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# New South Wales Auditor-General's Report

## Volume Ten 2012

### Half-Yearly Review 2012–13 Engagement

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## The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

The functions of the Auditor-General include providing audit related services at the request of the Treasurer. Under the Act, the Auditor-General may report to Parliament on any matter that relates to the exercise of this function.

[audit.nsw.gov.au](http://audit.nsw.gov.au)



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Pursuant to the *Public Finance and Audit Act 1983*,  
I present Volume Ten of my 2012 report.

A handwritten signature in black ink that reads 'Peter Achterstraat'.

**Peter Achterstraat**  
Auditor-General  
December 2012

# Foreword

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On 5 November 2012, the Treasurer wrote to me under section 27B(3)(c) of *the Public Finance and Audit Act 1983*, requesting me, among other things, to 'undertake a review of the reasonableness of the estimates and forecasts in the upcoming Half Yearly Review'. A copy of the Treasurer's letter and my reply of 6 November 2012 appear in Appendix Two to this Report.

It is not possible to audit future events. Accordingly, I am providing an assurance conclusion rather than an audit opinion. My review was conducted in accordance with ASAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'.

I have expressed my concerns in relation to the quality of financial reporting in the NSW public sector for some time. In Volume Four of my 2009 Report to Parliament, I noted:

Twelve of the 24 largest agencies' financial reports submitted for audit contained significant errors in the current year's financial information, while five included significant errors in the prior years' financial information.

This delayed and increased the costs of preparing and auditing these financial reports. To address this issue financial reports should be prepared periodically throughout the year (i.e. at 31 December and 31 March) using full accrual accounting.

In that report, I recommended the Treasury develop and implement procedures to improve the quality, reliability and timeliness of financial reporting of the New South Wales public sector.

I also raised similar concerns with the Public Accounts Committee at its 'Inquiry into Financial Management' on 5 May 2010.

I welcome the Treasurer's request and recognise the efforts taken this year by Departments and Treasury to improve the robustness of this year's Half-Yearly Review.



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# Engagement performed upon the 2012-13 Half-Yearly Review

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The Treasurer has released the 2012-13 Half-Yearly Review, which is essentially an update of projections published in the 2012-13 Budget Papers. I have reviewed the reasonableness of certain estimates and forecasts published within the Half-Yearly Review.

I performed my review in accordance with applicable assurance standards and qualified my conclusion on the estimates and forecasts. This Report provides further details of my engagement and contains summary findings and conclusions.

## About the Engagement

My review covered the estimated financial statements for the year ending 30 June 2013 and the three forward years ending 30 June 2014, 2015, and 2016 of the NSW General Government Sector. These statements are within chapter four of the Half Yearly Review. Appendix One to this Report reproduces the estimated financial statements together with their basis of preparation.

The objective of my review was to conclude whether anything had come to my attention that caused me to believe the estimated financial statements of the General Government Sector had not been prepared consistently with the basis of preparation and assumptions stated or the methodologies used to determine those assumptions are unreasonable. The basis of preparation and assumptions are included in Appendix One. The conclusion is deliberately expressed in the negative form because it offers a limited level of assurance.

## Limited Level of Assurance

Limited assurance is a lower level of assurance than that offered by an audit. The nature of the subject matter, being prospective financial information, has a high inherent risk, for which no amount of procedures can reduce risk to an acceptable level for an audit.

Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions and underlying data upon which prospective financial information is based, such evidence is generally future oriented and therefore less certain in nature than evidence available to support historical financial information. Accordingly, no opinion is expressed as to whether the forecasts will be achieved.

## Professional Standards and Independence

My review was conducted in accordance with Australian Standards on Assurance Engagements, in particular ASAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', and relevant Australian Auditing Standards. These standards require me to comply with relevant ethical requirements relating to assurance engagements.

My review is not an audit and offers less assurance than an audit

My review was in accordance with relevant professional standards

Evidence to support projected financial information is limited so my procedures were mainly making inquiries and analytical in nature

## My Procedures

For the reasons stated previously, my review was substantially less in scope than an audit. My review was limited mainly to making inquiries of relevant personnel and applying analytical procedures, including:

- comparison of forecasts with other financial information, such as prior period actual results
- consideration of predictable relationships between the forecasts and other financial and non-financial data
- trend and variance analysis, including investigation of unusual trends, variances and inconsistencies.

I used professional judgement to design and perform procedures including determining whether the assumptions used in the preparation are:

- supported by appropriate evidence
- based on best-estimate assumptions and not material hypothetical assumptions
- based on grounds that have a reasonable basis
- consistent with the recognition and measurement accounting policies as stated
- attributable to the underlying events and transactions
- mathematically correct.

I also considered whether the estimated financial statements of the General Government Sector reflect the applicable financial reporting framework and whether the stated basis of preparation for the prospective financial information has been applied correctly.

I used information systems assurance specialists and applied economic expertise to complete my work.

## Engagement Conclusion

I reported on the 2011-12 Total State Sector Accounts on 31 October 2012. There has been insufficient time since then for resolution of matters that caused me to qualify my opinion on those financial statements. As these matters remain unresolved they impacted my conclusion on the Half-Yearly Review engagement because I could not obtain all the information I required to complete my review of:

- the value of certain buildings and related depreciation, due to the way the accounting policies were applied
- the completeness of land assets and any related infrastructure, because certain parcels of land within New South Wales and related infrastructure that may be controlled by the NSW General Government Sector have not been recognised in the estimated financial statements
- the existence and value of certain archives in the estimated financial statements due to deficiencies in the records supporting the estimated values.

