State finances 2024

FINANCIAL AUDIT | 18 DECEMBER 2024

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

audit office OF NEW SOUTH WALES

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General and the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to give reasonable assurance that financial statements are true and fair, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and 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 assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.

AUDITOR-GENERAL
NEW SOUTH WALES

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In accordance with section 52A of the *Government Sector Audit Act 1983*, I present a report titled **'State finances 2024'**.

Bola Oyetunji
Auditor-General for New South Wales
18 December 2024

RECONCILIATION STATEMENT

We pay our respect and recognise Aboriginal peoples as the traditional custodians of the land in NSW who have cared for and protected the environment, waterways, and sacred sites over many millennia. We honour and thank the traditional custodians of the land on which our office is located, the Gadigal people of the Eora Nation, and the traditional custodians of all the lands on which our employees live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

As we mark our 200th anniversary, and our contribution to fostering accountability and transparency in the government and Parliament, we also acknowledge that our long history is shared with the histories of colonisation in New South Wales. We acknowledge the impacts of colonisation, and the resulting marginalisation and disadvantage of Aboriginal and Torres Strait Islander peoples in this state.

We embrace our role in holding government agencies to account for the delivery of effective services for Aboriginal and Torres Strait Islander peoples. We are committed to ensuring that our audits are culturally responsive, respectful and inclusive, and that we engage with Aboriginal and Torres Strait Islander peoples and communities in a meaningful and collaborative way.

We recognise the ancestral tie of Aboriginal and Torres Strait Islander peoples to this land, and we acknowledge that we have much to learn from their wisdom, rich and diverse culture, languages, knowledge and practices.

Image: 'Yarning Circle' by Caitlin Liddle, Audit Office Indigenous Internship Program participant. Used with permission.

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State finances 2024

Section 1 –

State finances 2024

1. Executive summary

1.1. Introduction

This report focuses on the 2023–24 Consolidated State Financial Statements of the New South Wales General Government Sector (GGS) and Total State Sector (TSS), which comprise the Total State Sector Accounts (TSSA).

It comments on the key matters that were the focus of the TSSA audit and highlights significant factors that have contributed to the State's financial outcomes for the year ended 30 June 2024. The report also highlights areas of focus for our future audits.

1.2. Audit outcome

The TSSA audit opinion for 2023–24 was unqualified

The audit opinion on the TSSA for the year ended 30 June 2024 was unqualified. The last unqualified TSSA audit opinion was issued for the year ended 30 June 2021.

The prior year qualifications relating to the Catholic Metropolitan Cemeteries Trust (CMCT) and Statutory Land Managers (SLMs) and Commons Trusts (CTs) were removed. The emphasis of matter relating to the Transport Asset Holding Entity of New South Wales (TAHE) was also removed in 2023–24. These matters are explained in section 2.1. Audit opinion on the Total State Sector Accounts.

Significant progress was made by NSW Treasury in addressing prior year recommendations

The State finances 2023 Auditor-General's Report to Parliament made nine recommendations to the NSW Government, including NSW Treasury. Seven of nine of these 2023 report recommendations were fully addressed in 2023–24.

1.3. Observations

The GGS deficit of $10.7 billion was $2.9 billion higher than originally budgeted

The GGS's net operating balance for the 2023–24 financial year was a deficit of $10.7 billion. This was $2.9 billion higher than the original budgeted deficit of $7.8 billion, and $1.1 billion higher than the revised budget deficit of $9.6 billion estimated during the 2023–24 half yearly review.

General government expenses have been higher than revenue since 2019–20, however annual revenue growth has exceeded annual expense growth for the past two years

Actual expenses of the GGS have consistently exceeded revenue since 2019–20, resulting in an aggregated $51 billion deficit over the five years to 2023–24.

However, revenue growth has exceeded expense growth in both 2022–23 and 2023–24, after a number of years when expenses increased in excess of revenue as the government responded to COVID-19 and natural disasters. The Government commenced the Comprehensive Expenditure Review (CER) in June 2023 to identify budget savings and cost reprioritisation measures.

Employee-related costs are the State's largest expense

Employee-related costs (including superannuation) account for 42.9% of the State's total operating expenses (42.4% in 2022–23) and increased by $4.5 billion or 8.7% in 2023–24.

The State wrote off $1.1 billion of infrastructure, inventory and other assets in 2023–24

The State recorded $769 million in write-offs of infrastructure and other assets, largely from the transport sector relating to the Great Western Highway upgrade, the Beaches Link project and the Fast Rail program.

The State also wrote off $334 million of inventories that largely relate to expired rapid antigen test kits and personal protective equipment. These items were purchased to manage the needs of a worst-case scenario. The lower demand for these items in 2023–24 has resulted in a significant volume of inventory reaching their expiry date.

There is a lack of transparency in the budget papers in relation to significant capital projects

The estimated total cost for some major projects is not published in the NSW budget papers as the amounts are considered commercially sensitive. This includes costs for projects that are well advanced such as WestConnex, Sydney Metro City and Southwest.

The lack of transparency around expected costs reduces the ability to assess if major projects have been delivered within budget and on time.

The State increased its debt borrowing by $25.4 billion to fund capital expenditure

The value of TCorp bonds on issue increased by $25.4 billion primarily to fund the State's infrastructure projects. The State maintained its triple-A and AA+ credit ratings.

The GGS net debt to gross state product (GSP) increased from -0.3% in 2019 to 11.4% in 2024. It is predicted to reach 14.2% of GSP by 2028. This is largely due to additional borrowings to fund the State's major infrastructure projects.

The Government has committed to fully funding the State's superannuation liabilities by 2040

The State's unfunded superannuation liability decreased from $43 billion at 30 June 2023 to $39.2 billion at 30 June 2024.

While the *Fiscal Responsibility Act 2012* sets a target to eliminate the State's unfunded superannuation liabilities by 2030, the Government commits to fully fund superannuation liabilities by 2040.

1.4. Future audit focus areas

The Audit Office's 'Annual Work Program 2024–27' reflects the focus areas for our future audits. Priorities include information technology risks and data, digital audit transformation, the efficient and responsible use of public resources including procurement activities, and climate-related financial reporting.

2. Key audit outcomes

2.1. Audit opinion on the Total State Sector Accounts

The independent auditor's opinion was unqualified

The audit opinion on the TSSA, which comprises the Consolidated State Financial Statements of the New South Wales GGS and TSS, for the year ended 30 June 2024, was unqualified. The last unqualified TSSA audit opinion was issued for the year ended 30 June 2021.

The qualification relating to the Catholic Metropolitan Cemeteries Trust (CMCT) was removed in 2023–24

A qualified TSSA audit opinion was issued for the years ended 30 June 2022 and 2023, as the Audit Office was unable to obtain sufficient appropriate audit evidence to support the value of assets, liabilities and net result consolidated in the TSSA relating to CMCT.

On 30 June 2024, the new Catholic cemeteries model was introduced under the *Catholic Cemeteries and Crematoria Trust Act 2024 No 44* (CCC Act). The CCC Act resulted in the transfer of CMCT's equitable trust property to the newly created Catholic Cemeteries and Crematoria Ltd (CCCL) as Trustee of the Catholic Cemeteries and Crematoria Trust (CCCT). Land previously owned by CMCT was vested to the State, which in turn dissolved the CMCT and appointed the All Faiths Catholic Land Manager Limited (AFCLM) as the Crown land manager of the cemetery land under the new model.

The State does not control the AFCLM, CCCT and CCCL, and their assets at 30 June 2024.

The dissolution of CMCT and the transfer of its net assets to entities not controlled by the State on 30 June 2024 had the following accounting impacts on the TSS and GGS:

- the net assets of CMCT, amounting to $321 million, were deconsolidated and a corresponding capital transfer within 'expenses from transactions' was recorded in the TSS
- the transfer of CMCT's net assets constituted a write down in the value of the GGS's equity investment in CMCT, which was recognised in 'Other economic flows – Other comprehensive income' in the GGS.

The qualification relating to category 2 statutory land managers (SLMs) and commons trusts (CTs) was removed in 2023–24

In 2022–23, because of the limitations on the accuracy and reliability of financial information relating to SLMs and CTs, the Audit Office was unable to obtain sufficient appropriate audit evidence to determine the impact on the value of non-land assets, liabilities, income and expenses that should be recognised in the TSSA.

SLMs and CTs are entities controlled by the State. SLMs are persons or entities appointed by the Minister to be responsible for the care, control and management of Crown reserves on behalf of the people of New South Wales. CTs are responsible for the care, control and management of commons (parcels of land set aside by the Governor or the Minister for specific use).

In 2023–24, NSW Treasury and the Department of Planning, Housing and Infrastructure (DPHI) engaged Value NSW to conduct valuations on the building and infrastructure assets of selected SLMs and CTs. The estimated fair value of building and infrastructure assets of the SLMs and CTs subject to valuation amounted to $250 million and were recorded for the first time in the 30 June 2024 TSSA.

As a material limitation on the scope of the audit no longer exists in relation to the accuracy and reliability of financial information relating to SLMs and CTs, the audit qualification was no longer necessary.

The emphasis of matter relating to the Transport Asset Holding Entity of New South Wales (TAHE) was removed in 2023–24

The 2022–23 TSSA audit report included an emphasis of matter. This was not a modification to the opinion but drew attention to key decisions made by the Government regarding the future of the TAHE.

On 12 December 2023, an amendment to the *Transport Administration Act 1988* changed TAHE's primary objective to undertaking its activities in a safe and reliable way, with other objectives, including those related to commerciality becoming a secondary objective. TAHE transitioned to a not-for-profit entity for reporting purposes when preparing its 30 June 2024 financial statements.

In September 2024, the *Transport Administration Amendment Act 2024* was passed to enable the final transition of TAHE from a for-profit state-owned corporation (SOC) to the Transport Asset Manager of New South Wales (TAM), a non-commercial public non-financial corporation (PNFC). The legislative amendments to convert TAHE to the TAM will commence on 1 January 2025 (the commencement proclamation was signed on 11 December 2024).

The implications of the Government's decisions are adequately reflected in the 30 June 2024 TSSA, including the change of valuation approach from using a discounted cash flow model to using the current replacement cost approach to value TAHE's property, plant and equipment (PPE). TAHE's PPE balance at 30 June 2024 was $54 billion, an increase of $31.6 billion compared to the prior year.

As key decisions relating to the future of TAHE were included in valuation of assets recorded in the TSSA the emphasis of matter was removed from the 30 June 2024 TSSA audit opinion.

Key audit matters on the 2023–24 TSSA audit

Key audit matters (KAMs) are those matters that, in the auditor's judgement, were of most significance in the audit of the TSSA. KAMs add value by providing broader insights, increased transparency and assistance to users in understanding areas of significant judgement in the TSSA.

The Independent Auditor's Report for the TSSA for the year ended 30 June 2024 included six KAMs:

- consolidation of financial information
- fair value measurement of property, plant and equipment
- valuation of financial instruments
- valuation of defined benefit superannuation and long service leave liabilities
- valuation of outstanding claims liabilities
- taxation and statutory revenue.

Appendix 1 includes details of the KAMs and how they were addressed.

2.2. Status of 2023 report recommendations

Seven of nine 2023 report recommendations were fully addressed in 2023–24

The State finances 2023 Auditor-General's Report to Parliament included several recommendations for the NSW Government, including NSW Treasury.

The current status of the 2023 recommendations is summarised below.

