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ITSRR's
financial report

independent transport safety and reliability regulator

statement by chief executive

For the Year Ended 30 June 2006

Pursuant to section 45F of the *Public Finance and Audit Act 1983*, I state that:

- (a) The accompanying financial statements have been prepared in accordance with
- Applicable Australian Accounting Standards (which include Australian Equivalents to International Financial Reporting Standards (AEIFRS))
 - The requirements of the *Public Finance and Audit Act and Regulations*; and
 - The Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the Act.
- (b) The statements exhibit a true and fair view of the financial position and transactions of the Regulator; and
- (c) There are no circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.



Chief Executive

Date: 20 October 2006



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

INDEPENDENT TRANSPORT SAFETY AND RELIABILITY REGULATOR

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Independent Transport Safety and Reliability Regulator (the Regulator):

- presents fairly the Regulator's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

Scope

The Financial Report and Chief Executive Officer's Responsibility

The financial report comprises the operating statement, statement of changes in equity, balance sheet, cash flow statement, program statement - expenses and revenues, summary of compliance with financial directives and accompanying notes to the financial statements for the Regulator, for the year ended 30 June 2006.

The Chief Executive Officer is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material misstatement*.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Chief Executive Officer in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Chief Executive Officer had not fulfilled her reporting obligations.

My opinion does not provide assurance:

- about the future viability of the Regulator,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- 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 are not compromised in their role by the possibility of losing clients or income.



P Carr, FCPA
Director, Financial Audit Services

SYDNEY
24 October 2006

Operating Statement For the Year Ended 30 June 2006

	Notes	Parent		Consolidated		
		Actual 2006 \$'000	Actual 2005 \$'000	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
Expenses						
Operating Expenses						
Employee related	2(a)	9,978	11,170	9,978	10,022	11,170
Other operating expenses	2(b)	4,660	5,209	4,660	5,712	5,209
Depreciation and amortisation	2(c)	317	249	317	363	249
Total Expenses		14,955	16,628	14,955	16,097	16,628
Less:						
Revenue						
Sale of services	3(a)	44	46	44	-	46
Investment revenue	3(b)	118	80	118	62	80
Other	3(c)	185	-	-	-	-
Total Revenue		347	126	162	62	126
Net Cost of Services	18	14,608	16,502	14,793	16,035	16,502
Government Contributions						
Recurrent appropriation	4	13,666	14,626	13,666	15,007	14,626
Capital appropriation	4	600	545	600	600	545
Acceptance by Crown of Employee benefits and other Liabilities	5	555	1,831	740	1,016	1,831
Total Government Contributions		14,821	17,002	15,006	16,623	17,002
Surplus for the Year	13	213	500	213	588	500

The accompanying notes form part of these statements.

Statement of Change in Equity For the Year Ended 30 June 2006

	Notes	Parent		Consolidated		
		Actual 2006 \$'000	Actual 2005 \$'000	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
Total Income and Expenses Recognised Directly in Equity		-	-	-	-	-
Surplus / (Deficit) for the Year	13	213	500	213	588	500
Total Income and Expenses Recognised for the Year	13	213	500	213	588	500

The accompanying notes form part of these statements.

Balance Sheet as at 30 June 2006

	Notes	Parent		Consolidated		
		Actual 2006 \$'000	Actual 2005 \$'000	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
Assets						
Current Assets						
Cash and cash equivalents	7	3,281	2,385	3,281	2,481	2,385
Receivables	8	360	465	360	225	465
Total Current Assets		3,641	2,850	3,641	2,706	2,850
Non-Current Assets						
Property, plant and equipment						
Leasehold improvements	9	648	720	648	520	720
Plant and equipment	9	305	186	305	673	186
Total property, plant and equipment		953	906	953	1,193	906
Intangible assets	10	792	390	792	390	390
Total Non-Current Assets		1,745	1,296	1,745	1,583	1,296
Total Assets		5,386	4,146	5,386	4,289	4,146
Liabilities						
Current Liabilities						
Payables	11	3,548	1,110	2,228	960	1,110
Provisions	12	-	1,318	1,320	1,318	1,318
Liability to Consolidated Fund	4	481	35	481	35	35
Total Current Liabilities		4,029	2,463	4,029	2,313	2,463
Total Liabilities		4,029	2,463	4,029	2,313	2,463
Net Assets		1,357	1,683	1,357	1,976	1,683
Equity						
Accumulated funds	13	1,357	1,683	1,357	1,976	1,683
Total Equity		1,357	1,683	1,357	1,976	1,683

The accompanying notes form part of these statements.