More information about the matters leading to my qualified conclusion appears in Volume Three of my 2012 Report to Parliament. Volume Nine of this Report also discusses information and process deficiencies leading to the qualification of the value of buildings and related depreciation.

My conclusion on the revised projection and forward estimates was qualified because I could not obtain all the information I needed to complete my work



Had I been able to complete my review of the items listed above, matters may have come to my attention indicating that adjustments might be necessary to the estimated financial statements. Accordingly, my conclusion stated:

Except for the adjustments to the estimated financial statements that I may have become aware of had it not been for the matters described above, based on my review, which is not an audit, nothing has come to my attention that causes me to believe:

- the estimated financial statements have not been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the estimated financial statements have not been prepared on the basis of the assumptions stated
- the methodologies used to determine those assumptions are unreasonable.

Before concluding, I obtained representations from Treasury and agency management about the reasonableness of estimated financial information used to prepare the Half-Yearly Review and about the systems and processes involved.

My full Independent Assurance Practitioner's Report appears in Appendix One.

## Other Findings

During my review, I identified various issues within the estimated financial statements that Treasury and agencies addressed before release of the Half-Yearly Review. Some transactions and balances needed to move between the financial years presented and certain line items required adjustment.

My review also identified opportunities for improvement in the processes, systems and policies used to prepare the Half-Yearly Review. I am pleased to see Treasury has acknowledged these findings in the Half-Yearly Review and reported it is working with agencies to address these matters.

Many agencies do not have documented processes and policies underpinning the financial information provided to Treasury for inclusion in the estimated financial statements of the General Government Sector. Roles and responsibilities of relevant agency management are also not documented. Most agencies rely on past practice to inform current process.

I also noted a high reliance on spreadsheets across the sector to prepare estimated financial information. Most spreadsheets lacked adequate access controls. Version control was frequently lacking and many spreadsheets include hard coded numbers, making it difficult to review the methodologies behind forecasts.

In business, sophisticated financial systems and processes are generally accepted as necessary for generating reliable and relevant information for decision making. The public sector is no different. Investment in improved systems and processes is necessary to ensure the integrity of financial information.

The Treasurer has requested I also review the 2013—14 Budget. I expect Treasury and agencies will have made improvements to their internal processes that I can report on at my next Budget review.

There are opportunities for improvement in the processes underpinning the Half-Yearly Review

Restrictions on  
the type of work  
I can perform  
ensure my  
independence

## Auditor-General's Mandate

My functions include providing audit related services at the request of the Treasurer. The NSW Treasurer requested I review the reasonableness of estimates and forecasts in the 2012-13 Half Yearly Review. In response to this request, I agreed to perform a limited assurance engagement on specific sections of the Half-Yearly Review.

Under the *Public Finance and Audit Act 1983*, I am prohibited from providing consulting or advisory services to the government and public sector agencies. My work is limited to assurance engagements upon the information and activities of the NSW public sector.

In accordance with provisions in this Act, costs incurred to perform this assurance engagement will be recovered from Treasury.

# Appendix 1



## INDEPENDENT ASSURANCE PRACTITIONER'S REPORT

### Revised Budget and Forward Estimates

To the NSW Treasurer

You requested I undertake a review of the reasonableness of estimates and forecasts included in the 2012-13 Half-Yearly Review. My review is intended to meet your request whilst being conducted in accordance with Australian Auditing and Assurance Standards.

My review covers the revised budget for the year ending 30 June 2013 and the three forward years ending 30 June 2014, 2015, and 2016 of the NSW General Government Sector (the estimated financial statements). The estimated financial statements comprise the operating statement (Table 4.1 within the Half-Yearly Review), balance sheet (Table 4.2), cash flow statement (Table 4.3), derivation of ABS GFS cash surplus/(deficit) (Table 4.4), and a statement of significant accounting policies and forecast assumptions. All other Half-Yearly Review content has not been subject to my review.

The estimated financial statements have been prepared by the NSW Treasury for the NSW Treasurer for inclusion in the Half-Yearly Review. I disclaim any assumption of responsibility for any reliance on this report, or on the estimated financial statements to which it relates, to any person other than the NSW Treasurer, or for any purpose other than that for which it was prepared.

### Secretary's Responsibility for the estimated financial statements

The Secretary is responsible for the preparation and presentation of the Half-Yearly Review, including the estimated financial statements, in accordance with section 8 of the *Public Finance and Audit Act 1983*. This responsibility includes preparation on a basis consistent with the stated accounting policies and assumptions as well as the development of reasonable methodologies to determine those assumptions. It also includes such internal control as the Secretary determines is necessary to enable preparation of the estimated financial statements that are free from material misstatement, whether due to fraud or error. The Secretary to the Treasury has certified he is satisfied with the reasonableness of the estimates and forecasts in the estimated financial statements

### Assurance Practitioner's Responsibility

My responsibility is to express a conclusion on the estimated financial statements based on my review. I conducted my review in accordance with Australian Auditing and Assurance Standards applicable to the review of prospective financial information. Those standards require I comply with relevant ethical requirements relating to such engagements, and conduct the review in order to state whether anything has come to my attention that causes me to believe:

- the estimated financial statements have not been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the estimated financial statements have not been prepared on the basis of the assumptions stated
- the methodologies used to determine those assumptions are unreasonable.

