

New South Wales Auditor-General's Report to Parliament for 2001

Volume One

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SYDNEY NSW 2001

The Legislative Assembly
Parliament House
SYDNEY NSW 2000

Pursuant to section 52A (2) of the *Public Finance and Audit Act 1983*, I present Volume One
of my 2001 Report

A handwritten signature in black ink, reading 'R J Sendt'.

R J Sendt

Sydney
February 2001

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Significant Items

The Treasurer's Public accounts and Total State Sector Accounts

The Total State Sector operating result was a surplus of \$5,496 million compared to \$1,620 million for 1998-99. Excluding abnormal items the result was \$2,981 million compared to \$1,435 million for 1998-99. p 12

Net assets of the Total State Sector at 30 June 2000 totalled \$87,556 million, an increase of \$9,086 million from June 1999. p 19

Revenues from State taxation increased by \$988 million compared to 1998-99. The major increase was stamp duty which increased by \$740 million. p 14

Total State Sector liabilities decreased by \$4,989 million reflecting reduced superannuation liability and repayment of borrowings. p 19

For the General Government Sector (the Public Accounts), the operating result was a surplus of \$4,471 million compared to \$2,007 million for 1998-99. Excluding abnormal items the surplus was \$1,855 million in 1999-2000 and \$1,415 million in 1998-99. p 7

Net assets of the Public Accounts increased by \$4,040 million to \$41,204 million at 30 June 2000. p 19

Five qualifications were required for one or other of these accounts. p 5

Statement of Budget Result

The budget result for 1999-2000 based on Government Finance Statistics principles was a surplus of \$1,886 million compared to the 1999-2000 Budget forecast of \$1,193 million. p 31

Grains Board

Grains Board accounts for the year ended 31 August 2000 are still not available for audit. Its financial position is yet to be confirmed. p 53

Crown Entity

The Crown Entity reports on service-wide activities, assets, and liabilities. p 33

The Crown Entity superannuation liability was reduced by \$1,930 million, the major cause being revised actuarial estimates. p 40

Only \$192.6 million of the \$3,261 million borrowed to fund the Treasurer's Superannuation Conversion Offer was needed to fund the transfer to First State Super Fund of accepting members benefits. p 34

Legal Aid Commission of New South Wales

The proportion of applications refused has again increased in 1999-2000. p 61

Department of Public Works and Services

Following an industrial dispute, the Government paid \$17 million to a private company. p 167

The Department of Public Works and Services has investigated concerns regarding possible misrepresentation of motor vehicles by auctioneers. p 169

The Department has been experiencing cash flow problems over the last six months. p 172

New South Wales Fire Brigades

Employees' industrial action regarding perceived inequity in death and disability benefits impacted the Brigades' financial position, requiring supplementation. p 75

Newcastle Showground and Exhibition Centre Trust

The Trust has projected a cash shortfall for the period December 2000 to June 2001. The Independent Audit Report included an emphasis of matter relating to the inherent uncertainty regarding the Trust's ability to continue as a going concern. p 155

The Waste Industry

There continues to be a lack of a whole of government approach to the Waste Industry. There is no overarching strategy and the roles of various Government agencies within that strategy require definition. This has resulted in a number of bodies pursuing conflicting objectives which can be perceived as detrimental to the Industry achieving the principles of the *Waste Minimisation and Management Act 1995*. p 81

The Crown Solicitor has confirmed that under the Act a Waste Board may create an incorporated subsidiary over which the Government has no control. The Auditor-General is also not the auditor, raising questions of accountability. p 82

Public Trustee

Investments are being traded using 'Book Value Switches' which resulted in a \$1 million loss not being brought to account and investments in the balance sheet being overstated by \$1 million. p 67

State Forests

A contract with a private sector company for the establishment of a pulp and paper mill appears to skew risks towards State Forests. p 108

Rental of cottages to employees was not always being undertaken in accordance with approved policies. p 108

Crown Property Portfolio

Sydney Markets Limited's offer to purchase the freehold property at the Flemington Markets site was not of sufficient quantum for the Government to proceed with the sale. p 189

Introduction

The main purpose of auditing is to add credibility to the financial statements prepared by an organisation. The auditor does this by issuing an 'Independent Audit Report' which gives an opinion as to whether the statements fairly present the organisation's financial position and results of its operations in accordance with applicable Australian Accounting Standards and other mandatory requirements.

Audits conducted by the Audit Office are done so in accordance with the *Public Finance and Audit Act 1983* and the Australian Auditing Standards issued by the Australian Accounting Bodies.

In conducting an audit, it is important that both the auditor and the client organisation understand the scope of the audit and their respective obligations. A standard audit practice - followed by the Audit Office - is to issue an 'engagement letter' to the client addressing these issues.

However the auditing profession recognises that an 'expectation gap' may still exist because users of financial statements and audit opinions often believe the auditor's roles and responsibilities are greater than they actually are. This may also occur with audits undertaken by the Audit Office.

It is therefore essential that those reading financial statements and audit opinions have a clear understanding of the respective responsibilities of the organisation and of the auditor. Key elements of those responsibilities are:

- ◆ The organisation's management, not the auditor, is responsible for maintaining adequate accounting records and preparing the financial statements.
- ◆ Management, not the auditor, is responsible for maintaining a system of internal controls to prevent or detect errors or irregularities.

- ◆ An audit does not examine every transaction of an agency, as this would be prohibitively expensive and time-consuming. Rather the audit comprises a combination of systems checks and examination of a sample of transactions for all items in the financial statements that are considered material or high risk in nature. These are items that, if materially misstated as a result of an error or fraud, could adversely affect the decision-making process of users of financial statements.
- ◆ An audit opinion does not provide a guarantee of absolute accuracy in the financial statements; it provides users of those statements with *reasonable* assurance that they are free of *material* error.
- ◆ An audit opinion does not express a view on the adequacy of the organisation's system of internal control or the efficiency and effectiveness with which management conducts its affairs, nor does it guarantee the organisation's future viability.

In addition to the Independent Audit Report, other audit related reports may be issued.

In the case of New South Wales public sector agencies, the *Public Finance and Audit Act 1983* requires the Auditor-General to report to the Department Head or statutory body (as the case may be), the Minister and the Treasurer on the results of the inspection and audit of the agency. A 'management letter' may be issued to the agency to identify potential significant deficiencies that have been noted during the audit or to suggest improvements to the agency's accounting information systems. Finally, the Auditor-General's Reports to Parliament contain matters considered appropriate for its attention.

In recognition that Parliament is the principal client of the Audit Office, an engagement letter is also issued to each new Parliament by inclusion in the next Auditor-General's Report. This addresses in more detail the above matters.

This Volume includes commentary on the Public Accounts, covering the General Government Sector, and the Total State Sector Accounts for 1999-2000. These accounts provide important information to Parliament and the public on the Government's management of the State's finances.

My Independent Audit Report on these accounts, presented to Parliament on 13 December 2000, included five qualifications. Details of these are set out within this Volume.

At both the General Government Sector and Total State Sector levels, net assets (total assets less total liabilities) grew substantially over the year - by 10.9 per cent and 11.6 per cent respectively. The actuarial recalculation of superannuation liabilities contributed around two-thirds and one-third of these representative increases.

At the General Government Sector level, 1999-2000 continued the pattern of substantial State revenue growth, mainly in taxation, being largely applied to increasing expenses. Putting aside abnormal items, State revenues and the Net Cost of Services grew respectively by 5.7 per cent and 4.2 per cent over 1998-99.

Again excluding abnormals, the General Government Sector operating surplus increased from \$1,415 million to \$1,855 million in 1999-2000. The 1999-2000 surplus would have been greater but for the payment of \$140 million in late June 2000 to the Sydney Organising Committee for the Olympic Games (not part of the General Government Sector), the vast bulk of which was not required for spending by SOCOG until 2000-01.

Section One

The Treasurer's Public Accounts and the Total State Sector Accounts

The Statement of Budget Result

The Crown Entity

The Treasurer's Public Accounts and the Total State Sector Accounts

INTRODUCTION

The *Public Finance and Audit Act 1983* (the PF&A Act) requires the Treasurer to prepare an annual financial report of the Public Accounts and the Total State Sector (the Accounts), and for this report to be audited by the Auditor-General. This financial report must be presented to Parliament each year together with the Independent Audit Report. The financial report is prepared on an accrual basis and reports on the financial position and operations of both the General Government Sector (the 'Public Accounts') and the Total State Sector.

The General Government Sector covers budget dependent agencies that receive an appropriation in the annual *Appropriation Act* and commercial entities that operate outside normal market mechanisms. The Total State Sector comprises the General Government Sector plus public trading enterprises and public financial enterprises.

The Public Accounts and the Total State Sector Accounts play an important role in discharging the Executive Government's accountability to Parliament and the community. The information contained in the audited financial report and the comments in this Volume should provide Members of Parliament with a source of independent information and analysis which will assist them in carrying out their role of questioning the Executive Government about the financial position and operations of the State. This role of scrutiny by the Parliament of the public finances is a fundamental feature of the Westminster system of parliamentary democracy.

Independent Audit Report

Due to the staging of the Olympic Games in Sydney during September 2000, the dates for the preparation, audit of the Accounts and tabling of the Accounts together with the Independent Audit Report in the Legislative Assembly were extended four weeks, by the *Olympic Arrangements Act 2000*. The date for tabling of the Accounts together with the Independent Audit Report was extended to 28 December compared to 30 November in the previous financial year. For 2000-01, this date reverts to 30 November 2001.

The Independent Audit Report on the combined presentation of the Accounts for the year ended 30 June 2000 was issued on 13 December 2000. The Independent Audit Report included five audit qualifications. One of these qualifications arose because of lack of adequate information, while four were the result of disagreement with agency management about accounting policies.

Three of the qualifications affected both the Public Accounts and the Total State Sector Accounts:

- ◆ The non-recognition of the following assets in the statement of financial position:
 - undeveloped Crown Land
 - collections assets of the Australian Museum
 - herbarium collection assets of the Royal Botanic Gardens and Domain Trust
 - cash and investments held in government school bank accounts.
- ◆ The non-consolidation of the assets and liabilities of some FANMAC Trusts which are considered to be controlled by the Home Purchase Assistance Authority.

- ♦ The incorrect recognition as revenue of an amount of \$704 million in the previous financial year. This revenue should have been recognised in the 1999–2000 financial year. This revenue was an estimate of the amount to be distributed to employers reserves of the State Superannuation Scheme, even though the allocation and approval process required by the *Superannuation Act 1916* was not completed until May 2000.

Two qualifications affected the Total State Sector Accounts only:

- ♦ The non-recognition of the economic substance of contractual arrangements entered into by Sydney Water Corporation with private sector entities for the provision of water filtration plants
- ♦ The non-consolidation of the assets and liabilities of the WorkCover Scheme Statutory Funds. These Funds are considered to be controlled by the State.

A copy of the Independent Audit Report was included with the Statutory Report on the Accounts tabled in the Legislative Assembly on 20 December 2000.

Statutory Report

Section 52A(1) of the *Public Finance and Audit Act 1983* (as amended by the *Olympic Arrangements Act 2000*) required the Auditor-General to present a report on the Public Accounts and the Total State Sector Accounts to the Legislative Assembly by 28 December 2000. That report on the 1999–2000 Accounts was presented on 21 December 2000. As foreshadowed in that Report, a further more detailed commentary on the Accounts would be prepared. That commentary now follows.

Overview of Financial Aggregates

The table below is a summary over 5 years of the key financial aggregates at the Total State Sector level. Commentary on these financial aggregates is included under the section “Total State Sector Accounts.”

5 Year Overview of Key Financial Aggregates - Total State Sector

	1999-2000 \$m	1998-99 \$m	1997-98 \$m	1996-97 \$m	1995-96 \$m
Operating Surplus/(Deficit)*	5,496	1,620	1,937	1,917	(8,629)
State Taxation	14,540	13,552	12,607	11,501	10,604
Operating Expenses*	33,745	35,436	33,647	33,028	41,200
Net Assets	87,556	78,470	72,204	65,525	60,609
Borrowings	28,003	30,968	27,557	28,488	28,728
Superannuation Liability	5,579	8,334	12,112	12,789	15,435

*including abnormal and extraordinary expenses

PUBLIC ACCOUNTS (GENERAL GOVERNMENT SECTOR)

As noted above the financial report of the operations of the New South Wales Public Sector is at two levels. The Public Accounts report on the General Government Sector whereas the Total State Sector Accounts report at the whole of government level (including the Public Accounts). The following commentary reviews key financial results of the Public Accounts compared to the forecasts presented to Parliament in the 1999-2000 Budget. Further comment is included later on trends in significant items in the Operating Statement and Statement of Financial Position at the Total State Sector level.

Since 1998-99 the *General Government Debt Elimination Act 1995* has required that the Budget be prepared on an accrual basis. This allows a comparison to be made between the accrual result as shown in the Public Accounts with the projected budget result.

The table below shows comparisons between the previous year's actual, the budget and the current year's actual expenses and revenues for the General Government Sector.

Year ended 30 June	2000 Actual \$m	2000 Budget \$m	1999 Actual \$m
Total Expenses	26,145	26,707	27,620
Total Operating Revenue	3,839	3,433	4,175
Gain (loss) on Sale of Non-Current Assets	(43)	(100)	84
Net Cost of Services	22,349	23,374	23,361
Total State Revenue	26,820	25,471	25,368
Surplus	4,471	2,097	2,007

Operating Result

The 1999–2000 Budget predicted a surplus of \$2,097 million, including abnormal items of \$860 million. The actual result for the year was a surplus of \$4,471 million. The actual result included abnormal revenue items of \$2,616 million, of which \$2,572 million resulted from changed actuarial economic assumptions used in calculating the unfunded defined benefit superannuation liability. Excluding abnormal items, the actual result represented a \$618 million higher surplus than budgeted.

Expenses

Expenses of the General Government Sector were \$562 million lower than the budgeted amount. Details of variances between budget and actual expenditures follow:

Year ended 30 June	Actual 2000 \$m	Budgeted 2000 \$m	Actual 1999 \$m	Amount Over (Under) Budget \$m
Superannuation	(1,184)	725	849	(1,909)
Other Employee	12,033	11,585	11,542	448
Other Operating	6,235	6,208	6,683	27
Maintenance	1,144	1,091	1,249	53
Depreciation and Amortisation	1,411	876	1,037	535
Grants and Subsidies	5,056	4,897	4,863	159
Finance Costs	1,450	1,325	1,397	125
Total	26,145	26,707	27,620	(562)

Superannuation expenses were lower than budget mainly because of changed actuarial economic assumptions. Other employee related expenditures were in excess of budget as a result of salary and wage award increases. Depreciation and amortisation charges exceeded budget mainly because of a change in the depreciation methodology adopted by the Roads and Traffic Authority (RTA). This change followed the issue of a consensus view of the Urgent Issues Group of the Australian Accounting Research Foundation, that condition based depreciation, as adopted by the RTA, was not appropriate for financial reporting purposes.

The *General Government Debt Elimination Act 1995* contains fiscal principles that the government is to pursue in the management of the State's finances. One of the fiscal principles requires that growth in the net cost of services and budget outlays are to be kept at or below the growth in inflation and population. In simple terms this principle means achieving zero real growth in the net cost of services and budget outlays in real per capita terms.

Net cost of services is defined as total expenses less user charges. Net cost of services is on an accrual accounting basis.

Budget outlays are measured in accordance with Government Finance Statistics (GFS) principles and are on a cash basis. Further details on the GFS system are provided in the comment later in this Volume on the Statement of Budget Result.

The following table illustrates the 1999-2000 performance in relation to net cost of services and budget outlays in real per capita terms.