Recommendation	Current status	
NSW Treasury and the Department of Planning, Housing and Infrastructure should ensure CMCT meets its statutory reporting obligations.	As discussed in section 2.1, a new Catholic cemeteries model was introduced on 30 June 2024. This resulted in the dissolution of CMCT and the transfer of CMCT's net assets to newly created entities that are not controlled by the State.	Fully addressed
NSW Treasury should ensure that accurate and reliable financial information is available to recognise the non-land assets, liabilities, revenues and expenses of SLMs and CTs in the TSSA.	As discussed in section 2.1, the fair value of building and infrastructure assets of the SLMs and CTs subject to valuation in 2023–24 have been recorded in the TSSA at 30 June 2024.	Fully addressed
NSW Treasury and TAHE should continue to monitor the risk that control of TAHE assets could change in future reporting periods based on the Government's decision about TAHE's new operating model. TAHE must continue to demonstrate control of its assets; or the current accounting presentation will need to be reconsidered.	NSW Treasury and TAHE concluded TAHE continued to operate as an independent entity and control its assets for the year ended 30 June 2024.	Fully addressed
NSW Treasury should require agencies intending to rely on the reporting exemption criteria to perform a self-assessment against this exemption criteria prior to the statutory deadline to prepare financial statements. The self-assessments should be provided to NSW Treasury for review.	In 2023–24 NSW Treasury reviewed self-assessment information obtained from agencies utilising the small entity reporting exemption. NSW Treasury concluded the agencies surveyed have complied with their legislative reporting requirements.	Fully addressed

Recommendation	Current status	
NSW Treasury needs to conduct a broader review of the financial reporting exemption framework, which is informed by documented, evidence-based risk assessment processes. As part of the review NSW Treasury should consider: • the risks posed by agencies that collect money from the public and/or have stewardship of government assets • other alternative options that could reduce the cost of financial reporting such as applying the simplified disclosure regime.	NSW Treasury initiated a review of the financial reporting framework in 2023–24. A consultation paper on the Financial and Annual Reporting Framework was released in April 2024 to agencies proposing a holistic framework approach and seeking feedback. In response to this recommendation, the consultation sought to propose processes and practices for future years, ensuring an evidence-based approach to evaluating and continuously improving the financial and annual reporting framework for small agencies. NSW Treasury assessed the feedback from agencies and expects to release a suite of draft policies under the proposed new financial and annual reporting framework for consultation. NSW Treasury expects the new policies to be effective before 1 July 2025.	Partially addressed
NSW Treasury should work with the DPHI to ensure category 2 SLMs and CTs meet their statutory reporting obligations. Reporting exemption assessments should be completed earlier to allow sufficient time for the non-exempted SLMs and CTs to prepare and submit annual financial statements by the statutory reporting deadline.	Refer to the previous recommendation relating to the financial reporting exemption framework.	Partially addressed
NSW Treasury should provide timely guidance to the sector relating to legislative or policy changes that impact financial reporting.	No instances were noted in 2023–24 where NSW Treasury did not provide timely guidance to the sector relating to such matters.	Fully addressed
NSW Treasury should develop an accounting policy for the bid cost contributions, to ensure consistent application across NSW government agencies.	NSW Treasury issued TPG24-14 'Guidance – Accounting for Bid Cost Contributions' in May 2024.	Fully addressed

Recommendation	Current status	
Finance Co Trust (Fin Co) should be consolidated into the Department of Customer Service (DCS) financial statements and the TSSA. NSW Treasury should ensure the accountable authorities of Government Sector Finance Agencies (GSF agencies) meet their legislative requirements under the *Government Sector Finance Act 2018* (GSF Act).	Fin Co was consolidated into the DCS accounts in 2023–24. DCS assessed that Fin Co is not a GSF agency, because it does not meet the definition of an entity in section 2.1 of the GSF Act. This means it does not need to comply with the reporting requirements under Part 7 of the GSF Act.	Fully addressed

2.3. Financial reporting matters

Monetary misstatements

A monetary misstatement is an error in amount recognised in the consolidated financial statements initially submitted for audit.

The GGS included ten misstatements exceeding $20 million in 2023–24

There were ten monetary misstatements exceeding $20 million that have not been corrected in the GGS financial statements for the year ended 30 June 2024.

The net impact of these misstatements on the GGS for the year ended 30 June 2024 meant:

- assets were overstated by $13 million
- liabilities were overstated by $187 million
- opening net worth was understated by $128 million (for errors relating to prior periods)
- other economic flows were understated by $46 million
- the budget result was not impacted.

The TSS included 13 misstatements exceeding $20 million in 2023–24

There were 13 monetary misstatements exceeding $20 million that have not been corrected in the TSS financial statements for the year ended 30 June 2024.

The net impact of these misstatements on the TSS for the year ended 30 June 2024 meant:

- assets were understated by $5 million
- liabilities were overstated by $171 million
- opening net worth was understated by $128 million (for errors relating to prior periods)
- other economic flows were understated by $16 million
- the net operating balance was understated by $32 million.

Management concluded the effects of the uncorrected misstatements were immaterial, both individually and in aggregate, to the GGS and TSS as a whole. We agree with management's determination and do not consider the uncorrected misstatements significant enough to modify the opinion in the Independent Auditor's Report.

Errors related to:

- issues with the data, judgements and assumptions used when valuing non-current physical assets and liabilities
- the aggregate impact of assets, liabilities, income and expenses of various exempt immaterial agencies that were not consolidated in the GGS and TSS.

2.4. Internal control and governance-related audit findings

Breakdowns and weaknesses in internal controls increase the risk of fraud and error in the TSSA. Deficiencies in internal controls, matters of governance interest and unresolved issues were reported to NSW Treasury and those charged with governance of the TSSA.

No high risk matters relating to the TSSA were reported to NSW Treasury in 2023–24

All seven high risk matters reported to NSW Treasury in 2022–23 relating to the TSSA have either been addressed or partially addressed by NSW Treasury in 2023–24.

NSW Treasury should continue to prioritise and action recommendations to address internal control deficiencies. Focus should be given to addressing repeat issues.

3. The State's financial outcomes

3.1. General government sector budget result

The GGS comprises over 200 entities that provide public services (such as health, education and police) or carry out policy or regulatory functions. Agencies in this sector are mainly funded by taxation.

A principal measure of the GGS's overall activity and policies is its budget result (also referred to as net operating balance). For the GGS, the budget result is the difference between the cost of service delivery and the revenue raised to fund the sector.

General government sector deficit of $10.7 billion was $2.9 billion higher than originally budgeted

The GGS's net operating balance for the 2023–24 financial year was a deficit of $10.7 billion. This was $2.9 billion higher than the original budgeted deficit of $7.8 billion, and $1.1 billion higher than the revised budget deficit of $9.6 billion estimated during the 2023–24 half yearly review.

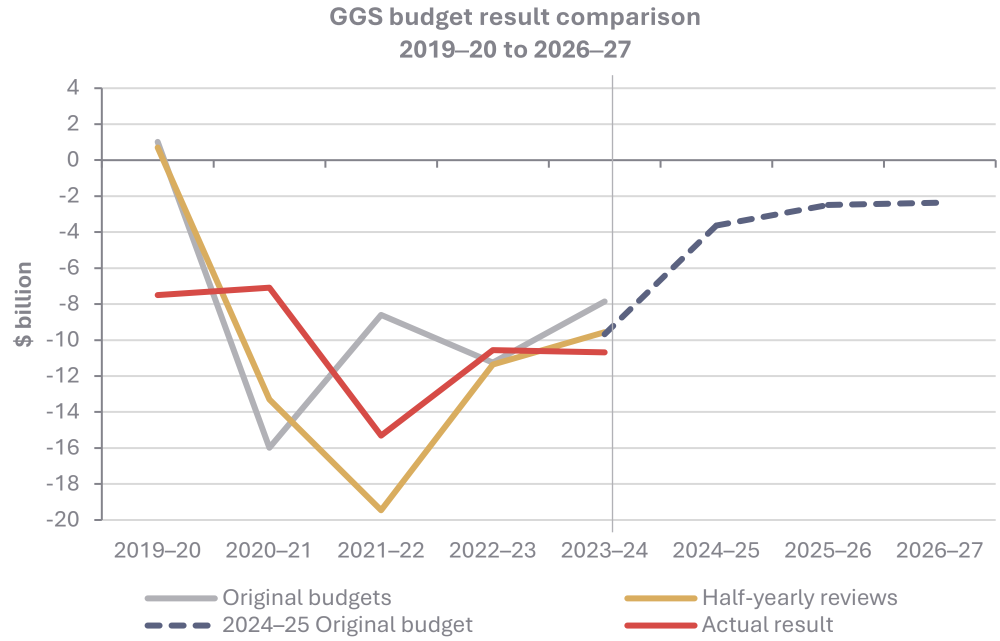
The following graph shows the:

- actual deficit compared to the budget and half yearly revisions published by NSW Treasury over the last five years
- projected deficit over the three years from 2024–25 (represented by the dotted lines).

For the first three years from 2019–20 to 2021–22, actual results have not aligned with budget due to a range of unforeseen factors that have significantly impacted the economy. This included the effects caused by the COVID-19 pandemic and natural disasters. The last two years (2022–23 and 2023–24) reflect a closer alignment between actuals and budget due to less volatile economic conditions.

The State has remained in deficit since 2019–20. The Government anticipates this trend will continue across the forward estimates to 2026–27.

Further analysis of the GGS's expense and revenue are included in the subsequent sections.



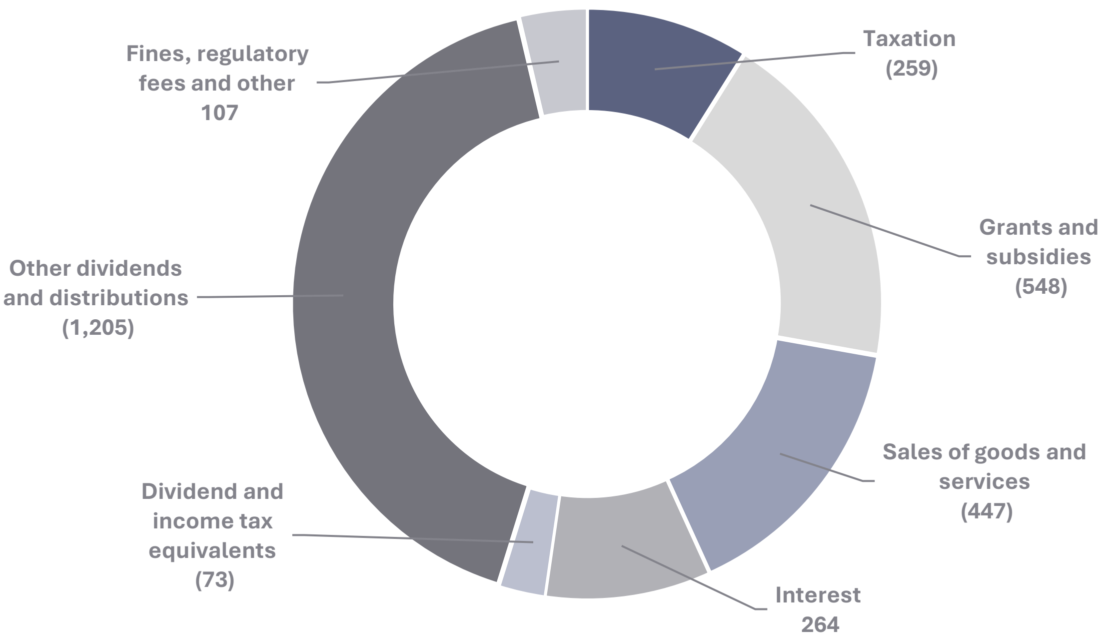
Source: 2019–20 to 2023–24 data were from past NSW budget papers, NSW half-yearly reviews and audited TSSA. Data for 2024–25 to 2026–27 were from the 2024–25 NSW budget papers.