Cash Flow Statement For the Year Ended 30 June 2006

Notes	Parent		Consolidated		
	Actual 2006 \$'000	Actual 2005 \$'000	Actual 2006 \$'000	Budget 2006 \$'000	Actual 2005 \$'000
Cash Flows From Operating Activities					
Payments					
	(9,131)	(9,353)	(9,131)	(9,301)	(9,353)
	(5,044)	(6,493)	(5,044)	(6,622)	(6,493)
	(14,175)	(15,846)	(14,175)	(15,923)	(15,846)
Receipts					
	268	66	268	-	66
	108	76	108	62	76
	535	803	535	1,000	803
	911	945	911	1,062	945
Cash Flows from Government					
	14,112	14,661	14,112	15,007	14,661
	600	545	600	600	545
	-	441	-	-	441
	14,712	15,647	14,712	15,607	15,647
Net Cash Flows from Operating Activities	18		1,448	746	746
Cash Flows from Investing Activities					
	(472)	(508)	(472)	(650)	(508)
Net Cash Flows from Investing Activities			(472)	(650)	(508)
Net Increase in Cash			976	96	238
Opening cash and cash equivalents	2,385	2,147	2,385	1,484	2,147
Cash transfer through administrative restructure	14	-	(80)	-	-
Closing Cash and Cash Equivalents	7		3,281	1,580	2,385

The accompanying notes form part of these statements.

Statement of Compliance with Financial Directives For the Year Ended 30 June 2006

	2006			2005				
	Recurrent Expenditure \$'000	Expenditure-Net claim on Cons Fund \$'000	Capital Appropriation \$'000	Expenditure-Net claim on Cons Fund \$'000	Recurrent Expenditure \$'000	Expenditure-Net claim on Cons Fund \$'000	Capital Appropriation \$'000	Expenditure-Net claim on Cons Fund \$'000
Original budget Appropriation								
Appropriations Act	16,141	14,800	600	600	15,673	14,523	-	-
Additional appropriations								
S 21 PF& AA								
- special appropriations								
S 24 PF& AA								
- transfer of functions between agencies								
	16,141	14,800	600	600	15,673	14,523	0	0
Other appropriations/expenditure								
Treasurer's advance	990							
Enforced transfer		990						
- recurrent to capital								
Transfer to/from another agency								
(S24 of the Appropriation Act)	(2,124)	(2,124)			(1,115)		1,115	545
	(1,134)	(1,134)			(1,012)	103		
	15,007	13,666	600	600	14,661	14,626	1,115	545
Total Appropriation/Expenditure								
Net Claim on Consolidated Fund								
Drawdown from Treasury		14,147		600		14,661		545
Liability to Consolidated Fund		481				35		

The Summary of Compliance is based on the assumption that Consolidated Fund moneys are spent first (except where otherwise identified or prescribed). Liability to Consolidated Fund represents the difference between the "Amount Drawn Down against Appropriation" and the "Total Expenditure"/Net Claim on Consolidated Fund.

Program Statement – Expenses and Revenue For the Year Ended 30 June 2006

	Program 63.1.1		Program 63.1.2		Program 63.1.3		Not attributable		Total
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	
Expenses									
Operating expenses									
Employee related	(8,699)	(8,741)	-	(1,266)	(1,279)	(1,163)	-	-	(9,978)
Operating Expenses	(4,256)	(4,857)	-	(186)	(404)	(166)	-	-	(4,660)
Depreciation	(317)	(249)	-	-	-	-	-	-	(317)
Total Expenses	(13,272)	(13,847)	-	(1,452)	(1,683)	(1,329)	-	-	(16,628)
Revenue									
Sale of services	44	46	-	-	-	-	-	-	44
Investment income	118	80	-	-	-	-	-	-	118
Total revenue	162	126	-	-	-	-	-	-	162
Net Cost of Services	(13,110)	(13,721)	-	(1,452)	(1,683)	(1,329)	-	-	(16,502)
Government Contributions	-	-	-	-	-	-	15,006	17,002	17,002
Net Revenue	(13,110)	(13,721)	-	(1,452)	(1,683)	(1,329)	15,006	17,002	500
Administered Revenue									
Rail operators' accreditation fees							2,789	3,591	3,591
							<u>2,789</u>	<u>3,591</u>	<u>3,591</u>

The names and purpose of each program are summarised in Note 6. Appropriations are made on an agency basis and not to individual programs. Program 63.1.2 was transferred to the Office of Transport Safety Investigations on 1 July 2005

notes to and forming part of the financial statements

For the year ended 30 June 2006

I. summary of significant accounting policies

(a) Reporting Entity

The Independent Transport Safety and Reliability Regulator economic entity comprises all the operating activities of the Independent Transport Safety and Reliability Regulator (the parent) and the Independent Transport Safety and Reliability Regulator Division (the controlled entity). The reporting economic entity is based on the control exercised by the agency over the Independent Transport Safety and Reliability Regulator (Division).

The Independent Transport Safety and Reliability Regulator was established on 1 January 2004 as a statutory corporation under the *Transport Administration Act 1988* as amended. The principal objective of this agency is to facilitate the safe operation of transport services in New South Wales.

The Independent Transport Safety and Reliability Regulator Division commenced operations on 17 March 2006 pursuant to Part 2 of Schedule 1 of the *Public Sector Employment and Management Act 2002*. The (controlled) entity's objective is to provide personnel services to Independent Transport Safety and Reliability Regulator (the controlling entity) (Note 2(a)).

In the process of preparing the consolidated financial report for the economic entity consisting of the controlling and controlled entities, all inter-entity transactions and balances have been eliminated.