Per Capita – Real Base Year 1994-95	1999-2000 Actual \$	1999-2000 Budget (a) \$	1998-99 Actual \$	1997-98 Actual \$	Change (b) %
Net Cost of Services excluding abnormal items (accrual)	3,481	3,379	3,446	3,324	1.0
Net Cost of Services including abnormal items (accrual)	3,116	3,259	3,361	3,199	(7.3)
Current Outlays (cash)	3,279	3,130	3,197	3,101(a)	2.6
Capital Outlays (cash)	441	464	502	471(a)	(12.1)
Total Outlays (cash)	3,720	3,593	3,699	3,572(a)	0.6
Current Outlays including Superannuation Conversion Funding	3,139	2,993	3,667	--	(14.4)
Total Outlays including Superannuation Conversion Funding	3,580	3,457	4,169	3,572(a)	(14.1)
Total Outlays excluding Superannuation Conversion Funding	3,720	3,593	3,699	3,572(a)	4.8

(a) Unaudited figures

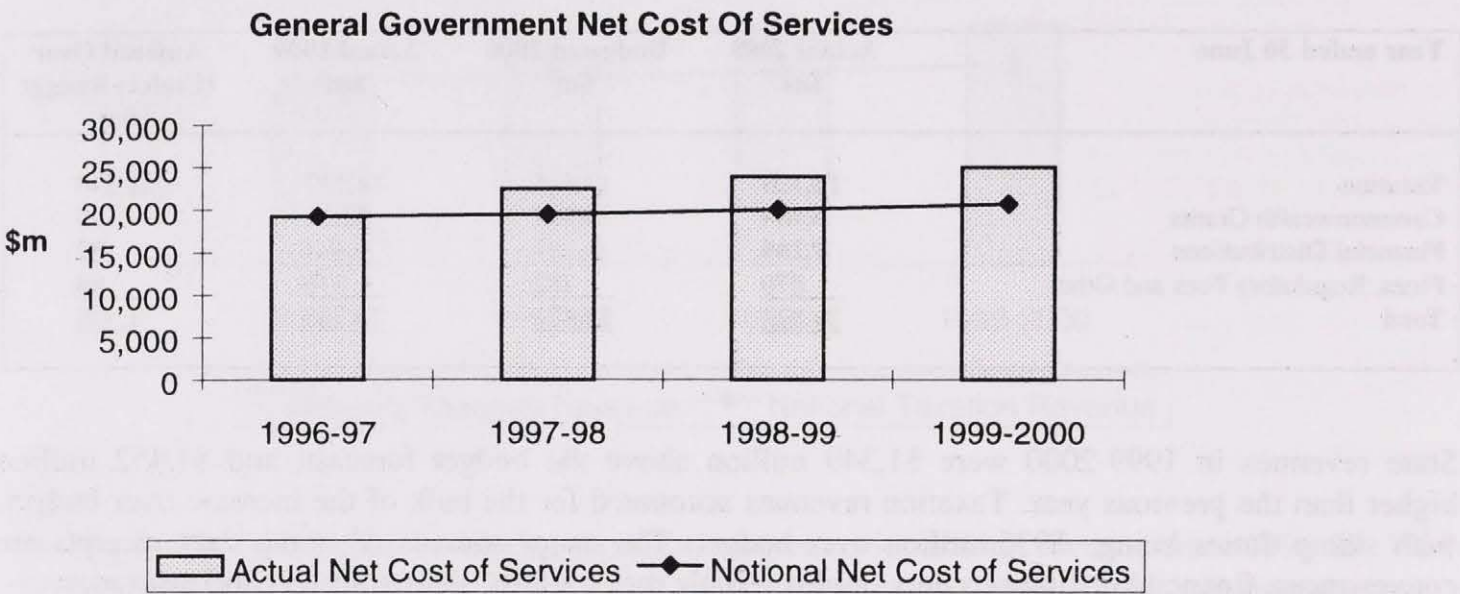
(b) 1999-2000 actual from 1998-99 actual

Compared to the Budget estimate, Net Cost of Services for the General Government Sector was \$1,025 million lower than forecast. This reduction resulted from: the abnormal reduction in superannuation expense, \$1,909 million; higher than budgeted operating revenue, \$406 million; offset by increases in other expenditure, \$1,347 million.

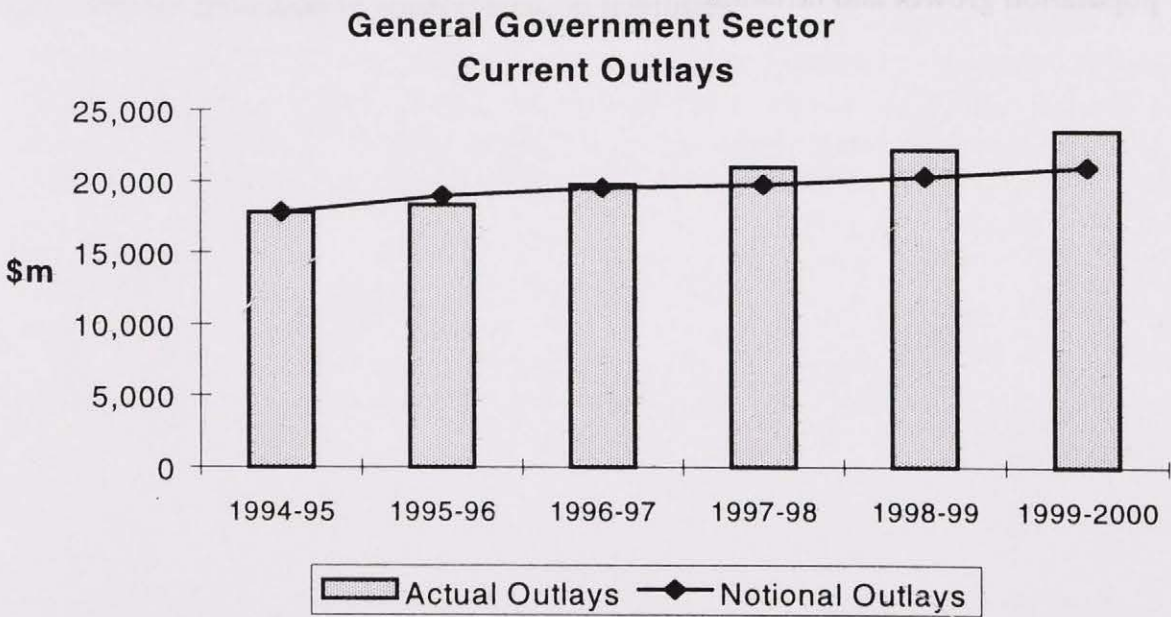
Net Cost of Services increased by 1.0 per cent in real per capita terms in 1999-2000 when abnormal items are excluded, but fell by 7.3 per cent in real per capita terms when abnormal items are included.

Total outlays on a cash basis grew by 4.8 per cent excluding the effect of the superannuation conversion offer.

The chart below shows actual Net Cost of Services (excluding abnormal items) compared to the notional Net Cost of Services that would have resulted if the 1996-97 figure had increased only by inflation and population growth. (Data on Net Cost of Services are not available for the General Government Sector prior to 1996-97.)



The graph below shows actual General Government Sector current outlays from 1994-95 to 1999-2000 compared to notional General Government Sector outlays that would have resulted if the 1994-95 figures had only increased by inflation and population growth. The figures shown in the graph below for 1998-99 and 1999-2000 exclude the impact of the funding of the superannuation conversion offer.



State Revenues

State revenues are the major source of revenue to the General Government Sector, and consist of State taxation, Commonwealth grants, financial distributions by public trading and public financial enterprises and fines, regulatory fees and other regulatory charges. The table below compares the actual 1999-2000 revenue with budgeted revenue and the previous years revenue.

Year ended 30 June	Actual 2000 \$m	Budgeted 2000 \$m	Actual 1999 \$m	Amount Over (Under) Budget \$m
Taxation	15,185	13,945	14,137	1,240
Commonwealth Grants	9,460	9,363	8,911	97
Financial Distributions	1,299	1,381	1,444	(82)
Fines, Regulatory Fees and Other	876	782	876	94
Total	26,820	25,471	25,368	1,349

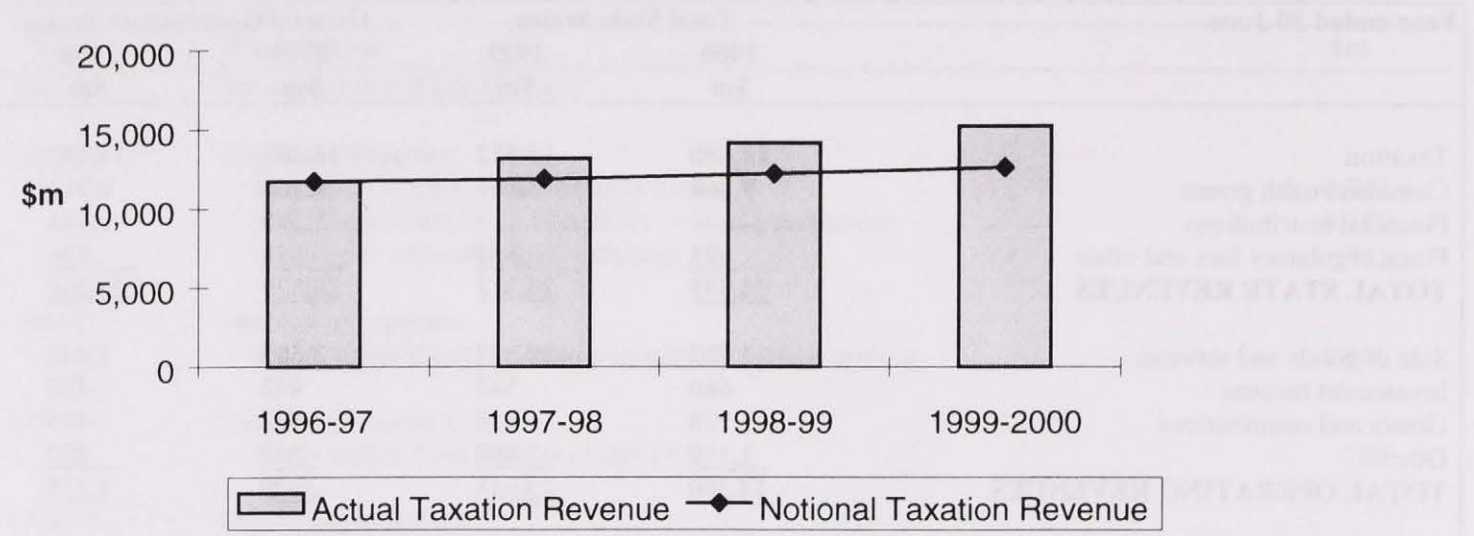
State revenues in 1999-2000 were \$1,349 million above the budget forecast, and \$1,452 million higher than the previous year. Taxation revenues accounted for the bulk of the increase over budget, with stamp duties being \$935 million over budget. The major sources of stamp duty receipts are conveyances, financial institutions duty, motor vehicle registrations, share transfers and insurance.

Payroll and land tax are other significant sources of taxation revenue. Payroll tax increased by 4.5 per cent to \$3.8 billion. Following the reduction in the land tax rate from 1.85 to 1.7 per cent, revenue from this source fell by \$48 million or 5.1 per cent.

One of the fiscal principles of the *General Government Debt Elimination Act 1995* is that taxes are to be restrained to the maximum extent possible.

The following graph shows actual General Government Sector taxation from 1996-97 to 1999-2000 compared to the notional taxation revenue that would have resulted if the 1996-97 figure had increased only by population growth and inflation.

General Government Sector Taxation Revenue



The graph indicates a trend of regular, significant increases in taxation revenue since 1996-97. While these increases have been largely the result of strong economic growth and a booming property market (rather than increase in tax rates), they have also offset the large (and largely unbudgeted) growth in expenditures over the period. Further comment on revenues is included later in this Volume.

Net Worth

A further fiscal principle of the *General Government Debt Elimination Act 1995* requires that General Government Sector net worth should be maintained or increased. Net worth is defined as net assets. For year ended 30 June 2000 net assets of the General Government Sector increased by \$4,040 million. This was mainly as a result of a \$1,928 million reduction in borrowings and a \$2,273 million reduction in superannuation liabilities.

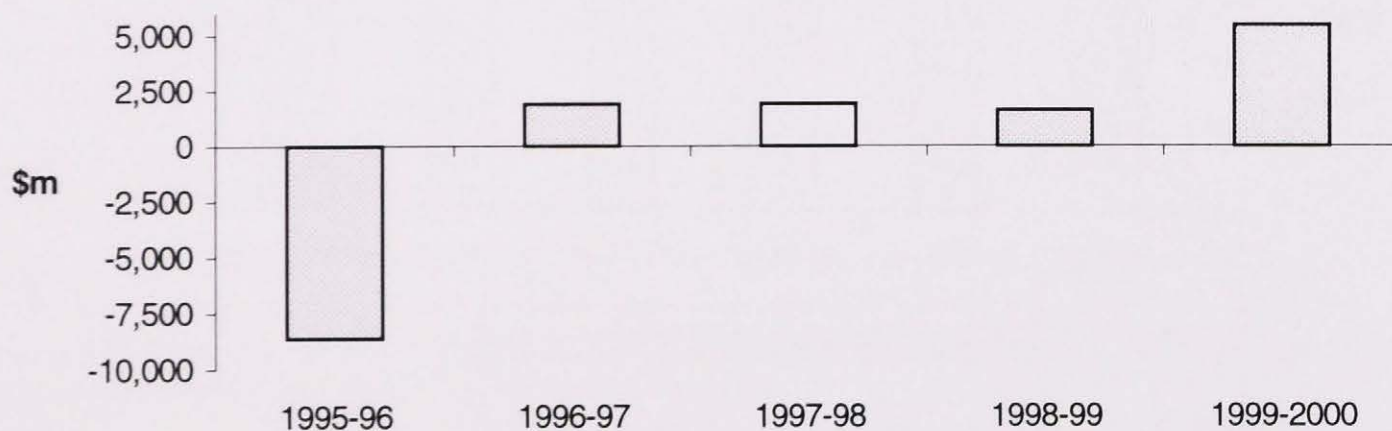
TOTAL STATE SECTOR ACCOUNTS

Operating Statement

Year ended 30 June	Total State Sector		General Government Sector	
	2000	1999	2000	1999
	\$m	\$m	\$m	\$m
Taxation	14,540	13,552	15,185	14,137
Commonwealth grants	9,460	8,911	9,460	8,911
Financial distributions	--	--	1,299	1,444
Fines, regulatory fees and other	895	854	876	876
TOTAL STATE REVENUES	24,895	23,317	26,820	25,268
Sale of goods and services	11,787	10,877	2,583	2,448
Investment income	666	542	492	420
Grants and contributions	728	736	422	485
Other	1,119	1,463	342	822
TOTAL OPERATING REVENUES	14,300	13,618	3839	4,175
OPERATING EXPENSES				
Employee related	13,530	15,557	10,849	12,391
Other operating	10,789	10,532	6,235	6,683
Maintenance	1,835	1,823	1,144	1,249
Depreciation and amortisation	2,810	2,409	1,411	1,037
Grants and subsidies	3,043	2,866	5,056	4,863
Finance	1,738	2,249	1,450	1,397
TOTAL OPERATING EXPENSES	33,745	35,436	26,145	27,620
Gain on disposal of non-current assets	46	121	(43)	84
NET COST OF SERVICES	(19,399)	(21,697)	(22,349)	(23,361)
SURPLUS FOR YEAR	5,496	1,620	4,471	2,007

The graph depicts the operating results including abnormal and extraordinary items for the Total State Sector over a five year period:

Total State Sector Operating Results



Inter-year comparisons of financial aggregates at the whole-of-government level can be difficult as most years include one or more large ‘one-off’ transactions. The following table shows some of these transactions in recent years:

Year	Transactions	\$m
1994-95	No major one-off transactions	
1995-96	Increasing expenses: Reduction in asset values (mainly roads) Road assets transferred from RTA to local government Increase in superannuation liabilities	 2,742 6,179 935
1996-97	Decreasing expenses: Positive adjustment to employers superannuation reserve	 2,646
1997-98	Increasing revenues: Net proceeds from the sale of the TAB	 708
1998-99	Decreasing expenses: Decrease in superannuation liabilities	 1,224
1999-2000	Decreasing expenses: Decrease in superannuation liabilities Increasing expenses: Corporatisation adjustments	 2,976 564

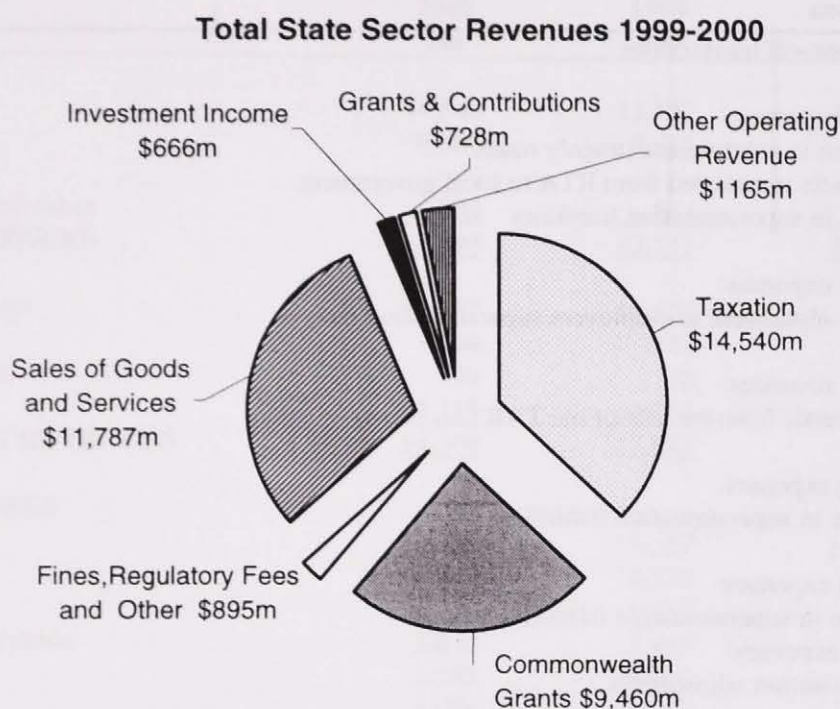
Not all of these items were necessarily accounted for at the time as ‘abnormal’ or ‘extraordinary’ items. Other smaller transactions may have been accounted for as abnormal or extraordinary because of their nature.