General government revenue was $2.2 billion lower than originally budgeted

Key drivers of this change are:

- $1.2 billion lower than budgeted other dividends and distributions revenue. Distributions received from NSW Treasury Corporation (TCorp) managed funds were lower than expected because of a higher proportion of unrealised gains and large realised losses on foreign exchange market and equity trades
- $0.5 billion lower than budgeted grants and subsidies revenue predominately from reallocations and timing changes of Commonwealth National Partnership Payments received in 2023–24
- $0.4 billion lower than budgeted sale of goods and services revenue, mainly attributable to fees for other services being below budget for Transport for NSW. This was due to the reprofiling of the delivery of capital projects on behalf of TAHE, a PNFC entity from which it earns revenue.

Changes from 2023–24 GGS budgeted revenue ($ million)



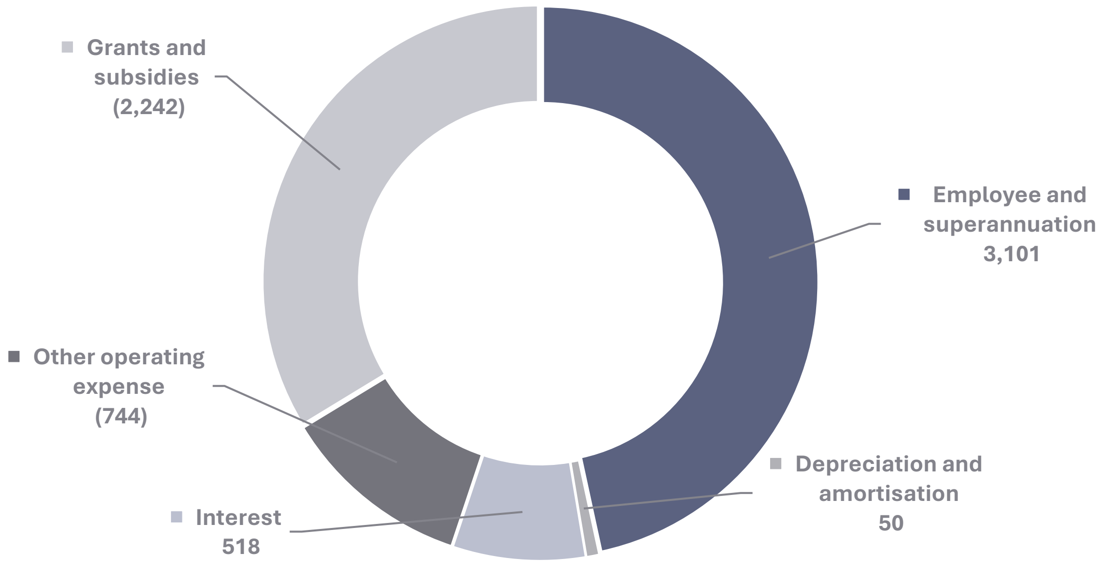
Source: 2023–24 NSW budget papers and audited 2023–24 TSSA.

General government expenses were $0.7 billion higher than originally budgeted

This result in expenses was due to the net effect of the following:

- Employee and superannuation expenses were $3.1 billion higher than budgeted, mainly driven by:
  - $1.3 billion in increased expenses in the Department of Education resulting from the increase in teachers' salaries award, partially offset by reductions in the agency's operating expenses
  - $1 billion in increased expenses in the NSW Self Insurance Corporation because of increased net workers compensation claims expense.
- Partially offsetting the above increases, grants and subsidies expenses were $2.2 billion lower than budgeted, mainly driven by a reprioritisation of grants across the sector. For example, Restart infrastructure grant expenses were $1.0 billion lower than budgeted.

Changes from 2023–24 GGS budgeted expenses ($ million)



Source: 2023–24 NSW budget papers and audited 2023–24 TSSA.

General government expenses have been higher than revenue since 2019–20

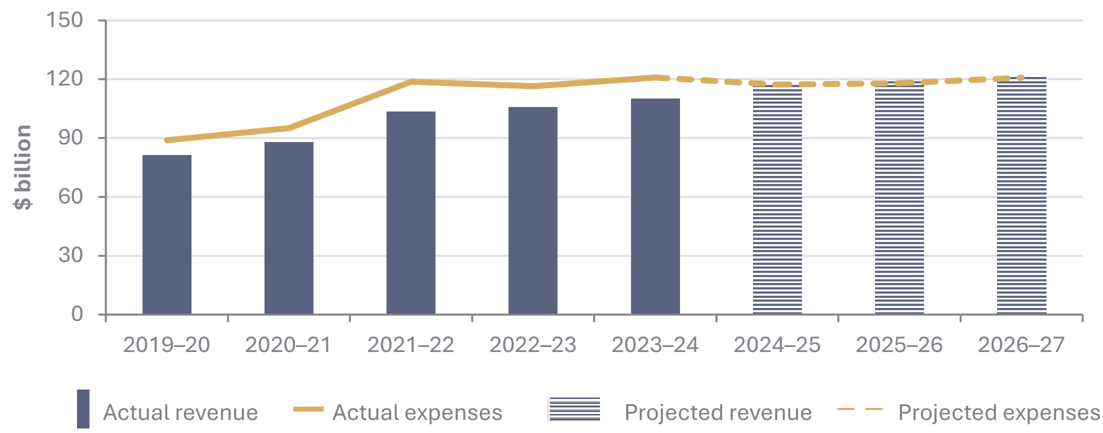
Actual expenses of the GGS have consistently exceeded revenue since 2019–20, resulting in an aggregated $51 billion deficit over the five years to 2023–24.

Government policy decisions on employee and other costs in recent years, along with increased spending in 2020–21 and 2021–22 to respond to COVID-19 and natural disasters, have resulted in significant expenses in the GGS over the last five years.

Increases in revenue over the same period, mainly from taxation and statutory revenue imposed on strong property sales conditions and land valuations, have not been able to offset the growth in expenses.

In the 2024–25 Budget, NSW Treasury anticipates an easing of inflation in the forward years, which is expected to relieve spending pressures to 2026–27. However, GST revenue is forecast to remain relatively flat over the forward estimates, largely due to the Commonwealth Grant Commission's recommendation to reduce the NSW share of the national GST pool in 2024–25.

GGS revenue and expenses
2019–20 to 2026–27



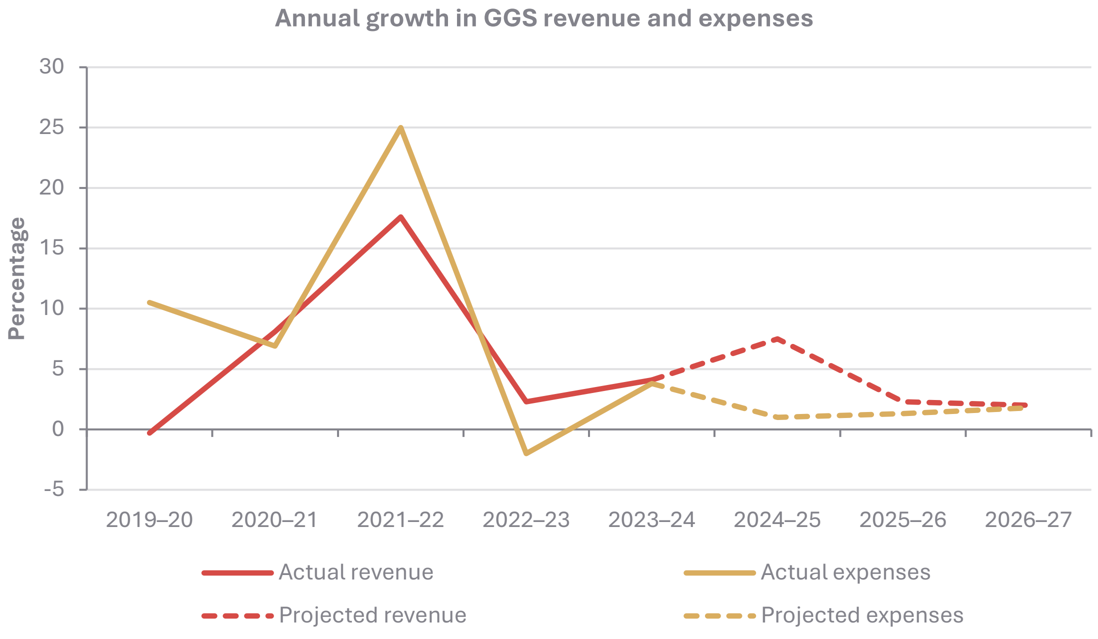
Source: Actuals were derived from audited TSSAs for the relevant years. Projected data are derived from the 2024–25 NSW budget papers.

Annual revenue growth has exceeded annual expense growth for the past two years

Revenue growth has exceeded expense growth in both 2022–23 and 2023–24, after a number of years where expenses increased in excess of revenue as the Government responded to COVID-19 and natural disasters. The Government commenced the CER in June 2023 to identify budget savings and cost reprioritisation measures.

The Government anticipates policy decisions, which include the outcomes of the CER, will result in a favourable year-on-year movement in expenses, to be in line with, or below, the annual revenue growth in the forward years.

An analysis of the State's annual expense growth against the long-term average revenue growth is included in section 3.7 Fiscal responsibility and key aggregates.



Source: Actuals were derived from audited TSSAs for the relevant years. Projected data are derived from the 2024–25 NSW budget papers.

3.2. Total state sector revenue

This section of the report analyses the key drivers of changes in revenue for the TSSA between the year ended 30 June 2024 and the prior year.

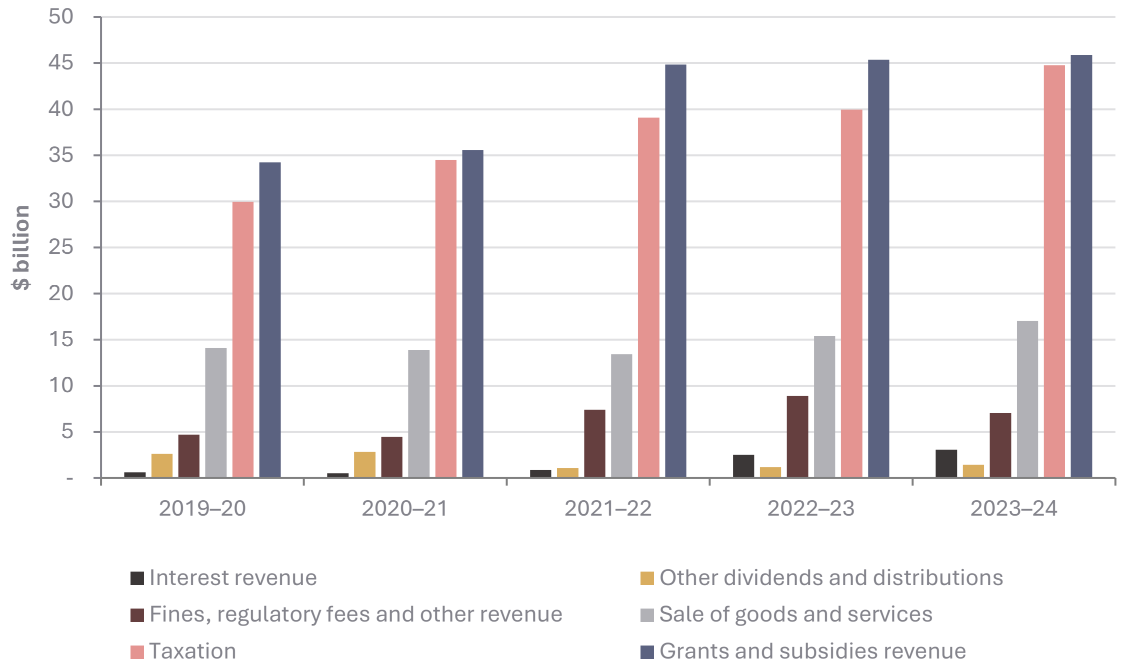
The TSSA includes the GGS and other government-controlled entities that form part of the public non-financial corporation (PNFC) and public financial corporations (PFC) sectors. Entities in the PNFC and PFC sectors generally provide goods and services for which consumers pay directly (including water and electricity).

