Financial Report

Independent Auditor's Report

to the Members of the New South Wales Parliament

Nexia Australia

Report on the Audit of the Financial Report

Opinion

I have audited the financial statements of The Audit Office of New South Wales (the 'Audit Office'), which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Auditor-General's declaration.

In my opinion, the accompanying financial statements of the Audit Office are in accordance with the *Public Finance and Audit Act 1983*, including:

i) giving a true and fair view of the Audit Office's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

ii) complying with Australian Accounting Standards and section 41B of the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2015.

Basis for opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial statements' section of our report. I am independent of the Audit Office in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my audit of the financial statements in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Auditor-General is responsible for the other information. The other information comprises the information in The Audit Office of New South Wales's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of the other information I am required to report that fact. I have nothing to report in this regard.

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Auditor-General's responsibility for the financial statements

The Auditor-General of New South Wales is responsible for the preparation of the financial statements that gives a true and fair view in accordance with Australian Accounting Standards and the *Public Finance and Audit Act 1983* and for such internal control as the Auditor-General determines is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Auditor-General is responsible for assessing the Audit Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Audit Office will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's responsibility for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

This description forms part of our auditor's report.

Lester Wills

Chartered Accountant, Registered Company Auditor
Sydney, 5 September 2017

Statement by Auditor-General of New South Wales

for the year ended 30 June 2017

Under section 41C of the *Public Finance and Audit Act 1983*, I state that, in my opinion, the accompanying financial statements and notes thereto exhibit a true and fair view of the financial position of the Audit Office of New South Wales at 30 June 2017 and its performance for the year then ended.

I further state:

(a) that the financial statements and notes thereto comply with Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and financial reporting directions of the Treasurer

(b) that I am not aware of any circumstances which would make any details in the financial statements misleading or inaccurate.

Margaret Crawford
Sydney, 5 September 2017

Statement of comprehensive income for the year ended 30 June 2017

	Notes	2016–17 Actual $'000	2016–17 Budget $'000	2015–16 Actual $'000
Revenue				
Sales of services	C1	37,827	38,236	36,889
Government contributions	C1	8,592	7,980	7,520
Other revenue	C1	832	356	570
TOTAL REVENUE		**47,251**	**46,572**	**44,979**
Expenses				
Employee related expenses	C2	35,586	33,560	34,556
Operating expenses	C3	12,585	10,318	9,666
Depreciation and amortisation	C4	1,150	1,239	1,543
Finance costs	E2.1	13	19	14
TOTAL EXPENSES		**49,334**	**45,136**	**45,779**
NET RESULT		**(2,083)**	**1,436**	**(800)**
Other comprehensive income				
Items that will not be reclassified to net result:				
Superannuation actuarial gain/(loss) on liabilities	E2.2	14,299	–	(18,531)
Superannuation actual return on Fund assets less interest income	E2.2	4,703	–	57
Total remeasurement in other comprehensive income		**19,002**	**–**	**(18,474)**
TOTAL COMPREHENSIVE INCOME		**16,919**	**1,436**	**(19,274)**

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2017

	Notes	2016–17 Actual $'000	2016–17 Budget $'000	2015–16 Actual $'000
Assets				
Current assets				
Cash and cash equivalents	D1	10,534	11,137	11,000
Receivables	D2	5,323	4,885	4,521
Other financial assets	D3	1,138	–	576
Other current assets	D4	6,174	6,954	6,570
TOTAL CURRENT ASSETS		**23,169**	**22,976**	**22,667**
Non-current assets				
Property, plant and equipment	D6			
– plant and equipment		894	1,210	309
– leasehold improvements		–	–	3
Total property, plant and equipment		894	1,210	312
Intangible assets	D5	2,628	3,815	3,307
Other non-current assets	D4	537	529	571
Total non-current assets		**4,059**	**5,554**	**4,190**
TOTAL ASSETS		**27,228**	**28,530**	**26,857**
Liabilities				
Current liabilities				
Payables	E1	2,114	2,383	1,297
Provisions	E2	9,196	8,826	9,683
Other current liabilities		64	–	3
TOTAL CURRENT LIABILITIES		**11,374**	**11,209**	**10,983**
Non-current liabilities				
Provisions	E2	44,905	41,507	61,844
TOTAL NON-CURRENT LIABILITIES		**44,905**	**41,507**	**61,844**
TOTAL LIABILITIES		**56,279**	**52,716**	**72,827**
NET LIABILITIES		**(29,051)**	**(24,186)**	**(45,970)**
Equity				
Accumulated funds		(29,051)	(24,186)	(45,970)
TOTAL EQUITY		**(29,051)**	**(24,186)**	**(45,970)**

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2017

	Notes	Actual $'000
Balance at 1 July 2016		**(45,970)**
Net result for the year		(2,083)
Other comprehensive income:		
– Superannuation actuarial loss and return on Fund assets	E2.2	19,002
Total comprehensive income for the year		**16,919**
BALANCE AT 30 JUNE 2017		**(29,051)**
Balance at 1 July 2015		**(26,696)**
Net result for the year		(800)
Other comprehensive income:		
– Superannuation actuarial gain and return on Fund assets	E2.2	(18,474)
Total comprehensive income for the year		**19,274**
BALANCE AT 30 JUNE 2016		**(45,970)**

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2017

	Notes	2016–17 Actual $'000	2016–17 Budget $'000	2015–16 Actual $'000
Cash flows from operating activities				
Payments				
Employee related		(33,328)	(33,528)	(33,105)
Other		(18,164)	(10,369)	(16,380)
TOTAL PAYMENTS		**(51,492)**	**(43,897)**	**(49,485)**
Receipts				
Sale of services		46,586	46,216	46,790
Interest received		183	150	160
Other		5,313	206	5,044
TOTAL RECEIPTS		**52,082**	**46,572**	**51,994**
NET CASH FLOWS FROM OPERATING ACTIVITIES	D1.1	**590**	**2,675**	**2,509**
Cash flows from investing activities				
Purchases of property, plant and equipment		(852)	(970)	(32)
Purchases of intangible assets		(204)	(1,000)	(348)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(1,056)**	**(1,970)**	**(380)**
Net increase/(decrease) in cash		**(466)**	**705**	**2,129**
Opening cash and cash equivalents		11,000	10,432	8,871
Closing cash and cash equivalents	D1	**10,534**	**11,137**	**11,000**

The accompanying notes form part of these financial statements.

Section 1: Basis of preparation and significant changes

Notes to and forming part of the financial statements for the year ended 30 June 2017

A1. Entity information

The Audit Office of NSW (the Audit Office) is a statutory authority, established under the *Public Finance and Audit Act 1983* that conducts audits for the Auditor-General of NSW (the Auditor-General). The Auditor-General helps parliament hold government accountable for its use of public resources. We are a not-for-profit entity as profit is not our principal objective. Our financial statements are consolidated as part of the NSW Total State Sector Accounts.

These financial statements for the year ended 30 June 2017 have been authorised for issue by the Auditor-General on 5 September 2017.

The Audit Office's financial statements are general purpose financial statements that have been prepared on an accrual basis and in accordance with:

- Australian Accounting Standards (which include Australian Accounting Interpretations)
- the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulation 2015, and
- Financial Reporting Directions of the Treasurer.

Property, plant and equipment are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

A2. Going concern

Despite the Audit Office incurring a deficit of $2,083,000 for the year (2016: $800,000 deficit) and it having a net liability position of $29.1 million (2016: $46.0 million), we believe the assumption that the Audit Office is a going concern is justified. The solvency ratio (short-term) of the Audit Office remained steady at 2.04 (2016: 2.06) and the cash balance is at a sustainable level with positive cash flows from operating activities.