Because of the size of many of these one-off transactions in relation to key financial aggregates, it is essential that users of whole-of-government reports be given the information that would allow them to understand the impact they have on published results.

With most other jurisdictions in Australia now preparing whole-of-government reports, it is likely that this issue would arise in analysing their results and in making comparisons between jurisdictions. It would be of benefit if all Governments, through their Treasuries, developed and adopted a common approach to identifying and disclosing large ‘one-off’ transactions in order to facilitate greater understanding of their financial positions.

Total State Sector Revenues

The chart below shows the components of Total State Sector Revenues.

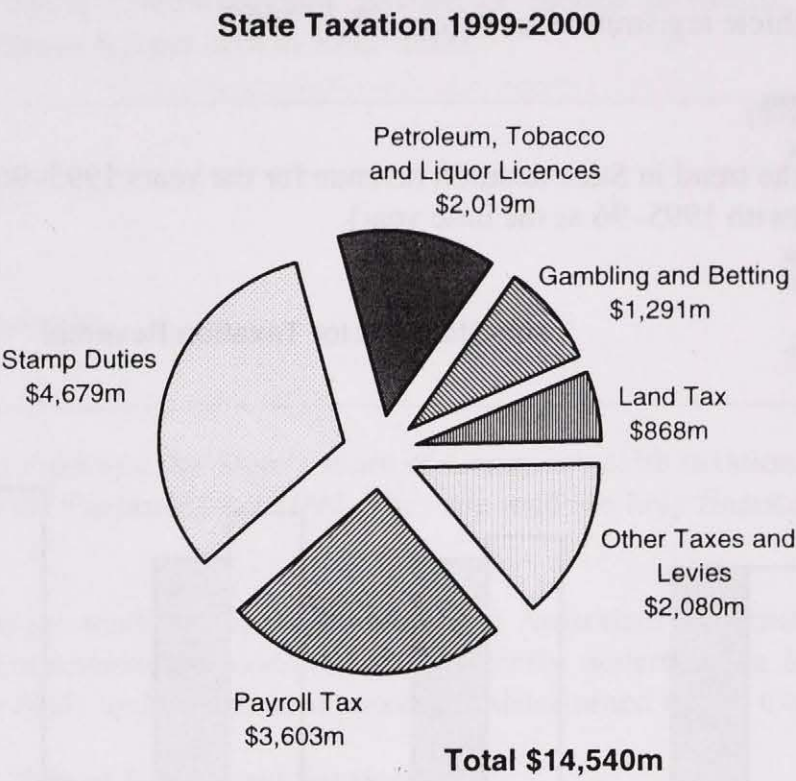


The table below provides further detail of Total State Sector Revenues:

Year ended 30 June	Total State Sector		General Government Sector	
	2000 \$m	1999 \$m	2000 \$m	1999 \$m
State Taxation				
Payroll Tax	3,603	3,440	3,769	3,605
Stamp Duties	4,679	3,939	4,682	3,942
Petroleum, Tobacco and Liquor Licences	2,019	1,977	2,019	1,977
Gambling and Betting	1,291	1,142	1,570	1,419
Land tax	868	912	900	948
Other	2,080	2,142	2,245	2,246
Total	14,540	13,552	15,185	14,137
Commonwealth grants				
General purpose - Recurrent	5,183	4,704	5,183	4,704
Specific purpose - Recurrent	3,484	3,376	3,484	3,376
- Capital	793	831	793	831
	9,460	8,911	9,460	8,911
Financial distributions	--	--	1,299	1,444
Fines, regulatory fees and other	895	854	876	876
	24,895	23,317	26,820	25,368
Operating Revenues	14,300	13,618	3,839	4,175
Gains on disposal of non-current assets	46	121	(43)	84
TOTAL	39,241	37,056	30,616	29,627

Total revenue of \$39,241 million increased by \$2,185 million or 5.9 per cent, due mainly to increases in revenues from State taxation.

The following graph indicates the major components of State taxation revenue.



Stamp Duties

Income from stamp duties increased by \$740 million or 18.8 per cent over the previous year. Major increases in duties collected were: contracts and conveyances, \$446 million, reflecting the high volume of property transactions and increasing sale prices; share transactions, \$91 million; mortgage duty \$53 million and financial institutions duty \$48 million.

Payroll Tax

Payroll tax revenue increased by \$163 million or 4.7 per cent as a result of a stronger than anticipated labour market and one off factors such as extra spending on Y2K and GST implementation. This was despite a reduction in the payroll tax rate from 6.85 per cent to 6.4 per cent from 1 July 1999.

Land Tax

Land tax revenue decreased by \$44 million or 4.8 per cent during 1999-2000. This reflected the reduction in the land tax rate from 1.85 per cent to 1.7 per cent effective from 1 January 2000.

Gaming and Betting

Revenue from gaming and betting increased by \$149 million or 13 per cent compared to the previous year. Increased revenue from hotel gaming devices accounted for \$105 million of this increase. This resulted from the full year impact of the 2,300 additional poker machine licences auctioned in 1998-99. Club gaming machine devices contributed extra revenue of \$38.2 million or 6.9 per cent compared to the previous year.

Casino duty revenue was expected to increase by 15 per cent in 1999-2000. The actual increase for the year was only 4.5 per cent.

Petroleum, Tobacco and Liquor

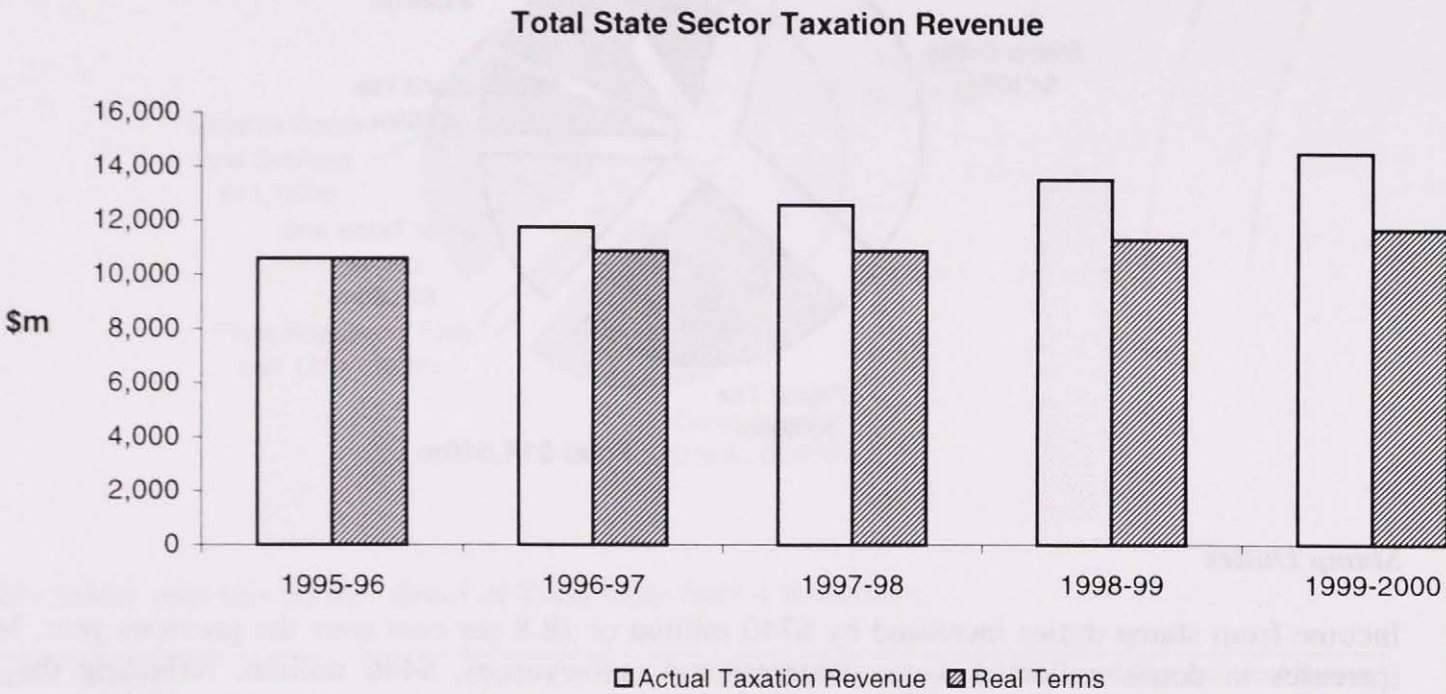
These taxes were levied and collected in 1999-2000 by the Commonwealth Government and paid to the State under the Safety Net Revenues legislation, which was abolished as part of the Goods and Services Tax arrangements. These taxes increased by \$42 million or 2.1 per cent.

Other

Other tax revenue was lower by \$62 million or 2.9 per cent mainly as a result of the abolition of the \$43 third party motor vehicle registration levy from 1 July 1999.

Trends in State Taxation

The chart below shows the trend in State taxation revenue for the years 1995–96 to 1999–2000 in both nominal and real terms (with 1995–96 as the base year).



The table below shows that while taxation per capita has increased by 24.3 per cent in real terms since 1995-96, revenue from other sources has grown at slightly more than the inflation rate.

Year ended 30 June	1996 \$	2000 Real \$	2000 Nominal \$	Nominal Increase %	Real Increase %
State taxes	1,713	2,129	2,250	31.3	24.3
Commonwealth grants	1,349	1,385	1,464	8.5	2.7
Other revenue	2,200	2,232	2,358	7.2	1.5
Total Revenue	5,262	5,746	6,072	15.4	9.2

Commonwealth Grants

Commonwealth grants are used to support State budget allocations to agencies including costs associated with the various Commonwealth assisted or funded programs. Commonwealth grants increased by \$549 million or 6.2 per cent in 1999–2000.

Year ended 30 June	1999-2000 \$m	1998-99 \$m
General purpose	5,183	4,806
Specific purpose	4,277	4,207
	9,460	9,013
Less contribution to Commonwealth	--	102
Net Commonwealth grants	9,460	8,911

General purpose grants represent the State’s share of Commonwealth taxation revenue received under the *State Grants (General Purposes) Act 1994*. They are made to help finance the State’s outlays and are unconditional.

Specific purpose grants are made under section 96 of the Australian Constitution. Payments relate to functions which the Commonwealth does not itself directly undertake eg higher education, health services. Payments are made under terms and conditions determined by the Commonwealth.

Operating Revenue – Sale of Goods and Services

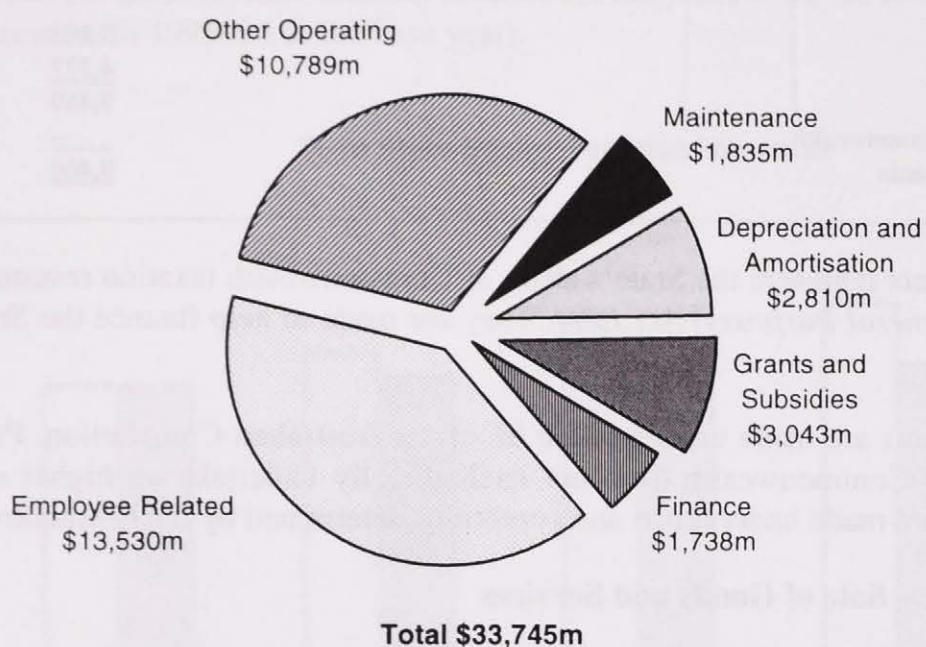
The following table details the sources and amounts of revenue generated from goods and services provided by the Total State Sector.

Year ended 30 June	Total State Sector		General Government Sector	
	2000	1999	2000	1999
	\$m	\$m	\$m	\$m
Electricity sales	4,279	3,632	--	--
Sales of other goods	1,857	1,771	438	389
Rentals	1,216	1,222	158	158
Rendering of services	4,435	4,252	1,987	1,901
TOTAL	11,787	10,877	2,583	2,448

Total State Expenses

The chart below shows the components of Total State Sector expenses for 1999-2000.

Total State Sector Expenses 1999-2000



Expenditure Trends

Year ended 30 June	2000 \$m	1999 \$m	1998 \$m	1997 \$m	1996 \$m
Including abnormal expenses					
Nominal	33,745	35,436	33,647	33,028	35,021
CPI adjusted	31,942	34,337	33,144	32,562	35,021

Expenditure in 1999-2000 fell because of the reduction in superannuation expense following the changing of the actuarial economic assumptions used to determine the defined benefit superannuation liability.

Employee-related expense is the major item of expenditure. Movements in employee-related expense, including abnormal items have been:

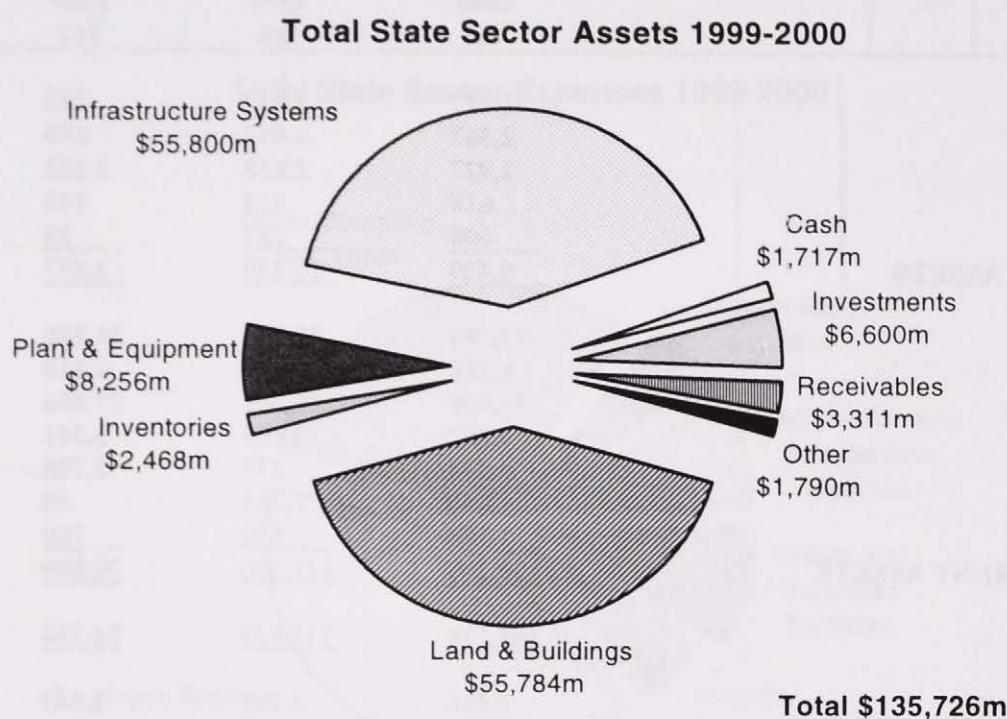
Year ended 30 June	2000 \$m	1999 \$m	1998 \$m	1997 \$m	1996 \$m
Salaries and wages and other employee costs	15,078	14,430	13,655	12,592	11,958
Superannuation	(1,548)	1,127	1,463	(858)	2,278
Total employee-related expenses	13,530	15,557	15,118	11,734	14,236

Employee-related expenses (other than superannuation) increased by 4.5 per cent in 1999-2000. The major component of employee related expenses, salaries and wages, increased by 4.3 per cent reflecting award increases granted to teachers, police, health workers and other public servants. This was offset by a reduction in the defined benefit superannuation liability which resulted in a net gain of \$1.5 billion compared to a superannuation expense of \$1.1 billion in 1998-99.