A review is limited primarily to making inquiries of relevant personnel and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, an audit opinion is not expressed.

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Forecasts relate to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions upon which forecasts are based, such evidence is generally future oriented and therefore less certain in nature. Given the nature of the evidence available in assessing the reasonableness of the assumptions, I cannot obtain the level of assurance necessary to express a reasonable assurance conclusion on those assumptions. The conclusion expressed in this report has been formed on the above basis. Accordingly, I provide a lesser level of assurance on the reasonableness of the assumptions. No opinion is expressed on whether the forecasts will be achieved.

### **Basis for Qualified Conclusion**

Matters that caused me to qualify my opinion on the 2011-12 Total State Sector Accounts remain unresolved and impacted my conclusion on the Half-Yearly Review engagement. I was unable to obtain all the information I required to complete my review of:

- the value of certain buildings and related depreciation, due to the way the accounting policies were applied. The value of these buildings is estimated at \$18.5 billion at 30 June 2013, 2014 and 2015 and \$18.4 billion at 30 June 2016. The amount of related depreciation is estimated as \$340 million for the year ended 30 June 2013, \$390 million for the year ended 30 June 2014, \$380 million for the year ended 30 June 2015, and \$360 million for the year ended 30 June 2016.
- the completeness of land assets and any related infrastructure, because certain parcels of land within NSW and related infrastructure that may be controlled by the NSW General Government Sector have not been recognised in the estimated financial statements. The value of land and infrastructure that potentially should be recognised was estimated between \$500 million and \$1.5 billion at 30 June 2012, but may be outside this range.
- the existence and value of certain archives in the estimated financial statements due to deficiencies in the records supporting the estimates of \$938 million at 30 June 2013 to 2016.

Had I been able to complete my review of the items listed above, matters may have come to my attention indicating that adjustments might be necessary to the estimated financial statements.

### **Qualified Conclusion**

Except for the adjustments to the estimated financial statements that I may have become aware of had it not been for the matters described above, based on my review, which is not an audit, nothing has come to my attention that causes me to believe:

- the estimated financial statements have not been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the estimated financial statements have not been prepared on the basis of the assumptions stated
- the methodologies used to determine those assumptions are unreasonable.

Actual results for the NSW General Government Sector are likely to be different from those forecast in the estimated financial statements since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, I express no opinion as to whether the forecasts will be achieved.

### **Independence**

In conducting my review, I have complied with the independence requirements of the Australian Auditing and Assurance Standards and relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.



Peter Achterstraat  
Auditor-General

20 December 2012  
SYDNEY

## **THE TREASURY STATEMENT IN RELATION TO THE ESTIMATED FINANCIAL STATEMENTS IN THE HALF YEARLY REVIEW**

The Half Yearly Review includes Estimated Financial Statements for the General Government Sector.

These comprise the General Government Sector Operating Statement (Table 4.1), General Government Sector Balance Sheet (Table 4.2), General Government Sector Cash Flow Statement (Table 4.3), Derivation of ABS GFS General Government Sector Cash Surplus/(Deficit) (Table 4.4) and the Statement of Significant Accounting Policies and Forecast Assumptions (Appendix A).

These Statements cover the revised estimates for the year ending 30 June 2013 and the three forward years ending 30 June 2014, 2015 and 2016.

The Estimated Financial Statements have been prepared on the basis of the most current economic and fiscal information available to The Treasury. In my opinion, the Estimated Financial Statements have been properly prepared in accordance with the Statement of Significant Accounting Policies and Forecast Assumptions and the methodologies used to determine those assumptions are reasonable.

Given the prospective nature of the Estimated Financial Statements, it has been necessary to apply the best professional judgement in their preparation.



Philip Gaetjens  
Secretary  
The Treasury  
20 December 2012



Table 4.1: General Government Sector Operating Statement

	2012-13 Budget \$m	2012-13 Revised \$m	2013-14 Forward estimates \$m	2014-15 Forward estimates \$m	2015-16 Forward estimates \$m
<b>Revenue from Transactions</b>					
Taxation	22,111	22,191	23,464	24,963	26,600
Grants and Subsidies					
Commonwealth - general purpose	14,826	14,932	15,651	16,343	16,947
Commonwealth - national agreements	7,203	7,065	7,228	7,913	8,557
Commonwealth - national partnership payments	2,667	2,581	2,480	2,825	2,315
Other grants and subsidies	698	865	1,113	1,033	1,068
Sale of goods and services	5,066	5,326	5,678	5,782	5,947
Interest	367	349	368	369	359
Dividend and income tax equivalent income					
from other sectors	2,367	2,390	2,333	1,997	2,108
Other dividends and distributions	546	573	475	508	535
Fines, regulatory fees and other	3,876	3,587	3,744	4,002	4,258
<b>Total Revenue from transactions</b>	<b>59,727</b>	<b>59,860</b>	<b>62,536</b>	<b>65,737</b>	<b>68,693</b>
<b>Expenses from Transactions</b>					
Employee	26,541	26,411	26,785	27,145	28,036
Superannuation					
Superannuation interest cost	201	(44)	(11)	187	432
Other superannuation	2,346	2,437	2,510	2,531	2,651
Depreciation and amortisation	3,294	3,270	3,488	3,641	3,765
Interest	2,147	2,166	2,342	2,511	2,614
Other property	1	1	1	1	1
Other operating	14,197	14,692	15,100	15,162	16,181
Grants and Transfers					
Current grants and transfers	9,264	9,157	9,368	9,772	10,070
Capital grants and transfers	2,561	2,547	3,376	3,421	3,185
<b>Total Expenses from transactions</b>	<b>60,552</b>	<b>60,636</b>	<b>62,959</b>	<b>64,371</b>	<b>66,935</b>
<b>BUDGET RESULT - SURPLUS/(DEFICIT)</b>					
[Net Operating Balance]	<b>(824)</b>	<b>(776)</b>	<b>(423)</b>	<b>1,367</b>	<b>1,758</b>