Refer to Appendix 3 for more information on the entities that are consolidated in the TSSA.

The State's revenues increased by $6.1 billion to $119 billion in 2023–24

The State's total revenue increased from $113 billion in 2022–23 to $119 billion in 2023–24 (5.3% increase). This was largely attributable to a $4.9 billion increase in taxation revenue due to an improvement in the NSW property market and higher land values. Additionally, the State experienced a $1.7 billion increase in sales of goods and services, and a $0.6 billion increase in interest income. These increases were partially offset by a $1.9 billion reduction in fines, regulatory fees and other revenue, mostly driven by a decline in mining royalties.

The State's revenue by income source



Source: Audited TSSAs for the relevant years.

The State's main sources of revenue are grants and subsidises, taxation and sale of goods and services, comprising 90.3% of total revenue in 2023–24 (88.9% in 2022–23).

Over the past five years, the State's revenue from taxation has grown steadily, with a slightly decreased rate of growth in 2022–23. Grants and subsidies saw a substantial increase in 2021–22 (due to increased COVID-19 related funding) but have remained stable since. Revenue from sales of goods and services fluctuated year-on-year, showing a gradual decrease to 2021–22, but have steadily increased between 2022–23 and 2023–24. The State's interest revenue and revenue from other dividends and distributions have fluctuated between years, with increasing interest income and decreasing income from dividends and distributions reflecting changes in the overall interest rate environment.

Taxation revenue increased by 12.2%

Taxation revenue increased by $4.9 billion (12.2%) in 2023–24. This was driven by:

- increases in the value of stamp duties collected, resulting from rising property prices driven by a shortage in housing supply relative to population growth
- higher land taxes, resulting from increases in commercial and rural land values, fuelled by major infrastructure projects (such as rail and metro network expansion) and growing demand for affordable rural living
- higher payroll taxes due to annual growth of 4.2% in NSW wages in 2023–24.

Sale of goods and services revenue increased by 10.9%

Revenue from the sale of goods and services increased by $1.7 billion (10.9%) in 2023–24. This was largely attributable to:

- higher revenue from water supply and usage charges in line with growing connections and price increases
- rising demand for public transport alongside an increase in Opal fares as workers return to their offices post-COVID-19
- higher recoveries revenue from icare as a result of the increase in expected actuarial assessed reinsurance recoveries from the 2022 flooding event.

Interest revenue increased by 23.9%

Interest revenue increased by $0.6 billion (23.9%) because of higher borrowings and loans issued by the State, fuelled by the strong interest rate environment impacting securities and investment deposits.

The increase was also partly attributable to higher cash balances held by government agencies in the current year compared to the previous year.

Fines, regulatory fees and other revenue decreased by 21.1%

Fines, regulatory fees and other revenue decreased by $1.9 billion (21.1%), mainly due to a decline in coal prices and lower demand in key markets, which was influenced by the shift towards renewable energy sources.

3.3. Total state sector expenses

This section of the report analyses the key drivers of changes in expenses for the TSSA between the year ended 30 June 2024 and the prior year.

The State's expenses increased by $9.1 billion to $130 billion in 2023–24

The State's total expenses increased from $121 billion in 2022–23 to $130 billion in 2023–24 (a 7.5% increase).

Most of the increase was due to rises in employee expenses (including superannuation) of $4.5 billion, interest expenses of $2.5 billion and depreciation and amortisation expenses on infrastructure assets of $1.3 billion.

Employee-related costs are the State's largest single expense

Employee-related costs (including superannuation) account for 42.9% of the State's total operating expenses (42.4% in 2022–23) and increased by $4.5 billion or 8.7% in 2023–24.

The increase was mainly driven by the overall consumer price index (CPI) growth in salaries and wages of 4.5% over the year and increases in:

- teachers' salaries by an average of 9.4% across all pay scales under the new award, which became effective in October 2023
- full-time equivalent employees in the education and health sectors
- the valuation of outstanding workers compensation claims due to higher claim numbers.

Interest expenses increased 43.5%

Interest expenses increased by $2.5 billion in 2023–24 because of the higher liabilities recognised on the State's balance sheet and rising interest rates.

Depreciation and amortisation expenses increased 12.5% to $12.1 billion

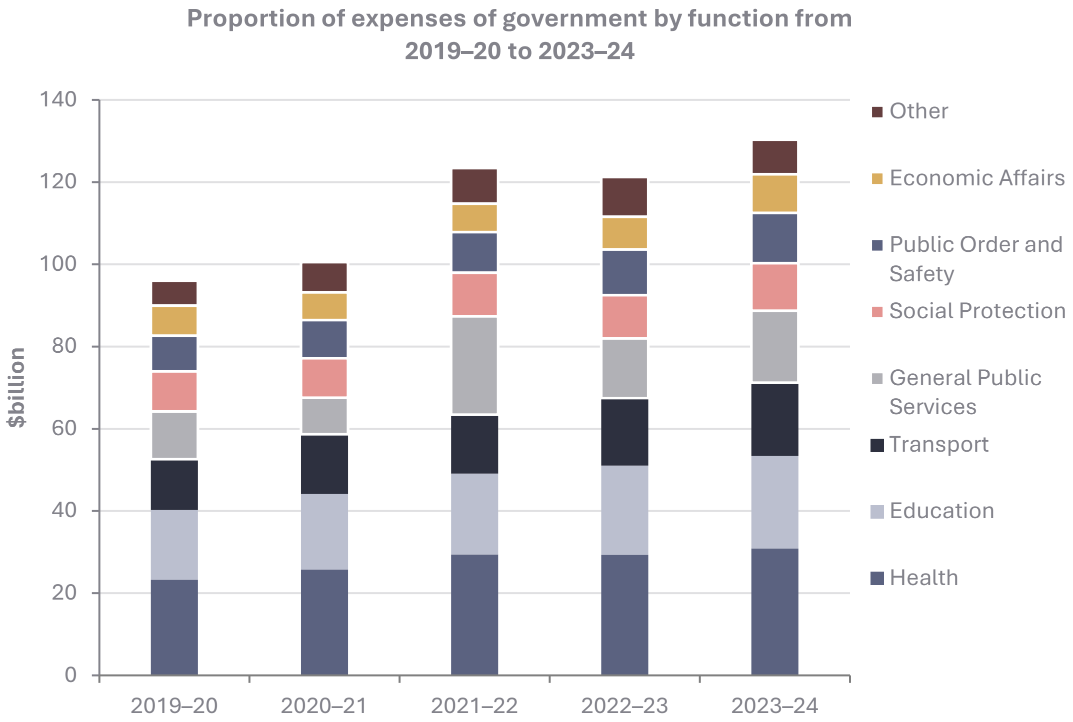
The $1.3 billion increase in depreciation and amortisation expenses was primarily driven by additions and revaluation increments relating to the State's property, plant and equipment balance.

The asset classes contributing most significantly to the increase in these expenses include roads, rail infrastructure, land and buildings.

Health continues to be the largest proportion of the State's expenses

Consistent with the previous year, health, education and transport are the three largest components of the State's total expenses in 2023–24, with total combined spending of $71.2 billion ($67.4 billion in 2022–23).

Over the past five years, the State has incurred the highest proportion of its expenses in delivering transport, education, health, social protection, and general public services. These proportions have remained relatively stable over time, except for 2021–22, when a greater proportion of expenses was incurred in delivering general public services during the COVID-19 pandemic.



Source: Audited TSSAs for the relevant years.

The State wrote off $1.1 billion of infrastructure, inventory and other assets in 2023–24

The State recorded $769 million in write-offs of infrastructure and other assets in the 2023–24 TSSA ($166 million in 2022–23).

Transport for NSW recorded the largest write off, derecognising $444 million of infrastructure system assets and $160 million of intangible assets. These mainly comprised:

- infrastructure assets, relating to projects cancelled in line with the NSW State Strategic Infrastructure Review, including the Great Western Highway upgrade and Beaches Link projects
- works in progress for computer system intangibles, relating to the Intelligent Congestion Management Program, which were derecognised after the agency reassessed the project against its capitalisation policies
- other asset disposals, mainly relating to roads, bridges, tunnels and other assets that were demolished and replaced as part of other construction projects.

In addition, TAHE wrote off $104.4 million in property, plant and equipment during 2023–24, mainly due to the cancellation of the Fast Rail Program following the Government's Strategic Infrastructure Review.

The Ministry of Health also wrote off $334 million of inventories in 2023–24, compared to $138 million in the prior year. This amount predominantly related to rapid antigen test kits and personal protective equipment that had been purchased to manage the needs of a worst-case COVID-19 scenario. Lower demand for these items in 2023–24 resulted in a significant volume of inventory reaching its expiry date.

3.4. Total state sector assets

This section of the report analyses the key drivers of changes in total assets for the TSSA between 30 June 2024 and the prior year.

The State's assets grew by $121 billion to $771 billion at 30 June 2024

The State's assets include physical assets such as land, buildings and infrastructure systems, and financial assets such as cash and other financial instruments, and equity investments.

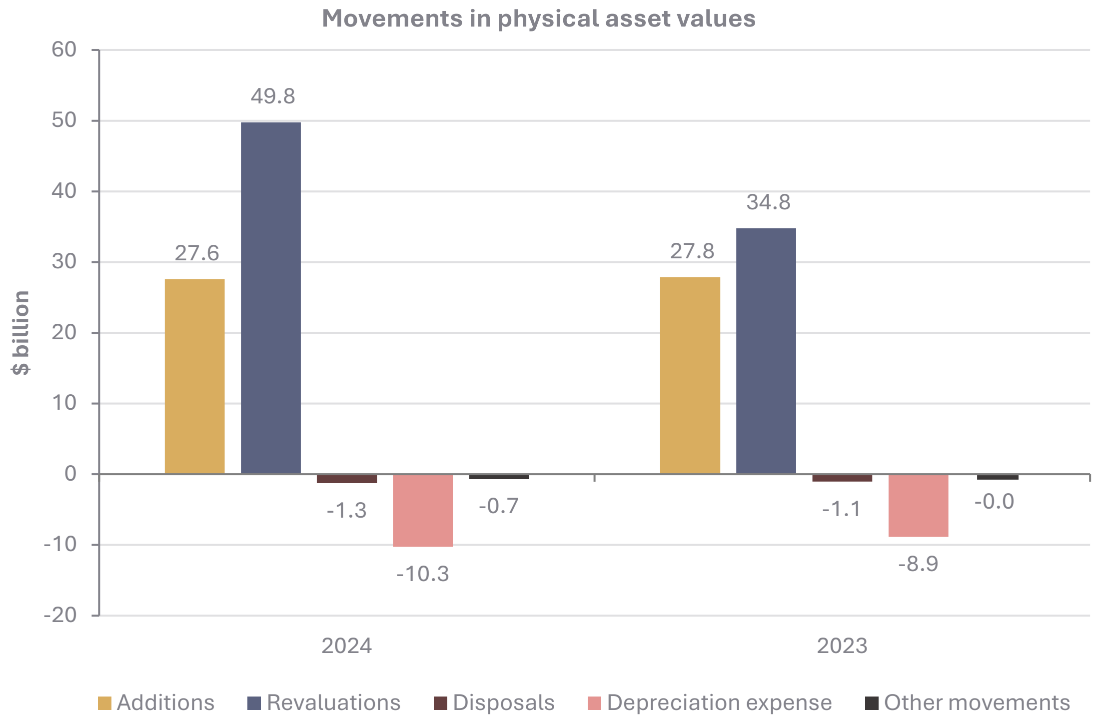
The value of total assets increased by $121 billion or 18.5% to $771 billion at 30 June 2024 largely due to increases in the carrying value of land, buildings and infrastructure systems.