The net liability position is due to the Audit Office recognising actuarial valuation losses on defined benefit superannuation schemes. Note E2.2 contains more detail. This liability is a long-term non-current liability whereby the Audit Office has not been required to make employer contributions for a number of years to these schemes, and nor do we foresee any contributions in the near future. A triennial review of the liability was undertaken at 30 June 2015, where economic assumptions and significant risks were reviewed. The valuation resulted in a significant increase of our long-term liability.

A3. Significant accounting judgments, estimates and assumptions

Judgments, key assumptions and estimations management has made are disclosed and highlighted in the relevant notes to the financial statements. All amounts are rounded to the nearest one thousand dollars and expressed in Australian currency.

A4. Statement of compliance

The financial statements and notes comply with Australian Accounting Standards.

A5. Comparative information

Where necessary, the comparatives are reclassified and repositioned to be consistent with current year disclosures except when an Australian Accounting Standard permits or requires otherwise.

A6. Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST except for:

- the amount of GST incurred as a purchaser that is not recoverable from the Australian Taxation Office (ATO), which is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing activities that are recoverable from, or payable to the ATO are classified as operating cash flows.

Note	Item	Key Judgement/Estimate
C1	Revenue	We have exercised judgment in determining the stage of completion for recognising revenue
D2	Receivables	We have exercised judgement in assessing the recoverability of amounts invoiced to clients for audit engagements.
D3	Other financial assets-work in progress	We have exercised judgement in assessing the recoverability of time worked and other charges which remain unbillled at reporting date.
E2	Employee provisions	Leave provisions involve assumptions based on the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discounts.
E2.2	Superannuation Defined Benefit Plans	The calculation of the defined benefit liability involves actuarial assumptions that may differ from actual developments in the future.
F1	Financial instruments	We believe recognising the Audit Office's financial instruments at amortised cost approximates their fair value because of their short-term nature.

A7. New Australian accounting standards

(i) Effective for the first time in 2016-17

For the first time, the Audit Office has applied the disclosure requirements of AASB 124 Related Party Disclosures. See Note F5.

This change arose from AASB 2015– 6 *'Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities'*. This new requirement does not require us to disclose comparative information.

(ii) New Australian Accounting Standards issued but not yet effective

At the reporting date, the Audit Office has not early adopted accounting standards and interpretations issued by the AASB but not yet operative. The Audit Office is assessing the potential impact of these changes, with the key ones being:

- *AASB 15 Revenue from Contracts with Customers* and *AASB 1058 Income for Not-for-Profit Entities* - these standard apply to reporting periods beginning on or after 1 January 2019. The new standards will result in revenue recognition policies aligning with the satisfaction of performance obligations in contracts with customers
- AASB 16 Leases - this standard applies to reporting periods beginning on or after 1 January 2019. This standard introduces new criteria for assessing contracts to identify leases. Certain leases previously reported as expenses (such as our office accommodation lease) will be recorded on the Statement of Financial Position as right of use assets recorded at cost, and adjusted for depreciation and impairment or subject to revaluation, and lease liabilities adjusted for interest on the lease liability and payments made. Leases with terms of 12 months or less and for low value items will be recorded as expenses.

A8. Events after the reporting period

There were no events subsequent to reporting date that require disclosure in the financial statements.

Notes to and forming part of the financial statements for the year ended 30 June 2017

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament. Other amendments made to the budget are not reflected in the budgeted amounts. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained below.

B1. Budget review

Net result

The actual net result was unfavourable to the budgeted net result by $3.5 million. The main reasons for this variance were the change in the Auditor-General's mandate and the movement in the Audit Office's defined superannuation liability.

The Auditor-General was appointed the auditor of the local government sector from 1 July 2017, after the 2016–17 budget had been set. The additional mandate resulted in the Audit Office incurring one-off implementation costs. The mandate also resulted in Treasury providing the Audit Office with $600,000 to fund the performance audit component of the new mandate.

While the Audit Office's defined superannuation liability has reduced, the actuarially assessed expense for the year was $2.1 million. This represents the current service cost and interest. We do not budget for this movement as it is outside our control. More information on our defined superannuation liability can be found in Note E2.2.

Assets and liabilities

Total current assets of $23.2 million is largely consistent with the budgeted total current assets of $23.0 million. Within total assets, receivables and other current assets are slightly higher than budget, largely because of the change in the Auditor-General's mandate.

Total non current assets of $4.1 million is lower than budget because of lower than planned capital spend on intangible assets. Some of this expenditure will occur in 2017–18.

Total current liabilities of $11.4 million is largely consistent with the budgeted total current liabilities of $11.2 million.

Total non current liabilities are higher than budget because of the higher than expected defined superannuation liability. This actuarially assessed liability was $43.6 million at 30 June 2017.

Cash flows

The net cash from operating activities of $590,000 was significantly lower than budget because of the new local government mandate. We used our cash reserves to fund the implementation costs. The Auditor-General was given the local government mandate after the budget had been set.

Section 3: Our financial performance

Notes to and forming part of the financial statements for the year ended 30 June 2017

This section outlines the major areas of revenue and expenditure incurred by the Audit Office in the course of its ordinary activities.

C1. Revenue	2017 $'000	2016 $'000
(a) Sale of services		
Fee revenue from NSW Government agency and university audits	34,635	36,889
Fee revenue from local council audits	3,192	–
	37,827	**36,889**
(b) Government contributions		
Government contributions for performance audit and compliance audits	6,260	5,270
Funding for the Auditor-General's Report to Parliament	2,332	2,250
	8,592	**7,520**
(c) Other revenue		
Interest income	167	175
Recoupment of salaries and oncosts from staff secondments	601	389
Other	64	6
	832	**570**

Recognition and measurement

Income is measured at the fair value of the consideration or contribution received or receivable.

(i) Rendering of services – audit fees

Revenue from rendering of services is recognised by reference to the stage of completion on audit engagements at the reporting date. The Audit Office invoices its clients in arrears for work completed on each audit engagement.

The revenue is recognised when:

a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured and

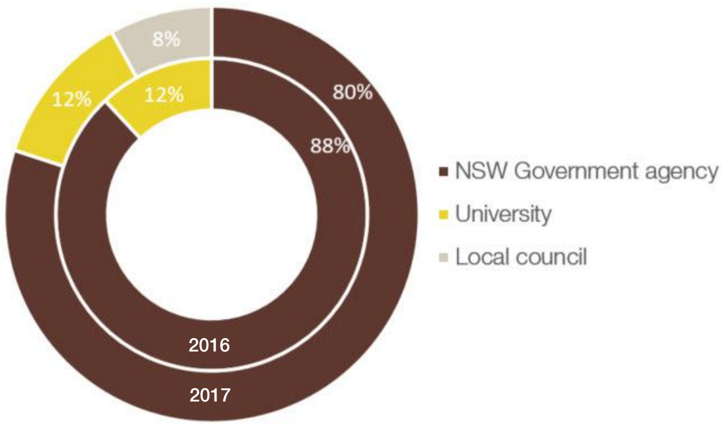
b) the probable economic benefits associated with the transaction will flow to the Audit Office.

The stage of completion for audit engagements at the reporting date is determined by reference to the actual costs incurred relative to total estimated engagement cost, less any impairment.

(ii) Recoupment of salaries and oncosts

From time to time, the Audit Office enters into secondment arrangements with other NSW public sector agencies and professional services firms. In return for seconding staff, the Audit Office generally seeks to recover the salary and related oncosts on a cost recovery basis. Revenue from seconding staff is recognised by reference to days worked.