Table 4.1: General Government Sector Operating Statement (cont)

	2012-13 Budget \$m	2012-13 Revised \$m	2013-14 Forward estimates \$m	2014-15 Forward estimates \$m	2015-16 Forward estimates \$m
<b>Other economic flows included in the operating result</b>					
Gain/(Loss) from other liabilities	387	111	229	302	187
Other net gains/(losses)	411	606	469	467	489
Share of earnings from associates (excluding dividends)	(89)	(89)	36	29	40
Dividends from asset sale proceeds	...	126	...	...	...
Other	128	(97)	(1)	(18)	(4)
<b>Operating result (accounting basis)</b>	<b>13</b>	<b>(119)</b>	<b>311</b>	<b>2,146</b>	<b>2,471</b>
<b>Other economic flows - other comprehensive income</b>					
Superannuation actuarial gains/(loss)	6,829	2,984	3,768	4,907	2,723
Revaluations	1,142	2,481	2,425	2,425	2,415
Net gain/(loss) on equity investments in other sectors	2,431	1,543	5,040	4,872	4,127
Other	(34)	...	(210)	(130)	(50)
<b>Comprehensive result - total change in net worth</b>	<b>10,382</b>	<b>6,889</b>	<b>11,334</b>	<b>14,220</b>	<b>11,685</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Comprehensive result - total change in net worth</b>	<b>10,382</b>	<b>6,889</b>	<b>11,334</b>	<b>14,220</b>	<b>11,685</b>
Less: Net other economic flows	(11,206)	(7,666)	(11,757)	(12,853)	(9,927)
<b>equals: Budget Result - net operating balance</b>	<b>(824)</b>	<b>(776)</b>	<b>(423)</b>	<b>1,367</b>	<b>1,758</b>
less: Net acquisition of non-financial assets					
Purchases of non-financial assets <sup>(a)</sup>	6,227	7,533	7,965	8,643	7,711
Sales of non-financial assets	(536)	(628)	(425)	(474)	(327)
less Depreciation	(3,294)	(3,270)	(3,488)	(3,641)	(3,765)
plus Change in inventories	(3)	(2)	(2)	1	(14)
plus Other movements in non-financial assets					
- assets acquired utilising finance leases	129	749	161	134	164
- other <sup>(a)</sup>	125	(1,041)	(1,426)	(1,858)	(1,192)
<b>equals Total net acquisition of non-financial assets</b>	<b>2,648</b>	<b>3,341</b>	<b>2,785</b>	<b>2,806</b>	<b>2,577</b>
<b>equals Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>(3,473)</b>	<b>(4,117)</b>	<b>(3,208)</b>	<b>(1,439)</b>	<b>(819)</b>
<b>OTHER AGGREGATES</b>					
Capital expenditure <sup>(b)</sup>	6,356	8,282	8,126	8,777	7,875

(a) 2012-13 Revised Budget reflects revised arrangements for the delivery of rail infrastructure between TfNSW and RailCorp.

(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired utilising finance leases.