Statement of Financial Position

At 30 June	Total State Sector		General Government Sector	
	2000	1999	2000	1999
	\$m	\$m	\$m	\$m
Cash	1,717	2,442	418	960
Investments	2,567	4,057	688	1,345
Receivables	2,927	2,638	2,152	2,052
Inventories	618	815	145	219
Other	600	287	94	77
TOTAL CURRENT ASSETS	8,429	10,239	3,497	4,653
Land and buildings	55,784	50,251	31,946	30,729
Plant and equipment	8,256	8,325	4,110	4,151
Infrastructure systems	55,800	56,651	27,956	28,902
Investments	4,033	3,169	3,341	2,458
Receivables	384	379	2,708	2,842
Inventories	1,850	1,785	68	68
Other	1,190	830	760	664
TOTAL NON-CURRENT ASSETS	127,297	121,390	70,889	69,814
TOTAL ASSETS	135,726	131,629	74,386	74,467
Payables	3,516	3,111	1,543	1,668
Borrowings	2,166	8,732	4,165	4,708
Employee entitlements	1,648	1,625	1,503	1,149
Other	1,686	1,455	1,014	1,039
TOTAL CURRENT LIABILITIES	9,016	14,923	8,225	8,564
Borrowings	25,837	22,236	12,938	14,323
Employee entitlements	9,211	11,715	8,129	10,466
Other	4,106	4,285	3,890	3,950
TOTAL NON-CURRENT LIABILITIES	39,154	38,236	24,957	28,739
TOTAL LIABILITIES	48,170	53,159	33,182	37,303
NET ASSETS	87,556	78,470	41,204	37,164
Asset revaluation reserves	40,838	32,641	14,982	10,987
Accumulated funds	46,718	45,829	26,222	26,177
TOTAL EQUITY	87,556	78,470	41,204	37,164

The chart below shows the components of Total State Sector assets:



The value of Total State Sector assets as at 30 June 2000 was \$4,097 million higher than at 30 June 1999. Variances in the major categories of assets are depicted in the table below.

At 30 June	2000 \$m	1999 \$m	Variance \$m	Variance %
Cash and investments	8,317	9,668	(1,351)	(14.0)
Land and buildings	55,784	50,251	5,533	11.0
Plant and equipment	8,256	8,325	(69)	(0.8)
Infrastructure	55,800	56,651	(851)	(1.5)
Other	7,569	6,734	835	12.4
	<u>135,726</u>	<u>131,629</u>	<u>4,097</u>	<u>3.1</u>

The increase in land and buildings mainly reflects revaluations of assets by the Land and Housing Corporation of \$3,636 million and the Roads and Traffic Authority of \$690 million.

Land and Buildings - Crown Land

As mentioned in previous years, undeveloped Crown land is recognised at a nominal value of \$1. There is currently no central register of Crown land which has been estimated to account for more than 40 per cent of the State's area. The Department of Land and Water Conservation is in the process of producing an information database which was scheduled for completion by June 1998. Until this project is completed, an accurate valuation of undeveloped Crown land will not be possible.

The valuation process involves other considerations, including the possibility of claims being made and sustained under Native Title legislation and emerging policy issues such as who should report the value of land under trusteeship (applicable to certain reserves such as Luna Park, Wentworth Park, Jenolan Caves and the country showgrounds).

The resultant valuation would be expected to have a significant impact on the overall value of non-current physical assets, the extent of which cannot presently be determined. For this reason, a qualification was included in the Independent Audit Report on the General Government Sector and the Total State Sector Accounts.

Infrastructure Assets

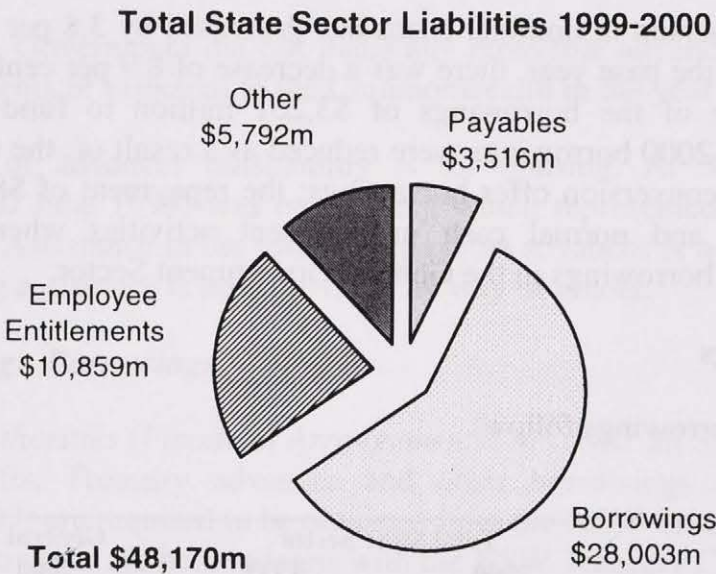
As in previous years, land under roads and within road reserves is omitted, as is permitted by the accounting standards under transitional provisions, from the Total State Sector and the General Government Sector Accounts. It is understood that the Treasury disagrees with the methodology adopted by the Roads and Traffic Authority for the valuing of this land. The Audit Office considers that the methodology used by the Authority is one of a number that is acceptable for public sector financial reporting. The value of the excluded assets was \$20,682 million (\$18,888 million at 30 June 1999).

A working party of the former Public Sector Accounting Standards Board (PSASB) prepared a paper on this issue. This paper has yet to be considered by the Australian Accounting Standards Board (AASB). It is envisaged that the AASB will consider the matter during 2001.

The former Public Sector Accounting Standards Board determined during 1999 that land under roads will be required to be valued for reporting periods ending on or after 31 December 2002.

TOTAL STATE SECTOR LIABILITIES

As depicted in the following chart, the most significant liabilities are borrowings and employee entitlements.

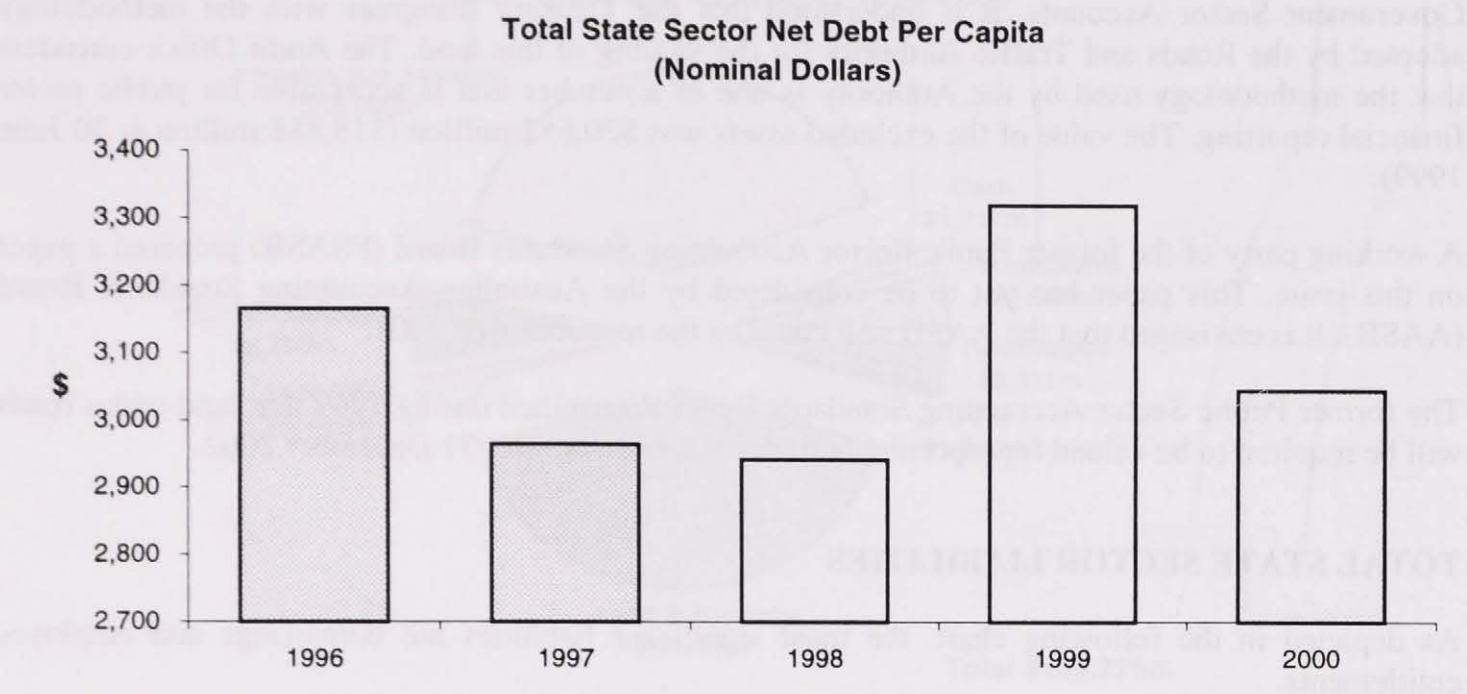


Borrowings

Borrowings and investments can be inter-related and therefore analysis of movements between years should be based on a net debt basis. For example, proceeds from loans raised may be held in the form of investments at year-end. This could occur due to lag times in payments for which loans were raised or for financial management purposes.

For the purpose of this review, net debt has been defined as gross borrowings less liquid financial assets, ie cash and investments. Net debt for the Total State Sector as at 30 June 2000 was \$19,686 million (\$21,300 million in 1999). Net debt determined using Government Finance Statistics (GFS) principles may differ slightly from that determined using this definition.

Movements in nominal net debt per capita of NSW population over the past five years for the Total State Sector were:



Since June 1996 net debt per person in nominal terms has decreased by 3.8 per cent. After allowing for inflation, using 1995-96 as the base year, there was a decrease of 8.9 per cent. Net debt per capita increased in 1998-99 because of the borrowings of \$3,261 million to fund the superannuation conversion offer. During 1999-2000 borrowings were reduced as a result of: the repayment of \$1,013 million of the superannuation conversion offer borrowings; the repayment of \$881 million from the general government surplus; and normal cash management activities where excess cash and investments are used to reduce borrowings in the General Government Sector.

Total State Sector Borrowings

Details of Total State Sector borrowings follow:

At 30 June	Total State Sector		General Government Sector	
	2000	1999	2000	1999
	\$	\$m	\$m	\$m
Liability to Commonwealth Government	1,940	2,051	1,940	2,051
Domestic and foreign borrowings	25,244	28,004	14,852	16,601
Bank overdraft	315	356	33	45
Finance leases	504	557	278	334
Total Borrowings	28,003	30,968	17,103	19,031

Liability to the Commonwealth Government

Amounts owed to the Commonwealth Government consist of:

At 30 June	2000 \$m	1999 \$m
Liability under Financial Agreement	206	281
Liability outside Financial Agreement	1,734	1,770
Total	1,940	2,051

Liability under the Financial Agreement represents Commonwealth Government debt raised on behalf of the States. The liability decreased by \$75 million to \$206 million in 1999-2000. There were no new borrowings in 1999-2000 under the agreement.

The decrease is the result of debt redemption arrangements between the Commonwealth Government and the States that provide for the progressive take-over of this debt by the States. It is estimated that through this mechanism, the debt would be fully repaid to the Commonwealth by 2005-06.

The early debt reduction arrangements are financed with borrowings from the NSW Treasury Corporation.

Liability outside the Financial Agreement represents the value of outstanding Commonwealth Government advances for specific purposes.

The Commonwealth Government did not make any repayable advances for specific purposes during 1999-2000. Repayments of principal to the Commonwealth in the year were \$37 million.

The largest group of advances outstanding is for housing. At 30 June 2000, \$1,646 million (\$1,679 million at 30 June 1999) was outstanding which represented 95 per cent of the total owed under this category. Assistance in the form of repayable advances is no longer made. Commonwealth Government housing assistance is now provided by way of grants.

Domestic and Foreign Borrowings

Under the *Public Authorities (Financial Arrangements) Act 1987* all State authority borrowings (apart from bank overdrafts, Treasury advances and other borrowings approved under the *Treasury Corporation Act 1983*) are required to be obtained from the NSW Treasury Corporation. The majority of the domestic borrowings are held in loans with the NSW Treasury Corporation.

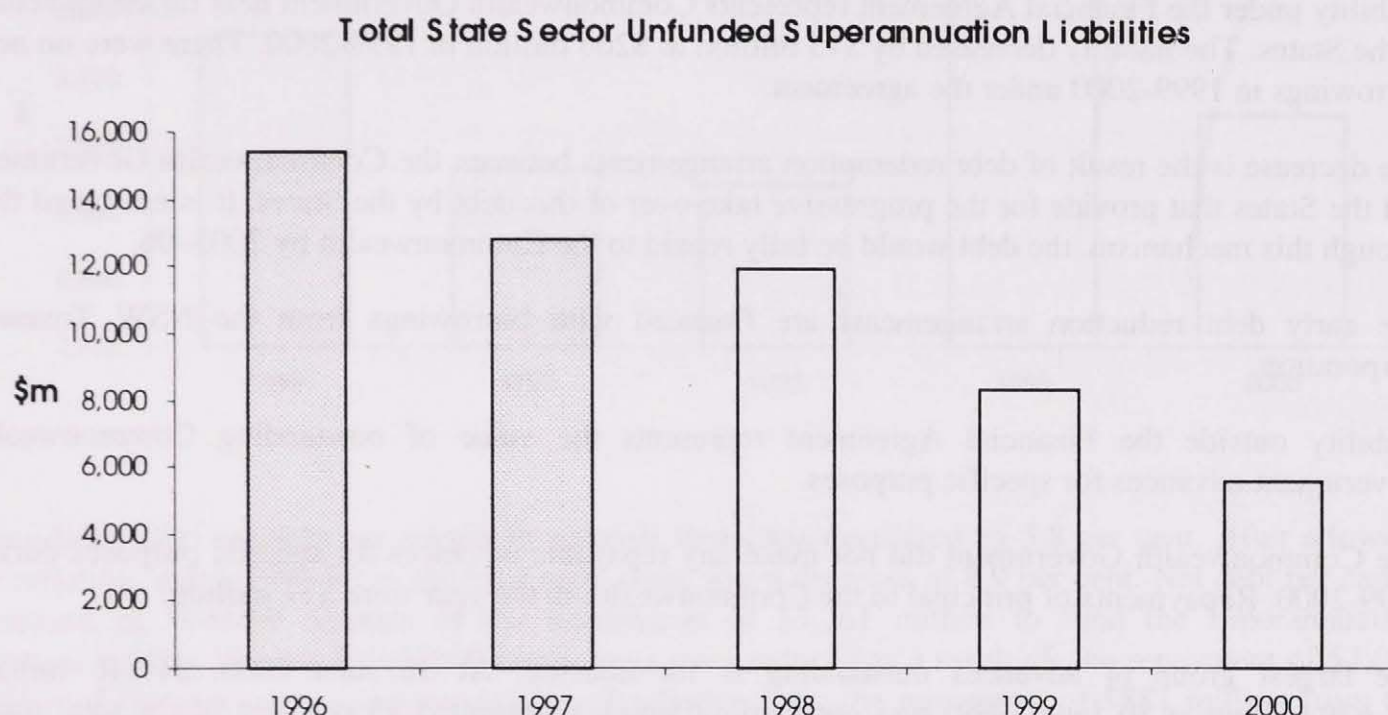
Net borrowings after taking into consideration drawdowns and repayments decreased by \$2,760 million (9.9 per cent) to \$25,244 million at 30 June 2000.

Employee Entitlements

Superannuation

Unfunded superannuation liabilities of \$5,579 million represent 11.6 per cent of all Total State Sector liabilities. This equates to \$863 per person.

The chart below shows the unfunded superannuation liabilities over a 5 year period from June 1996 to June 2000.



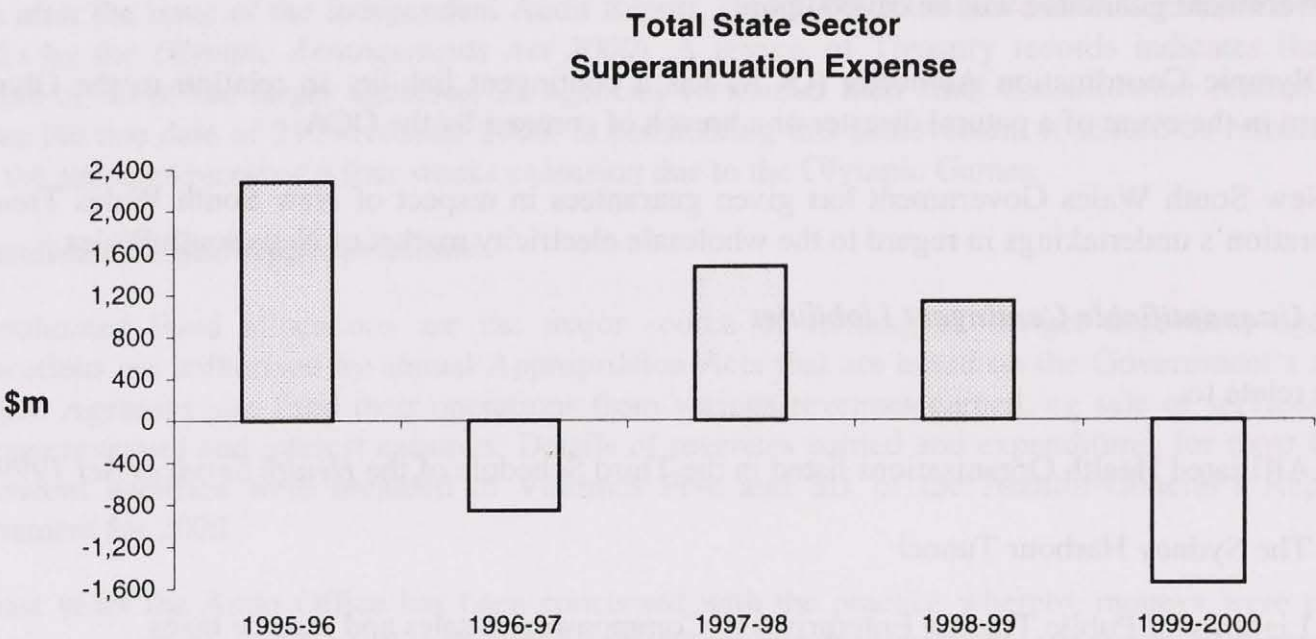
The \$2,755 million reduction in the unfunded superannuation liability during 1999-2000 was the result of the following factors:

- ◆ the change in actuarial economic assumptions for salary growth, from 5 per cent to 4 per cent per annum, and for growth in the consumer price index, from 3.25 per cent to 2.50 per cent. Had the previous actuarial assumptions been retained the unfunded liability would have been \$2,976 million higher
- ◆ higher than projected earnings on the assets of the schemes, with actual returns being 15.2 per cent compared to the actuarial assumptions of 7 per cent
- ◆ non budgeted additional Crown employer contributions of \$587 million
- ◆ using actual valuation of Pooled Fund assets at 30 June 2000 rather than relying on projected data at 31 May 2000 as has been done in the past. This change in valuation approach resulted in an increase in the asset earnings of \$402 million.

