

## Asset Disposals Commentary

**Topic:** Provide the Audit and Risk Committee (ARC) with the details of the \$63.3 million for assets that were written off in FY18

### Context

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Assets with a written down value of \$63.3 million were written off in the year ended 30 June 2018 (FY18). This was split between \$59.4 million adjustment to Software and \$3.9 million adjustment to Work in Progress (WIP). These have been disclosed in the FY18 financial statements as an impairment loss.

This Briefing Note is to provide the ARC with details of the projects/assets/software that was written off, the reasons for writing them off as well as the approach to the impairment testing.

### Key reasons

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The Finance team performed detailed reviews of balance sheet accounts in preparation for the Early Close financials as well as for year-end. A key component of this was identifying the fixed assets and WIP balances for detailed reviews to ensure the assets were not overstated and were still in use.

### Accounting Standards

Paragraph 9 of AASB 136 *Impairment of Assets* (AASB 136) states “an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.”

Paragraph 12 of AASB 136 states that in assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the indications listed which include:

- *External sources of information*
  - b) “Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market...or legal environment in which the entity operates or in the market to which an asset is dedicated”
- *Internal sources of information*
  - e) “Evidence is available of obsolescence...of an asset”
  - f) “Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs...”
  - g) “evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.”

### Management Reviews

Three separate reviews were performed of the Fixed Assets Register and WIP Register as follows:

1. The 31 May 2018 Fixed Assets Register and WIP Register were reviewed by the CFO, Finance Director and Project Finance Director. This review identified \$3.4 million of assets that were considered to be impaired and required to be written off.

## Briefing for the Audit and Risk Committee

2. The 31 May 2018 Fixed Assets Register and WIP Register were reviewed by the Chief Technology Officer (CTO) and the Director Payments Platform together with the Director Finance Transformation. This review identified \$7.2 million of assets that were impaired and needed to be written off.
3. The 30 June 2018 Fixed Assets Register was reviewed by the Chief Digital and Product Officer and key members of his management team, together with the Director Finance Transformation. This review identified \$52.7 million of assets that were impaired and needed to be written off.

### Delegation of Authorities

Item 4.7.2 of the Service NSW Delegations Manual permits the Service NSW CEO to write off non-current assets up to \$5 million per individual asset. Above \$5 million, approval is required from The Secretary of DFSI.

Approval from the CEO was obtained for the impairments arising from the first and second reviews. Approval from The Secretary was obtained for the \$52.7 million impairment arising from the third review.

### Supporting Trail

The above table summarises individual line items that were specifically identified during the reviews.

The Fixed Assets Register and the WIP Register were extracted from SAP and downloaded into Excel spreadsheets. These detailed spreadsheets contained all relevant details including asset number, asset description, capitalisation date, original cost, depreciation rate, accumulated depreciation and written down value.

These Excel spreadsheets were used for the three management reviews. The identified asset line items that supported the approved write offs were provided to GovConnect to process the write off in SAP.

### Results of the Management Reviews

The results of the management reviews are set out in the table on the following page.

### Financial impact

Based on the three reviews performed for impairment testing as part of the FY18 financial close process, the identified assets are considered impaired and to not have any recoverable amount.

The write offs are non-cash items and increased operating expenses as well as reduced the carrying value of assets in the financial statements for the year ended 30 June 2018 (FY17/18).

The financial impact in FY17/18 has been to reduce fixed assets, and increase operating expenditure, by recognising an impairment loss, by \$63.3 million.

\$10.6 million of the impairment loss was posted into the Fixed Assets Register in FY18. The remaining \$52.7 million impairment loss was posted into the general ledger in June 2018. The Fixed Assets Register for June 2018 had closed at that time, with the impairment loss being processed in the Fixed Assets Register in July 2018.

## Briefing for the Audit and Risk Committee

Intangible Asset	Capitalisation Dates	Impairment Loss \$000	Reasons
Digital Licence	48 asset line items with capitalisation dates 1/1/17 and 1/7/17	18,156	Digital Licence program now being delivered by DFSI. Considered to be a significant change with an adverse effect on Service NSW in the technological environment so was written off at 30/6/18
CTP SIRA	23 asset line items with capitalisation dates between 30/9/17 and 31/1/18	9,276	Unique capability developed for SIRA. Revenue was received from SIRA to deliver this unique capability. Not considered to have future economic benefit so this asset written off at 30/6/18.
Payments Platform	14 asset line items with capitalisation dates 31/12/16 and 1/4/17	9,191	These capabilities incurred in FY17 have been superceded as new payments capabilities have been developed - written off at 30/6/18 (noting that after this write off, the payments platform had a WDV of \$9m at 30/6/18)
Easy to do Business	20 asset line items with capitalisation dates 1/4/17, 1/7/17 31/7/17	12,722	This was built for a Proof of Concept. This validated the concept was appropriate but the platform was not appropriate. Now delivering Easy to do Business through a different platform so wrote off the previous platform.
iCare	1/7/17 and 1/12/17	4,009	Unique capability developed for iCare. Revenue was received from iCare to deliver this unique capability. Not considered to have future economic benefit so this asset written off at 30/6/18.
Forms Factory	1/7/17	2,112	Built forms capability. Not as useful as required, so this capability discontinued and written off (noting different capability now in place).
Trainlink	1/4/18	1,938	Unique capability developed for Sydney Trains. Revenue was received from Sydney Trains to deliver this unique capability. Not considered to have future economic benefit so this asset written off at 30/6/18.
Digital enablement	1/7/16 and 1/7/17	1,596	These capabilities have been superceded - written off at 30/6/18
Knowledge Management system	1/7/17	1,045	This was built for a Proof of Concept. This specific system did not work (it increased handling time and did not have the functionality the CSR's required), so it was written off at 30/6/18.
Online booking	1/7/16, 1/10/16, 30/10/16	834	This online booking tool is not proceeding and was assessed as not having any future economic benefit so written off at 30/6/18
Newcastle Contact Centre - Cloud	29/2/16	813	No future economic benefit given the move from the NEC platform to the Genesis platform so written off at 30/6/18
MyService NSW	31/12/16 and 1/7/17	656	These capabilities have been superceded as new capabilities have been developed. Written off at 30/6/18.
Website	26/12/13, 1/7/16 31/12/16	525	These monies relate to previous versions of the website, which has subsequently been enhanced (resulting in the previous capabilities no longer being used - written off at 30/6/18)
Mobile apps	1/7/16	328	Superceded versions of the mobile apps, so written off at 30/6/18
Forecasting model	1/7/15	90	This relates to the previous forecasting model that is no longer used (has been replaced by Adaptive) so was written off at 30/6/18
		<b>63,291</b>	