Audit fee revenue – analysis by client type



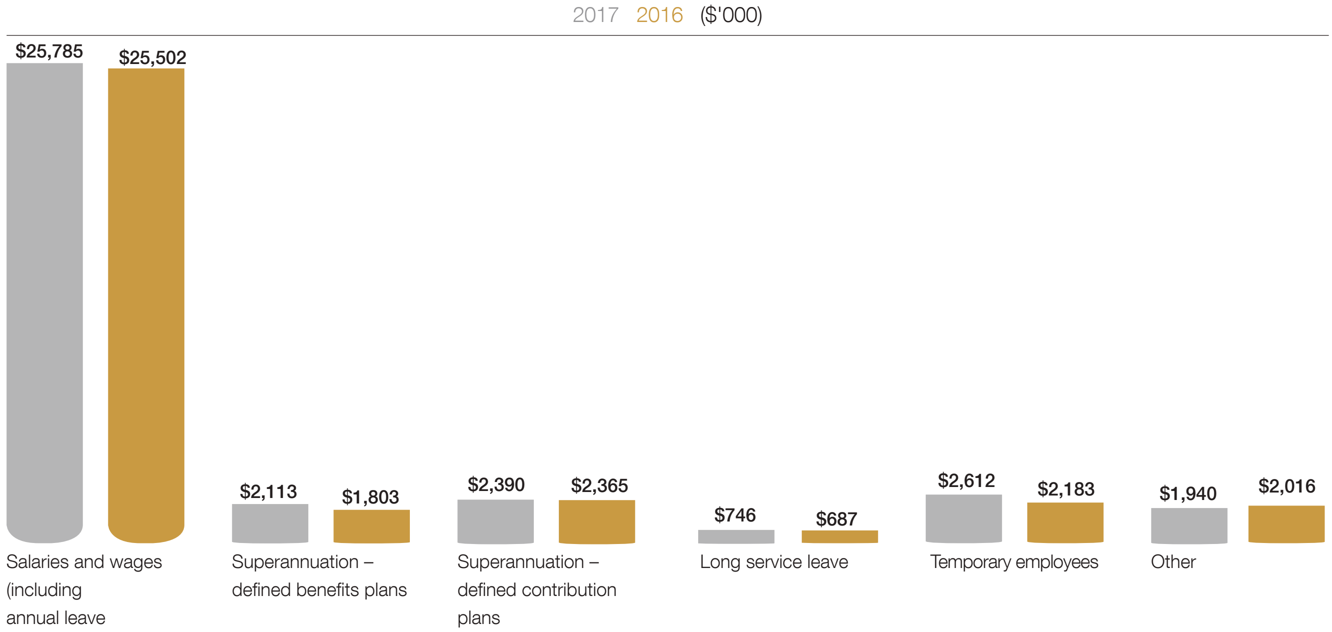
Key judgements and estimates

At reporting date, we have reviewed amounts owed to us (Receivables – see Note D2) and unbilled time and charges on all fee earning audit engagements (Work in progress – see Note D3) to assess their recoverability. Where there was objective evidence that the debtor balance and/or the unbilled time and/or charges may not be recovered, we have raised an allowance for impairment or written off the amount. Factors considered when making this assessment include: the agreed audit fee; the engagement budget; known variations to the audit engagement; and the likelihood of additional recoveries from the client.

Notes to and forming part of the financial statements for the year ended 30 June 2017

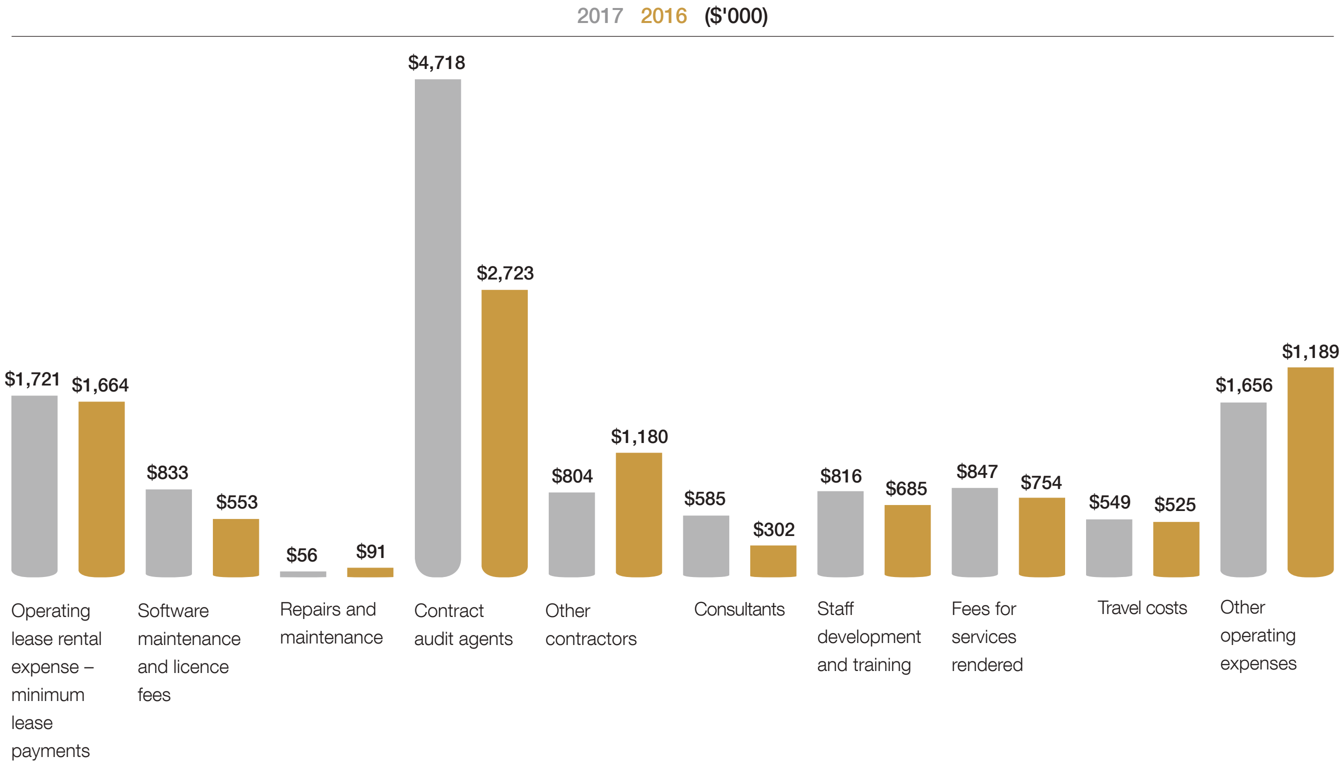
C2. Employee related expenses

The Audit Office's employee related expenses for the year totalled $35,586,000 (2016: $34,556,000).
The chart below shows the split between the major components



C3. Other operating expenses

The Audit Office's operating expenses for the year totalled $12,585,000 (2016: $9,666,000).
The chart below shows the split between the major components.



Notes to and forming part of the financial statements for the year ended 30 June 2017

Operating lease commitments

Future non-cancellable operating lease rentals not provided for and payable:	2017 $'000	2016 $'000
Within one year	2,069	1,783
Later than one year and not later than five years	2,333	3,870
Total (including GST)	**4,402**	**5,653**

The above commitments relate to office accommodation, office equipment and motor vehicle leases that will expire within one to two years. The Audit Office's office accommodation lease contains a fixed annual increase and the lease expires in July 2019.

Recognition and measurement

Leases

The Audit Office does not have any finance leases. It has operating leases for office accommodation, office equipment and motor vehicles whereby the lessors (being the landlord/supplier) retain substantially all of the risks and benefits incidental to owning the leased assets.

The Audit Office recognises the operating lease payments as expenses on a straight-line basis over the period of the lease term.