Volatility of Superannuation Liability and Effect on Financial Statements

Over the years 1996–97 to 1999–2000 superannuation expense as reported in the Total State Sector Accounts has exhibited significant volatility. This volatility reflects the impact of both actuarial reassessments and fluctuating investment returns. Almost all of the total gross liabilities for the State public sector have been capped in real terms by the closure to new members of the major defined benefit schemes.

The chart below outlines the movement in nominal terms for superannuation expense.



In 1998-99 the Crown Entity borrowed \$3,261 million to enable accelerated payment in 1998–99 of three forward years of Crown superannuation contributions to the SAS Trustee Corporation (STC). The Crown repaid \$1,013 million of this loan in 1999-2000, leaving a balance of \$2,248 million to be repaid over the next two years. As a result of borrowing for the conversion offer, Total State Sector net debt increased by \$2,239 million (as at 30 June 2000) and net unfunded superannuation liabilities reduced by the same amount, resulting in no change in the State’s liabilities.

Due to the materiality of the superannuation liability and expense, any ‘one-off adjustments’ such as changed actuarial assumptions, can significantly impact the overall reported operating result for the Accounts. Such significant fluctuations make comparisons of operating results between years difficult.

Contingent Liabilities

Contingent liabilities are estimates of possible future liabilities that are unresolved at balance date because of uncertainty. At 30 June 2000 contingencies were reported in the following three categories:

Quantifiable Contingent Liabilities

The total was \$2,114 million compared to \$918 million for 1998–99. Public Trading Enterprises and Public Financial Enterprises have a quantifiable contingent liability of \$1,360 million for 1999–2000 compared to \$503 million for the previous year. The NSW Treasury Corporation’s contingent liability for bonds on loan to fixed interest market under a stocklending facility represents 81.5 per cent of this quantifiable contingent liability.

NSW Government Guarantees

Guarantees have been provided to facilitate certain services and the construction of infrastructure assets and may create contingent liabilities. The major guarantees are:

NSW Treasury Corporation has issued securities, borrowings and derivative liabilities with a market value of \$26.4 billion.

The International Olympic Committee awarded Sydney the right to host the Olympic Games which were held in September and October 2000. The Government had underwritten the Olympic budget. The Sydney Organising Committee for the Olympic Games has indicated that it does not expect that the government guarantee will be called upon.

The Olympic Coordination Authority (OCA) has a contingent liability in relation to the Olympic Stadium in the event of a natural disaster or a breach of contract by the OCA.

The New South Wales Government has given guarantees in respect of New South Wales Treasury Corporation's undertakings in regard to the wholesale electricity market of New South Wales

Other Unquantifiable Contingent Liabilities

These relate to:

- ◆ Affiliated Health Organisations listed in the Third Schedule of the *Health Services Act 1999*
- ◆ The Sydney Harbour Tunnel
- ◆ Liability of Public Trading Enterprises to Commonwealth sales and income taxes
- ◆ Sydney Airport Rail Line
- ◆ New South Wales Structured Finance Activities.

SIGNIFICANT ISSUES

Timeliness of the Financial Reports

Currently the date by which the financial report together with the Independent Audit Report on the Accounts are to be tabled in the Legislative Assembly is 30 November (this was extended by four weeks for 1999-2000 only, because of the staging of the Olympic Games in September 2000).

The Audit Office and Treasury share the view that this date should be brought forward so that there is more timely financial reporting. To achieve this there will need to be considerable improvement in both the quality and timeliness of the financial reports and supporting working papers submitted for audit by a significant number of agencies. For 2000-01 accounts, Treasury and the Audit Office are working with a number of major agencies to identify and overcome the problems to earlier financial reporting. It is expected that this should enable some progress to be made towards having the audited Accounts tabled prior to 30 November each year.

As in previous years, difficulties were experienced by both the Audit Office and the Treasury in achieving the statutory dates for preparation, auditing and tabling of the financial report on the Accounts. While the deadlines were achieved, this task was again made considerably more difficult because of the inability of a significant number of agencies to produce complete and accurate financial reports supported by adequate work papers for audit by the dates specified by the Act.

To facilitate the earlier preparation of the Accounts, the Audit Office and Treasury agreed a timetable reduction program which commenced in 1995–96. This program required that budget dependent agencies, depending upon their size, were required to prepare financial reports for audit at earlier dates than those required by the Act. A review of Treasury records discloses that of the six budget dependent agencies categorised as large only one final consolidation return was received within 5 days of the due date of 1 September 2000. The others were received from 32 to 70 days after the due date. The lateness of these returns may in part be due to the Olympic Games held in late September 2000.

For non-budget dependent agencies in the General Government Sector and for public trading enterprises, the deadline set by Treasury for forwarding of final consolidation returns was 2 working days after the issue of the Independent Audit Report. (For 1999–2000 this date was extended by four weeks by the *Olympic Arrangements Act 2000*). A review of Treasury records indicates that in a sample of 30 of the larger agencies, 27 agencies forwarded their final consolidation returns on or before the due date of 21 November 2000. In considering this achievement it should be remembered that the agencies received a four weeks extension due to the Olympic Games.

Consolidated Fund Appropriations

Consolidated Fund allocations are the major source of funding of budget dependent agencies. Allocations are authorised by annual Appropriation Acts that are based on the Government's annual budget. Agencies also fund their operations from various revenues earned, eg sale of services (user charges revenue) and interest earnings. Details of revenues earned and expenditures for most budget dependent agencies were included in Volumes Five and Six of the Auditor-General's Report to Parliament for 2000.

In past years the Audit Office has been concerned with the practice whereby moneys were paid to agencies as part of their Consolidated Fund appropriations but were unspent at financial year end. In accordance with Section 23 of the Act the appropriation to spend these moneys had lapsed and they should have been repaid to the Consolidated Fund. In some instances agencies would have been unaware that they had in their bank accounts unspent Consolidated Fund moneys. In the past agencies usually spent these moneys without further parliamentary appropriation. Treasury has now implemented a mechanism whereby these funds are credited as owing to the Consolidated Fund and the spending of these will be approved as part of the next financial year's appropriation. The financial report of the Crown Entity discloses that at 30 June 2000 agencies held \$55.5 million of unspent Consolidated Fund appropriations.

Previous Reports to Parliament have referred to unauthorised expenditure from the Consolidated Fund. During 1999–2000 audit found that all additional expenditure funded from the Consolidated Fund had been approved in accordance with the legislation. Treasury has implemented procedures which should ensure that all requests for additional funding are approved in accordance with the legislation prior to the appropriation approved in the annual *Appropriation Act* being exceeded. Parliament approved two additional Appropriation Acts for 1999–2000 during the financial year, the *Appropriation (Budget Variations) Act 2000* and the *Appropriation (Further Budget Variations) Act 2000*. These Acts approved additional appropriations and detailed to Parliament expenditures approved in accordance with Section 22 of the Act and expenditures funded by Treasurer's Advance and the Olympic Funding Reserve.

Final Report of the General Purpose Standing Committee No. 1 of the Legislative Council on Appropriation and Expenditure

Following comment in previous Auditor-General's Reports to Parliament on parliamentary control over expenditure from the Consolidated Fund, the Legislative Council referred the issue to the General Purpose Standing Committee No.1. Its terms of reference were to "inquire into and report on the current provisions for the appropriation of moneys and authorisation of expenditure".

The Committee brought down an interim and a final report. The interim report contained a number of recommendations aimed at improving parliamentary control over expenditure.

The final report of the Committee made ten recommendations. Of particular interest are the recommendations relating to progressing amendments to the Annual Reporting Act and Regulations in line with those proposed in the NSW Treasury document "Fundamental Review of NSW Financial and Annual Reporting Legislation" in relation to requiring agencies to obtain and produce comparative data to benchmark their operations.

The Committee also recommended that the Government progress recommendations made by the Audit Office in a Report entitled "Key Performance Indicators" in relation to introducing legislative requirements for the validation of performance indicators.

The Statement of the Budget Result

The Statement of Budget Result (The Statement) is prepared using Government Finance Statistics (GFS) data classification principles. GFS is a set of statistical standards for the presentation of public sector outlays, receipts and financing transactions on a cash basis. It is based on standards developed by the International Monetary Fund and is similar in most (but not all) respects to the system advocated by the United Nations. In Australia, the GFS is used by the Australian Bureau of Statistics in its classification of public sector finances.

A statement prepared under GFS principles differs significantly from an operating statement prepared under accounting principles. In part, this reflects the differing purposes for which they are designed.

A GFS statement is designed to show, *inter alia*, the economic impact of government activity in the period on the rest of the economy. As such it includes, for example, the full cost of assets purchased or sold in the period.

An operating statement is designed to show revenues and expenses for the period. It includes, for example, only the cost of asset consumption (depreciation) in the period.

The prominence of GFS statements in the past has been partly due to the lack of consistent finance data in jurisdictions worldwide for agencies in the General Government Sector. With the growing availability in many countries of government agency financial statements based on independent accounting standards, increasing prominence is being given to those statements as the more meaningful measure of financial performance.

GFS financial statements have traditionally presented public sector outlays, receipts and financial transactions on a cash basis. Deficiencies in cash reporting have been reported each year since the audit of the Statement of the Budget Result commenced. Because it is not accrual based it does not show all the economic transactions of a Government and the results are susceptible to manipulation by 'last minute' transactions.

Due to the adoption of accrual based GFS reporting commencing 2000-01 (as advised by the Australian Bureau of Statistics), this is the last time the GFS result will be prepared on a receipts/outlays basis. This should help address these shortcomings. In future the GFS statement of the Budget result will be similar to an operating statement prepared under accounting standards, although some differences will persist.

1998-99 was the first year in which the Statement was prepared on a General Government Sector basis. In previous years the Statement was prepared on a Budget Sector basis. The Budget Sector consisted of those General Government Sector agencies that received a direct Consolidated Fund appropriation through the budget process. The General Government Sector is one of the categories used by the Australian Bureau of Statistics to classify government agencies.

AUDIT FINDINGS

Independent Audit Report

The audit of the Statement of Budget Result for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report. This report is detailed hereunder.

Scope

I have audited the Statement of Budget Result (the Statement) for the year ended 30 June 2000. The Treasurer is responsible for the Statement and he has determined that the policies used are appropriate for reporting the Government's budget result in accordance with the principles identified in Note 2. No opinion is expressed as to whether the accounting policies used are appropriate to the needs of the Members of Parliament. There are no statutory requirements as to the form, content or audit of the Statement.

The Statement has been prepared to disclose the Government's actual budget results. I disclaim any assumption of responsibility for any reliance on this report or on the Statement for any purpose other than that for which it was prepared.

I have conducted an independent audit of the Statement in order to express an opinion on it to Members of the New South Wales Parliament.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the Statement is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Statement, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects the Statement presents fairly in accordance with the principles identified in Note 2.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In the opinion of the Audit Office, the Statement of Budget Result presents fairly the budget result in accordance with the principles identified in Note 2 to the Statement.

The Audit Process

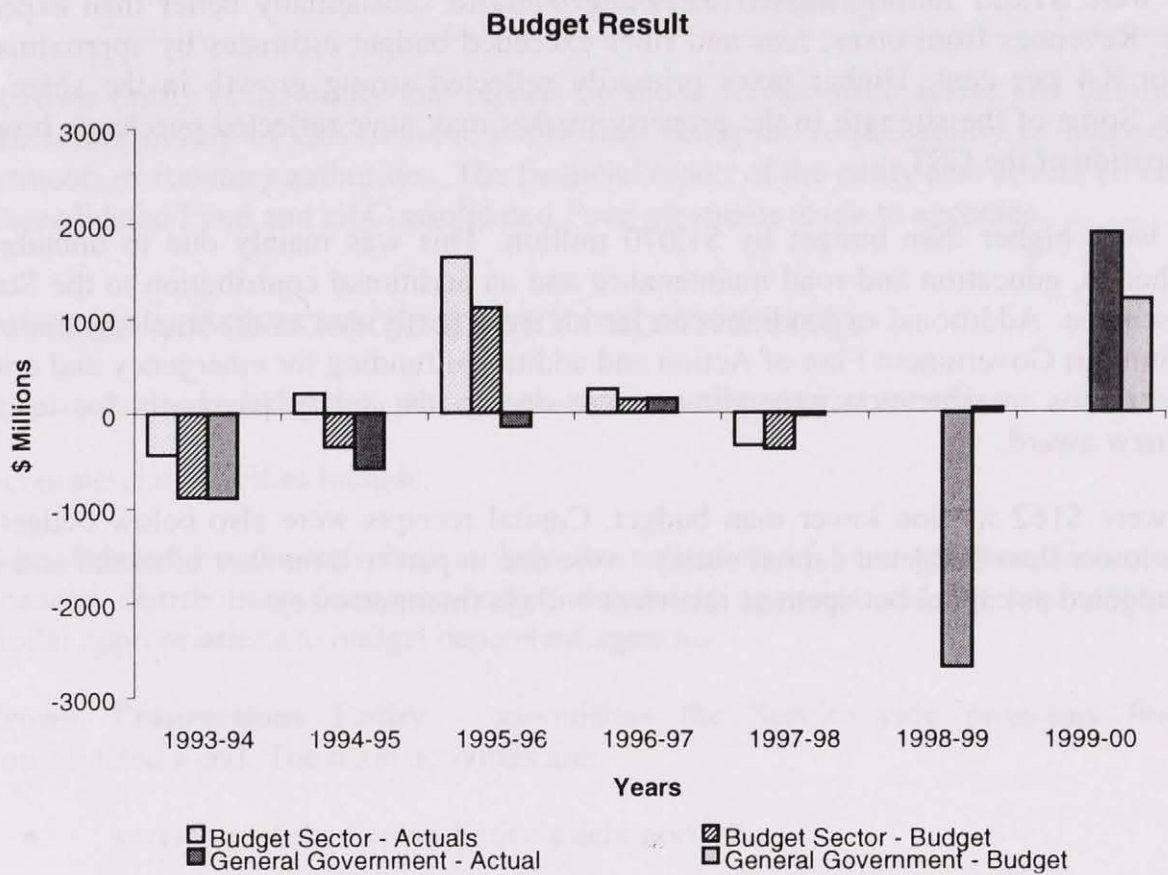
Audit procedures are focussed on obtaining sufficient audit evidence to support a conclusion that material misstatement is unlikely to exist. The concept of materiality relates to information which, if omitted, misstated or not disclosed separately has the potential to adversely affect decisions made by users of the financial report or the discharge of accountability by management. In financial reports audited by the Audit Office, the extent to which Parliament may be interested in or influenced by the information contained in (or omitted) the financial report will often be a major factor in determining materiality.

For audit purposes, the materiality of the Government Finance Statistics (GFS) result is based on the total outlays aggregate. The NSW Government Budget result is the net GFS surplus/deficit for the financial year. Because of the relatively small size of this result compared to gross receipts and outlays and the significant variations from year to year, it is not economical to carry out audit procedures that would give a high level of assurance that the budget result was not materially incorrect. Nevertheless, the audit procedures performed did not provide any evidence that the budget result was misstated.

BUDGET RESULT

As noted earlier 1998-99 was the first year in which the Statement of Budget Result was prepared on a General Government Sector basis.

The chart below shows budgeted and audited actual Budget Sector results compared for 1993-94 to 1997-98 and General Government Sector actual results for the period 1993-94 to 1999-2000. The results for the General Government Sector for the period 1993-94 to 1997-98 are unaudited Treasury figures.



The result for 1999–2000, a surplus of \$1,886 million, included the funding of the Superannuation Conversion Offer. The result excluding the conversion offer would have been a surplus of \$881 million. The 1999–2000 Budget estimated that the result would be a surplus of \$1,193 million, or \$214 million excluding the Superannuation Conversion Offer.

