



**Special Minister of State
Minister for Industrial Relations
Assistant Treasurer
Minister Assisting the Premier on Public Sector Management and
Minister Assisting the Premier for the Central Coast**

Mr Joseph Tripodi MP
Chairman
Public Accounts Committee
Legislative Assembly
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Mr Tripodi

Thank you for your correspondence of 9 July 2002 about the Auditor General's qualification of the Financial Statements of the Building and Construction Industry Long Service Payments Corporation.

The accounting standards which are relevant to the Corporation in this matter are AASB 1041 "Revaluation of Non-Current Assets" and AAS 25 "Financial Reporting by Superannuation Plans".

- AASB 1041 requires that the net increment on revaluation of non-current assets is to be credited to an asset revaluation reserve and not be included as income in the 'Statement of Financial Performance'.
- AAS 25 requires that any increment on revaluation of non-current assets is to be included as investment income in 'revenues' in the 'Statement of Financial Performance'.

The Building and Construction Industry Long Service Payments Act 1986 provides a portable long service scheme to workers in the building and construction industry. The scheme is a defined benefit plan that provides benefits at a future time, based on length of service to the industry and the income received when the benefit is taken.

When determining the sufficiency of the scheme the Corporation's actuaries use investment income, including revaluation of its investments (non-current assets), to meet the increase in liabilities for benefits already existing for members of the scheme. Also, when determining the levy rate that must be applied to meet new liabilities, the Corporation's actuaries use a model that discounts the levy rate to allow for future investment earnings on the collected levy.

The Corporation's view is that AAS 25 best describes its activities and provides the most relevant information about the adequacy of its financial performance. This standard in part states that:

The primary function of superannuation plans is to act as a vehicle for the accumulation of assets to pay benefits to members and beneficiaries. Measuring assets at net market value as at the reporting date provides more relevant information to users about the resources available to pay benefits than does the cost basis of measurement. The net market value basis of measurement is therefore required by this Standard. Information about the assets available to pay benefits will be relevant to an assessment of, in the case of defined benefit plans, the plan's ability to meet its obligations to members and beneficiaries and, in the case of defined contribution plans, the plan's ability to provide an adequate level of benefits for members and beneficiaries.

The main effect of the adoption of AAS 25 is to include investment income in 'revenues' in the 'Statement of Financial Performance'. The Corporation believes that this is the correct treatment as 'expenses' include any payments actually made as well as an expense item related to the increase in accrued benefits. The income from its investments is intended in part to meet these expenses.

The adoption of AASB 1041 would see a substantial removal of investment income from 'revenues' in the 'Statement of Financial Performance'. This would result in the 'Statement of Financial Performance' normally showing a net deficit as 'expenses' would still include any payments actually made as well as the expense item related to the increase in accrued benefits.

Both NSW Treasury and the Auditor-General support the Corporation's approach. However, as the scheme is not a superannuation plan nor is it exempted by any provisions of AASB 1041 from using that standard, then the accounting standards dictate that the Corporation must use AASB 1041. The Auditor General must therefore put a technical qualification on the Corporation's Financial Statements, as it has not strictly followed the standards.

I would also note that similar audit qualifications occur in relation to two other agencies within my portfolio; WorkCover Authority of NSW and Workers' Compensation (Dust Diseases) Board.

There have been attempts to modify the standards to validate the financial reporting approach adopted, but these to date have been unsuccessful. As the Australian Accounting Standards Board continually reviews standards it is hoped that this will be achieved eventually.

The appropriate officers from the Corporation to assist with this matter are the Director, Keith Napper, telephone 9246 4459 and the Assistant Director, Robert Armstrong, telephone 9246 4430.

Yours sincerely

John Della Bosca MLC
Special Minister of State
Minister for Industrial Relations
Assistant Treasurer