The agency is a not-for-profit entity, as profit is not its principal objective and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

These financial statements have been authorised for issue by the Chief Executive Officer on 20 October 2006.

(b) Basis of Preparation

The agency's financial statements are a general purpose financial report, which has been prepared in accordance with:

- applicable Australian Accounting Standards (which includes Australian equivalents to International Financial Reporting Standards (AIFRS));
- the requirements of the *Public Finance and Audit Act 1983* and Regulations; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under Section 9(2)(n) of the Act.

Property, plant and equipment, investment property, assets (or disposal groups) held for sale and financial assets at "fair value through profit or loss" and available for sale are measured at fair value. Other financial reports items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations which management has made, are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Statement of Compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS). This is the first financial report prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, except as stated below.

In accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and Treasury Mandates, the date of transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* has been deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005.

Reconciliations of AEIFRS equity and surplus or deficit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 24.

(d) Administered Activities

The agency administers, but does not control, certain activities on behalf of the Crown Entity. It is accountable for the transactions relating to those administered activities but does not have the discretion, for example, to deploy the resources for the achievement of the Agency's own objectives.

Transactions and balances relating to the administered activities are not recognised as the agency's revenues, expenses, assets and liabilities, but are disclosed in Notes 20 to 22 as Administered Assets and Liabilities, Administered Revenue – Crown Revenue and Administered Revenue – Schedule of Uncollected Amounts.

The accrual basis of accounting and all applicable accounting standards have been adopted for the reporting of the administered activities.

(e) Income Recognition

Income is measured at the fair value of the consideration or the contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below:

(i) Parliamentary Appropriations and Contributions from Other Bodies:

Parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as income when the agency obtains control over the assets comprising the appropriations and contributions. Control over appropriations and contributions is normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year-end. In this case the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are accounted for as liabilities rather than revenue. The liability is disclosed in Note 4 and is reported in the Balance Sheet as part of "Current Liabilities – Liability to Consolidated Fund". The amount will be repaid and the liability will be extinguished next financial year.

(ii) Rendering of services:

Revenue is recognised when the service is provided.

(iii) Investment revenue:

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

(f) Personnel Service Expense**(i) Salaries and Wages, Annual Leave, Sick Leave and On-Costs:**

Liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within 12 months is measured at present value in accordance with AASB 119 *Employee Benefits*. Market yields on government bonds are used to discount long-term annual leave.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

(ii) Long Service Leave and Superannuation:

The agency's liabilities for long service leave and defined benefit superannuation are assumed by the Crown Entity. The agency accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of Employee benefits and other Liabilities". Prior to 2005-06 the Crown Entity also assumed the defined contribution superannuation liability.

Long service leave is measured at present value in accordance with AASB 119 *Employee Benefits*. This is based on the application of certain factors (specified in NSWTC 06/09) to employees with 5 or more years of service, using current rates of pay. These factors were determined based on an actuarial review to approximate present value.

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (ie. Basic Benefit and First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (ie. State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contributions.

(iii) Other Provisions

Other provisions exist when: the agency has a present legal or constructive obligation 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.

Any provisions for restructuring are recognised only when the agency has a detailed formal plan and the agency has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected.

If the effect of the time value of money is material, provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

(g) Insurance

The agency's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience.

(h) Accounting for Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where:

- the amount of GST incurred by the agency as a purchaser that is not recoverable from the Australian Taxation Office 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.

(i) Acquisitions of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the agency. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

Assets acquired at no cost or for nominal consideration are initially recognised at their fair value at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where payment for an item is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

Leasehold improvements comprise office improvements. *Plant and equipment* comprise office furniture, equipment and computers. In accordance with Treasury Circular No 04/06 the agency is not renewing expired leases for computers. Instead the agency is purchasing information and communication technology equipment using capital allocations. *Intangible assets* comprise computer systems.

Property, plant and equipment and intangible assets costing \$500 and above individually (or forming part of a network costing more than \$500) are capitalised.

(j) Revaluation of Property, Plant and Equipment

Physical non-current assets are valued in accordance with the "Valuation of Physical Non-Current Assets at Fair Value" Policy and Guidelines Paper (TPP 05-3). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Property*.

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment. However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

Fair value of property, plant and equipment is determined based on the best available market evidence, including current market selling prices for the same or similar assets. Where there is no available market evidence, the asset's fair value is measured at its market buying price, the best indicator of which is depreciated replacement cost.

The agency revalues each class of property, plant and equipment at least every five years or with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation are separately restated.

For other assets, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the surplus / deficit, the increment is recognised immediately as revenue in the surplus / deficit.

Revaluation decrements are recognised immediately as expenses in the surplus / deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

(k) Impairment of Property, Plant and Equipment

As a not-for-profit entity with no cash generating units, the agency is effectively exempted from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(l) Depreciation and amortisation

Depreciation and amortisation are provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the agency. The depreciation rates used are leasehold improvements (20%), office furniture and equipment and computers (20%), and computer systems (intangible assets) (20%).