FINANCIAL STATEMENT

Year ended 30 June	Actual 1999–2000 \$m	Budget 1999–2000 \$m	Actual 1998–99 \$m
Current outlays	23,517	22,447	22,222
Less: current receipts	26,673	25,052	24,995
Current result – surplus	3,156	2,605	2773
Capital outlays	3,164	3,326	3,489
Less: capital receipts	889	935	1,304
Capital result - (deficit)	(2,275)	(2,391)	(2,185)
Total result – surplus	881	214	588
Superannuation Conversion funding	(1,005)	(979)	3,266
Adjusted Result – surplus/(deficit)	1,886	1,193	(2,678)
Financed by/(used for):			
Net decrease/(increase) in advances made	(173)	(227)	(66)
Net borrowings/(repayments)	(1,946)	(1,528)	2,756
Net decrease/(increase) in cash and investment balances	233	562	(12)
	(1,886)	(1,193)	2,678

Current receipts were \$1,621 million higher than budget due to substantially better than expected taxation revenue. Revenues from taxes, fees and fines exceeded budget estimates by approximately \$1,174 million or 8.4 per cent. Higher taxes primarily reflected strong growth in the share and property markets. Some of the strength in the property market may have reflected purchases brought forward in anticipation of the GST.

Current outlays were higher than budget by \$1,070 million. This was mainly due to unbudgeted expenditures in health, education and road maintenance and an additional contribution to the State's superannuation scheme. Additional expenditures in health were partly due to the implementation of the NSW Drug Summit Government Plan of Action and additional funding for emergency and critical care services. Increases in education expenditure were due to the salary payments for teachers contained in the new award.

Capital outlays were \$162 million lower than budget. Capital receipts were also below budget, by \$46 million. The lower than budgeted capital outlays were due in part to a number of health and road projects being budgeted as capital but spent as recurrent outlays (maintenance).

The Crown Entity

The Crown Entity is the entity that reports on those service-wide assets and liabilities that are the overall responsibility of Government, rather than being the responsibility of individual government departments or statutory authorities. The financial report of the entity also covers all revenue raised by the Consolidated Fund and all Consolidated Fund payments made to agencies.

ACTIVITIES ADMINISTERED BY THE CROWN ENTITY

The Crown Entity includes both non-commercial and commercial activities.

Non-commercial activities include:

- ◆ **Consolidated Fund** - activities include the collection of State taxation, Commonwealth grants, financial distributions from non-budget dependent agencies and the payment of recurrent and capital appropriations to budget dependent agencies.
- ◆ **Crown Transactions Entity** - administers the Service-wide programs funded from the Consolidated Fund. The main activities are:
 - servicing of the Crown Entity's debt portfolio
 - administration of superannuation and long service leave liabilities for budget dependent agencies
 - the provision of grants to public sector bodies
 - administration of the Crown Property Portfolio. A separate general purpose financial report is prepared and audited for this activity and a review of its operations for 1999-2000 is included later in this Volume.

Commercial activities comprise:

- ◆ **Crown Lands Homesites Program** - a commercial activity involving the development and sale of Crown land for homesites in urban areas. A separate general purpose financial report is prepared and audited for this entity and a review of its operations for 1999-2000 was included in Volume Six of the Auditor-General's Report to Parliament for 2000.
- ◆ **Land Development Working Account** - a commercial activity, which develops and sells Crown land for residential purposes in country areas and for commercial purposes on a state-wide basis. A separate general purpose financial report is prepared and audited for this entity and a review of its operations for 1999-2000 is included later in this Volume.
- ◆ **NSW Non-Budget Long Service Leave Pool** - a commercial activity which administers the long service leave liability for some agencies which have moved from being budget dependent to non-budget dependent. The Treasurer determined in accordance with section 39(1B) of the *Public Finance and Audit Act 1983* (the Act) that the NSW Non-Budget Long Service Leave Pool is no longer classified as a statutory body and its financial activities are incorporated as part of the Crown Entity.
- ◆ **NSW Structured Finance Activities** - a commercial activity managing cross border leases and other structured finance arrangements. The Treasurer has determined in accordance with section 39(1B) of the Act that the NSW Structured Finance Activities is no longer classified as a statutory body and its financial operations are now incorporated as part of the Crown Entity.

- ◆ **Insurance Ministerial Corporation** - a commercial activity created to accept the assets, liabilities, rights and obligations of Government insurance operations which are currently managed by the GIO. A separate general purpose financial report is prepared and audited for this entity and a review of its operations for 1999-2000 was included in Volume Six of the Auditor-General's Report to Parliament for 2000.

Status of the Crown Entity

The Crown Entity is not scheduled under the *Public Finance and Audit Act 1983* as a government department or a statutory authority. However as the Crown Entity is controlled by the Treasurer, and in accordance with section 45A(1A) of the Act, it is regarded as a government department for financial reporting purposes.

Government departments are required to comply with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments' and the Treasury's 'Financial Reporting Code for Budget Dependent Agencies'. Due to its unique structure, the Crown Entity could not comply with the Code and the Treasurer has granted an exemption.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Treasurer's Superannuation Conversion Offer

In November 1998 the Government announced and legislated for a plan to reduce its unfunded superannuation liability by offering members of closed defined benefits schemes the opportunity to convert to the First State Superannuation accumulation scheme. A condition of the legislation was that the defined benefit members receive the offer document by 1 April 1999. This timetable could not be achieved and the offer to fund members was withdrawn.

Subsequently the legislation was repealed and re-enacted as the *Superannuation Legislation Amendment Act 1999*. While the overall objective remained, the changes contained in the later legislation included:

- ◆ the Treasurer to determine the dates for the offer and acceptance deadlines
- ◆ the dollar value of the offer being enhanced.

The offer was forwarded to most members in January 2000. The deadline for acceptance of the offer was 31 May 2000.

To fund the proposed superannuation conversion offer, \$3.3 billion was borrowed by the Crown Entity. A prepayment of \$3.3 billion was made in June 1999 into the Pooled Fund for defined benefit schemes. This was equivalent to three forward years of Crown superannuation contributions to the SAS Trustee Corporation (STC) and was to provide the liquidity to enable the pay-out of accumulated benefits for those members who were expected to accept the offer. As a result of borrowings for the conversion offer, General Government Sector net debt increased by \$3.3 billion and net unfunded superannuation liabilities fell by \$3.3 billion, resulting in no change to the State's liabilities.

The offer to defined benefit fund members closed on 31 May 2000. The offer was accepted by approximately 1,100 of the 51,000 contributors. This resulted in approximately \$192.6 million of superannuation benefits being transferred to First State Superannuation Fund (FSS). Treasury has indicated that while amounts borrowed were well in excess of the actual amount transferred to FSS, the funding strategy benefited the Pooled Fund because of the higher than expected investment earnings on assets held of 15.2 per cent. As foreshadowed at the time of borrowing, approximately one-third of the loan was repaid during 1999-2000.

University Superannuation Liability

Under previous Commonwealth-State arrangements, the Commonwealth assumed responsibility for funding of superannuation for all universities in New South Wales. In accordance with these arrangements, New South Wales had an obligation to provide funding to the Commonwealth Government towards university superannuation costs, but no direct financial obligation for the superannuation liabilities of the universities. The State's payments to the Commonwealth were based on a formula calculated by reference to the proportion of annual superannuation contributions from universities needed to meet the emerging cost of pension and lump sum payments.

In accordance with these arrangements the Crown Entity paid \$7.9 million to the Commonwealth as the New South Wales share of the emerging cost of superannuation liability during 1999-2000. The Commonwealth disputed the amount calculated by the State and deducted a further \$9.9 million from General Purpose Assistance Grants to the State as 1999-2000 contributions to emerging university superannuation liability.

Treasury has taken the view that these arrangements ended on 30 June 2000 with the repeal by the Commonwealth of the *State Grants (General Purpose) Act 1994* as part of the "New Tax System". The Commonwealth has been advised in writing by the Treasurer of the New South Wales stance. A reply has been received from the Commonwealth disputing the New South Wales view and suggesting that the issues be discussed at senior officer level to seek a resolution.

State Superannuation Scheme Contributors' Reserve Distribution

For year ended 30 June 1999 the Crown Entity recognised as a gain, an estimated distribution of \$704 million from the unallocated balance of the State Superannuation Scheme's (SSS) contributors' reserve to the SSS employers, disputed the amount calculated by the State and reserve accounts. This amount was based on the Government Actuary's estimate of the Crown Entity share of the unallocated reserve balances. The unallocated amount largely arose from inappropriately designed benefit funding arrangements between contributors' reserves and employer reserves in the three years to 30 June 1992.

The Audit Office did not consider it was appropriate to recognise this gain at 30 June 1999 as there was uncertainty as to the final amount to be recognised as the allocation process had not been completed and the approval of the SAS Trustee Corporation and the Minister had not been obtained as required by the *State Superannuation Act 1916*. The formal approval for the distribution of these balances was given in May 2000 and the amount transferred to the Crown Employer Reserve was \$762 million, an increase of \$58 million over the amount taken up in the previous year.

AUDIT FINDINGS

Delays in the Financial Report

The Independent Audit Report for the Crown was issued on 5 December 2000, 2 weeks later than the statutory date of 17 November 2000 as extended by the *Olympic Arrangements Act 2000*. The completion of the audit was delayed because of the inability of the Crown Entity to produce complete and accurate financial statements on a timely basis. This delay was partly caused by a number of factors including the need to wait until all Crown commercial audits had been completed, dividends receivable from Public Trading and Public Financial Enterprises had been confirmed and superannuation data revised in regard to changed information provided by the Superannuation Administration Corporation.

Other Findings

During the course of the audit, an official bank account was found to have been operating independent of the Crown Entity accounting system. While there was no evidence of any loss or misuse of public moneys, this did indicate that procedures and controls needed to be tightened to ensure that all bank accounts were operating through the ledger system and subject to independent review and reconciliation. The opening of the bank account in November 1997 had been correctly approved and at 30 June 2000 the bank account had a credit balance of \$565,000. The account has subsequently been closed and the balance transferred to the Consolidated Fund.

Following the completion of the audit a number of matters have been referred to the Crown Entity management where it is considered that controls and procedures could be improved.

Independent Audit Report

The audit of the Crown Entity's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report. The qualification related to:

- ◆ Superannuation Recognition of Unallocated Reserves – the recognition as revenue of an amount of \$704 million in the previous financial year, which the Audit Office considers should have been recognised in the 1999-2000 financial year. This resulted in the operating surplus being overstated in 1998-99 by \$704 million and understated in 1999-2000 by the same amount. This amount was an estimate of the amount to be distributed to employers, reserves of the State Superannuation Scheme, even though the allocation and approval process required by the *Superannuation Act 1916* was not completed until May 2000.
- ◆ Crown Land – the non-completion of the project to identify and value Crown Land.

An emphasis of matter was also expressed regarding litigation by various HomeFund borrowers, which is being defended on behalf of the Government.

FINANCIAL INFORMATION

Operating Statement

Following is a brief commentary of the major expenses and revenues of the Crown Entity. Further detailed comment on Consolidated Fund revenues and expenditures is included in the section on the Public Accounts and the Total State Sector Accounts which appears earlier in this Volume.

Year ended 30 June	2000 \$000	1999 \$000
Superannuation	(975,579)	1,481,609
Long service leave	291,717	339,100
Depreciation and amortisation	10,557	10,570
Grants and subsidies	304,909	72,756
Finance costs	1,334,828	1,309,686
Insurance claims	616,174	719,187
Other	543,954	660,156
Recurrent appropriations	20,747,803	19,904,481
Capital appropriations	2,049,125	2,304,200
TOTAL EXPENSES	24,923,488	26,801,745
Taxation, fines and regulatory fees	13,909,435	12,798,952
Commonwealth grants	11,653,273	11,166,285
Financial distributions	1,380,332	1,495,964
Retained taxes, fees and fines	28,704	106,486
Sale of goods and services	711,653	657,687
Investment income	274,121	227,850
Other	737,992	722,385
TOTAL REVENUES	28,695,510	27,175,609
Gain/(loss) on sale of non-current assets	23,835	32,374
SURPLUS/(DEFICIT) FOR THE YEAR BEFORE ABNORMAL ITEM	3,795,857	406,238
Abnormal items (expense)/revenue	--	1,060,522
SURPLUS/(DEFICIT) FOR THE YEAR	3,795,857	1,466,760

Expenses

Long Service Leave and Superannuation

The Crown Transaction Entity administers superannuation and long service leave liabilities for most budget dependent agencies. The major exception is the Roads and Traffic Authority, which retains responsibility for its own liabilities.

Two major factors in 1999-2000 resulted in a gain arising from superannuation. The gain of \$976 million (an expense of \$1,482 million in 1998-99) arose as a result of changed actuarial economic assumptions and a better than budgeted return on employers' assets held by the Pooled Fund Schemes of the SAS Trustee Corporation.

Grants and Subsidies

The major items in grants and subsidies were:

- ◆ \$48 million expense in respect of Natural Disaster Relief (\$53 million in 1998–99)
- ◆ \$140 million for Sydney Organising Committee for the Olympic Games
- ◆ \$50 million for debt assumed by the Crown Entity in respect of Landcom
- ◆ \$50 million for Pacific Power's defined superannuation scheme liability

Finance Costs

Finance costs represent interest charges on the debt portfolio, which is managed by the Crown Entity on behalf of government agencies. Interest charges are paid mainly to NSW Treasury Corporation and the Commonwealth Government.

Insurance Claims

Insurance claims expenses are for current and closed Government insurance schemes managed by the Insurance Ministerial Corporation. Included is the New South Wales Treasury Managed Fund, which is a self-insurance scheme for the Government covering all budget departments, public hospitals and a number of government authorities. A review of the operations of the Insurance Ministerial Corporation was included in Volume Six of the Auditor-General's Report to Parliament for 2000.

Appropriations

Recurrent appropriations totalled \$20.7 billion, and capital appropriations, \$2.0 billion. These amounts represent payments made from the Consolidated Fund to agencies for recurrent and capital expenditure. In addition to these reports the Crown Entity itself received \$3.3 billion from recurrent appropriations and \$2.3 billion capital appropriations. These amounts were used to fund the Crown Entity's expenditures.

Revenues

State Taxation

State taxation receipts totalled \$13.9 billion of which \$4.3 billion (or 31 per cent) was payroll tax and \$4.7 billion (or 34 per cent) was stamp duty. Further comment on State taxation is included in the commentary on the Public Accounts and the Total State Sector Accounts, which appears earlier in this Volume.

Commonwealth Grants

Commonwealth grant receipts totalled \$11.7 billion, of which General Purpose Recurrent Grants amounted to \$5.2 billion and Specific Purpose Recurrent Grants were \$3.5 billion. Specific Purpose Capital Grants amounted to \$773 million. Additional to Recurrent Grants was an amount of \$2.2 billion which represented Commonwealth revenue replacement under the safety net arrangements put in place after the High Court decision on 5 August 1997 making levy and collection of state licence and franchise fees on tobacco, liquor and petrol unconstitutional. Further comment on revenue from Commonwealth grants appears in the section on the Public Accounts and the Total State Sector Accounts earlier in this Volume.

Statement of Financial Position

At 30 June	2000 \$000	1999 \$000
Cash	342,041	777,798
Investments	375	563,290
Advances repayable to the State	110,394	113,577
Inventories	27,640	27,687
Receivables	1,387,582	1,393,809
Other	12,777	22,278
TOTAL CURRENT ASSETS	1,880,809	2,898,439
Property	911,937	957,289
Investments	1,669,243	1,001,936
Advances repayable to the State	1,762,994	1,825,693
Inventories	8,609	8,609
Receivables	1,338,360	1,229,954
Other	--	1
TOTAL NON-CURRENT ASSETS	5,691,143	5,023,482
TOTAL ASSETS	7,751,952	7,921,921
Payables	259,873	447,676
Bank overdraft	1,354,188	1,486,334
Borrowings	3,814,489	4,142,013
Unfunded superannuation	345,000	25,000
Other employee entitlements	242,056	223,115
Provision for outstanding insurance claims	556,289	603,516
Lease incentive	5,667	5,667
Other	70,658	43,452
TOTAL CURRENT LIABILITIES	6,648,220	6,976,773
Borrowings	11,735,949	13,361,291
Unfunded superannuation	5,594,400	7,844,783
Other employee entitlements	1,618,372	1,559,467
Provision for outstanding insurance claims	2,186,481	2,174,829
Lease incentive	31,167	36,834
Other	403,694	407,372
TOTAL NON-CURRENT LIABILITIES	21,570,063	25,384,576
TOTAL LIABILITIES	28,218,283	32,361,349
NET LIABILITIES	(20,646,331)	(24,439,428)
Accumulated deficit	(21,139,718)	(24,941,325)
Reserves	493,387	501,897
TOTAL EQUITY	(20,646,331)	(24,439,428)

Assets

The major components include investments, receivables and advances repayable to the State.

The majority of receivables represent dividends and tax equivalents payable to the Crown Entity by eligible agencies. Provision for deferred income tax amounted to \$1.3 billion.