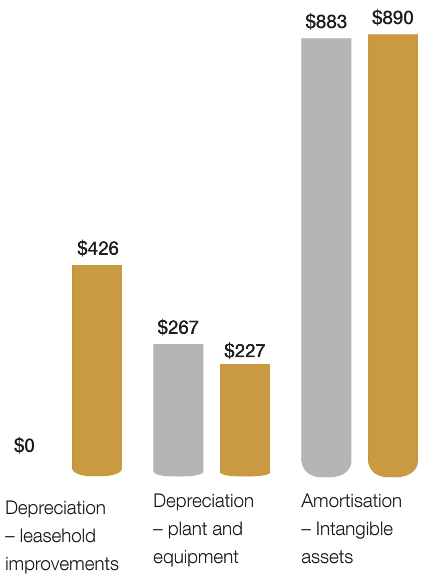
C4. Depreciation and amortisation

Depreciation and amortisation

The Audit Office's depreciation and amortisation expenses for the year totalled $1,150,000 (2016: $1,543,000).

The chart below shows the split between the major components.

2017 2016 ($'000)



See Note D5 Intangible Assets and Note D6 Property Plant and Equipment

Notes to and forming part of the financial statements for the year ended 30 June 2017

An asset is a resource the Audit Office controls as a result of past events and from which we expect to obtain future economic benefits. Our assets comprise cash at bank, receivables, other assets (work in progress and Crown reimbursement), physical plant and equipment and intangibles.

D1. Current assets - cash and cash equivalents	2017 $'000	2016 $'000
Cash at bank and on hand	10,534	11,000

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest as determined by NSW Treasury is earned on daily bank balances and paid twice yearly.

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and cash on hand.

Credit facility

Apart from a credit card facility of $122,000, the Audit Office has no other standing credit facility. The Audit Office's cash position has been consistently adequate to meet its liquidity requirements.

Risk

Interest rate risk

The Audit Office's exposure to interest rate risk arises primarily through its cash at bank. It does not hold any other interest bearing financial assets or liabilities.

The Audit Office does not hold collateral and has not granted any financial guarantees.

D1.1 Reconciliation of cash flows from operating activities to net result	2017 $'000	2016 $'000
Reconciliation of cash flows from operating activities to the net results as reported in the statement of comprehensive income		
Net cash from operating activities	590	2,509
Depreciation and amortisation	(1,150)	(1,543)
Finance costs	(13)	(13)
Decrease / (Increase) in provisions	(1,561)	(2,707)
Increase / (Decrease) in receivables and other assets	933	19
Decrease / (Increase) in creditors	(882)	935
NET RESULT	**(2,083)**	**(800)**

D2. Current assets – receivables	2017 $'000	2016 $'000
Sale of services - audit services	4,807	4,110
Less: allowance for impairment	(16)	(16)
TOTAL TRADE RECEIVABLES	**4,791**	**4,094**
Prepayments	402	323
Accrued income and other debtors	60	18
Interest receivable	70	86
	5,323	**4,521**

Recognition and measurement

Receivables are recognised at fair value based on the original invoice amount. Receivables are due for settlement within 14 days from the date of issuing the invoice, hence they are not amortised or discounted as the effect of discounting is immaterial.

Impairment of financial assets

When there is objective evidence that the amounts due will not be collected, the Audit Office recognises an allowance for impairment. The amount of the allowance is the difference between the receivable's carrying amount and the amount we expect to receive.

When an impairment is recognised, the loss is recorded in the net result for the year. Where there is objective evidence of recovering a previously impaired receivable, the reversal of impairment losses is also recognised through the net result for the year.

Risk

Receivables – trade debtors

Credit risk is the risk of financial loss arising from another party to a contract or financial obligation. The Audit Office is exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor. This amount is equal to the total amount of receivables for services of $4,791,000 (2016: $4,094,000) and amounts recorded in WIP $1,138,000 (2016: $576,000).

The Audit Office is not materially exposed to concentrations of credit risk to a single debtor or group of debtors. It has policies and procedures in place to guide debt recovery. Most of the debtors are government agencies or local councils whose credit risk is considered low.

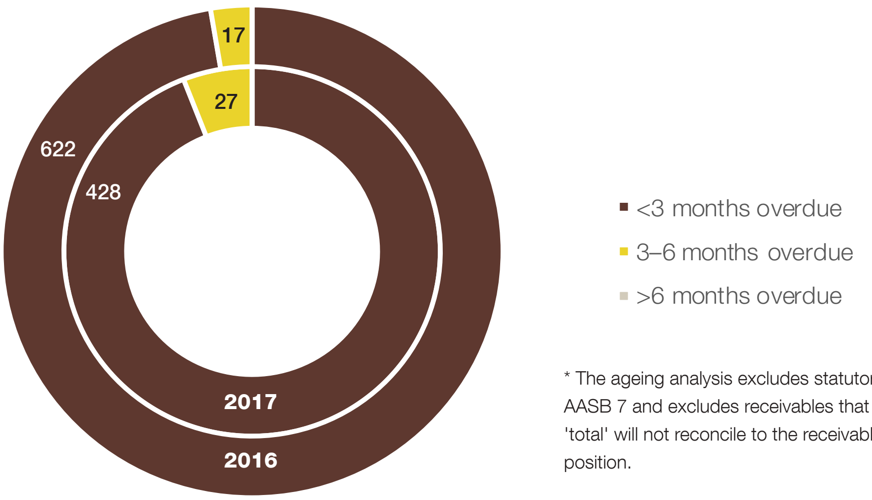
Key judgement/estimates Audit Office receivables

The carrying value of the Audit Office's receivables approximates its fair value because of the short-term nature of this financial asset.

The Audit Office reviews its receivables for impairment on an ongoing basis. Apart from a single debt of $16,000 (2016: $16,000) that is considered impaired at reporting date, the Audit Office believes all outstanding receivables are recoverable. This is because all amounts owing are bound by agreed terms with the client. The ageing profile of our debtors is shown in the chart below.

Trade Receivables – past due but not impaired*

$'000



* The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the 'total' will not reconcile to the receivables total recognised in the statement of financial position.

Notes to and forming part of the financial statements for the year ended 30 June 2017

D3. Other financial assets (work in progress)	2017 $'000	2016 $'000
Work in progress – unbilled charges on audit engagements	1,138	576

Recognition and measurement

Work in progress (WIP) represents work performed on audit engagements but not invoiced to the client. This includes staff time and other charges. Staff time is based on approved hourly charge out rates.

We assess WIP for impairment annually to ensure it is not carried at an amount in excess of its recoverable amount.

A provision for unrecoverable amounts is raised when there is objective evidence that the WIP may not be recoverable.

Key judgement/estimates Audit Office WIP

The directors of each audit engagement have reviewed the unbilled staff time and other charges to assess their recoverability at reporting date. The figure recognised in the financial statements is net of any time or charges the directors have assessed as potentially not being recoverable.

In assessing the recoverability of WIP, the directors make reference to factors such as: the remaining budget versus forecasted effort to complete the audit engagement; the historical cost for recurring audit engagements; unexpected scope variations; and the potential to recover scope variations with an additional billing.

Risk

Credit Risk – As reported above, the Audit Office is exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor.

The directors responsible for the audit engagements review and monitor WIP on a monthly basis. WIP is also monitored by the Office Executive on a monthly basis. Refer to Note D2 on Receivables for commentary on customer creditworthiness.