(m) Maintenance

The costs of day-to-day servicing costs or maintenance are charged as expenses as incurred, except where they relate to the replacement of a part or component of an asset, in which case the costs are capitalised and depreciated.

(n) Leased Assets

Operating lease payments are charged to the Operating Statement in the periods in which they are incurred. The agency does not have any finance leases.

(o) Intangible Assets

The agency recognises intangible assets (computer systems) only if it is probable that future economic benefits will flow to the agency and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition. All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the agency's intangible assets, the assets are carried at cost less any accumulated amortisation.

In general, intangible assets are tested for impairment where an indicator of impairment exists. However, as a not-for-profit entity with no cash generating units, the agency is effectively exempted from impairment testing (refer para (k)).

(p) Receivables

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. An allowance for impairment of receivables is established when there is objective evidence that the agency will not be able to collect all amounts due. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Bad debts are written off as incurred.

(q) Other Assets

Other assets are recognised on a cost basis.

(r) Equity Transfers

The transfer of net assets between agencies as a result of an administrative restructure, transfers of program/functions and parts thereof between NSW public sector agencies is designated as a contribution by owners and recognized as an adjustment to "Accumulated Funds". This treatment is consistent with Urgent Issues Group Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

(s) Payables

These amounts represent liabilities for goods and services provided to the agency and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(t) Budgeted Amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s21A, s24 and / or s26 of the *Public Finance and Audit Act 1983*.

The budgeted amounts in the Operating Statement and the Cash Flow Statement are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Balance Sheet, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts ie per the audited financial statements (rather than carried forward estimates).

(u) Comparative Information

Comparative figures have been restated based on AEIFRS with the exception of financial instruments information, which has been prepared under the previous AGAAP Standard (AAS 33) as permitted by AASB 1.36A. The transition to AEIFRS for financial instruments information was 1 July 2005. The impact of adopting AASB 132 / 139 is further discussed in Note 24.

2. expenses

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
(a) Employee related expenses			
<i>comprise the following specific items:</i>			
Salaries (including recreation leave)	5,980	8,144	8,618
Superannuation – defined benefits plan	209	277	227
Superannuation – defined contribution plan	352	490	441
Long service leave	177	417	1,123
Workers' compensation insurance	37	55	35
Payroll tax and fringe benefit tax	415	595	652
Redundancies	-	-	74
Personnel services (Note 1(a))	2,808	-	-
	9,978	9,978	11,170
(b) Other operating expenses			
Accommodation			
Operating lease rental expense			
– minimum lease payments	609	609	609
Other property costs	49	49	48
External services			
Contractors	2,412	2,412	2,835
Legal Services	314	314	401
Audit fees – financial statements	13	13	12
Information technology			
Computer leasing	48	48	81
Computer licences	109	109	182
Communication lines	7	7	10
Other computer costs	15	15	26
Motor vehicle running expenses			
Operating minimum lease rentals	34	34	39
Other motor vehicle expenses	121	121	125
Advertising and promotion	2	2	16
Staff recruitment and training costs	316	316	238
Administration			
Printing and stationery	135	135	121
Telephones	88	88	43
Postage and courier	12	12	14
Travel	201	201	240
Insurance	4	4	4
Others	171	171	165
	4,660	4,660	5,209

Accommodation and motor vehicle running expenses include maintenance expenses of \$18K.
The agency does not have maintenance related employee expenses.

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
(c) Depreciation & Amortisation Expenses			
Depreciation (Note 9)			
Leasehold Improvements	205	205	203
Plant and equipment	53	53	46
	<u>258</u>	<u>258</u>	<u>249</u>
Amortisation (Note 10)			
Computer systems	59	59	-
	<u>317</u>	<u>317</u>	<u>249</u>

3. revenues

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
(a) Sale of Services			
Rendering of services	44	44	46
	<u>44</u>	<u>44</u>	<u>46</u>
(b) Investment revenue			
Interest on bank balance	118	118	80
	<u>118</u>	<u>118</u>	<u>80</u>

(c) Other

Other (\$185K) comprises employee benefits and other liabilities assumed by the Crown from 17 March 2006 to 30 June 2006.

4. appropriations

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Recurrent appropriations			
Total recurrent drawdowns from NSW Treasury (per Summary of Compliance)	14,147	14,147	14,661
Less: Liability to Consolidated Fund (per Summary of Compliance)	(481)	(481)	(35)
Recurrent appropriations (per Operating Statement)			
	<u>13,666</u>	<u>13,666</u>	<u>14,626</u>
Capital appropriations			
Total capital drawdowns from NSW Treasury (per Summary of Compliance)	600	600	545
Less: Liability to Consolidated Fund (per Summary of Compliance)	-	-	-
Capital appropriations (per Operating Statement)			
	<u>600</u>	<u>600</u>	<u>545</u>

5. acceptance by the crown entity of employee benefits and other liabilities

The following liabilities and/or expenses have been assumed by the Crown Entity

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Superannuation	208	278	668
Long service leave	312	416	1,123
Payroll tax on superannuation	35	46	40
(Note 19)			
	<u>555</u>	<u>740</u>	<u>1,831</u>

6. program information

On 1 July 2005 the agency transferred responsibility for the administration of the Investigation Program (Program 63.1.2 page 7) to the Chief Investigator of the Office of Transport Safety Investigations (Note 14). For 2005-06 the agency had 2 programs namely:

Program 63.1.1 — Effective Regulation

Program Objective: To provide strategic co-ordination of safety regulation across transport modes. To administer the *Rail Safety Act 2002*, including accreditation of rail operators and undertaking compliance audits and investigations.

