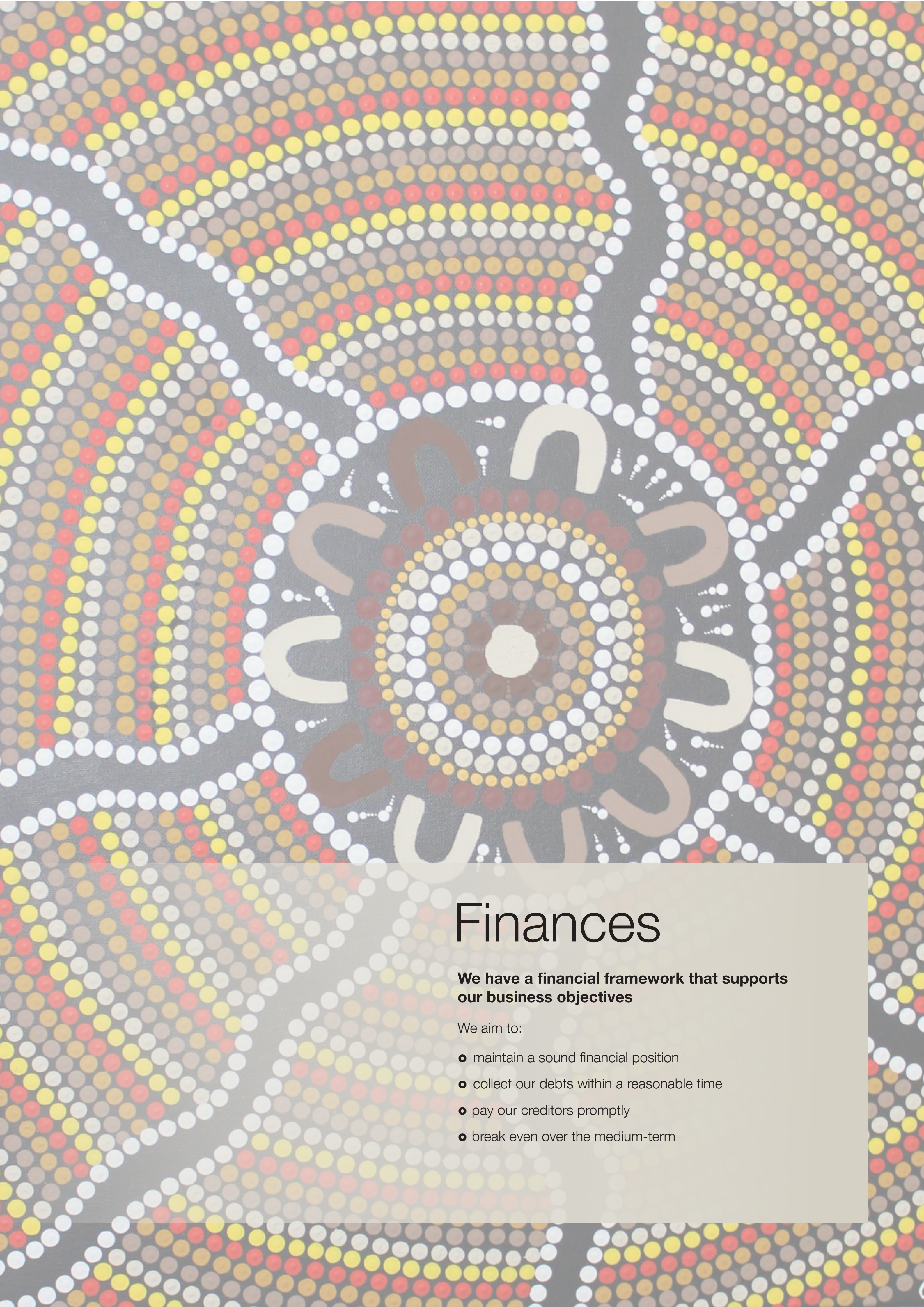


Finances

We have a financial framework that supports our business objectives

We aim to:

- maintain a sound financial position
- collect our debts within a reasonable time
- pay our creditors promptly
- break even over the medium-term

Financial performance

Close to our goal to break even over the medium-term

Excluding superannuation adjustments, we have achieved a cumulative $0.1 million deficit over the last five years.