D4. Current / non-current assets – other	2017 $'000	2016 $'000
Crown acceptance of long service leave liability – current	6,174	6,570
Crown acceptance of long service leave liability – non-current	537	571
	6,711	**7,141**

D5. Intangible assets

2017:	Systems Software $'000	Intangible Assets Under Development $'000	TOTAL $'000
At 1 July 2016			
Cost (gross carrying amount)	6,078	–	**6,078**
Accumulated amortisation	(2,771)	–	**(2,771)**
Net carrying amount	**3,307**	**–**	**3,307**
At 30 June 2017			
Cost (gross carrying amount)	6,217	–	**6,217**
Accumulated amortisation	(3,589)	–	**(3,589)**
Net carrying amount	**2,628**	**–**	**2,628**

Notes to and forming part of the financial statements for the year ended 30 June 2017

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current reporting period is set out below:

2017:	Systems Software $'000	Intangible Assets Under Development $'000	TOTAL $'000
Year ended 30 June 2017			
Net carrying amount at the start of year	3,307	–	**3,307**
Additions	204	–	**204**
Amortisation (recognised in 'depreciation and amortisation')	(883)	–	**883**
Net carrying amount at the end of the year	2,628	–	**2,628**

2016:	Systems Software $'000	Intangible Assets Under Development $'000	TOTAL $'000
At 1 July 2015			
Cost (gross carrying amount)	5,489	241	**5,730**
Accumulated amortisation	(1,881)	–	**(1,881)**
Net carrying amount	**3,608**	**241**	**3,849**
At 30 June 2016			
Cost (gross carrying amount)	6,078	–	**6,078**
Accumulated amortisation	(2,771)	–	**(2,771)**
Net carrying amount	**3,307**	**–**	**3,307**

Reconciliation 2016:	Systems Software $'000	Intangible Assets Under Development $'000	TOTAL $'000
Year ended 30 June 2016			
Net carrying amount at the start of year	3,608	241	**3,849**
Transfer from systems development to software	241	(241)	**–**
Additions	348	–	**348**
Amortisation (recognised in 'depreciation and amortisation')	(890)	–	**(890)**
Net carrying amount at end of year	**3,307**	**–**	**3,307**

Notes to and forming part of the financial statements for the year ended 30 June 2017

Recognition and measurement

The Audit Office's intangibles comprises its audit methodology/software, computer software systems and associated enhancement costs. These assets are carried at cost less accumulated amortisation and impairment losses. The useful lives of Audit Office intangibles are deemed finite.

Research and Development costs

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

Amortisation

All intangible assets are amortised using the straight-line method over a period of three to ten years.

Impairment

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

Key judgement/estimates Audit Office intangibles

The Audit Office has determined there is no active market for the intangibles it holds and therefore they are recorded at cost less accumulated depreciation and impairment.

The Audit Office has determined the useful lives of its intangibles to be between three to ten years. Its major intangible assets are:

- audit methodology software – 10 years
- corporate management systems – 5 years
- other software licenses – 3 to 5 years.

The useful lives remain unchanged from the prior year.

Some of the factors considered in setting the useful lives include: technical obscolescence; the likely support period by vendors; our ability to invest in replacement assets; the typical life cycle of similar assets; and the actual lives of similar assets currently or previously controlled by the Audit Office.

The Audit Office has reviewed its intangibles for any indication of impairment at reporting date. None was noted.

D6. Non-current assets – property, plant and equipment

2017:	Plant and Equipment $'000	Leased Assets (Leasehold Improvements) $'000	TOTAL $'000
At 1 July 2016 – fair value			
Gross carrying amount	2,053	3,108	**5,161**
Accumulated depreciation	(1,744)	(3,105)	**(4,849)**
Net carrying amount	**309**	**3**	**312**
At 30 June 2017 – fair value			
Gross carrying amount	2,875	3,108	**5,983**
Accumulated depreciation	(1,981)	(3,108)	**(5,089)**
Net carrying amount	**894**	**–**	**894**

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below:

Year ended 30 June 2017			
Net carrying amount at start of year	309	3	**312**
Additions	852	–	**852**
Depreciation expense	(267)	(3)	**(270)**
Net carrying amount at end of year	**894**	**–**	**894**

2016:

At 1 July 2015 – fair value			
Gross carrying amount	2,200	3,107	**5,307**
Accumulated depreciation	(1,696)	(2,679)	**(4,375)**
Net carrying amount	**504**	**428**	**932**
At 30 June 2016 – fair value			
Gross carrying amount	2,053	3,107	**5,160**
Accumulated depreciation	(1,744)	(3,104)	**(4,848)**
Net carrying amount	**309**	**3**	**312**

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the prior reporting period is set out below:

Year ended 30 June 2016			
Net carrying amount at start of year	504	428	**932**
Additions	32	–	**32**
Disposals	(179)	–	**(179)**
Depreciation expense	(227)	(425)	**(652)**
Write-back of amortisation on disposal	179	–	**179**
Net carrying amount at end of year	**309**	**3**	**312**

Notes to and forming part of the financial statements for the year ended 30 June 2017

Recognition and measurement

Acquisition of assets

Purchases of property, plant and equipment are initially recognised at cost in the Statement of Financial Position. The Audit Office capitalises individual pieces of equipment costing $1,000 or more. When the equipment forms part of a network, the threshold of $1,000 is applied to the network cost. All other equipment purchases are expensed in the year they are acquired.

Revaluation

Following initial recognition at cost, leasehold improvements and plant and equipment are recorded at fair value less accumulated depreciation and impairment. The Audit Office applies the valuation guidelines outlined in the 'Valuation of Physical Non-Current Assets at Fair Value' Policy and Guidelines Paper (TPP 14-01) which applies the requirements of AASB 13 Fair Value and AASB 116 Property, Plant and Equipment.

Property, plant and equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financial feasible. The highest and best use must be available at a period that is not remote and take into account the characteristics of the asset being measured. In all cases, after taking into account these considerations, the highest and best use of the Audit Office's assets is their existing use.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives to the Audit Office of the assets as follows:

	2017	2016
Computer equipment	3 years	3 years
Office equipment	5 years	5 years
Furniture and fittings	10 years	10 years
Leasehold improvements	Over the term of the lease	Over the term of the lease

Make good

The estimated cost for making good the Audit Office's leasehold premises is included in leasehold improvements to the extent it is recognised as a liability. See Note E2.1.

Key judgement/estimates
Audit Office property, plant and equipment

In deciding whether costs should be expensed or capitalised, the Audit Office treats individual computer/telecommunication hardware (such as laptops) as part of a network. As a result, equipment of this nature is generally capitalised.

The Audit Office reviews the useful lives of all assets annually. It also assesses whether there are any indicators of impairment. The lives ascribed to our assets in 2017 remain unchanged from the prior year. We have also reviewed our assets for any indication of impairment. None was noted in the year.

Some of the factors considered in setting the useful lives include: technical obsolescence; the typical life cycle of similar assets; and the actual lives of similar assets currently or previously controlled by the Audit Office.

Because our property, plant and equipment assets are non-specialised with short useful lives, the Audit Office believes the depreciated historical cost is a reasonable approximation of their fair value. We believe any difference between fair vaue and depreciated historical cost is unlikely to be material.