Program Description: Provision of safety policy and safety management system standards across transport modes and the guidelines and regulations that support these. Accredited rail operators and monitor compliance with the *Rail Safety Act 2002*, with a focus on promoting improvements in safety management systems and safety culture. Provision of research and data analysis to identify potential safety issues.

Program 63.1.3 — Service Reliability

Program Objective: To advise the Government and the community on the extent to which transport operators are meeting their service obligations. To identify lead indicators of potential safety risks.

Program Description: Advise the Minister, Government and the community on the extent to which publicly funded transport services are meeting the standards set by Government under their contracts with service providers. Advise the Minister of performance against national and international standards.

7. cash and cash equivalents

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Cash at bank and on hand	3,281	3,281	2,385
	<u>3,281</u>	<u>3,281</u>	<u>2,385</u>

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash at bank and cash on hand. Cash and cash equivalent assets recognised in the Balance Sheet are reconciled at the end of the financial year to the Cash Flow Statement as follows:

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Cash and cash equivalents (per Balance Sheet)	3,281	3,281	2,385
Closing cash and cash equivalents (per Cash Flow Statement)	<u>3,281</u>	<u>3,281</u>	<u>2,385</u>

8. receivables

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Debtors	25	25	134
Goods and Services Tax – recoverable	133	133	68
Others	51	51	54
Goods and Services Tax on accruals	133	133	101
	<hr/> 342	<hr/> 342	<hr/> 357
Less: allowance for Impairment	-	-	-
	<hr/> 342	<hr/> 342	<hr/> 357
Prepayments	18	18	108
	<hr/> 360	<hr/> 360	<hr/> 465

9. property, plant and equipment

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Leasehold Improvements	1,157	1,157	1,024
Less: Accumulated depreciation	509	509	304
Net carrying amount at fair value	<hr/> 648	<hr/> 648	<hr/> 720
Plant and equipment	450	450	673
Less: Re-classified as Intangible Assets	-	-	390
Less: Accumulated depreciation	145	145	97
Net carrying amount at fair value	<hr/> 305	<hr/> 305	<hr/> 186
Total property, plant and equipment			
At gross carrying amount	1,607	1,607	1,697
Less: Re-classified as Intangible Assets	-	-	390
Less: Accumulated depreciation	654	654	401
Net carrying amount at fair value	<hr/> 953	<hr/> 953	<hr/> 906

Reconciliation of the carrying amounts by asset class at the beginning and end of the current reporting period are set out below:

	Leasehold Improvements \$'000	Plant & Equipment \$'000	Total \$'000
Carrying amount at 1 July 2005	720	576	1,296
Re-classified as Intangible Assets	-	(390)	(390)
Additions	661	183	844
Administrative Restructure (Note 14)	(528)	(11)	(539)
Depreciation expense (Note 2 (c))	(205)	(53)	(258)
Carrying amount at 30 June 2006	<u>648</u>	<u>305</u>	<u>953</u>

10. intangible assets

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Computer systems	851	851	-
Re-classified from plant and equipment	-	-	390
Accumulated amortisation	59	59	-
Net carrying amount at fair value	<u>792</u>	<u>792</u>	<u>390</u>

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current reporting period is set out below:

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Carrying amount at 1 July 2005	390	390	-
Re-classified from Plant and Equipment	-	-	390
Additions	461	461	-
Amortisation expense (Note 2 (c))	59	59	-
Carrying amount at 30 June 2006	<u>792</u>	<u>792</u>	<u>390</u>

11. payables

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Creditors	2,083	714	5
Accruals			
Salaries and on-costs	-	49	23
Others	1,465	1,465	1,082
	<u>3,548</u>	<u>2,228</u>	<u>1,110</u>

12. provisions

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Current liabilities			
Recreation leave	-	1,043	1,067
Salary oncosts	-	277	251
	<u>-</u>	<u>1,320</u>	<u>1,318</u>
Aggregate employee benefits and related on-costs			
Provisions – current	-	1,043	1,067
Accrued salaries & on-costs	-	326	274
	<u>-</u>	<u>1,369</u>	<u>1,341</u>

13. changes in equity

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Balance at the beginning of the financial period	1,683	1,683	1,183
Decrease in net assets from equity transfer (Note 14)	(539)	(539)	-
Surplus for the year (Note 24)	213	213	500
Balance at the end of the financial period	<u>1,357</u>	<u>1,357</u>	<u>1,683</u>

14. equity transfers to the chief investigator of the office of transport safety investigations

On 1 July 2005 the agency transferred the responsibility for the Investigation Program to the Chief Investigator of the Office of Transport Safety Investigations (Note 6). The assets and liabilities relating to this program are summarised below:

	Transfer out of agency \$000
Assets	
Cash at bank	80
Property, plant and equipment (Note 9)	539
	<u>619</u>
Liabilities	
Provisions for employee entitlements	80
	<u>80</u>
Net assets transferred (Note 13)	<u>539</u>

15. commitments for expenditure

(a) Capital Commitments

Aggregate capital expenditure contracted at balance date and not provided for:

	-	-
	-	-
Not later than one year	-	-
Later than one year but not later than five years	-	-
Later than five years	-	-
Total (including GST)	-	-

(b) Other Expenditure Commitments

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Aggregate other expenditure contracted for at balance date and not provided for:	130	130	621
Not later than one year	130	130	621
Later than one year but not later than five years	-	-	-
Later than five years	-	-	-
Total (including GST)	130	130	621

(c) Operating Lease Commitments

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Future non-cancellable operating lease Rentals not provided for and payable:	4,802	4,802	1,717
Not later than one year	715	715	916
Later than one year but not later than five years	3,458	3,458	801
Later than five years	629	629	-
Total (including GST)	4,802	4,802	1,717

The agency leases its motor vehicles, computers and office accommodation (Note 1(i)). Input tax on all commitments estimated at \$448K will be recouped from the Australian Taxation Office.

16. contingent liabilities and contingent assets

Contingent Liabilities

The agency had no contingent liabilities as at balance date (2005 - nil).

Contingent Assets

The agency had no contingent assets as at balance date (2005 - nil).

17. budget review

Net Cost of Services

The net cost of services for the year ended 30 June 2006 was \$14.793m compared to the budget of \$16.035m.

- **Employee related expenses** at \$9.978m were slightly below the budget of \$10.022m due to lower than expected employee oncosts.
- **Other operating expenses** at \$4.660m were below the budget of \$5.712m due to underspending on legal services. Allocation for legal services is protected and is drawdown as required.

Assets and Liabilities

The main changes in the balance sheet are set out below:

- **Cash** of \$3.281m was higher than budget and will be used to pay accrued expenses, creditors and relocation costs of the Chief Investigator of the Office of Transport Safety Investigations.
- The **receivables** were higher than budget due to Goods and Services Tax recoverable.
- **Accounts payable** including provisions were higher than the budget due to capital expenditure incurred in 2005-06 but paid for in 2006-07.

Cash Flows

Net cash flows from operations amounted \$1.448m of which \$472K was spent on property, plant and equipment with the balance to be used to pay creditors and accrued expenses.

18. reconciliation of cash flows from operating activities to net cost of services as reported in the operating statement

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Net Cash flow from Operating Activities	1,448	1,448	746
Cash flows from Government/Appropriations	(14,712)	(14,712)	(15,647)
Acceptance by the Crown Entity of Employee Entitlements	(555)	(740)	(1,390)
Depreciation	(317)	(317)	(249)
Cash transfer – administrative restructure	(80)	(80)	-
(Decrease)/Increase in prepayments	(89)	(89)	(5)
(Decrease)/Increase in receivables	(148)	(148)	(203)
(Increase)/Decrease in creditors	(127)	(127)	766
Increase in provisions	(28)	(28)	(520)
Net Cost of Services	(14,608)	(14,793)	(16,502)

19. non-cash financing and investing activities

During the period, the agency undertook the following non-cash financing and investing activities:

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Employees' entitlements and liabilities Assumed by the Crown Entity (Note 5)	555	740	1,831
	555	740	1,831

20. administered assets and liabilities

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Administered Assets			
Receivables (1)	37	37	1,081
Total Administered Assets	37	37	1,081
Administered Liabilities			
Payables (1)	37	37	1,081
Total Administered Liabilities	37	37	1,081

(1) Receivables and payables relate to Crown revenue (rail accreditation fees) not yet collected.

21. administered revenue – schedule of uncollected amounts

Uncollected administered revenue		37	1,081
		<u>37</u>	<u>1,081</u>
	<90 Days \$'000	>90 Days \$'000	Total \$'000
Receivables – rail accreditation fees – 2006	21	16	37
Receivables – rail accreditation fees – 2005	<u>256</u>	<u>825</u>	<u>1,081</u>

22. administered revenue

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Rail accreditation fees collected and remitted to the Crown	2,789	2,789	3,591
	<u>2,789</u>	<u>2,789</u>	<u>3,591</u>

23. financial instruments

Cash

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation 11am unofficial cash rate adjusted for a management fee to Treasury.

Receivables

All trade debtors are recognised as amount receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect amounts. The credit risk is the carrying amount (net of any allowance for impairment).

No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are made on 30 days terms.

Trade creditors and Accruals

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. 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. Treasurer's Direction 219.01 allows the Minister to award interest for late payment.