The State's physical assets were valued at $554 billion

The value of the State's physical assets increased by $65.1 billion to $554 billion in 2023–24 ($52.7 billion increase in 2022–23).

The State's physical assets include land and buildings ($236 billion), infrastructure systems ($296 billion) and plant and equipment ($22.2 billion).

The movement in physical asset values between years includes additions, disposals, depreciation and valuation adjustments. Other movements include assets reclassified to held for sale.



Source: Audited 2023–24 TSSA.

The movement in the carrying value of the State's physical assets was mainly due to net revaluation increments of $49.8 billion and current year additions of $27.6 billion.

The three agencies with the largest revaluation increments in 2023–24 were:

- TAHE – $31.1 billion increase in physical assets after changing the valuation approach as a result of TAHE's change in status for accounting purposes (from a for-profit entity at 30 June 2023 to a not-for-profit entity at 30 June 2024)
- Transport for NSW – $7.5 billion increase after completing a comprehensive revaluation of infrastructure systems including land under roads and tracks, rail infrastructure and the traffic signals and controls network
- Department of Education – $2.3 billion increase mainly due to increases in the value of land and buildings.

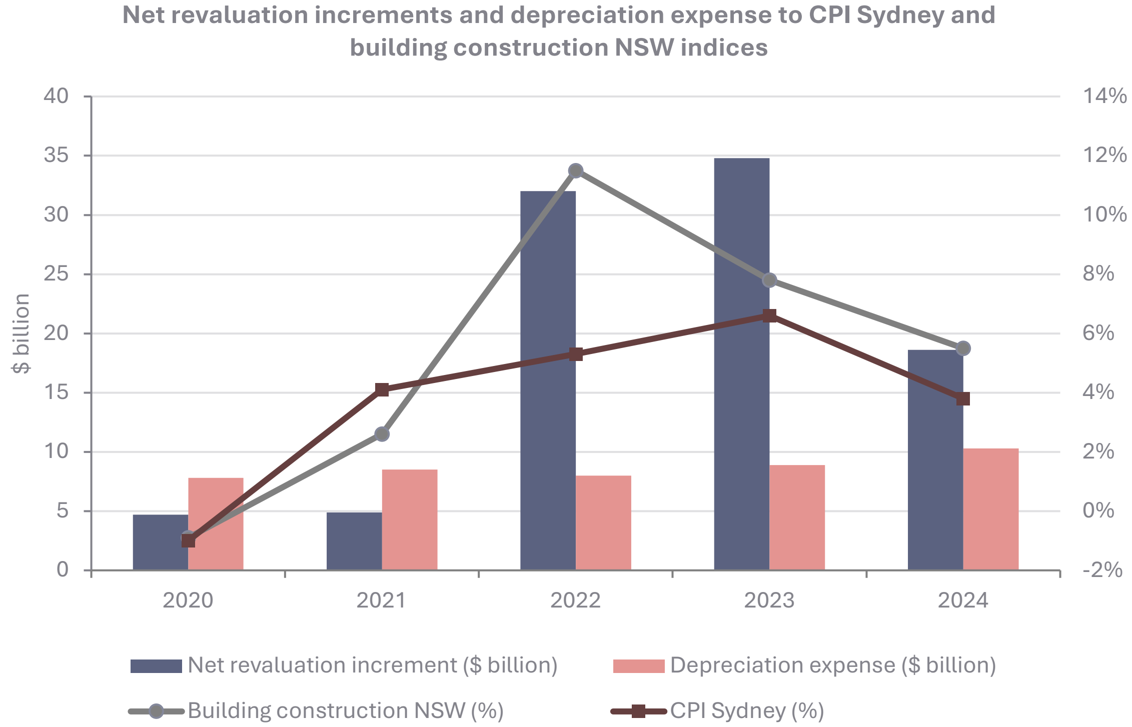
Inflation is a key factor that influences the State's revaluation increments

Most of the State's physical assets are held by not-for-profit entities that value their assets using the cost method. Under this approach, an asset's fair value is estimated using current replacement cost, representing the cost of obtaining a modern equivalent asset capable of replacing the service capacity of the existing asset.

One of the key factors in this approach is the rate of inflation measured by CPI. Movements in CPI impact the costs required to replace the existing asset measured in today's dollars. The chart below shows the relationship between the net revaluation increments reported by the State compared to annual CPI Sydney and the Building Construction NSW indices over the last five years.

The net revaluation increment reported in the TSSA has been adjusted in the chart below to exclude the impacts relating to changes in TAHE's valuation methodology (revaluation decrement of $20.3 billion in 2021 and revaluation increment of $31.1 billion in 2024), as explained above.

As CPI increased over 2020–2023 the State recorded larger revaluation increments. However, in 2024 as CPI fell, so too did the current year revaluation increment. Higher asset values also typically result in higher annual depreciation expenses recognised by the State.



Source: Audited TSSAs for the relevant years and ABS CPI and producer price indices.

NSW Treasury has commenced a depreciation and revaluations project

PPE revaluations are complex and have become more volatile due to inflation spikes in recent years.

NSW Treasury has commenced a 'Depreciation and revaluation project' to explore potential changes to the State's revaluation process, with the aim of:

- improving the predictability and consistency of year-end revaluations
- increasing the efficiency and cost effectiveness of valuation-related processes
- enhancing the reliability of budget forecasts of depreciation.

We understand the project involves multiple streams of work, including reviewing the current budget guidance and processes, and NSW Treasury's accounting policies and procedures relating to PPE valuations.

The Audit Office is engaging with NSW Treasury on this project by providing feedback in relation to any proposed changes, ensuring they comply with relevant Australian accounting standards and provide sufficient and appropriate evidence to support the audit process.

Amendments to the accounting standards could impact the State's valuations for 2024–25

AASB 2022–10 'Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities' provides additional guidance to not-for-profit public sector entities in determining the fair value of assets not held primarily for their ability to generate cash inflows. The amendments apply prospectively in 2024–25.

Agencies impacted by these amendments need to review the key estimates and judgements used in the valuation of their assets, including replacement cost rates, useful lives and remaining useful lives.

The impact of applying these amendments will be reported in the 'State finances 2025' Auditor-General's Report to Parliament.

Significant capital projects do not have an estimated total cost published in the budget papers

In 2023–24, asset additions totalled $27.6 billion ($27.8 billion in 2022–23), which includes the major capital projects outlined below.

Capital project	Current year expenditure $ million	Estimated expenditure to 30 June 2024 $ million	Estimated total cost $ million
Sydney Metro West	2,381	9,818	Not available
Sydney Metro-Western Sydney Airport	2,000	5,314	Not available
Sydney Metro City and Southwest	1,670	17,548	Not available
Western Harbour Tunnel	982	2,417	Not available
WestConnex	141	6,184	Not available

Source: NSW Treasury and NSW 2024–25 Budget Paper No.3.

The estimated total cost for some major projects is not published in the NSW budget papers as the amounts are considered commercially sensitive. This includes costs for projects that are well advanced such as WestConnex, Sydney Metro City and Southwest.

The lack of transparency around expected costs reduces the ability to assess if major projects have been delivered within budget and on time.

Premier's Memorandum 'M2022-06 Information on infrastructure projects' provides direction for the provision of reliable information about infrastructure costs and delivery timetables to the public which reflects the relevant stage of an infrastructure project.

The memorandum states that the information on scope, funding, costs and timelines should not be provided until a project is significantly progressed to a point that it can be accurately and confidently confirmed.

Our State agencies 2024 report includes further information on capital projects.

The State's financial assets increased by $53.2 billion in 2023–24

The value of the State's financial assets increased by $53.2 billion to $193 billion at 30 June 2024. Over the year:

- investments and placements (comprising financial assets carried at fair value including interest bearing securities and managed funds), and equity investments increased by $18.3 billion and $2.1 billion respectively, mainly driven by increases in the value of securities and investments held through the State's TCorpIM funds
- receivables increased by $32.5 billion largely due to an increase in the amount due from brokers for unsettled investment sales from the State's TCorpIM funds at year-end.

3.5. Total state sector liabilities

This section of the report analyses the key drivers of changes in total liabilities for the TSSA between 30 June 2024 and the prior year.

The State's liabilities grew by $75 billion to $404 billion at 30 June 2024

Liabilities include the State's borrowings, amounts owed to current (and former) employees, including employee benefits for annual and long service leave and superannuation liabilities, and amounts payable to suppliers providing goods and services to the State.

The value of total liabilities increased by $75 billion or 22.9% to $404 billion at 30 June 2024. The increase was largely due to a new issuance of bonds and other borrowings by TCorp and additional amounts owed for outstanding investment purchases in the TCorpIM Funds at year-end.

The State increased its debt borrowing by $25.4 billion to fund capital expenditure

The value of TCorp bonds on issue increased by $25.4 billion in fair value terms to $172 billion over 2023–24. Bonds issued by TCorp this year increased primarily to fund the State's infrastructure projects.

TCorp bonds are traded in financial markets and are guaranteed by the NSW Government. TCorp continued to issue long-term debt through its benchmark and sustainability bond programs.

Sustainability bonds are used to fund specific projects and assets that deliver positive environmental and social outcomes by supporting the NSW Government's environmental and social objectives. Projects funded by sustainability bonds include the Sydney Metro Northwest and the CBD and South East Light Rail.

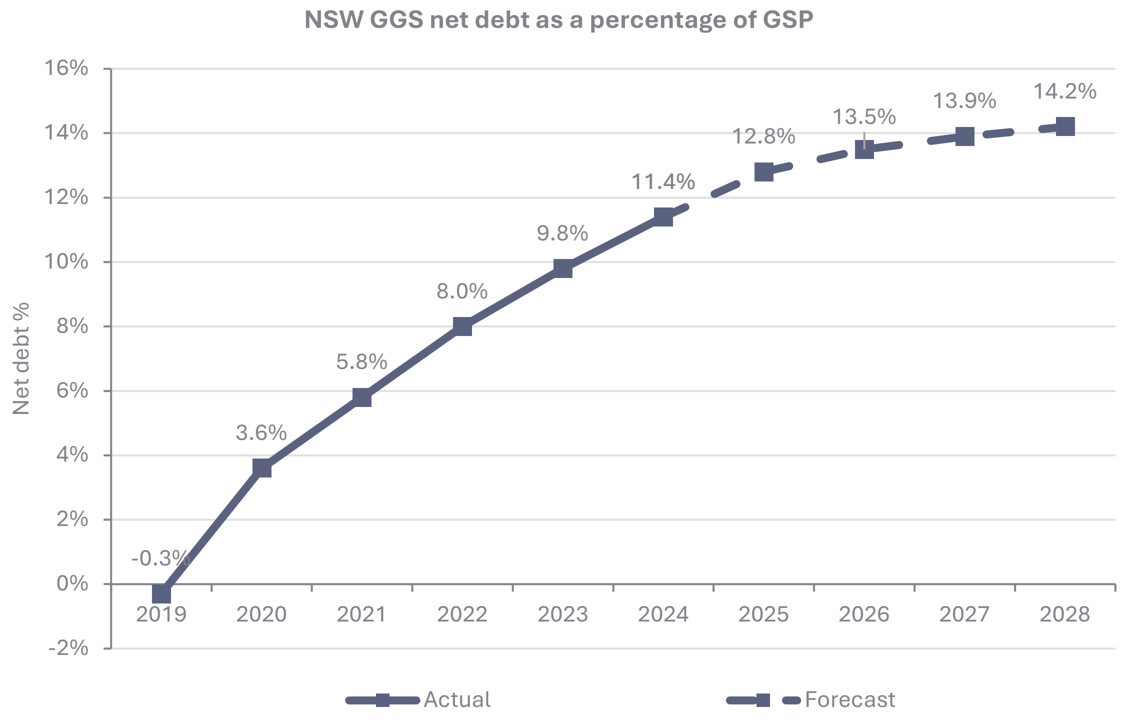
The 2023–24 budget papers introduced two key fiscal principles to guide the State:

- returning to a sustainable operating position
- stabilising and then maintaining a sustainable debt position.