Table 4.2: General Government Sector Balance Sheet

	June 2013 Budget \$m	June 2013 Revised \$m	June 2014 Forward estimates \$m	June 2015 Forward estimates \$m	June 2016 Forward estimates \$m
<b>Assets</b>					
Financial assets					
Cash and cash equivalent assets	3,930	5,087	4,621	4,639	4,624
Receivables	6,018	6,369	6,234	6,147	6,274
Tax equivalents receivable	274	462	352	247	249
Financial assets at fair value	9,287	8,425	9,344	10,208	10,828
Advances paid	1,198	965	997	1,012	1,041
Deferred tax equivalents	4,929	4,955	5,003	5,042	5,108
Equity					
Investments in other public sector entities	82,904	77,909	82,822	87,584	91,616
Investments in associates	1,282	4,225	4,262	4,291	4,330
Other	29	12	12	12	12
<b>Total Financial Assets</b>	<b>109,851</b>	<b>108,409</b>	<b>113,647</b>	<b>119,182</b>	<b>124,081</b>
Non-financial assets					
Inventories	278	295	292	293	280
Forestry stock and other biological assets	9	8	8	8	8
Assets classified as held for sale	188	192	150	128	126
Investment properties	228	200	200	200	200
Property, plant and equipment					
Land and Buildings	57,547	63,966	64,844	65,984	67,012
Plant and Equipment	9,516	10,098	10,433	10,468	10,567
Infrastructure Systems	64,280	68,733	72,542	76,382	80,047
Intangibles	1,808	2,037	2,151	2,222	2,237
Other	1,675	1,767	2,049	2,286	2,534
<b>Total Non-financial Assets</b>	<b>135,529</b>	<b>147,296</b>	<b>152,670</b>	<b>157,972</b>	<b>163,010</b>
<b>Total Assets</b>	<b>245,380</b>	<b>255,706</b>	<b>266,316</b>	<b>277,155</b>	<b>287,092</b>
<b>Liabilities</b>					
Deposits held	1,069	1,070	941	830	732
Payables	3,965	4,428	4,576	4,569	4,207
Tax equivalents payable	...	...	...	6	1
Borrowings and derivatives at fair value	80	14	12	10	8
Borrowings at amortised cost	30,037	31,185	35,160	37,678	39,666
Advances received	730	730	712	699	710
Employee provisions	11,902	12,802	12,710	12,575	12,565
Superannuation provisions <sup>(a)</sup>	31,266	43,432	38,732	32,912	29,389
Deferred tax equivalent provisions	712	772	763	743	724
Other provisions	6,211	6,605	6,778	7,021	7,286
Other	2,134	2,269	2,199	2,159	2,166
<b>Total Liabilities</b>	<b>88,108</b>	<b>103,306</b>	<b>102,582</b>	<b>99,201</b>	<b>97,453</b>
<b>NET ASSETS</b>	<b>157,272</b>	<b>152,400</b>	<b>163,734</b>	<b>177,954</b>	<b>189,639</b>
<b>Net Worth</b>					
Accumulated Funds	26,753	15,613	19,694	26,811	32,135
Reserves	130,519	136,787	144,040	151,143	157,504
<b>NET WORTH</b>	<b>157,272</b>	<b>152,400</b>	<b>163,734</b>	<b>177,954</b>	<b>189,639</b>
<b>Net Financial Worth</b>	<b>21,743</b>	<b>5,103</b>	<b>11,065</b>	<b>19,981</b>	<b>26,629</b>
<b>Net Financial Liabilities</b>	<b>61,161</b>	<b>72,805</b>	<b>71,758</b>	<b>67,603</b>	<b>64,988</b>
<b>Net Debt<sup>(b)</sup></b>	<b>17,502</b>	<b>18,521</b>	<b>21,862</b>	<b>23,357</b>	<b>24,622</b>

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, financial assets at fair value and advances paid.

Table 4.3: General Government Sector Cash Flow Statement

	2012-13 Budget \$m	2012-13 Revised \$m	2013-14 Forward estimates \$m	2014-15 Forward estimates \$m	2015-16 Forward estimates \$m
<b>Cash Receipts from Operating Activities</b>					
Taxes received	22,103	22,182	23,424	24,846	26,557
Receipts from sales of goods & services	5,270	5,339	6,070	6,185	6,391
Grants and subsidies received	25,516	25,443	26,449	28,132	28,872
Interest receipts	370	344	368	369	359
Dividends and income tax equivalents	2,353	2,163	2,574	2,252	1,995
Other receipts	5,980	5,965	5,908	6,192	6,500
<b>Total Operating Receipts</b>	<b>61,592</b>	<b>61,436</b>	<b>64,793</b>	<b>67,977</b>	<b>70,674</b>
<b>Cash Payments for Operating Activities</b>					
Payments for employees	(26,573)	(26,280)	(26,615)	(26,990)	(28,237)
Payments for superannuation	(3,157)	(3,162)	(3,430)	(3,632)	(3,882)
Payments for goods & services	(15,758)	(15,715)	(16,663)	(16,631)	(17,687)
Grants & subsidies paid	(9,888)	(8,894)	(9,203)	(9,178)	(9,891)
Interest paid	(1,576)	(1,606)	(1,762)	(1,956)	(2,067)
Other payments	(2,922)	(3,197)	(3,029)	(3,026)	(3,035)
<b>Total Cash Operating Payments</b>	<b>(59,875)</b>	<b>(58,854)</b>	<b>(60,703)</b>	<b>(61,412)</b>	<b>(64,799)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>1,717</b>	<b>2,582</b>	<b>4,091</b>	<b>6,564</b>	<b>5,875</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>					
Sales of non-financial assets	520	613	437	474	327
Purchases of non-financial assets	(6,265)	(7,566)	(7,928)	(8,728)	(7,731)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(5,744)</b>	<b>(6,953)</b>	<b>(7,490)</b>	<b>(8,255)</b>	<b>(7,404)</b>
<b>Cash Flows from Investments in Financial Assets</b>					
<b>for Policy Purposes</b>					
Receipts	271	341	226	218	220
Payments	(181)	(167)	(350)	(230)	(180)
<b>Total Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>91</b>	<b>174</b>	<b>(123)</b>	<b>(12)</b>	<b>40</b>
<b>Net Flows from Investments in Financial Assets</b>					
<b>for Liquidity Purposes</b>					
Receipts	1,271	102	24	87	284
Payments	(770)	(593)	(529)	(539)	(463)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>501</b>	<b>(491)</b>	<b>(505)</b>	<b>(453)</b>	<b>(178)</b>
<b>Cash Flows from Financing Activities</b>					
Advances received	...	...	12	17	32
Advances repaid	(52)	(52)	(53)	(55)	(49)
Proceeds from borrowings	3,775	3,912	4,015	2,634	1,900
Repayments of borrowings	(516)	(518)	(477)	(507)	(566)
Deposits received (net)	(146)	(165)	(130)	(112)	(100)
Other financing (net)	...	7	...	...	...
<b>Net Cash Flows from Financing Activities</b>	<b>3,061</b>	<b>3,184</b>	<b>3,367</b>	<b>1,977</b>	<b>1,218</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(375)</b>	<b>(1,505)</b>	<b>(661)</b>	<b>(177)</b>	<b>(448)</b>