(a) Interest Rate Risk

Interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in market interest rates. The exposure to interest rate risk and the effective interest rates of financial assets and liabilities both recognised and unrecognised at 30 June 2006 are as follows:

Financial Instruments

	Floating Interest rate		Non-Interest Bearing		Total carrying amount as per Balance Sheet		Weighted average effective interest rate	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %
Financial Assets								
Cash	3,281	2,385	-	-	3,281	2,385	3.71	4.07
Receivables	-	-	342	357	342	357	-	-
Total	3,281	2,385	342	357	3,623	2,742		
Financial Liabilities								
Payable	-	-	2,229	1,110	2,229	1,110	-	-
Total	-	-	2,229	1,110	2,229	1,110		

(b) Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. The agency was not exposed to a credit risk from carrying amounts of financial assets in the Balance Sheet.

24. impact of adopting Australian equivalents to IFRS

The agency has determined the key areas where changes in accounting policies impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it has mandated for the NSW Public Sector. The impacts disclosed below reflect Treasury's mandates and policy decisions. The impacts of adopting AEIFRS on total equity and surplus/(deficit) as reported under previous AGAAP are shown below: There are no material impacts on the agency's cash flows.

(a) Reconciliation of key aggregates

Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS

	Parent 2006 \$'000	Consolidated 2006 \$'000	Consolidated 2005 \$'000
Total equity under AGAAP	1,357	1,357	1,683
Total equity under AEIFRS	<u>1,357</u>	<u>1,357</u>	<u>1,683</u>

Reconciliation of surplus/(deficit) under AGAAP to surplus/(deficit) under AEIFRS:

Year ended 30 June 2006	Notes	\$'000
Surplus under GAAP	13	213
Surplus/(deficit) under AEIFRS		<u>213</u>

(b) New Australian Standards issued but not effective

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The agency, however, has early adopted the following Accounting Standards from 1 July 2005:

- AASB 2005-04 regarding the revised AASB 139 fair value option
- UIG 9 regarding the re-assessment of embedded derivatives and
- AASB 7 regarding financial instrument disclosure.

Any initial impacts on first time adoption of new accounting standards and UIG interpretations are not known or reasonably estimable

END OF AUDITED FINANCIAL STATEMENTS

independent transport safety and reliability regulator division statement by chief executive

For the Period from 17 March 2006 to 30 June 2006

Pursuant to section 45F of the *Public Finance and Audit Act 1983*, I state that

- (a) The accompanying financial statements have been prepared in accordance with
- Applicable Australian Accounting Standards (which include Australian Equivalents to International Financial Reporting Standards (AEIFRS))
 - The requirements of the *Public Finance and Audit Act and Regulations*; and
 - The Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the Act.
- (b) The statements exhibit a true and fair view of the financial position and transactions of the Independent Transport Safety and Reliability Regulator Division; and
- (c) There are no circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.



Chief Executive

Date: 20 October 2006



GPO BOX 12
Sydney NSW 2001

INDEPENDENT TRANSPORT SAFETY AND RELIABILITY REGULATOR DIVISION

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Independent Transport Safety and Reliability Regulator Division (the Division):

- presents fairly the Division's financial position as at 30 June 2006 and its performance for the period ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

Scope

The Financial Report and Chief Executive Officer's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Division, for the period ended 30 June 2006.

The Chief Executive Officer is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material misstatement*.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Chief Executive Officer in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Chief Executive Officer had not fulfilled her reporting obligations.

My opinion does not provide assurance:

- about the future viability of the Division,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- 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 are not compromised in their role by the possibility of losing clients or income.



Peter Carr FCPA
Director, Financial Audit Services

SYDNEY
24 October 2006

Income Statement For the Period from 17 March 2006 to 30 June 2006

	Notes	Actual \$'000
Income		
Personnel services	3	2,808
Total Income		<u>2,808</u>
Expenses		
Employee related	2	2,808
Total Expenses		<u>2,808</u>
Operating result for period	7	<u>-</u>

The accompanying notes form part of these statements.

Statement of Change in Equity For the Period from 17 March 2006 to 30 June 2006

	Notes	Actual \$'000
Total Income and Expenses Recognised Directly in Equity		<u>-</u>
Operating result for the period	7	-
Total Income and Expenses Recognised for the Period	7	<u>-</u>

The accompanying notes form part of these statements.

Balance Sheet as at 30 June 2006

	Notes	Actual \$'000
Assets		
Current Assets		
Receivables	4	1,369
Total Assets		<u>1,369</u>
Liabilities		
Current Liabilities		
Payables	5	48
Provisions	6	1,321
Total Liabilities		<u>1,369</u>
Net Assets		<u>-</u>
Equity		
Accumulated funds	7	-
Total Equity		<u>-</u>

The accompanying notes form part of these statements.

Cash Flow Statement For the Period from 17 March 2006 to 30 June 2006

	Actual \$'000
Cash flows from operating activities	-
Cash flows from investing activities	-
Net change in Cash	<u>-</u>
Opening cash and cash equivalents	<u>-</u>
Closing cash and cash equivalents	<u>-</u>

The accompanying notes form part of these statements.

notes to and forming part of the financial statements

For the Period from 17 March 2006 to 30 June 2006

I. summary of significant accounting policies

(a) Reporting entity

The Independent Transport Safety and Reliability Regulator Division is a Division of the Government Service, established pursuant to Part 2 of Schedule 1 to the *Public Sector Employment and Management Act 2002*. It is a not-for-profit entity as profit is not its principal objective. It is consolidated as part of the NSW Total State Sector Accounts. It is domiciled in Australia and its principal office is at Level 22, 201 Elizabeth Street, Sydney. The principal objective of this Division is to provide personnel services to Independent Transport Safety and Reliability Regulator.