The GGS net debt to GSP increased from -0.3% in 2019 to 11.4% in 2024. It is predicted to reach 14.2% of GSP by 2028. This is largely due to additional borrowings to fund the State's major infrastructure projects.

The latest NSW budget indicates the GGS is not expected to return to surplus over the forward estimates to 2027–28.

According to the NSW Government's '2024–25 Budget Paper No.01' the increase in GGS net debt is broadly in line with most other states, but below the projection for Victoria at 25.1% of GSP by June 2028.



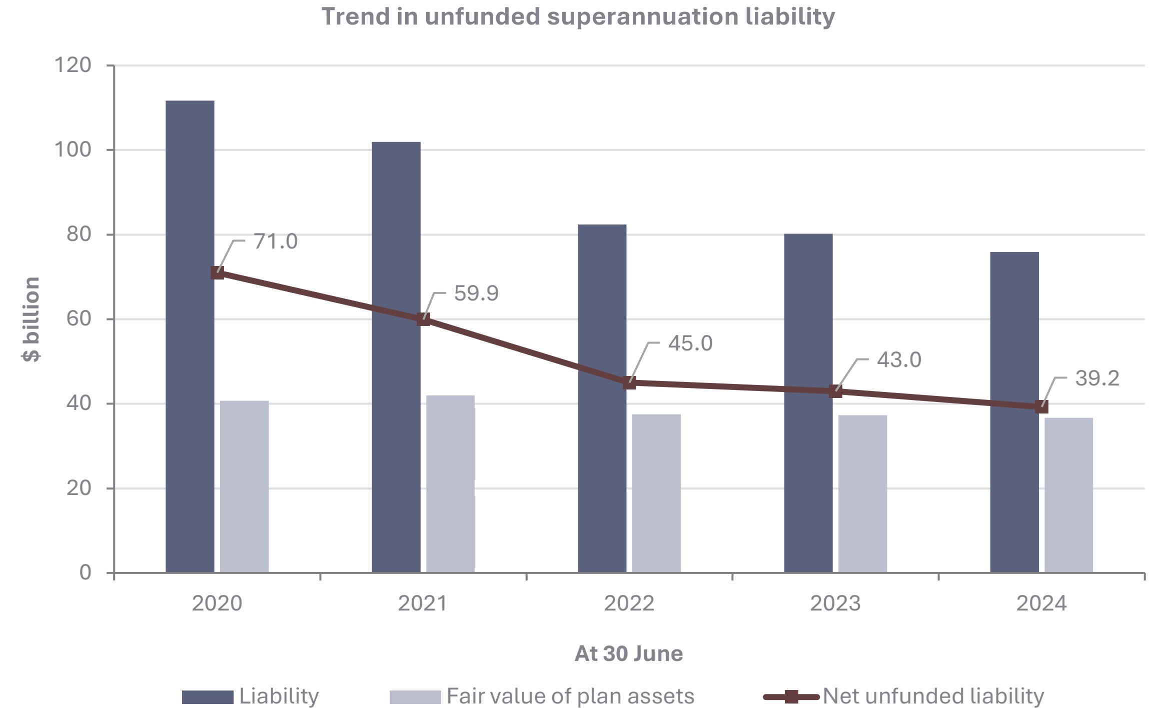
Source: Forecast from NSW 2024–25 Budget Paper No. 1.

The trend in GGS net debt to GSP in New South Wales shows an increase in net debt since 2019, mainly driven by additional borrowings to deliver the State's infrastructure program and fund stimulus measures implemented in response to the COVID-19 pandemic and natural disasters.

The State's unfunded superannuation liability fell $3.7 billion to $39.2 billion

Approximately 17.3% of the State's liabilities relate to public sector employees. These include unfunded superannuation and employee benefits, such as long service and recreation leave.

Valuing these obligations involves complex estimation techniques and significant judgements. Small changes in assumptions and other variables, such as changes to discount rates, can materially impact the valuation of liability balances in the financial statements.



Source: Audited TSSAs for the relevant years.

The State's unfunded superannuation liability fell $3.7 billion from $43 billion to $39.2 billion at 30 June 2024. This was mainly due to changes in financial assumptions such as the discount rate used to value the unfunded superannuation liability. The discount rate based on the Commonwealth bond yield (which reflects market expectations of future cash rates) was 4.4% at 30 June 2024 (4.1% in 2022–23). A higher discount rate reduces the superannuation liability valuation. The State's unfunded superannuation liability represents the value of its obligations to past and present employees, less the value of assets set aside to fund those obligations.

3.6. General government sector's investment in other sector entities

The general government sector's investment in other sector entities increased by $33.0 billion

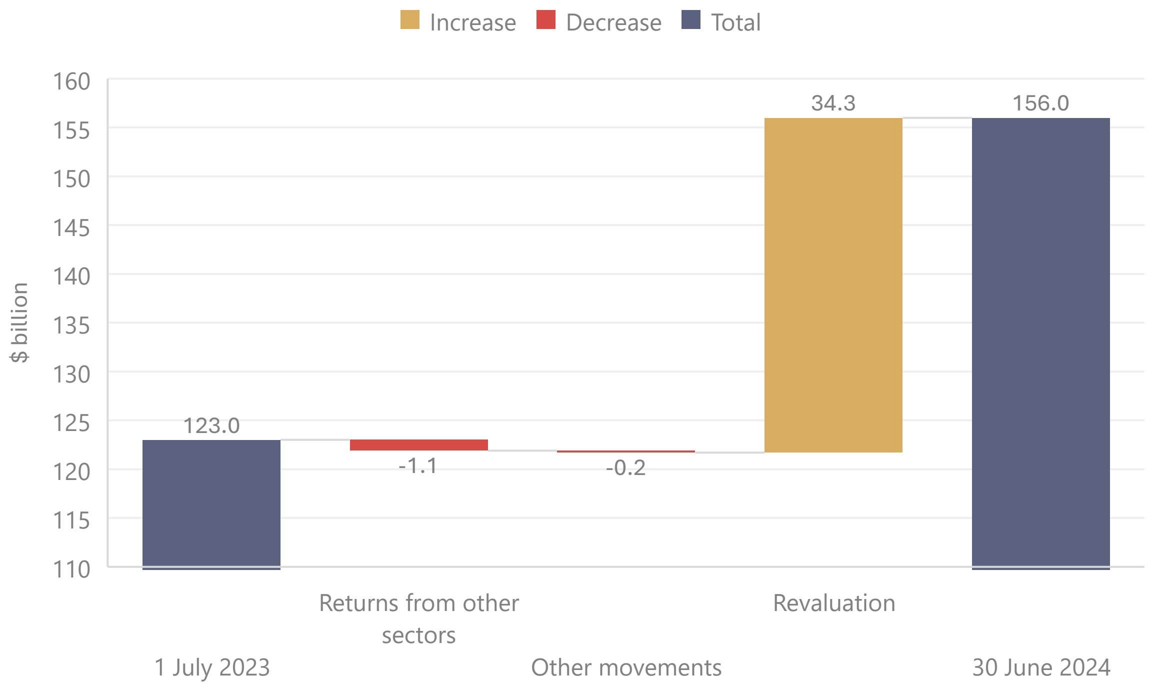
The GGS's interest in the PNFC and PFC are recognised on its balance sheet. As at 30 June 2024, the GGS recognised $156 billion in investments in other public sector entities ($123 billion at 30 June 2023).

The GGS accounts for these interests based on the net assets of those sectors, in accordance with AASB 1049 'Whole-of-Government and General Government Sector Financial Reporting'. The exception is the GGS's investments in TCorpIM Funds controlled by the State, which are presented on the balance sheet as financial assets at fair value through profit or loss. TCorpIM Funds are classified as PFCs.

Movements in the carrying amount of the GGS's interests in other public sector entities, including gains and losses, are taken through other economic flows – other comprehensive income. This is because the State has designated these investments under AASB 9 'Financial Instruments' as fair value through other comprehensive income. The basis of this designation is that the State intends to hold these investments over a medium to long-term period.

The movements of these investments from 1 July 2023 to 30 June 2024 are summarised in the following graph:

GGS's investment in the PFC and PNFC sectors – cumulative change in value over 2023–24



Source: Audited 2023–24 TSSA.

The graph shows a $33 billion net increase in the value of the GGS's investment in the PFC and PNFC sectors in 2023–24 comprising:

- net revaluation increases of $34.3 billion across agencies in the PFC and PNFC sectors. The largest movement relates to a $31.1 billion increase in TAHE's physical assets after changing the valuation approach as a result of the entities change in status for accounting purposes (from a for-profit entity at 30 June 2023 to a not-for-profit entity at 30 June 2024)
- negative returns from other sectors of $1.1 billion largely due to the transfer of 1,642 social housing dwellings from the NSW Land and Housing Corporation (LAHC) to the Aboriginal Housing Office (AHO) this year. LAHC plans to transfer 3,325 dwellings in total (initially valued at $1.4 billion) to AHO over a period of three years.

The State's proportional share in the carrying amount of the net assets of the PNFC sector above includes state-owned corporations (SOCs). At 30 June 2024, the Government's proportional share in the carrying amount of net assets in SOCs was $69.8 billion (30 June 2023: $37.1 billion). This $32.7 billion increase is predominately driven by the increase in the fair value of TAHE's property, plant and equipment explained above.

Recognition of equity funding from the GGS to other public sector entities depends on the rate of return

Transfers from the GGS into PNFC and PFC entities are recognised as an equity investment in entities in these sectors if there is a reasonable expectation of a sufficient rate of return on the injection. Otherwise, the transfer is recorded as a capital transfer expense.

3.7. Fiscal responsibility and key aggregates

The Government manages the finances of New South Wales in accordance with the *Fiscal Responsibility Act 2012* (the FR Act). The FR Act establishes the framework for fiscal responsibility and the strategy to achieve a AAA credit rating and maintain service delivery to the people of New South Wales.

The legislation sets out targets and principles for financial management to achieve this. The fiscal targets are to:

- limit general government annual expenditure growth to be lower than long-term average revenue growth of 5.6%
- eliminate unfunded superannuation liabilities by 2030.

The State maintained its triple-A and AA+ credit ratings

Credit ratings are a measure of a borrower's ability and willingness to meet its debt obligations. Higher credit ratings may reduce the cost of borrowing and assist an entity when accessing financial markets, due to lower perceived risk of lending.