Table 4.3: General Government Sector Cash Flow Statement (cont)

	2012-13 Budget \$m	2012-13 Revised \$m	2013-14 Forward estimates \$m	2014-15 Forward estimates \$m	2015-16 Forward estimates \$m
<b>Derivation of the Cash Result</b>					
Net cash flows from operating activities	1,717	2,582	4,091	6,564	5,875
Net cash flows from investments in non-financial assets	(5,744)	(6,953)	(7,490)	(8,255)	(7,404)
<b>Cash Surplus/(Deficit)</b>	<b>(4,027)</b>	<b>(4,371)</b>	<b>(3,400)</b>	<b>(1,690)</b>	<b>(1,529)</b>

Table 4.4: Derivation of ABS GFS General Government Sector Cash Surplus/(Deficit)

<b>Cash Surplus/(Deficit)</b>	<b>(4,027)</b>	<b>(4,371)</b>	<b>(3,400)</b>	<b>(1,690)</b>	<b>(1,529)</b>
Assets acquired under finance leases	(129)	(749)	(161)	(134)	(164)
Other financing arrangements <sup>(a)</sup>	53	48	(49)	85	20
<b>ABS GFS Surplus/(Deficit)</b>	<b>(4,104)</b>	<b>(5,071)</b>	<b>(3,610)</b>	<b>(1,739)</b>	<b>(1,673)</b>

(a) Comprises movements in payables and receivables of a capital nature.

## Appendix A: Statement of Significant Accounting Policies and Forecast Assumptions

The Half Yearly Review includes Estimated Financial Statements for the General Government Sector.

These comprise the General Government Sector Operating Statement (Table 4.1), General Government Sector Balance Sheet (Table 4.2), General Government Sector Cash Flow Statement (Table 4.3) and Derivation of ABS GFS General Government Sector Cash Surplus / (Deficit) (Table 4.4).

These Statements cover the revised estimates for the year ending 30 June 2013 and the three forward years ending 30 June 2014, 2015 and 2016.

### Scope

The Estimated Financial Statements are prepared for the NSW general government sector<sup>1</sup>, which is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* (ABS GFS Manual).

The general government sector comprises government agencies that are controlled and mainly financed by the State that:

- redistribute income and wealth; and / or
- provide or distribute goods and services on a non-market basis to individuals and the community.

In New South Wales, the general government sector includes government departments and other agencies that have a regulatory function or provide services primarily to other general government agencies.

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<sup>1</sup> Estimates include all material agencies or transactions within the General Government Sector.

## Basis of preparation

The Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2012-13 Budget and based on the assumptions outlined below.

The Estimated Financial Statements follow the presentation requirements for general government sector reporting set out in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). However, due to the prospective nature of the statements, the notes have been omitted. Australian Accounting Standards do not provide guidance on the preparation and presentation of prospective financial statements. Therefore, these Estimated Financial Statements follow the presentation and principles adopted in the 2012-13 Budget and the accounting policies applied in the audited *2011-12 Consolidated Financial Statements of the New South Wales General Government Sector*.

The Estimated Financial Statements reflect all policy decisions taken by the New South Wales Government, except where their financial effect is not reliably measurable (e.g. due to uncertainties regarding the timing and amount of future cash flows), as well as known Australian Government funding revisions and circumstances that may have a material effect on the Half-Yearly Review. Revised estimates for 2012-13 are based on actual results at 31 October 2012, and estimates for the period 1 November 2012 to 30 June 2013.

The Estimated Financial Statements are presented in Australian dollars. All amounts are rounded to the nearest million dollars.

Where estimates or assumptions need to be made in measuring assets and liabilities they are based on professional judgements derived from experience and other factors considered to be reasonable under the circumstances. Actual results may differ from such estimates.

The accounting policies applied in the preparation of the Estimated Financial Statements in the Half-Yearly Review are consistent with those stated in the audited *2011-12 Consolidated Financial Statements of the New South Wales General Government Sector*, published in the *2011-12 New South Wales Report on State Finances* as presented to Parliament, unless otherwise stated. The same accounting policies have been used for the subsequent forecast years. In particular, Note 1 Statement of Significant Accounting Policies includes information on the principles of consolidation and the recognition and measurement policies for revenues, expenses, other comprehensive income, assets and liabilities.

Key technical terms and key aggregates used in this report are defined in Note 40 of the 2011-12 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors.

## Material economic and other assumptions

The Estimated Financial Statements included in the Half-Yearly Review have been prepared using the material economic and other assumptions as set out below.

Table A1: Key economic performance assumptions

	2012-13	2013-14	2014-15	2015-16
New South Wales population	7,347,100	7,433,700	7,519,100	7,605,600
Nominal gross state product (\$million)	474,125	498,894	524,772	552,111
Real state final demand (per cent)	2½	3	n.a.	n.a.
Real gross state product (per cent)	2	2¾	2¾	2¾
Unemployment rate <sup>(a)</sup> (per cent)	5½	5½	n.a.	n.a.
Sydney Consumer Price Index – through the year to June quarter (per cent)	3	2½	n.a.	n.a.
Sydney Consumer Price Index <sup>(a)</sup> (per cent)	2½	2½	2½	2½
Wage price index (per cent)	3½	3½	3½	3½

Notes:

(a) Year average, per cent

(b) 2012-13 forecasts include the ¾ percentage impact of the introduction of the carbon tax

n.a. not available

## Summary of other key assumptions

The following section outlines the other key assumptions used in the preparation of the Estimated Financial Statements included in the Half-Yearly Review. The summary takes into account materiality in relation to the general government sector's overall financial position and sensitivity to changes in key economic assumptions.