Section 5: Our liabilities

Notes to and forming part of the financial statements for the year ended 30 June 2017

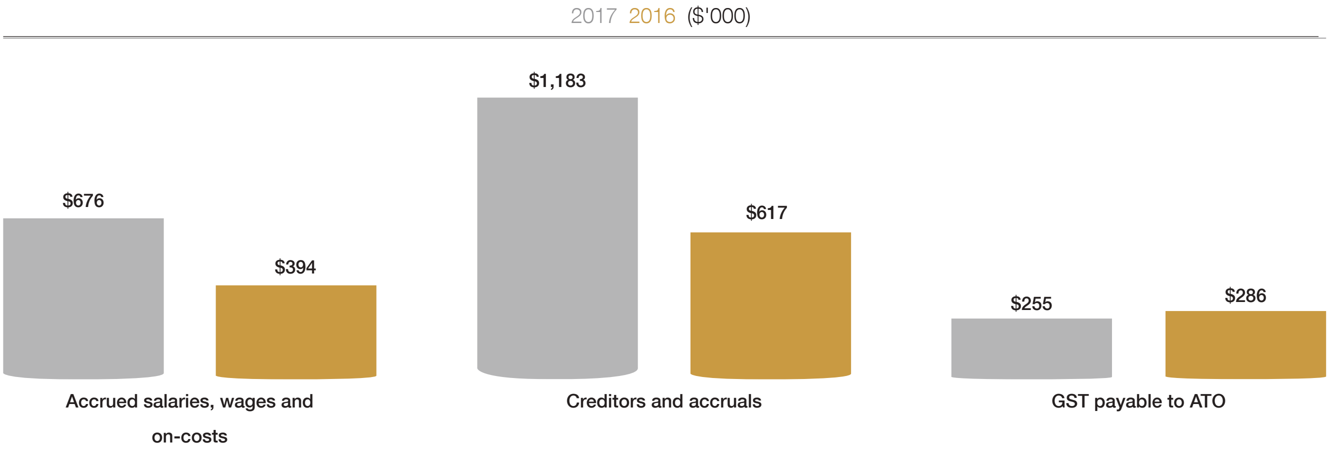
An essential characteristic of our liabilities is that we have a present obligation. A large proportion of our liabilities are employment benefits payable to our staff for services rendered to the reporting date. We also have obligations to our suppliers and tax authorities such as the Australian Taxation Office and the Office of State Revenue.

An obligation is a duty or responsibility to act or perform in a certain way. A future commitment (such as a decision by the Audit Office to acquire assets in the future) does not, of itself, give rise to a present obligation.

Our obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise from normal business practice.

E1. Current liabilities – payables

The Audit Office's payables at 30 June 2017 totalled $2,114,000 (2016: $1,297,000). The chart below shows the split between the major components.



Recognition and measurement

Payables

The Audit Office initially recognises liabilities for trade creditors and other payables at fair value, which is usually based on the transaction cost or face value. These payables are subsequently measured at amortised cost using the effective interest rate method. Trade payables with no stated interest rate are measured at the original invoice amount where the effect of the discounting is immaterial.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced.

Risk – liquidity risk

Liquidity risk is the risk that the Audit Office will be unable to meet its payment obligations when they fall due. The risk is continuously managed through monitoring future cash flows to ensure adequate holding of liquid assets.

During the current and prior year, there were no defaults of loans payable. No assets have been pledged as collateral. An exposure to liquidity risk is deemed insignificant based on prior period's data and current assessment of risk.

For small business suppliers, where terms are not specified, payment is made no later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. For small business suppliers, where payment is not made within the specified time period, simple interest must be paid unless an existing contract specifies otherwise. For payments to other suppliers, the Audit Office may pay the supplier simple interest. The Audit Office did not pay any interest during the year (2016: Nil).

Maturity profile

All of the Audit Office's payables and accruals have a maturity of less than 12 months (2016: less than 12 months).

Market risk

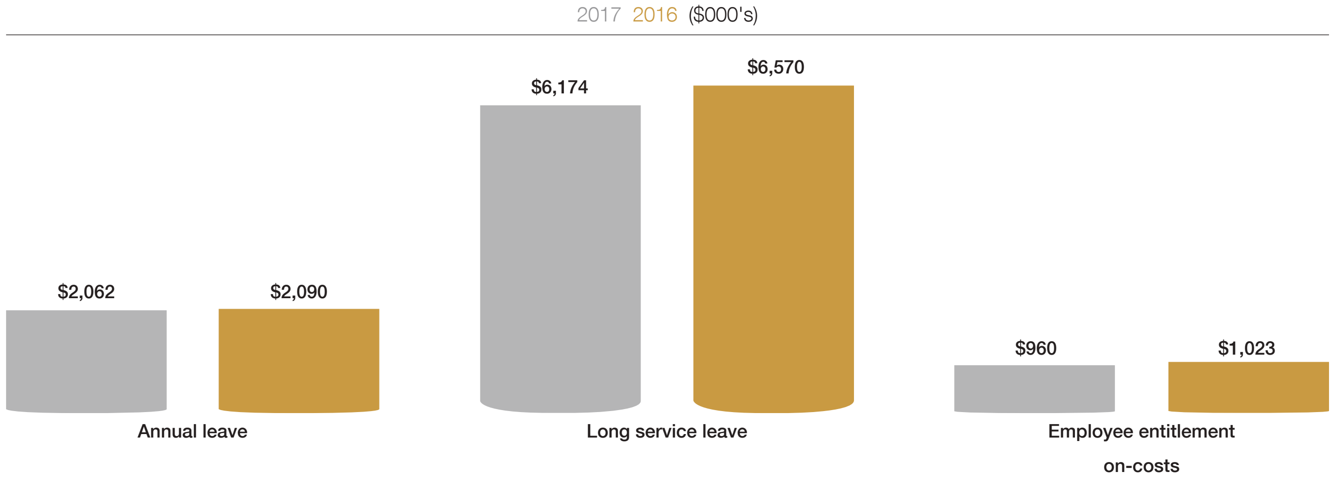
The Audit Office has no exposure to foreign currency risk and does not enter into commodity contracts.

Notes to and forming part of the financial statements for the year ended 30 June 2017

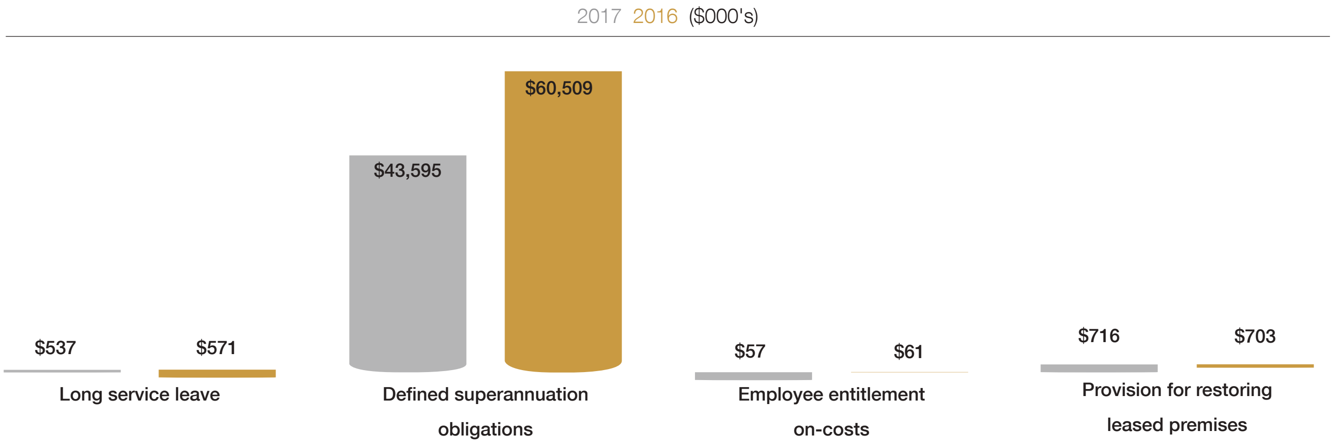
E2. Current/non-current liabilities – provisions

The Audit Office's current provisions at 30 June 2017 totalled $9,196,000 (2016: $9,683,000) and its non-current provisions totalled $44,905,000 (2016: $61,844,000). The charts below show the split between the major components.