The 2024–25 Budget Statement noted that S&P Global has indicated that NSW is unlikely to regain a triple-A rating until the second half of the decade and with the State required to reduce debt levels.

In September 2024 and October 2024, the State's triple-A credit ratings were reaffirmed by Fitch Ratings and Moody's, respectively. In November 2024, S&P Global affirmed the State's AA+ credit rating, however the State's long-term outlook was revised from 'stable' to 'negative'.

In updating their assessment, S&P Global noted their 'very strong assessment of NSW's financial management capability could weaken if the State does not rein in growth of operating expenditure, narrow its after capital account deficits, and ease its growing debt burden as promised in its 2024–25 budget'.

The following table summarises the most recently published credit ratings for Australian state and territory governments.

NSW and Western Australia have both achieved the highest possible credit rating from two independent rating agencies for 2023–24.

Summary of Australian state and territory government credit ratings

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Fitch Ratings	AAA	AA+	AA+	(Not rated)	AA+	(Not rated)	(Not rated)	(Not rated)
Moody's Ratings	Aaa	Aa2	Aa1	Aaa	Aa1	Aa2	Aa3	(Not rated)
S&P Global Ratings	AA+	AA	AA+	AAA	AA+	AA+	(Not rated)	AA+

Source: The most recent ratings released by the three credit rating agencies (Fitch, Moody's and S&P Global) at the time of tabling this report.

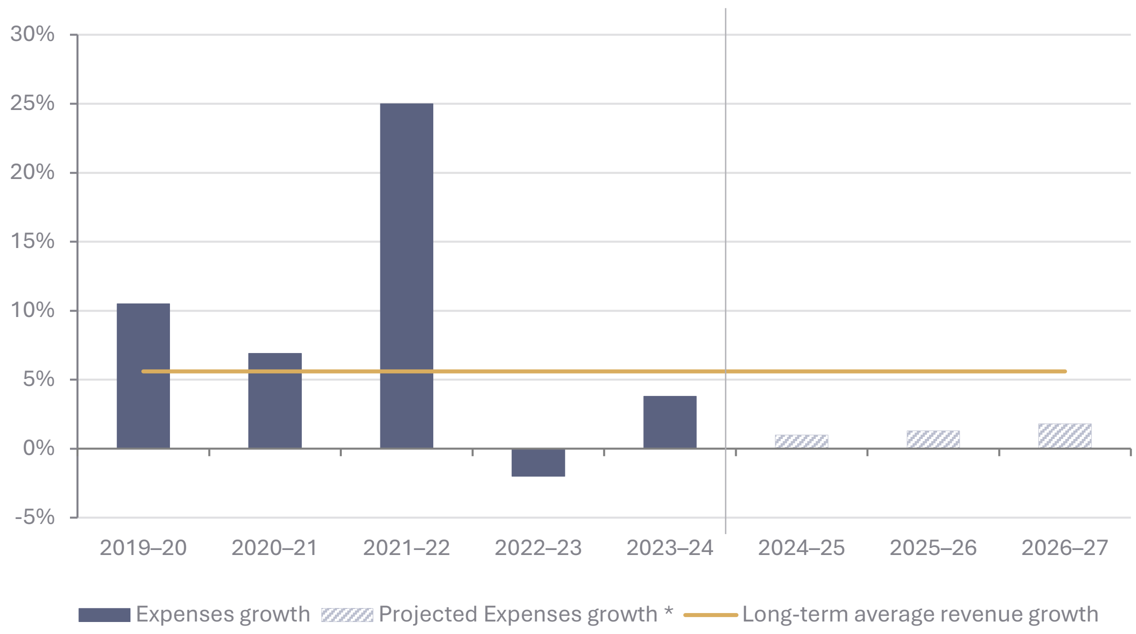
Independent rating agencies, Moody's and Fitch, consider that inflation pressures, that have an impact on recurrent and capital spending, continue to challenge the State's ability to maintain its triple-A credit rating.

General government annual expenditure growth is lower than long-term average revenue growth

General government expenditure increased from $116.5 billion in 2022–23 to $120.9 billion in 2023–24, representing a 3.8% increase (2% decrease in 2022–23). General government annual expenditure growth over the last two years was lower than the long-term average revenue growth rate of 5.6%, meaning the Government has met the related FR Act fiscal target for the past two years. The lower annual expenditure growth was due to cost saving measures adopted in recent years, as well as a reduction in grants and subsidies paid since the COVID-19 pandemic.

Future annual expense growth is anticipated to remain below the long-term average revenue growth based on the outcomes of the CER which has identified budget savings and cost reprioritisation measures.

Annual expenditure growth against the long-term average revenue growth



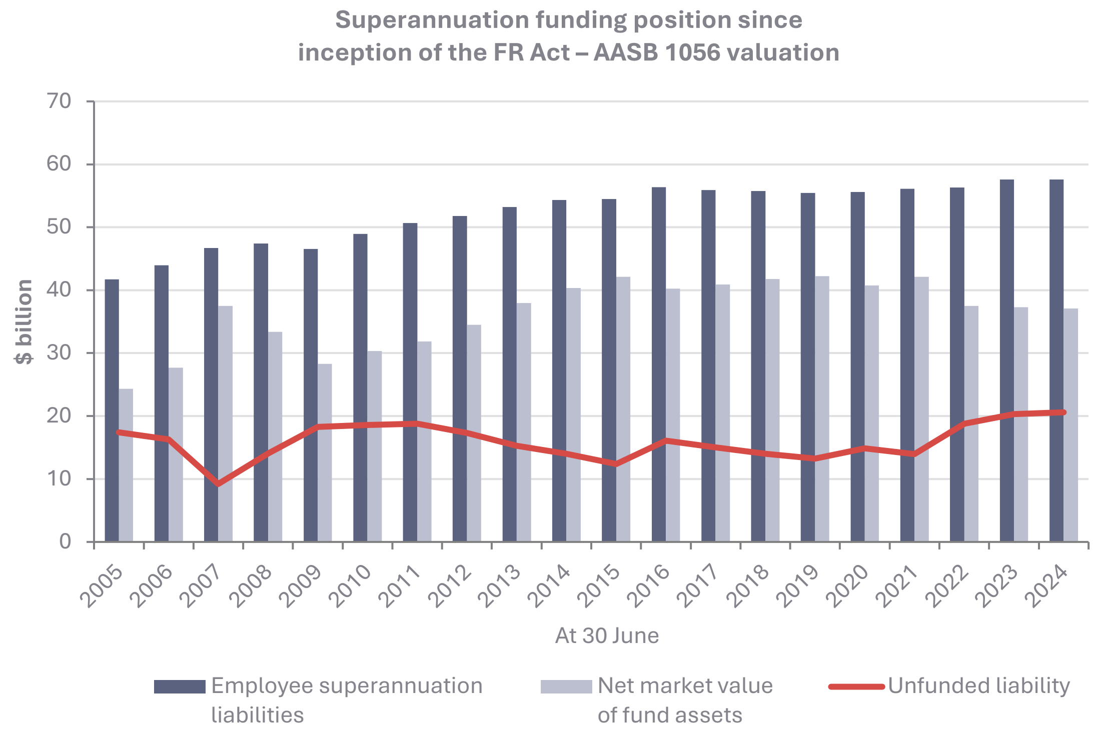
*Source: Past expense growth data were derived from audited TSSAs. Projected expenses growth data were from the 2024–25 NSW Budget Papers.

The Government has committed to fully funding the State's superannuation liabilities by 2040

The FR Act sets a target to eliminate the State's unfunded superannuation liabilities by 2030, while the State's current budget settings aim to fully fund superannuation liabilities by 2040.

The 2020–21 Budget announced plans to amend the FR Act to change the target date, in response to fiscal pressures on the State's finances as a result of the COVID-19 pandemic. However, no amendments have subsequently been made.

The State uses AASB 1056 'Superannuation Entities' (AASB 1056) for fiscal responsibility reporting purposes. Under this accounting standard, the State's unfunded superannuation liability was $20.6 billion at 30 June 2024 ($20.3 billion at 30 June 2023).



Source: Audited TSSAs for the relevant years.

Superannuation funds recognise the superannuation liability in their financial statements under AASB 1056. The State applies a different accounting standard for calculating superannuation liabilities for the purposes of financial reporting in the TSSA.

The total state sector reported unfunded superannuation liabilities of $39.2 billion at 30 June 2024

The State applied Australian Accounting Standard AASB 119 'Employee Benefits' (AASB 119) to calculate and recognise $39.2 billion ($43 billion in 2022–23) in superannuation liabilities in the financial statements. AASB 119 is used to calculate and recognise employee benefits from the perspective of the employer.

AASB 1056 and AASB 119 use different bases to measure the liability. AASB 119 requires entities to discount employee liabilities (including unfunded superannuation) using the long-term Australian Government bond rate of 4.4% (4.1% in 2022–23), while AASB 1056 discounts the liability using the long-term expected rate of return from the assets backing the liability (i.e. long-term earnings rate), which was within the range of 5.9% to 7% during the financial year ended 30 June 2024 (6.1% to 7% in 2022–23).

The liability to fund members calculated under AASB 1056 is $20.6 billion ($20.3 billion in 2022–23). This is lower than the $39.2 billion liability of the State when calculated under AASB 119.

AASB 119 produces a higher liability because of the lower government bond rate compared with the long-term earnings rate and the impact of this on discount rates.

Key fiscal aggregates

The following table shows the GGS net debt and financial worth over the past five years.

	2024	2023	2022	2021	2020
Net debt[1] ($ million)	93,365	74,873	55,781	37,076	22,732
Net debt as a percentage of GSP*	11.4%	9.8%	8.0%	5.8%	3.6%
Annual increase in net debt ($ million)	18,492	19,092	18,705	14,344	24,333
Net financial worth[2] ($ million)	(26,938)	(42,462)	(30,315)	(51,298)	(30,102)

1 Net debt equals the sum of selected financial liabilities; deposits held, borrowings and derivatives, and advances received less the sum of financial assets; cash and deposits, advances paid and investments, loans and placements.

2 Net financial worth is calculated as financial assets less liabilities. It includes unfunded superannuation liabilities and investments in other sectors, and excludes non-financial assets such as land, buildings, equipment and infrastructure.

*Source: Net debt as a percentage of GSP for 2024 is derived from actual net debt as per TSSA. Net debt as a percentage of GSP for past years is derived from past NSW budget papers.

Net debt increased by $18.5 billion in 2023–24, as the State borrowed additional funds to support its infrastructure programs.

Net financial worth increased by $15.5 billion in 2023–24, mainly due to an increase in the State's equity investments in other public sector entities of $33 billion and an increase in the investment in financial assets at fair value of $2.1 billion. This was partially offset by an increase in bonds and borrowings issued by TCorp of $21.4 billion, primarily to fund the State's infrastructure programs.

The significant increase in the State's equity investments in other public sector entities is mainly due to a revaluation increment of $31.1 billion impacting TAHE's net assets, arising from a change in the valuation methodology adopted in the comprehensive revaluation of TAHE's physical assets in 2023–24.

4. Looking forward

The Audit Office's annual work program

The Annual Work Program 2024–27 was published in August 2024

Each year, the Audit Office's Annual Work Program reflects an ongoing strategic assessment of the risks and challenges facing government. It outlines subsequent focus areas for financial audits, as well as planned performance audit topics published as a three-year rolling program. We aim to inform NSW Parliament, the public sector and the community about key risks we identify, as well as our priorities and expected timeframes for delivering our work. This helps to give our stakeholders the best opportunity to prepare for, and engage with, our audits.