Close to our break-even target

The work of the Audit Office is largely self-funded, generated from audit fees paid by our clients. These fees are set to cover our expenses while maximising value for the NSW public sector. Unlike private sector auditors, we aim to break even over the medium-term rather than make a profit.

In monitoring our financial performance, we exclude the impact of the annual superannuation adjustments that affect our operating result. Like all government agencies with staff in the State's defined benefit superannuation schemes, the schemes' assessment of our liability varies substantially from year to year. These annual variations are outside our control and reflect the investment performance of the schemes and changes in actuarial assumptions. These superannuation adjustments are fully reflected in our audited financial statements, but are excluded from the information presented here so we can focus on our own performance.

As reported earlier in this report, the Auditor-General was appointed the auditor of councils in New South Wales in 2016–17 and we spent our own funds to implement the mandate (see page 53 for more details on our expanded mandate). This significantly impacted our financial performance for the year, leading to a net result of $5,000 excluding defined benefit superannuation adjustments. This break-even result for 2016–17 was much less than the original budget and lower than last year's profit. Over the five years to 2016–17, we have achieved a cumulative $0.1 million deficit, close to our medium term break-even target.

Our 2016–17 revenue of $47 million was $2 million more than the previous year's $45 million. Government agencies, universities and councils paid $38 million for the audit of their financial statements. Government contributed $8.6 million towards our performance audits and reports to parliament. Our 2016–17 total expenditure of $47 million, excluding the defined benefit schemes superannuation adjustments, was $3 million more than the previous year's $44 million.

The increase in our total revenue was largely due to an increase in audit fees ($1.0 million) and additional government contributions towards our performance audits and reports to parliament ($1.0 million). The increase in expenditure was largely due to implementing the new local government mandate, as well as commencing our inaugural audits in the sector.

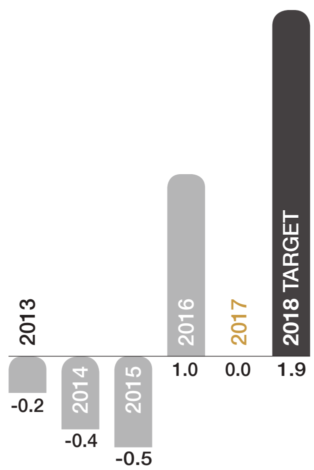
Budgeting

Our break-even result for 2016–17 is significantly less than the budgeted profit of $1.4 million because of the new local government mandate. Our 2016–17 budget was set before the Auditor-General was appointed the auditor of NSW councils. As part of implementing the new mandate, we incurred costs on training, recruitment, communications and change management, and software and equipment purchases.

Per the State's Budget Papers, our initial 2017–18 budget shows us making a profit of $1.9 million. We are working with NSW Treasury to adjust this as it does not reflect our latest estimate of the local government mandate change. We will be submitting a budget adjustment request to NSW Treasury during the half-yearly budget review process later this year.

Operating result 2016–17/$m

Excluding superannuation



Financial position

Our financial management is sound

Our financial position is sound

While we have a net liability position, we are a going concern as we have a sustainable level of cash with positive cashflows. Our net liability position is a result of the actuarial losses on the defined benefit superannuation schemes. This liability is a long-term liability whereby the Audit Office has not been required to make employer contributions for several years to these schemes, and nor do we foresee any contributions in the near future.

Most of our assets and liabilities are of a financial rather than physical nature. Cash remains our largest asset with $10.5 million at 30 June 2017. Our assets include $6.7 million for the Crown's assumption of the liability for our staff's long service leave entitlements. This offsets the liability in our financial statements. We also have $5.3 million in receivables from government entities and councils for our auditing services.