Notwithstanding these key assumptions, agency finance officers apply appropriate professional judgement in determining their agency estimated financial information.

The Estimated Financial Statements are based on the latest available information at the time of preparation of the Half-Yearly Review.

## Revenue from Transactions

### Taxation

The State's taxation revenue is forecast by assessing economic and other factors that influence the tax bases. For example, for payroll tax this involves an assessment of the outlook for employment and wages. For government guarantee fees, this involves an assessment of the borrowing requirements of public non-financial corporations and their assessed credit rating differential compared with the State as a whole. The forecasts of taxation revenue also involve the analysis of historical information and relationships (using econometric and other statistical methods) and consultation with relevant government agencies.

#### *Grants revenue*

Financial assistance from the Australian Government is forecast based on the latest available information from the Australian Government at the time of preparation of the Half-Yearly Review. This takes into account the payment timetable and escalation factors relevant to each type of grant.

The goods and services tax (GST) grants are forecast based on estimates of the national GST pool by the Australian Government. For 2012-13, the GST forecast is based on the assessed relativity for New South Wales in 2012-13 and the Australian Government's population projections. The assessed relativity is the average of the past three annual per capita relativities, as published by the Commonwealth Grants Commission.

After 2012-13, New South Wales's share of GST is based on its estimated assessed relativity in a particular year (calculated as the average of the previous three annual per capita relativities) and the Australian Government's population and GST projections. The forecast per capita relativities for New South Wales are based on its projected relative fiscal capacity.

#### *Sales of goods and services*

Revenue from the sale of goods and services is forecast taking into account all known factors, including estimates of changes in demand for services provided, proposed fee increases imposed by general government agencies and/or indexation.

#### *Dividend and Income Tax Equivalents from Other Sectors*

Dividend and income tax equivalent revenues are estimated by public financial and non-financial corporations based on their current statement of corporate intent in accordance with The Treasury's Commercial Policy Framework, which includes alignment with the government's energy dividend cap commitment.

#### *Fines, Regulatory Fees and Other Revenues*

Other Revenues include royalties for which estimates are based on assessments of coal volumes and prices and the exchange rate.

#### *Expenses from Transactions*

##### *Employee expenses*

Employee expenses are forecast based on expected staffing profiles and current salaries, conditions and on-costs. Employee expenses are adjusted over the forecast period for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the Government's wages policy of a net cost of 2.5 per cent per annum. The forecasts for employee expenses also reflect the impact of new initiatives and required labour savings consistent with agency budgets.

#### *Superannuation expense (and liabilities)*

Forecasts of defined benefit superannuation liabilities are based on actuarial estimates of cash flows for the various defined benefit superannuation schemes discounted using a nominal long-term Australian Government bond yield as at 30 June less assets dedicated to fund superannuation. Gross liability estimates are based on a number of demographic and financial assumptions. The major financial assumptions used for the budget and forward estimates period are outlined in the table below.

Superannuation expenses are calculated by applying a nominal long-term Australian Government bond yield as at 30 June to the value of liabilities less expected earnings on plan assets. Significant variations in the reported superannuation liabilities may arise where the actual experience differs significantly from the assumptions. In the consolidated comprehensive operating statement, this would mainly be reported under 'other economic flows - other comprehensive income'.

Forecast defined contribution superannuation expenses are based on assumptions regarding future salaries and contribution rates.

The Estimated Financial Statements do not incorporate the impact of the revised AASB 119 *Employee Benefits* which applies from 2013-14.

Table A2: Superannuation assumptions – Pooled Fund / State Super Schemes

Pooled Fund	2012-13 %	2013-14 %	2014-15 %	2015-16 %
Liability discount rate	3.28	3.79	4.55	5.06
Expected return on investments	12.3 <sup>(a)</sup>	8.6	8.6	8.6
Expected salary increases <sup>(a)</sup>	2½	2½	2½	2½
Expected rate of CPI	2½	2½	2½	2½

Notes:

- (a) Except for the Police Superannuation Scheme where the expected annual salary increase is 3.5 per cent  
(b) NSW Treasury estimate based on year to date results and long term earnings thereafter.

#### *Depreciation*

Depreciation is forecast on the basis of known asset profiles, and assumed new asset investment and asset sales programs. The expense includes the estimated impact of the future revaluation of assets over the forecast period. The actual depreciation expense may be impacted by future changes in useful lives, carrying value, residual value or methodology.



#### *Interest expense*

The forecasts for the interest expense are based on the:

- estimated level of New South Wales general government sector debt and
- for new borrowings, information provided by New South Wales Treasury Corporation (TCorp) on forward contracts for TCorp bonds.

#### *Other operating expenses*

Other operating expenses mainly include the cost of supplies and services and are forecast applying appropriate economic parameters and known activity changes, including changes in the method of service delivery. Other operating expenses also reflect the impact of government efficiency strategies, such as procurement savings and efficiency dividends.

#### *Grants and Subsidies expense*

The forecast payment of financial assistance from the New South Wales Government is determined taking into account current and past policy decisions, the payment schedules and escalation factors relevant to each type of grant.

#### *Other Economic Flows*

##### *Gains/Losses from discontinuing operations*

The financial impact of future planned discontinuing operations is not recognised due to the commercial-in-confidence nature of the estimated proceeds.