Our financial audit program this year included a consolidated report on the audit results of NSW Government agencies' financial statements. The State agencies 2024 report highlighted the issues that had the most significant impact across the whole sector.

There are five key focus areas in our performance audit program:

- effective advice and decision making
- First Nations people in NSW
- environment and sustainability
- efficient and responsible use of public resources
- cyber security.

A sharper focus on information technology risks and data

The NSW public sector is increasingly reliant on information technology to improve service delivery. The Systems Assurance, Cyber and Data Branch within the Audit Office seeks to respond to the pervasive risks and opportunities associated with information technology, and the growing availability of large amounts of data. The creation of this branch reflects the prominence of data and cyber issues within our Corporate Strategy and Annual Work Program, and the importance of our information systems assurance work. The work of the branch supports our financial and performance audits, with insights reflected in our financial and performance audit reports.

The outcome we seek is a sharper focus on information technology risks within the public sector, particularly cyber security risks, to be highlighted in our performance and financial audits. Our increasing use of data for more effective audits aims to further enhance our audit reports.

The Systems Assurance, Cyber and Data Branch also plays a role in thought leadership about artificial intelligence and its impacts on the way we work and the work of the agencies we audit. This plan includes commencing our first audit focused on artificial intelligence.

Digital audit transformation

The Audit Office is embarking on a digital audit transformation which is looking at how we can better use data and technology to enhance our audits.

This transformation looks to re-imagine how we plan for, complete and report on our financial and performance audits incorporating data analytic solutions, automation and predictive analytics, leading to more efficient, effective and timely audits.

An initial key focus is on standardising and automating data requests from agencies, which will streamline processes, save time, automate some audit procedures and improve audit risk assessment and benchmarking.

We understand that there are some key enablers required to achieve this outcome and acknowledge that there are some key risks that we need to manage. Ensuring that we have a workforce that is digitally capable, and technological solutions that are fit-for-purpose, while continuing to maintain high levels of security and privacy over information is essential.

While this transformation will be staged, the support of the sector will be crucial to ensure speedy and consistent implementation across the entire sector.

Audits will target the efficient and responsible use of public resources

The *Government Sector Employment Act 2013* establishes the core values of the public sector in NSW. One of these core values is that public servants should be fiscally responsible and focus on the efficient, effective and prudent use of resources.

The Government Sector Audit Act 1983 provides that the Auditor-General may have regard to the wastage of public resources and may deal with reports about the serious and substantial waste of public money. Serious and substantial waste involves the uneconomical, inefficient or ineffective use of resources, whether authorised or unauthorised, and which could result in a loss of public funds or resources.

Waste can result in an opportunity cost for government where money could have been used for a better purpose, or better spent on achieving the same purpose. Waste can also lead to higher costs being incurred to address earlier failings in program design, budgeting and management.

The Audit Office's work program for 2024–27 includes audits that focus on identifying whether the planning and management of key programs and services has been efficient and financially responsible, and whether opportunities to avoid and reduce waste have been identified early.

Climate-related financial reporting in NSW

The NSW Government has announced the introduction of mandatory climate-related financial disclosures as part of agencies' annual reporting.

The release of climate-related financial disclosures by government entities is intended to provide transparency on the NSW Government's exposure to the impacts of climate change and enhance accountability over strategies to respond to risks and capitalise on opportunities.

NSW Treasury recently issued its framework for first year climate-related financial disclosures

In October 2024, NSW Treasury issued TPG24-33 'Reporting Framework for First Year Climate-related Financial Disclosures' (the Framework). The Framework sets out mandatory reporting requirements, including key guiding principles and disclosure content.

The Framework is closely informed by the Australian Accounting Standards Board's (AASBs) Australian sustainability reporting standard, AASB S2 'Climate-related Disclosures'. It has been tailored by NSW Treasury to reflect NSW Government circumstances and reporting entity capability and capacity.

Entity level climate-related financial disclosures will commence in stages from 1 July 2024

The disclosure obligations will commence in 2024–25 for the largest entities or those entities likely to be most exposed to material climate-related risks. Based on NSW Treasury's assessment, 29 'phase 1 entities' will apply the Framework for their 2024–25 climate disclosures.

Other entities will apply the Framework when they make their first climate-related financial disclosures in subsequent phases.

The assurance regime over climate-related financial disclosures is being developed

The Audit Office has been engaging with NSW Treasury to determine the nature and scope of independent public sector assurance over future climate-related disclosures at both a whole-of-government and agency level. Assurance requirements are expected to be staged, with NSW Treasury recently seeking expressions of interest for some phase 1 entities to have their 2024–25 climate disclosures assured by the Audit Office. Mandatory assurance for all phase 1 entities will commence in 2025–26.

Section 2 –

Appendices

Appendix 1 – Key audit matters

Key Audit Matter	How my audit addressed the matter
Consolidation of financial information	

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'.
I consider this to be a key audit matter because of the risk of material misstatement in the TSSA consolidation process arising from:
• 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.
	Key audit procedures included the following:
	• 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:
	  – 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)	
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. I consider this to be a key audit matter because of the: • 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	Key audit procedures included the following: • 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	How my audit addressed the 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'.	• 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.

Key Audit Matter	How my audit addressed the matter
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

Key Audit Matter	How my audit addressed the matter
	• 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.

Appendix 2 – Prescribed entities

Section 45 of the *Government Sector Audit Act 1983* (GSA Act) requires the Auditor-General to perform audits of the financial statements of entities, funds or accounts prescribed for the purposes of that section. Prescribed audits are generally made at the request of a Treasurer, a responsible minister or a prescribed requestor.

The Auditor-General is required to inspect and audit the financial report and the books and records relating to an entity or fund or account under the control of an entity. Section 45(3) of the GSA Act requires the Auditor-General to include a reference to any prescribed audit conducted in this report.

The following were prescribed entities at 30 June 2024.

Entity/fund	Latest financial statements audited	Type of audit opinion issued
AustLII Foundation Limited	31 December 2023	Unmodified
Belgenny Farm Agricultural Heritage Centre Trust	30 June 2024	Unmodified
Central Coast Council Water Supply Authority (formerly Gosford City and Wyong City Council Water Supply Authorities)	30 June 2024	Unmodified
City West Housing Pty Limited	30 June 2024	Unmodified
Cowra Japanese Garden Maintenance Foundation Limited	31 March 2024	Unmodified
Cowra Japanese Garden Trust	31 March 2024	Unmodified
Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Superannuation Fund	30 June 2024	Unmodified
Eif Pty Limited[1]	30 June 2023	Unmodified
Energy Investment Fund[2]	20 June 2023	Unmodified, with an emphasis of matter
Home Building Compensation Fund	30 June 2024	Unmodified
Macquarie University Professorial Superannuation Scheme	30 June 2024	Unmodified
National Art School	31 December 2023	Unmodified
NSW Fire Brigades Superannuation Pty Limited	30 June 2024	Unmodified
Parliamentary Contributory Superannuation Fund	30 June 2024	Unmodified
Sydney Educational Broadcasting Limited	31 December 2023	Unmodified
The Brett Whiteley Foundation	30 June 2024	Unmodified
The funds for the time being under the management of the New South Wales Treasury Corporation, as trustee	30 June 2024	Unmodified

Entity/fund	Latest financial statements audited	Type of audit opinion issued
The superannuation fund amalgamated under the *Superannuation Administration Act 1991* and continued to be amalgamated under the *Superannuation Administration Act 1996* (known as the SAS Trustee Corporation Pooled Fund)	30 June 2024	Unmodified
The trustees of the Art Gallery of New South Wales Foundation	30 June 2024	Unmodified
The trustees of the Farrer Memorial Research Scholarship Fund	31 December 2023	Unmodified
United States Studies Centre	31 December 2023	Unmodified
Universities Admissions Centre (NSW and ACT) Pty Limited	30 June 2024	Unmodified
University of Sydney Professorial Superannuation System	31 December 2023	Unmodified

1 Eif Pty Limited was deregistered on 31 July 2024.

2 Energy Investment Fund was wound up on 20 June 2023.

Appendix 3 – Controlled entities of the State

Based on ABS classification, the TSS or the TSSA comprises the consolidation of over 200 controlled entities of the State within the GGS and over 100 government-controlled businesses in the PFC and PNFC sectors.

The PFC and PNFC sectors combined form the non-GGS. The businesses in the non-GGS generally provide goods and services, such as water, electricity and financial services, for which consumers pay for directly.

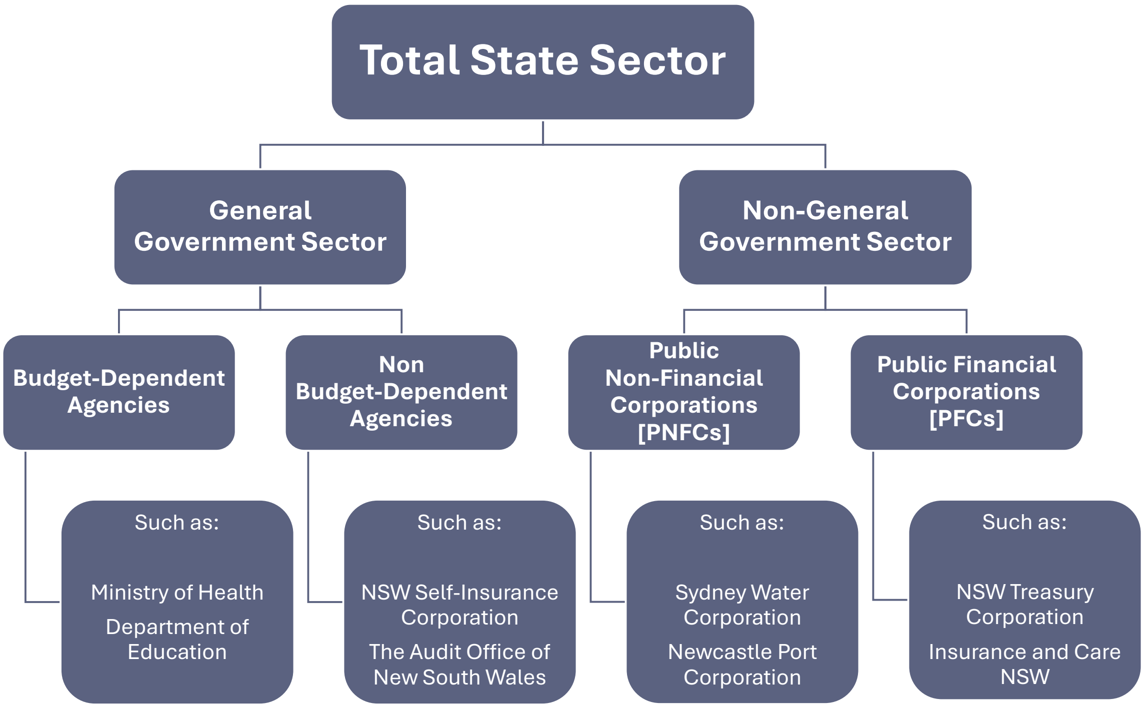
GGS entities are agencies that provide public services (such as health, education and police) or carry out policy or perform regulatory functions. General government agencies are directly or indirectly funded in the main by taxation.

As defined by the ABS, PFC entities have one or more of the following functions:

- that of a central bank
- the acceptance of demand, time or savings deposits
- the authority to incur liabilities (such as insurance) and acquire financial assets in the market on their own account.

The PNFC sector includes agencies where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation.

The controlled entities of the State of NSW are listed in Note 38 'Details of Consolidated Entities' of the TSSA for the year ended 30 June 2024.



OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose

Curious and open-minded

Valuing people

Contagious integrity

Courage (even when it's uncomfortable)

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