Current liabilities – provisions



Non-current liabilities - provisions



a) Employee benefits and related on-costs

Annual leave

The annual leave liability at 30 June 2017 was $2,062,000 (2016: $2,090,000). Of this liability, the value expected to be paid within the next 12 months is $1,400,000 (2016: $1,415,000) and $662,000 (2016: $675,000) after 12 months. The liability is based on leave entitlements at 30 June 2017 using remuneration rates payable post 30 June 2017.

Long service leave

The long service liability at 30 June 2017 was $6,711,000 (2016: $7,141,000) shown as current $6,174,000 (2016: $6,570,000) and non-current $537,000 (2016: $571,000). This liability comprises:

	2017 $'000	2016 $'000
Short term – expected to be settled within 12 months	226	252
Long term – not expected to be settled within 12 months	6,485	6,889
	6,711	**7,141**

The Audit Office's long service leave liability is offset by a corresponding reimbursement right from the Crown Finance Entity as the Audit Office is part of the Crown funded Long Service Leave Pool. See Note D4.

The Audit Office made contributions of $684,000 (2016: $734,000) to the Crown Finance Entity pool during the year.

Notes to and forming part of the financial statements for the year ended 30 June 2017

Recognition and measurement

Salaries and wages, annual leave, sick leave and on-costs

Liabilities for salaries and wages, including non-monetary benefits and annual leave are measured on an undiscounted basis. Where annual leave is not expected to be settled within 12 months, it is accounted for as a long term benefit at the present value in accordance with *AASB 119 Employee Benefits.*

Unused non-vested sick leave entitlement does not give rise to a liability as it is considered that sick leave taken in the future will not be greater than the benefits accrued in the future. The amount of annual leave is increased by on-costs in determining the total provision at reporting date.

Long service leave

A long service leave liability is recognised as a long-term employee benefit and measured for all employees with five or more years of service. The present value method, based on remuneration rates approved to be payable post 30 June, is used to measure the liability. The on-cost factors specified in Treasury Circular 15/09 are applied when calculating the related oncosts.

Consequential on-costs

Consequential costs to employment are recognised as liabilities and expenses where the employment benefits to which they relate have been recognised. This includes outstanding amounts of payroll tax, workers' compensation insurance premiums, fringe benefits tax and superannuation.

Key judgement/estimates
Audit Office employee entitlements

Annual leave

The Audit Office has referred to leave taken during the year to determine the split between short term (leave expected to be taken in the next 12 months) and long term (leave expected to be taken after 12 months).

Long service leave

The present value of long service leave has been calculated by an actuary. The key assumptions they used include:

- discount rate of 2.595 per cent (2016: 1.98 per cent)
- short term salary increases of 2.5 per cent up to 2019, 3.5 per cent from 2020 to 2021, 3 per cent from 2022 to 2026 and 3.5 per cent for future years.

In determining the split between current and non current, the Audit Office has used 92 and 8 per cent respectively. This is consistent with Treasury Circular 15/09.

The Audit Office has recognised a reimbursement from the Crown Finance Entity of equal value to the long service leave liability. This is based on Treasury Circulars *TC15/09 Accounting for Long Service Leave and Annual Leave and TC14/06 Funding Arrangements for Long Service Leave and Transferred Officers Leave Entitlements.*

E2.1 Other provisions

Restoration costs

The Audit Office has an obligation to restore its leased premises at 1 Margaret Street at the end of the lease term. In accordance with *AASB 137 – Provisions, Contingent Liabilities and Contingent Assets,* the Audit Office has recognised a provision to make good the premises.

Movements in the provision during the financial year is set out below:	2017 $'000
Carrying amount at the beginning of financial year	703
Additional provisions recognised	–
Unwinding / change in the discount rate	13
Carrying amount at end of financial year	**716**

Notes to and forming part of the financial statements for the year ended 30 June 2017

Recognition and measurement

Other provisions

Other provisions are recognised when there are legal or constructive obligations as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Key judgement/estimates Audit Office other provisions

This provision to make good our leased premises has been calculated by reference to the leased space area (square metres), an industry rate per square metremetre to make good the premises, the lease expiry date of July 2019 and the three year Commonwealth Government bond rate of 1.99 per cent.

E2.2 Superannuation

Some current and former Audit Office employees are members of defined benefit schemes which means contributions are required to be made to a separately administered fund and members receive a pension entitlement based on a multiple of salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

Name of Scheme	Type of Scheme
The State Superannuation Scheme (SSS)	Multi-employer defined benefit scheme
The State Authorities Superannuation Scheme (SASS)	Multi-employer defined benefit scheme
The State Authorities Non-Contributory Superannuation Scheme (SANCS – Basic Benefits Scheme)	Multi-employer defined benefit scheme

The above schemes are closed to new members and employer contributions to the above funds were suspended in 2005.

Regulatory Framework

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916*, *State Authorities Superannuation Act 1987*, *Police Regulation (Superannuation) Act 1906*, *State Authorities Non-Contributory Superannuation Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

Valuations

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The next actuarial investigation will be performed at 30 June 2018.

Governance

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of the fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations

The defined benefit schemes from 30 June 2015 have remained at an unfunded liability position, a net movement of $16,914,000 (2016: $20,277,000). Employer contributions to all funds have been suspended since 1 December 2005.

The following information has been prepared by the Scheme actuary.

Notes to and forming part of the financial statements for the year ended 30 June 2017

Reconciliation of the net defined benefit liability

	2017 $'000	2016 $'000
Net defined benefit liability at start of year	60,509	40,232
Expenses:		
Current service cost	884	584
Net Interest on the net defined benefit liability	1,204	1,219
Superannuation expense in profit and loss	**2,088**	**1,803**
Other comprehensive income:		
Actual return on Fund assets less interest income	(4,703)	(57)
Actuarial (gains)/losses arising from changes in demographic assumptions	11	3,224
Actuarial (gains)/losses arising from changes in financial assumptions	(11,611)	16,554
Actuarial (gains)/losses arising from liability experience	(2,699)	(1,247)
Amount recognised in other comprehensive income	**(19,002)**	**18,474**
Net defined benefit liability at end of year	**43,595**	**60,509**

Reconciliation of the fair value of fund assets

	2017 $'000	2016 $'000
Fair value of Fund assets at beginning of the year	**65,509**	**67,587**
Interest income	1,264	1,990
Actual return on Fund assets less Interest income	4,703	57
Employer contributions	–	–
Contributions by participants	229	229
Benefits paid	(3,179)	(4,534)
Taxes, premiums and expenses paid	563	180
Fair value of Fund assets at end of the year	**69,089**	**65,509**

Reconciliation of the Defined Benefit Obligation

	2017 $'000	2016 $'000
Present value of defined benefit obligations at beginning of the year	**126,018**	**107,819**
Current service cost	884	584
Interest cost	2,468	3,209
Contributions by participants	229	229
Actuarial losses arising from changes in demographic assumptions	11	3,224
Actuarial (gains)/losses arising from changes in financial assumptions	(11,611)	16,554
Actuarial (gains)/losses arising from liability experience	(2,699)	(1,247)
Benefits paid	(3,179)	(4,534)
Taxes, premiums and expenses paid	563	180
Present value of defined benefit obligations at end of the year	**112,684**	**126,018**

Notes to and forming part of the financial statements for the year ended 30 June 2017

Fair value of fund assets

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers. Assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

As at 30 June 2017

Asset Category	Quoted prices in active markets for identical assets Level 1 $'000	Significant observable inputs Level 2 $'000	Unobservable inputs Level 3 $'000	Total $'000	Percentage invested in each asset class
Cash	3,077,362	9,945		3,087,307	7.7%
Australian Fixed Interest	997	2,499,728		2,500,725	6.2%
International Fixed Interest		480,991		480,991	1.2%
Australian Equities	8,947,483	498,572	24	9,446,079	23.6%
International Equities	9,033,497	1,869,112	1,150,894	12,053,503	30.1%
Property	926,105	533,191	1,993,812	3,453,108	8.6%
Alternatives	390,899	5,068,137	3,607,020	9,066,056	22.6%
TOTAL	**22,376,343**	**10,959,676**	**6,751,750**	**40,087,769**	**100.0%**

Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 – inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt;
hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

Fair value of entity's own financial instruments

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets as at 30 June 2017 include $354.0 million in NSW government bonds.