Advances repayable to the State totalled \$1.9 billion and mostly relate to Commonwealth housing advances on-lent to the Department of Housing (\$1.6 billion). Sydney Water Corporation owed \$51 million in advances at 30 June 2000.

Investments of \$1.7 billion were mostly represented by deposits held in the HourGlass facility with NSW Treasury Corporation.

Liabilities

Borrowings

Comment on borrowings and superannuation is included in the Public Accounts and Total State Sector Accounts section of this Volume.

Provision for Outstanding Insurance Claims

The provision of \$2.7 billion relates to the New South Wales Insurance Ministerial Corporation. The provision is to cover claims for losses that have occurred, including future developments on known claims as well as claims yet to be reported. Further information on the Insurance Ministerial Corporation was included in Volume Six of the Auditor-General's Report for 2000.

Incentive from Lessor

Lease incentives of \$36.8 million represent payments received by the Crown Property Portfolio from the Superannuation Administration Corporation for a 12-year lease on the Governor Macquarie Tower. The lease incentive will be progressively reduced over the term of the lease through transfers to property rental income.

Other

Other liabilities totalled \$474 million of which \$404 million or 85 per cent represent adjustments in respect of income tax equivalent future income tax benefits receivable from Public Trading and Public Financial Enterprises.

Significant Post Balance Date Event

In the period 10 to 24 July 2000 the Crown Entity repaid borrowings of \$2.122 billion. These repayments were funded from the proceeds of the electricity industry restructure. These repayments will reduce the debt level at the Crown Entity and Public Accounts level but will have no impact at the Total State Sector Accounts level.

Section Two

Board of Veterinary Surgeons of New South Wales
Murray Valley Cereals Marketing Board
Murray Valley Wine Grape Industry Development Committee
New South Wales Grains Board

Commentary on Government Agencies

Minister for Agriculture

ESTABLISHMENT AND OBJECTIVES

- Board of Veterinary Surgeons of New South Wales
- Murray Valley Citrus Marketing Board
- Murray Valley Wine Grape Industry Development Committee
- New South Wales Grains Board

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

During the year, the Board relocated from Orange to Sydney. The move to Sydney resulted in the appointment of a new staff and the setting up of a new office in Randwick. Legislation was introduced on 1 August 1990 separating the Board from the Department of Agriculture. This legislation also provided the power to suspend for a maximum of 30 days, veterinarians who had been found guilty of "serious" misconduct in a professional respect.

AUDIT OPINION

The audit of the financial report of the Board for the year ended 30 June 1990 resulted in the issue of an unqualified independent Audit Report.

FINANCIAL INFORMATION

Income for the year comprised licence and application fees of \$433,000 (1989-90: \$400,000) and licence renewal income of \$11,400 (\$12,000). Income received during the year from the sale of land was \$150,000 (1989-90: \$125,000) for veterinary purposes. The surplus was \$1,100,000 (1989-90: \$1,000,000).

Expenditure for the year amounted to \$687,000 (1989-90: \$687,000) and included \$178,000 (1989-90: \$178,000) for salaries and legal payments, \$214,000 (1989-90: \$214,000) for the mortgage and fee paid to the Department of Agriculture and \$100,000 (1989-90: \$100,000) for Board and Committee fees. Expenditure was higher than 1989-90 mainly due to costs associated with the move to Randwick and a reduction of 20 Board.

The operating deficiency for the year, \$119,000 (1989-90: \$119,000) brought the Board's accumulated deficit down to \$1,100,000 (1989-90: \$1,100,000) and was within the limit. This amount was represented by cash of \$122,000 (1989-90: \$122,000), receivables and prepayments of \$14,000 (1989-90: \$14,000), less creditors of \$245,000 (1989-90: \$245,000).

Board of Veterinary Surgeons of New South Wales

ESTABLISHMENT AND OBJECTIVES

The *Veterinary Surgeons Act 1986* requires that persons practicing veterinary surgery in New South Wales be registered with the Board and that non-exempted veterinary hospitals be licensed by the Board. At 30 June 2000, the number of veterinary surgeons registered was 2,339 (2,207 at 30 June 1999).

The Minister for Agriculture's control over activities of the Board arises from appointment of members by the Governor on the Minister's recommendation.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

During the year, the Board re-located from Orange to Sydney. The move to Sydney resulted in the appointment of new staff and the setting up of a new office in Randwick. Legislation was commenced on 1 August 2000 separating the Board from the Department of Agriculture. This legislation also provided the power to suspend for a maximum of 30 days, veterinarians who had been found guilty of "serious misconduct in a professional respect".

AUDIT OPINION

The audit of the financial report of the Board for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Income for the year comprised licence and application fees of \$471,000 (\$382,000 in 1998–99) and interest income of \$11,000 (\$12,000). Income increased due to an increase in roll fees from \$150 to \$225 per annum for veterinary surgeons. The increase was effective from 1 January 2000.

Expenditure for the year amounted to \$601,000 (\$484,000) and included \$198,000 (\$202,000) for conference and legal payments, \$214,000 (\$160,000) for the management fee paid to the Department of Agriculture and \$108,000 (\$51,000) for Board and Committee Fees. Operating expenses were higher than 1998–99 mainly due to costs associated with the move to Randwick and a restructure of the Board.

The operating deficiency for the year, \$119,000 (\$90,000), brought the Board's accumulated deficiency at 30 June 2000 to \$89,000 (\$30,000 accumulated surplus in 1999). This amount was represented by cash at bank of \$212,000 (\$150,000), receivables and prepayments of \$44,000 (\$42,000), less creditors of \$345,000 (\$162,000).

Murray Valley Citrus Marketing Board

ESTABLISHMENT AND OBJECTIVES

The *Murray Valley Citrus Marketing Act 1989* provided for the formation of a joint New South Wales and Victorian Board to market citrus fruits grown in the Murray Valley. The legislation commenced on 1 July 1990 when all assets, liabilities, rights and obligations of the Board's predecessors were vested in the Board.

AUDIT FINDINGS

Audit Opinion

The audit of the Board's financial report for the year ended 30 June 2000 was undertaken by the Victorian Auditor-General. The audit resulted in the issue of a qualified Independent Audit Report. The qualification stated that:

The Board's principal source of revenue is the levies payable by the citrus growers. The Board has not established an effective system of internal controls to ensure the collection of all levies due to it. Furthermore, it was not practicable to undertake alternative audit procedures to independently verify the total levies due. Accordingly, the audit of the operating income item levies of \$934,000, as shown in the income and expense statement, was limited to the amounts recorded in the Board's accounting records.

KEY FINANCIAL INFORMATION

Year ended 30 June	2000 \$'000	1999 \$'000
Income	1,407	1,082
Expenses	1,337	1,082
Operating surplus/(deficit)	70	(1)
Total assets	1,298	1,135
Total liabilities	167	74

The increase in income was mainly attributable to increased levy income and industry project funding, while expenditure increased due mainly to increased promotion and market information expenditure.

Murray Valley Wine Grape Industry

Development Committee

ESTABLISHMENT AND OBJECTIVES

The Committee was established as a result of an order made under the *Marketing of Primary Products Act 1983*. The order commenced from 3 June 1994 for a period of four years and was extended for another year in June 1998. A Regulation issued in June 1999 extended the life of the Committee to 30 June 2000. A similar order was made under Victorian legislation, with the two appointed Committees being, in fact, one entity.

In June 1999, the Victorian order made in 1994 expired and following a poll held in accordance with the *Agricultural Industry Development Act 1990*, the Committee was set up for a further four years.

The purpose of the Committee is to promote the best interests of the Murray Valley wine grape industry through market research and the development of improved vineyard management practices.

AUDIT FINDINGS

Audit Opinion

The audit of the Committee's financial report for the year ended 30 June 2000 was undertaken by the Victorian Auditor-General. The audit resulted in the issue of an unqualified Independent Audit Report.

KEY FINANCIAL INFORMATION

Year ended 30 June	2000 \$'000	1999 \$'000
Income	420	307
Expenses	436	298
Operating (deficit)/surplus	(16)	9
Total assets	50	85
Total liabilities	5	24

The increase in income was primarily attributable to increased levy income. Expenditure increased primarily as a result of increased project expenditure and the introduction during the year of a funding arrangement with the Grape Growers Council.

New South Wales Grains Board

The New South Wales Grains Board was constituted in 1991 under the *Grain Marketing Act 1991*, which provides that the Grains Board may 'do all things necessary for and incidental to achieving the purpose of improving the marketing of coarse grains and oilseeds in New South Wales'. The Act empowered the Board with vesting rights for oilseeds and coarse grains and for exemptions to be granted.

The Board is a statutory body listed under Schedule 2 of the *Public Finance and Audit Act 1983*, and as such the Board is required, under Section 41A of that Act, to prepare and submit financial statements to the Auditor-General within six weeks of the end of its financial year. The financial statements for the year ended 31 August 2000, which were due by 12 October 2000, have yet to be received. The most recent external audit of the Grains Board was for the year ended 31 August 1999 with the results being included in Volume One of the Auditor-General's Report to Parliament for 2000.

It has been acknowledged the Board experienced large trading losses and severe financial difficulties during 1999-2000. The Board was unable to continue trading in the latter months of 2000 and all Directors have since been removed. The Minister for Agriculture announced in October 2000 that the Board had sold its vesting rights for oilseeds and coarse grains, to the year 2005, to the Queensland based Grainco Australia Limited for a sum of \$25.2 million.

In November 2000 an administrator was appointed by the Minister for Agriculture to manage the sale of the Board's assets and operations that were not included in the sale of the vesting rights to Grainco. The extent of the Board's losses for 1999-2000 has yet to be finally determined by the Administrator and submitted for audit.

On 9 February 2001, the Administrator filed an application with the NSW Supreme Court to wind up the Grains Board.

The Public Accounts Committee (PAC) has been conducting an inquiry into the operations of the Board and a report of its findings is pending, possibly in March 2001. The inquiry is examining events at the Grains Board, why they occurred, accountability and whether new arrangements will prevent a recurrence.

Part of the inquiry involved public hearings, one of which required the Audit Office to give evidence. At this hearing the PAC requested the Auditor-General to provide it with copies of management letters which had been sent by the Audit Office to the Directors of the Grains Board over a number of years. Based on earlier legal advice (see below) the Audit Office indicated that it was not able to provide these documents. However an alternative was suggested to the PAC to assist it in this matter, namely obtaining these documents from the Grains Board.

In April 1997, the Audit Office received an advising from the Crown Solicitor that in accordance with section 38 of the *Public Finance and Audit Act 1983* (the Act), the Auditor-General was prohibited from giving or communicating the contents of Audit Office working papers and other documents held to third parties. This opinion was included in Volume One of the Report to Parliament for 1997.

This advising, specifically in the context of access by the PAC, was confirmed orally by the Crown Solicitor prior to the PAC hearing and subsequently through a further written opinion of the Crown Solicitor dated 1 February 2001 (included as an appendix to this Report).

If Parliament considers it desirable, it would be necessary for legislative changes to be made to the Act to enable access to Audit Office workpapers and management letters by certain parties.

The PAC inquiry also covered the scope of the work performed by the Audit Office and the manner in which findings from audit work are reported. In the absence of a specified format in the Act regarding the audit opinion on financial attest audits, the Audit Office follows the mandatory prescription as set down in Australian Auditing Standard AUS 702 'The Audit Report on a General Purpose Financial Report' as issued by the Auditing Standards Board. This extends to using the example audit opinion, including a qualified audit opinion, contained within that Standard. This is consistent with section 34 of the Act which states that 'The Auditor-General should audit in such manner as the Auditor-General thinks fit having regard to recognised professional standards and practices'.

In July 1997, the Audit Office received an advising from the Crown Solicitor on the scope of work and reporting by the Auditor-General. This advising was included in Volume Two of the Report to Parliament for 1997. The Crown Solicitor advised 'that there is an important distinction to be made between the powers of the Auditor-General in conducting an audit of accounts and in providing an audit opinion on financial statements. The prescribed scope of the audit opinion is quite limited in comparison to the latitude given to the Auditor-General in deciding how to conduct an audit'.

Should the users of the audit opinions of the Auditor-General require a different format, for example to include reference to significant deficiencies in internal controls and management information systems which nevertheless do not preclude the issuing of an unqualified audit opinion, then legislative changes to the Act would be required. Such matters are currently reported through management letters, Statutory Audit Reports and the Auditor-General's Reports to Parliament.

The Independent Commission Against Corruption is also investigating a number of matters referred to it by the former Interim Managing Director of the Grains Board. The matters relate to possible corrupt behaviour by the former Managing Director over a number of years.

ESTABLISHMENT AND OBJECTIVES

Carnivale Limited

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Audit Office received Carnivale's financial report for 1998-99 on 27 September 1999. Completion and audit of the financial report was delayed because of the then management's original absence of experience in creating challenges with statutory obligations. Audit Office comments were generally referred to the Board of Directors on 23 October 1999.

On 14 November 1999 Audit Office staff met with newly appointed Carnivale representatives in regard to issues identified. The Audit Office comments were accepted by a subsequent internal audit.

Following a meeting with Audit Office staff in March 2000, Carnivale accepted measures to address identified issues, including the appointment of additional appropriate audit expertise. These issues were resolved by June 2000 and an updated Independent Audit Report was issued on 14 June 2000.

Carnivale's representatives have acknowledged deficiencies in prior practice, undertaken to improve management controls, implemented a restructuring and reorganising work, and provided a framework for the organisation to provide a quality service. Carnivale also gained and gave a commitment and quality and diversity of service.

AUDIT FINDINGS

Notwithstanding the effectiveness of the new risk approach from some of the issues identified during the 1998-99 audit continued to require improvement and the timing and quality of financial reporting. Audit findings necessitated remedial action by Carnivale of the financial report for the year ended 30 June 2000 submitted for audit on 12 September 2000. The main area of audit focus related to budgetary control and the ongoing funding of Carnivale.

The New South Wales Ministry for the Arts confirmed its support for Carnivale on 6 February 2001. The Ministry has committed to support Carnivale both financially and otherwise, at the level required to facilitate the 2001 Carnivale event and the Company's administrative expenses at current levels until 30 June 2002. "The Ministry considers Carnivale's financial management and controls and that they will be reorganised, will result in an improved financial situation and will result in the delivery of a 2001 Carnivale festival of an artistic standard acceptable to the Government."

Subsequently, an updated Independent Audit Report for the year ended 30 June 2001 was issued on 13 February 2001.

FINANCIAL INFORMATION

Operations for the year resulted in a deficit of \$45,000 (deficit of \$4,000 in 1998-99) and an accumulated deficiency of \$537 (surplus of \$64,000 at 30 June 1999). Carnivale accepted and recognised grants totaling \$30,000 in 1998-99. The audited transfers from these grants and the corresponding expenses to achieve the financial results for 1998-99 and 1999-2000.

Carnivale Ltd

ESTABLISHMENT AND OBJECTIVES

Carnivale Ltd (Carnivale) was incorporated on 23 July 1997 as a company limited by guarantee. Carnivale's principal activities are to plan, organise, administer and conduct an annual multicultural festival in September each year. Another objective of Carnivale is to develop as a professional arts organisation promoting artists and events throughout the year.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Audit Office received Carnivale's financial report for 1998-99 on 21 September 1999. Completion and audit of the financial report was delayed because of the then management's apparent absence of expertise to ensure compliance with statutory obligations. Audit Office concerns were formally referred to the Board of Directors on 25 October 1999.

On 23 November 1999 Audit Office staff met with newly appointed Carnivale representatives to outline issues identified. The Audit Office concerns were supported by a subsequent internal audit.

Following a meeting with Audit Office staff in March 2000, Carnivale allocated resources to overcome identified issues, including the absence of sufficient appropriate audit evidence. These issues were resolved in June 2000 and an unqualified Independent Audit report was issued on 14 June 2000.

Carnivale's representatives, having acknowledged deficiencies in past practices, undertook to improve: budgetary controls; processes aimed at identifying and recognising services provided without cost to the organisation; payroll procedures; controls over general and grant expenditure; and control and custody of assets.

AUDIT FINDINGS

Notwithstanding the endeavours of the new management team, some of the issues identified during the 1998-99 audit continued to impact operations and the timing and quality of financial reporting. Audit findings necessitated reconsideration by Carnivale of the financial report for the year ended 30 June 2000, submitted for audit on 12 September 2000. The main area of audit focus related to budgetary issues and the ongoing funding of Carnivale.

The New South Wales Ministry for the Arts confirmed its support for Carnivale on 6 February 2001. The Ministry has committed to support Carnivale, both financially and otherwise, to the level required to facilitate the 2001 Carnivale event and the Company's administration expense at current levels until 30 June 2002. "The Ministry considers: Carnivale's financial targets/plans are feasible and that they will be implemented; will result in an improved financial situation; and, will result in the delivery of a 2001 Carnivale festival of an artistic standard acceptable to the Government."

Subsequently, an unqualified Independent Audit Report for the year ended 30 June 2000 was issued on 13 February 2001.

FINANCIAL INFORMATION

Operations for the year resulted in a deficit of \$65,000 (deficit of \$4,000 in 1998-99) and an accumulated deficiency of \$527 (surplus of \$64,000 at 30 June 1999). Carnivale received and recognised grants totalling \$90,000 in 1998-99. The associated benefits from these grants and the corresponding expenses to achieve those benefits did not occur until 1999-2000.

