Response to Auditor General’s Report

In his Statutory Report for the LPMA, the Auditor General advised that he expressed a modified opinion on the LPMA’s financial statements due to limitations surrounding the completeness and valuation of Crown reserves, buildings and infrastructure on Crown reserves and coastal infrastructure under the LPMA’s control. The Auditor-General’s modified opinion was:

“As disclosed in Note 1(j)(vii) summary of significant accounting Policies, LPMA is undertaking a project to identify and value the Crown reserves it controls. Until that project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the financial statements. I am also unable to obtain all the information I require to form an opinion on the value of buildings and infrastructure on Crown reserves or coastal infrastructure as disclosed in Note 1(j)(vii) that should be recognised as buildings and infrastructure in the financial statements”

The LPMA’s response to each modified opinion is set out below:

Value of Crown Reserves
This modification has previously been issued in respect of the Crown Leaseholds Entity (CLE) and the Total State Sector Accounts since 2004. Prior to that time, a general position was taken that once a Crown reserve was established, the land associated with the Crown reserve was removed from control by government. From 2004, the Auditor General held a belief that as the Crown reserves were controlled by government, they should be recognised and brought to account in the State’s financial statements. The Government had a different view on the matter.

Prior to 2009/10 financial year, Crown land was administered by the LPMA (and its predecessors). This meant that any financial reporting in relation to Crown land flowed from the Crown Leaseholds Entity to the Total State Sector Accounts without impacting on the financial statements of the LPMA (or its predecessors). With the transfer of the Crown land to the LPMA in 2009/10, the long standing modified opinion was also transferred to the LPMA.

In late 2006 Government approved of the LPMA embarking on a program to formally identify, convert to title (i.e. issue lot/dp) and value each Crown reserve. The various projects are subject to oversight by a program steering committee which has representatives of Treasury and the Audit Office in attendance.

It is expected that this body of work will be largely completed by March 2011. This should allow those parcels, which are eventually judged to be “controlled” by Government, to be brought to account in the 2010/11 financial statements of both the LPMA and the Total State Sector Accounts.

Allied to this work, the LPMA is developing a discussion paper on the issue of “control” of Crown reserves. It is expected that the LPMA, NSW Treasury and the Audit Office should arrive at an agreed position on the definition of “control” of Crown reserves by the end of March 2011. This will then enable those Crown reserves which are judged to be controlled by Government to be brought to account in the 2010/11 financial statements.

Resolution of the matter would be expected to result in the Auditor-General’s modified opinion in relation to the value of land in Crown reserves to be removed at that time.
Value of Infrastructure

This is the first year in which the Auditor-General has included a modified opinion in respect of the value of buildings and infrastructure on Crown reserves and the value of the coastal infrastructure (sea walls, training walls, minor port facilities).

- Value of buildings and infrastructure on Crown reserves

The modified opinion in respect of this matter is tied to the value of the land within Crown reserves. If a determination is made that Crown reserves are controlled by government, the government has previously committed to bring the value of such land to account. If the government brings the value of the land to account because it controls the land, it is a logical extension that the Government would also control the buildings and infrastructure on the Crown reserves.

In undertaking the body of work to resolve the land value issue, LPMA has commenced collecting data as to the number of Crown reserves that contain buildings and infrastructure and the allocation of those parcels to valuation bandwidths (i.e. less than $100,000, between $500,000 and $1 million etc). This will enable the LPMA to determine the possible scope and cost that might be involved in obtaining valuations for such assets in the event that it is determined that Government does control Crown reserves.

A detailed project for this matter has not yet been established. It is expected that this body of work would commence once the land conversion and valuation project has concluded, subject to the issue of control being resolved. On information gathered to date, this body of work will take at least two years to complete.

- Value of coastal infrastructure

The government has traditionally provided an annual budget allocation to the LPMA (and its predecessors) for the maintenance of a range of coastal infrastructure. This includes funding for the maintenance and upkeep of sea training walls and other infrastructure associated with the minor ports along the seaboard.

No agency has ever acknowledged the existence of the infrastructure. While the LPMA managed the Crown assets as administered activity, there appeared to be little interest in resolving the “ownership” issue for this class of asset. The result was that funding has been allocated to maintain assets that no-one acknowledged formally existed.

When the Crown assets were transferred to LPMA, a decision was taken that the assets should be formally acknowledged and brought to account. Given the timing of the transfer of the Crown assets, there has been insufficient time for the LPMA to determine the values of the assets and to bring them to account. The Auditor General has indicated that he would need evidence to support the LPMA’s contention that the assets should be part of LPMA’s asset base.

A project will be commencing shortly to gather the evidence to support the LPMA’s position and to update the valuations of the various assets. Resolution of the matter is expected within a year and it is anticipated that the modified audit opinion on this matter would be removed in the 2010/11 financial statements.