The Independent Transport Safety and Reliability Regulator Division commenced operations on 17 March 2006 when it assumed responsibility for the employees and employee-related liabilities of the Independent Transport Safety and Reliability Regulator. The assumed liabilities were recognised on 17 March 2006 together with an offsetting receivable representing the related funding due from the former employer.

The financial report was authorised for issue by Chief Executive Officer of the Independent Transport Safety and Reliability Regulator on 20 October 2006. The report will not be amended and reissued as it has been audited.

(b) Basis of preparation

This is a general purpose financial report prepared in accordance with the requirements of Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, and specific directions issued by the Treasurer.

This is the first financial report prepared on the basis of Australian equivalents to International Financial Reporting Standards.

Generally, the historical cost basis of accounting has been adopted and the financial report does not take into account changing money values or current valuations. However, certain provisions are measured at fair value (Note 6).

The accrual basis of accounting has been adopted in the preparation of the financial report. Management's judgements, key assumptions and estimates are disclosed in the relevant notes to the financial report.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Comparative information

As this is the Independent Transport Safety and Reliability Regulator Division's first financial report, comparative information for the previous year is not provided.

(d) Income

Income is measured at the fair value of the consideration received or receivable. Revenue from the rendering of personnel services is recognized when the service is provided and only to the extent that the associated recoverable expenses are recognised.

(e) Receivables

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual or other rights to future cash flows from it expire or are transferred.

A receivable is measured initially at fair value and subsequently at amortised cost using the effective interest rate method, less any allowance for doubtful debts. A short-term receivable with no stated interest rate is measured at the original invoice amount where the effect of discounting is immaterial. An invoiced receivable is due for settlement within thirty days of invoicing.

If there is objective evidence at year end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for doubtful debts and the resulting loss is recognised in the income statement. Receivables are monitored during the year and bad debts are written off against the allowance when they are determined to be irrecoverable. Any other loss or gain arising when a receivable is derecognised is also recognized in the income statement.

(f) Payables

Payables include accrued wages, salaries, and related on costs (such as payroll tax, fringe benefits tax and workers' compensation insurance) where there is certainty as to the amount and timing of settlement.

A payable is recognised when a present obligation arises under a contract or otherwise. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A short-term payable with no stated interest rate is measured at historical cost if the effect of discounting is immaterial.

(g) Employee benefit provisions and expenses

Provisions are made for liabilities of uncertain amounts or uncertain timing of settlement.

Employee benefit provisions represent expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date. Liabilities associated with, but that are not, employee benefits (such as payroll tax) are recognised separately.

Superannuation and leave liabilities are recognised as expenses and provisions when the obligations arise, which is usually through the rendering of service by employees.

Long-term annual leave (ie that is not expected to be taken within twelve months) is measured at present value using a discount rate equal to the market yield on government bonds.

Superannuation and long service leave provisions are actuarially assessed prior to each reporting date and are measured at the present value of the estimated future payments.

All other employee benefit liabilities (ie for benefits falling due wholly within twelve months after reporting date) are assessed by management and are measured at the undiscounted amount of the estimated future payments.

The amount recognised for superannuation and long service leave provisions is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the income statement for superannuation and long service leave is the net total of current service cost, interest cost, the expected return on any plan assets, and actuarial gains and losses. Actuarial gains or losses are recognised as income or expense in the year they occur.

The actuarial assessment of superannuation and long service leave provisions uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

(h) *New Australian Standards issued but not effective*

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The agency, however, has early adopted the following Accounting Standards from 1 July 2005:

- AASB 2005-04 regarding the revised AASB 139 fair value option
- UIG 9 regarding the re-assessment of embedded derivatives and
- AASB 7 regarding financial instrument disclosure.

Any initial impacts on first time adoption of new accounting standards and UIG interpretations are not known or reasonably estimable

2. expenses

	\$'000
Employee related	
Salaries (including recreation leave)	2,166
Superannuation – defined benefits plan	68
Superannuation – defined contribution plan	137
Long service leave	240
Workers' compensation insurance	18
Payroll tax and fringe benefits tax	179
	<hr/> 2,808 <hr/>

3. income

	\$'000
Personnel services	2,808
	<hr/> 2,808 <hr/>

4. receivables

	\$'000
Current receivables	
Debtors	1,369
	<u>1,369</u>

5. payables

	\$'000
Current payables	
Accruals – salaries and oncosts	48
	<u>48</u>

6. provisions

	\$'000
Current provisions	
Recreation leave	1,043
Other	278
	<u>1,321</u>

7. changes in equity

	\$'000
Changes in equity – transactions with owners as owners	-
Operating result for period	-
	<u>-</u>
Balance at the end of the financial period	<u>-</u>

END OF AUDITED FINANCIAL STATEMENTS