Our liabilities at 30 June 2017 were $56.3 million, a decrease of $16.5 million from 30 June 2016. This large drop is due to a decrease in superannuation liabilities from $61 million to $44 million.

Solvency remains stable but debtor management needs improving

Our current ratio at 30 June 2017 shows we had $2.04 in current assets to meet every $1.00 of our current liabilities. This is consistent with last year's ratio and at the upper level of our target range of between $1.00 and $2.00.

Some of our debtors continue to take longer to pay than our agreed invoice terms of 14 days. In 2016–17, it took us an average of 37 days from invoice to collection. While this is an improvement from 40 days in 2015–16, we need to do more to improve the collection timeframe.

Timely creditor payments

During the year we paid 99 per cent of our creditors on time. We are expected to pay all creditors within 30 days, unless contracts state otherwise.

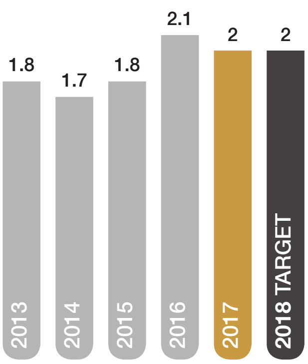
For more detail on our performance with creditor payments, see Appendix Seven.

The year ahead

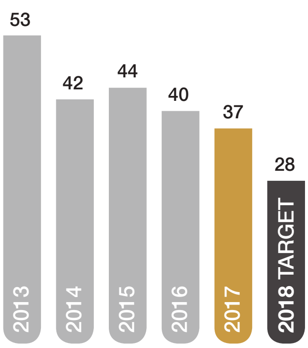
In 2017–18, we will:

- improve our efficiency and productivity by making financial management information available to all levels in the business via a self-service reporting tool and better corporate performance reporting
- improve our procurement and contract management practices
- improve our revenue and expense modelling to ensure we continue to operate at a sustainable level.

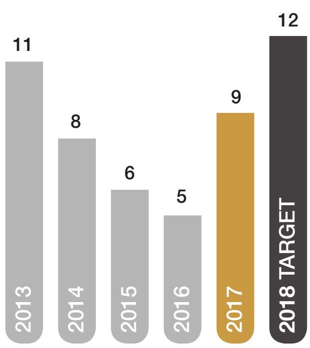
Solvency – current ratio



Debtor management – average days to collect



Work in progress – at 30 June 2017



Key financial statistics

	2012–13 $'000	2013–14 $'000	2014–15 $'000	2015–16 $'000	2016–17 $'000
Five year trend					
Financial performance[1]					
Total revenue	42,541	42,271	43,021	44,979	47,251
Total expenses	42,659	42,658	43,534	43,975	47,246
(Loss) on disposal	(38)	(22)	0	0	0
Operating profit/(loss)	(156)	(409)	(513)	1,004	5
Financial position					
Total assets	28,555	27,587	26,020	26,857	27,228
Accumulated funds	(19,601)	(20,288)	(26,696)	(45,970)	(29,051)
Solvency and debtor management					
Current ratio	1.8	1.7	1.8	2.1	2.0
Average days to collect debts	53	42	44	40	37

	2016–17 Budget $'000	2016–17 Actual $'000	2017–18 Budget $'000
Performance against budget[1]			
Revenue			
Audit fees	38,236	37,827	50,801
Government contributions	7,980	8,592	9,750
Interest	150	167	151
Other revenue	206	665	214
Total revenue	**46,572**	**47,251**	**60,916**
Expenditure			
Salaries and related expenses	33,560	33,498	38,685
Other expenses including operating expenses, maintenance, loss on disposal and finance costs	7,894	7,880	8,025
Contract audit agent costs	2,443	4,718	11,304
Depreciation and amortisation	1,239	1,150	1,039
Total expenditure	**45,136**	**47,246**	**59,053**
Operating profit	**1,436**	**5**	**1,863**

[1] Excludes defined benefit superannuation scheme adjustments of $2,088,000 in 2016–17 ($1,803,000 in 2015–16).