Of the direct properties owned by the Pooled Fund:

- SAS Trustee Corporation occupies part of a property 100% owned by the Pooled Fund with a fair value of $250 million (30 June 2016: $222 million)
- Health Administration Corporation occupies part of a property 50% owned by the Pooled Fund with a fair value (100% interest) of $261 million (30 June 2016: $243 million).

Notes to and forming part of the financial statements for the year ended 30 June 2017

C4.1 Significant actuarial assumptions at the reporting date

As at	30 June 2017	30 June 2016
Discount rate	2.62% p.a.	1.99% p.a.
Salary increase rate (excluding promotional increases)	2.50% 2017/2018 and 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% p.a. 2021/2022 to 2025/2026; 3.50% p.a. thereafter	2.50% 2016/2017 to 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% p.a. 2021/2022 to 2025/2026; 3.50% p.a. thereafter
Rate of CPI increase	2.00% 2017/2018; 2.25% 2018/2019; 2.50% p.a. thereafter	1.50% 2015/2016; 1.75% 2016/2017; 2.25% 2017/2018; 2.50% p.a. thereafter
Pensioner mortality	The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.	The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.

Sensitivity analysis

The Audit Office's total defined benefit obligation as at 30 June 2017 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2017.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above - 1.0% p.a.	as above + 1.0% p.a.	+ as above	as above	as above	as above
Rate of CPI increase	as above	as above	as above	above rates plus 0.5% p.a.	above rates less 0.5% p.a.	as above	as above
Salary inflation rate	as above	as above	as above	as above	as above	above rates plus 0.5% p.a.	above rates less 0.5% p.a.
Defined benefit obligation (A$'000)	112,684,411	131,493,398	97,527,289	121,116,183	105,029,927	113,186,704	112,198,741

	Base Case	Scenario G Lower Mortality*	Scenario H Higher Mortality**
Defined benefit obligation (A$'000)	112,684,411	114,771,155	111,400,681

* Assumes the short-term pensioner mortality improvement factors for years 2017–2021 also apply for years after 2021

** Assumes the long-term pensioner mortality improvement factors for years post 2021 also apply for years 2017 to 2021

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Notes to and forming part of the financial statements for the year ended 30 June 2017

Surplus/deficit

The following is a summary of the 30 June 2017 financial position of the Fund calculated in accordance with AASB 1056 –Superannuation Entities:

	2017 $'000	2016 $'000
Accrued benefits*	61,613	60,766
Net market value of Fund assets	(69,090)	(65,510)
Net surplus	**(7,477)**	**(4,744)**

* There is no allowance for a contribution tax provision within the Accrued Benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

Recommended contribution rates for the Audit Office are:

	SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
	NIL	NIL	NIL

Economic assumptions

The economic assumptions adopted for the 30 June 2017 AASB 1056 – Superannuation Entities:

Weighted average assumptions	30 June 2017	30 June 2016
Expected rate of return on Fund assets backing current pension liabilities	7.4% p.a.	7.8% p.a.
Expected rate of return on Fund assets backing other liabilities	6.4% p.a.	6.8% p.a.
Expected salary increase rate (excluding promotional salary increases)	2.7% to 30 June 2019 then 3.2% p.a. thereafter	3.0% to 30 June 2019 then 3.5% p.a. thereafter
Expected rate of CPI increase	2.2% p.a.	2.5% p.a.

Expected contributions

	SASS	SANCS	SSS
			Financial year to 30 June 2018
Expected employer contributions	NIL	NIL	NIL

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 14.1 years.

Notes to and forming part of the financial statements for the year ended 30 June 2017

Recognition and measurement

The cost of providing benefits under a defined benefit plan is determined using the projected unit credit method.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Key judgement/estimates Audit Office superannuation

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial obligations and an actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include:

- the determination of the discount rate
- future salary increases mortality rates; and
- future pension increases (Table C4.1).

Due to the complexities involved in the calculation and its long term nature, a define benefit obligation is highly sensitive to change in these assumptions. All assumptions are reviewed at each reporting date.

Risk

Investment risk

The risk that investment returns will be lower than assumed and the Audit Office will need to increase contributions to offset this shortfall.

Longevity risk

The risk that pensioners live longer than assumed, increasing future pensions.

Pension indexation risk

The risk that pensions will increase at a rate greater than assumed, increasing future pensions.

Salary growth risk

The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.

Legislative risk

The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix.

The Fund has no significant concentration of investment risk or liquidity risk.

Asset-Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching stategy is used by the Trustee

Section 6: Risk and other notes

Notes to and forming part of the financial statements for the year ended 30 June 2017

F1. Financial instruments

The Audit Office's principal financial instruments are cash (note D1), receivables (note D2), WIP (note D3) and payables (note E1). These financial instruments arise directly from our operations. The Audit Office does not enter into or trade financial instruments for speculative purposes.

Quantitative and qualitative disclosures together with our objectives, policies and processes for measuring and managing risk are included throughout the financial statements.

The Office Executive has overall responsibility for the establishment and oversight of risk management and reviews and agreed policies for managing each of these risks. Risk management policies are established to identify and analyse risks, to set risk controls and to monitor the risks faced by the Audit Office. Compliance with policies is reviewed by the Audit Office on a continuous basis.

F2. Capital commitments

The Audit Office had nil (2016: $72,000) contractual commitments to purchase equipment and intangible assets at reporting date.

F3. Contingent assets and contingent liabilities

At the reporting date, the Audit Office was not aware of any contingent assets or contingent liabilities (2016: nil).

F4. Auditor's remuneration

In May 2017, the Governor appointed Mr Lester Wills, a partner of Nexia Sydney Partnership, to audit our financial statements for the 2016–17 year. The auditor's remuneration for auditing the financial statements is $38,540 (2016: $37,680). Nexia Sydney Partnership did not provide any other services to the Audit Office (2016: nil).

F5. Related party disclosures

We have assesssed that the Office Executive are key management personnel (KMP) of the Audit Office. We believe they have the authority and responsibility for planning, directing and controlling the activities of the Office.

The Audit Office's key management personnel compensation is as follows:

	2017 $'000
Short-term employee benefits:	
Salaries	2,139
Other long-term employee benefits	84
Post-employment benefits	151
Total remuneration	**2,374**

The Audit Office did not enter into any material transactions with key management personnel, their close family members or entities they controlled or jointly controlled during the year.

Transactions with NSW Government agencies

During the year, the Audit Office provided audit and audit related services to entities that are controlled by the NSW Government. These services were provided at arm's length based on agreed terms and using our standard charge rates. None of these transactions were individually significant. The total revenue received from NSW Government agencies was $29.7 million. Of this amount, $3.7 million is owed to the Audit Office at the reporting date.

The Audit Office also received funding of $8.6 million from the Crown Entity for its performance and compliance audit services. The funding is set through the annual State Budget process, together with any subsequent adjustments. In 2016–17, the Audit Office received additional funding for the new performance audit mandate of the local government sector.

End of audited financial statements