##### *Revaluations*

The forward estimates include the estimated impact of revaluations of non-financial physical assets. These estimates are based on an examination and extrapolation of historical trends in asset revaluations.

##### *Net Gain on equity investments in other sector entities*

The gain/loss on equity investments in other sector entities is based on estimates of the public financial and non-financial sectors' forward comprehensive results adjusted for transactions with owners. The underlying management estimates of future comprehensive results are based on current statements of corporate intent. Future distributions to owners are based on Treasury's Commercial Policy Framework, which includes alignment with the government's energy dividend cap commitment.

## Assets

### *Land and buildings, plant and equipment, and infrastructure*

The estimates of non-financial physical assets over the forecast period are at fair value and take into account acquisitions, disposals and depreciation and revaluations. New investments in assets are valued at the forecast purchase price or, where appropriate, recognised progressively over the estimated construction period. The forward estimates include the estimated impact of revaluations of non-financial physical assets. These estimates are based on an examination of expected cost trends.

The forward estimates also include provision for future capital expenditure. These include agency estimates of approved projects and future new works held within agencies, as well as a central estimate for future new works still to be approved. The central estimate for future new works is based upon historical trends.

## Liabilities

### *Borrowings*

Estimates for borrowings are based on current debt levels and the cash flows expected to be required to fund future government activities.

### *Employee Provisions*

Employee provisions are forecast based on expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee benefits are adjusted for approved wage agreements, with allowance made for further adjustments consistent with wages policy beyond the period of the agreements. Employee provision forecasts also reflect the impact of new initiatives and required labour savings consistent with an agency's budget.

### *Superannuation Provisions*

Refer to superannuation expense (above) for information on assumptions that also impact the measurement of the superannuation provisions.

### *Other Provisions*

Other provisions include the State's obligations for several insurance schemes. Actuarial assumptions have been applied, for future claims to be incurred, claim payments, inflation rates and liability discount rates, to calculate future claim liabilities. Actual liabilities may differ from estimates.

## Appendix 2



**Treasurer  
Minister for  
Industrial Relations**

Reference: EA 303545  
P Gaetjens Tel: 9228 5440

Mr Peter Achterstraat  
Auditor-General  
Audit Office of NSW  
Level 15, 1 Margaret Street  
SYDNEY NSW 2000

**- 5 NOV 2012**

Dear Auditor-General

As you are well aware, the Government has committed to reviewing and improving the state's financial management. Following the Schott Report, we are in the process of installing a new financial management system as well as recruiting key roles to oversight the development of better reporting and processes. While this has been a positive start, clearly there is more to be done.

Following on from your discussions with the Treasury Secretary and my office over the past few days, I request in accordance with section 27B(3)(c) of the Public Finance and Audit Act 1983 that you:

- Immediately undertake a review of the reasonableness of the estimates and forecasts in the upcoming Half Year Review and the 2013-14 Budget.
- Review agencies and taking into account audit history and weaknesses in financial management, to assist Treasury to develop a robust methodology to improve internal agency financial reporting and processes, improve agency estimates and minimise accounting errors. As part of this, I also request that you also review agency accountability frameworks and their ability to support good financial management
- Work with Treasury and agencies to help resolve the audit qualifications in the 2011-12 Total State Sector Accounts.

I have asked the Treasury Secretary to provide you with any material to assist you in your work. I have also asked the Treasury Secretary to advise Directors-General of your reviews and the urgency and importance that I place on the work related to the upcoming Half Year Review which is scheduled to be released on 12 December 2012.

Of course, I am also committed to assisting you and your office in all of these efforts.

I look forward to your involvement and support to help Treasury and NSW public sector agencies to markedly improve financial management in New South Wales.

Yours sincerely

**MIKE BAIRD MP**

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Contact: P Achterstraat  
Phone No: 9275 7101  
Our Ref: A007237

The Hon M Baird MP  
Treasurer  
Level 36  
Governor Macquarie Tower  
1 Farrer Place  
SYDNEY NSW 2000

6 November 2012

Dear Treasurer

### Half Year Review

Thank you for your letter of 5 November 2012 requesting me to undertake a review under s27B(3) (c) of the *Public Finance and Audit Act 1983*, in relation to the Half Year Review and the 2013-14 Budget.

I am keen to ensure the NSW Parliament obtains robust financial information.

My concerns in this area are well documented (see, for example, the concerns I expressed to the Public Accounts Committee on 5 May 2010 [http://www.parliament.nsw.gov.au/Prod/parliament/committee.nsf/0/8eab9deab467c027ca257761008262e9/\\$FILE/5th%20May%202010%20-%20CORRECTED%20TRANSCRIPT.pdf](http://www.parliament.nsw.gov.au/Prod/parliament/committee.nsf/0/8eab9deab467c027ca257761008262e9/$FILE/5th%20May%202010%20-%20CORRECTED%20TRANSCRIPT.pdf)).

Accordingly I agree to undertake a review.

I would hope that as I find issues in the course of my review, Departments and Treasury will take immediate action to rectify the issues without waiting for me to hand down my review report on the Half Year Review in mid-December 2012. I anticipate reporting on the remainder of my review before the end of the current financial year.

As part of the review I will be enquiring about the actions taken to implement the recommendations in my Office's 2005 Performance Audit "In-year Monitoring of the State Budget."

Yours sincerely

Peter Achterstraat  
Auditor-General

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