit matter because:

- these liabilities are financially significant to the Consolidated Statement of Financial Position
- the degree of judgement in developing assumptions and the complexity of valuation models
- the level of judgement means the valuation of the outstanding claims liabilities may change significantly and unexpectedly due to changes in assumptions.

Further information on the valuation techniques, inputs and assumptions used to value outstanding claims liabilities is included in Note 24 'Employee Benefit Liabilities' and Note 26 'Other Provisions'.

Key audit procedures included the following:

- with the assistance of our actuarial expert ('auditor's expert'):
 - evaluated the competence, capabilities and objectivity of management's actuaries
 - gained an understanding of the work of management's actuaries and evaluated the appropriateness of their work, including their models
 - assessed the valuation methods and approach used by management's actuaries against the requirements of Australian Accounting Standards and consistency with industry practice and the underlying claims exposure
 - assessed the assumptions used as inputs into the valuation models
 - assessed the results of the claims experience investigations carried out by management's actuaries, to determine how they inform the adopted assumptions
 - evaluated the judgements made by management's actuaries in assessing the impact of macroeconomic factors on assumptions
 - performed an overall assessment of the valuation methodology, key assumptions and models used to derive the valuation of the outstanding claims liabilities
- evaluated the judgement applied in recognising reinsurance recoveries

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- assessed the adequacy of the related financial statement disclosures against the requirements of applicable Australian Accounting Standards.

Taxation and statutory revenue

The TSS reported:

- \$51.8 billion of taxation and statutory revenue (fines, mining royalties and regulatory fees) for the year ended 30 June 2024
- \$9.1 billion of statutory receivables and \$437 million in an allowance for impairment for taxation and statutory receivables at 30 June 2024.

I consider this to be a key audit matter because:

- of the financial significance of taxation and statutory revenue and receivables to the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position
- the calculation of the allowance related to statutory receivables requires significant judgements and assumptions.

Further information on taxation and statutory revenue is included in Note 2 'Revenue' and Note 6 'Receivables'.

Key audit procedures included the following:

- evaluated the design and tested operating effectiveness of controls over key revenue streams, including land tax, payroll tax, duties, gaming machine taxes and mineral royalties
- recalculated key revenue streams for reasonableness against the requirements of the relevant taxation legislation
- tested adjustments capturing lodgement of returns for self-assessed taxes
- assessed the methodology and assumptions used to estimate the allowance for impairment related to statutory receivables against historical recoverability rates and write-off of debt for reasonableness
- recalculated the allowance for impairment and assessed the completeness and accuracy of data used in the estimation
- assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards and NSW Treasurer's Directions.