Key financial information is as follows:

Year ended 30 June	2000 \$'000	1999 \$'000
Government grants	816	735
Other income	65	45
Salaries and associated costs	304	248
Other expenses	642	537
Cash	73	124
Payables	91	53

Attorney General

Legal Aid Commission of New South Wales
Office of the Director of Public Prosecutions
Public Trustee

Legal Aid Commission of New South Wales

ESTABLISHMENT AND OBJECTIVES

The Legal Aid Commission is primarily responsible for providing legal aid and other legal services in accordance with the *Legal Aid Commission Act 1979*. Legal aid services are provided by the Commission's officers or by private legal practitioners. The Commission is required to ensure that legal aid is provided in the most effective, efficient and economical manner. A means test applies to most applications for assistance while some are the subject of a merit test as well. A legally assisted person may be required to make an initial contribution towards the Commission's costs and, if successful in a civil action, to meet the balance of any costs out of moneys recovered as a result of the proceedings. A legally assisted person may also be required to reimburse the Commission, and the Commission may defer recovery if the assisted person provides security.

MINISTERIAL DIRECTIONS

The Commission is an independent statutory authority within the portfolio of the Attorney General.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Commission undertakes work for the Commonwealth on the basis of an agency agreement. The most recent three-year agreement ended on 30 June 2000.

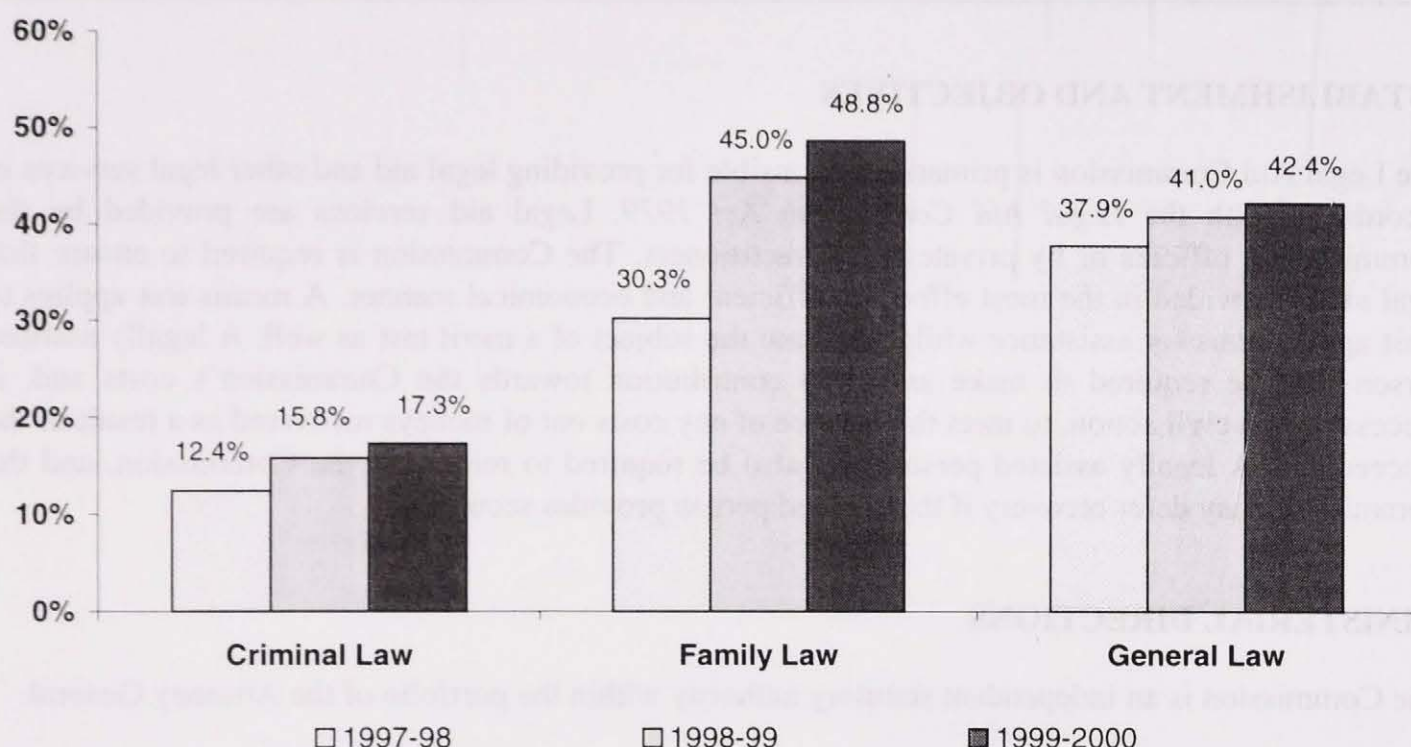
The Commission signed a new four-year agreement with the Commonwealth Government in August 2000. Under the new agreement the Commonwealth has offered an additional \$26.2 million over the next four-year period starting from 2000–01.

OPERATIONAL STATISTICS

From 1 July 1999 the Commission replaced "CLASS" with a new case management system called "LA Office" in accordance with the Commonwealth agreement and to ensure Y2K compliance. This system has been adopted by all legal aid commissions in Australia. The operational statistics produced by these two systems are substantially different and not comparable. Under the new system comparatives cannot be obtained prior to 1997–98. For this reason the chart below includes data only for the last three years.

Due to the steady increase in expenditure compared to available funding, the Commission continued its policy of limiting aid in certain areas. Records indicate refusal rates have been increasing year to year in most areas, especially in the family law category. The significant decrease in Commonwealth funding for the 1997-2000 three year agreement contributed to the increase in refusal rates.

Percentage of Applications Refused



One of the other initiatives to reduce expenditure has been a reduction in the proportion of cases assigned to private practitioners. Comparing total cases approved against total cases assigned to private practitioners, the percentage assigned dropped from 63.9 per cent in 1997–98 to 59.3 per cent in 1998–99 and 46.6 per cent in 1999–2000. For the same reason, total payments made to the private profession also fell sharply during the past three years.

Despite restrictions on spending, significant amounts were spent during the year. The Commission's expenditure on four individual cases totalled \$1.1 million during 1999–2000 and it is expected that further significant expenditure is still to be incurred before their finalisation. The cases involved are the John Newman murder trial (\$315,000), the Indonesian drug boat trial (\$282,000), the David Carty murder trial (\$193,000) and the Bikic and others murder trial (\$275,000).

Based on statistics released by National Legal Aid, the Commission receives the lowest combined funding on a per capita basis from Commonwealth and State governments compared with the other States. The funding received by the Commission during the 1999–2000 financial year was approximately \$8.66 per person compared with the next lowest of \$10.13 received by Queensland and the highest amount of \$20.18 received by the Northern Territory.

AUDIT FINDINGS

Audit Opinion

The audit of the Commission's financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Accounting Issues

At the end of the second year of the three year agreement which ended on the 30 June 2000, there was over-expenditure of \$6.0 million which was recovered in 1999–2000. Over-expenditure at the end of the third and final year was \$758,000, of which \$418,000 was accrued as revenue and included in receivables.

Control Issues

There are a number of control issues relating to information security which have been discussed with management.

Compliance Issues

As well as reviewing legislative requirements that govern the form or content of the financial report, other legislative requirements that could have a financial impact on the agency are reviewed on a cyclical basis. Requirements examined during 1999–2000 comprise compliance with: business activities being in accordance with the *Legal Aid Commission Act 1979*, the Premier's Department SES Guidelines in respect of the Managing Director's contract of employment; and the key provisions of Part 2 of the *Public Sector Management Act 1988* and Parts 2 to 6 of the Public Sector Management (General) Regulation 1996.

As a result of the reviews, it was found that the Commission had complied with the requirements of the relevant legislation, SES Guidelines and policies and procedures.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Employee related	37,676	34,864
Other expenses	<u>49,474</u>	<u>52,378</u>
TOTAL EXPENSES	<u>87,150</u>	<u>87,242</u>
TOTAL REVENUE	<u>58,421</u>	<u>61,504</u>
(Loss) on sale of non-current assets	<u>(17)</u>	<u>(80)</u>
NET COST OF SERVICES	<u>28,746</u>	<u>25,818</u>
Add Government Contributions	<u>38,024</u>	<u>30,321</u>
SURPLUS FOR THE YEAR	<u>9,278</u>	<u>4,503</u>

Employee related expenses increased by \$2.8 million or 8.1 per cent in 1999–2000. This was primarily due to a wage increase of 2 per cent in January 2000, the provision of payroll tax on employee entitlements made by the Commission for the first time and an increase in superannuation expenses as a result of the resumption of superannuation payments by the Commission which were suspended in the previous year. The Commission was given approval to apply available funds held by the Superannuation Administration Corporation to meet its superannuation expenditure for that year.

Other expenses decreased mainly due to a reduction of \$4.2 million in the cost of legal expenses due to a change in methodology used to value the estimated cost of work in progress. This decrease was partially offset by an increase in grants and subsidies.

Total revenue decreased by \$3.1 million due to the decrease in Commonwealth funding as a result of accruing and recording revenue of \$6.0 million in 1998–99 related to the cost-recovery of over-expenditure. The effect of this action reduced the revenue by \$12.0 million over the previous year. However, an increase in prepaid superannuation contribution reserve of \$8.4 million partly compensated for this decrease. This increase has been recorded as abnormal revenue in the financial statements.

Abridged Statement of Financial Position

At 30 June	2000 \$'000	1999 \$'000
Current assets	8,457	13,820
Non-current assets	<u>25,433</u>	<u>17,811</u>
TOTAL ASSETS	<u>33,890</u>	<u>31,631</u>
Current liabilities	11,127	15,860
Non-current liabilities	<u>6,378</u>	<u>8,664</u>
TOTAL LIABILITIES	<u>17,505</u>	<u>24,524</u>
NET ASSETS	<u>16,385</u>	<u>7,107</u>
Accumulated funds	<u>16,385</u>	<u>7,107</u>
TOTAL EQUITY	<u>16,385</u>	<u>7,107</u>

The decrease in total current assets was mainly due to the 1998-99 accrual of \$6.0 million in respect of the over-expenditure on Commonwealth law matters. The accrual of over-expenditure for 1999-2000 was only \$418,000.

The increase in total non-current assets was primarily due to the increase in prepaid superannuation of \$8.4 million referred to above. This increase was partly offset by the decrease in receivables for legal matters in progress.

Current liabilities decreased due to the reduction of \$2.1 million in the value of work in progress as a result of the change in methodology and the full repayment of outstanding borrowings of \$2.5 million from the New South Wales Treasury.

Non-current liabilities also reduced, due primarily to the decrease in the value of work in progress as a result of the change in methodology mentioned above.

Abridged Program Information

The table below details the Commission's net cost of services on a program basis:

Program Description	1999-2000		Net Cost of Services \$'000	1998-99 Net Cost of Services \$'000
	Revenues * \$'000	Expenses * \$'000		
Family law	14,806	16,183	1,377	4,148
Criminal law	5,326	43,806	38,480	31,963
General law	8,647	15,907	7,260	4,011
Community legal centres	5,320	10,559	5,239	4,259
Alternative dispute resolution	705	702	(3)	78
Not attributable to any program –				
Commonwealth funding	<u>23,672</u>	<u>65</u>	<u>(23,607)</u>	<u>(18,641)</u>
Total all programs	<u>58,476</u>	<u>87,222</u>	<u>28,746</u>	<u>25,818</u>

* Includes gain/(loss) on sale of non-current assets.

Office of the Director of Public Prosecutions

ESTABLISHMENT AND OBJECTIVES

The Office was constituted under the *Director of Public Prosecutions Act 1986*. The principal functions and responsibilities of the Director of Public Prosecutions are to institute and conduct, on behalf of the State, prosecutions for indictable offences in the District and Supreme Courts and to appear as appellant or respondent in criminal appeals.

AUDIT FINDINGS

The financial report of the Office was returned to the Director on 2 August 2000 as it contained deficiencies and omissions and accordingly did not meet the requirements of Section 45D of the *Public Finance and Audit Act 1983*. A subsequent report was received on 11 August 2000, the statutory deadline. The Independent Audit Report was not issued by the statutory deadline because of further problems encountered during the audit relating to the fixed assets register.

Audit Opinion

The audit of the Office's financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Control Issues

Recommendations to improve internal controls relating to fixed assets, bank reconciliations, receivables and employee entitlements have been discussed during the course of the audit and have been included in the management letter issued to the Office.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could have an impact on the Office are reviewed on a cyclical basis. Requirements examined during 1999–2000 comprise compliance with business activities being in accordance with the *Director of Public Prosecutions Act 1986*; key provisions of the *Public Sector Management Act 1988* and Public Sector Management (General) Regulation 1996 in regard to employment conditions and policies; and the *Statutory and Other Offices Remuneration Act 1975* in respect of the Director's terms of employment.

As a result of the reviews, it was found that the Office had complied with the requirements of the relevant legislation, guidelines, policies and procedures.

OTHER ISSUES

The Office has engaged in benchmarking with other Public Prosecution Offices in Australia in relation to the methods of measuring levels of victim satisfaction and prosecution of child sexual assault matters. The processes of the other offices were found to be very similar.

The Office's CASES computer system, a case management system, will be upgraded during the next two years. The upgraded system will allow the Office to measure costs associated with work undertaken, including the cost of court days serviced.

The Office has established a specialist unit, the Witness Assistance Service (WAS), to provide information, court preparation and support for victims of violent crimes and vulnerable witnesses.

FINANCIAL INFORMATION

The net cost of services of \$57.6 million (\$53.8 million in 1998–99) included \$43.7 million (\$40.6 million) for employee-related expenses, other operating expenses \$9.9 million (\$8.8 million), depreciation \$1.2 million (\$1.3 million) and other expenses \$3.1 million (\$2.9 million). Total revenue was \$275,000 (\$347,000).

Government assistance during the year amounted to \$56.1 million (\$52.9 million). This comprised Consolidated Fund recurrent appropriations of \$50.1 million (\$46.1 million), Consolidated Fund capital appropriations of \$900,000 (\$1.3 million) and acceptance by the Crown Entity of the Office's liabilities for employee entitlements, \$5.1 million (\$5.4 million). Loss on disposal of non-current assets was \$46,000 (\$490,000).

At 30 June 2000, assets totalled \$9.9 million (\$8.0 million), comprising cash \$2.6 million (\$1.1 million), accounts receivable \$1.1 million (\$865,000) and \$6.3 million (\$6.0 million) in property, plant and equipment. Liabilities of \$7.8 million (\$4.3 million) consisted of creditors, \$3.4 million (\$578,000) and provisions, \$4.4 million (\$3.8 million). Total equity of \$2.1 million (\$3.6 million) consists of an accumulated surplus of \$525,000 (\$2.1 million) and an asset revaluation reserve of \$1.6 million (\$1.6 million).

Public Trustee

ESTABLISHMENT AND OBJECTIVES

Under the *Public Trustee Act 1913*, the Public Trustee may act as a trustee; as an executor or administrator; as collector of estates under an order to collect; as an agent or attorney; as manager of the estate of a protected person; as guardian or receiver of the estate of a minor; and as a receiver of any other property.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Book Value Switches

Over the past nine years, the Public Trustee has disposed of certain investments of the Common Fund using book value 'switches'. The Public Trustee has advised that the reasons for the switches were to extend the duration and/or provide a higher net yield for the portfolio.

Book value 'switches' involve the sale of one security and the purchase of another, with both normally taking place above their market values. A net cash settlement usually also occurs and the switch is accounted for as a single transaction.

Generally when a security (or any asset) is sold, the transaction is at market value. If this is below the book value, a loss is recognised. Notionally, in the case of book value switches, no loss occurs on the sale of the security as it takes place at its book value. However the total amount paid for the acquired security contains an element that compensates the other party for having paid more than market value for the sold security. Treating the switch as a single transaction in effect transforms a loss on the sale side into a 'premium' on the acquisition, with this premium being amortised over the remaining term to maturity.

In 1999-2000, the Public Trustee undertook four book value switches in disposing of securities whose market value was \$1.0 million below their book value. In treating the transactions as "switches" this loss was not recognised in the operating statement. Instead an equivalent amount was recognised as a premium on the acquired securities and recorded as an asset. One of the securities purchased as part of the switch had 24 years remaining to maturity.

The total value of the switches undertaken over the nine-year period, the unrecognised losses (in total and in each year), and the incorrectly recognised amortisation expenses (in total and in each year) are unknown as the information is not readily available in the Public Trustee's records.

Over the whole period each security is held, the accounting treatment adopted by the Public Trustee has no net effect on the Common Fund, as the full amount of the loss is eventually recognised. However as trusts forming the Common Fund change over time, there is the potential that trusts at the time of the switches may have been favoured, with later trusts being impacted as the losses were recognised.

The Audit Office believes that this treatment is incorrect and has qualified the financial report of the Trustee Operations accordingly. Following this issue being raised by the Audit Office, the Trustee ceased undertaking book value switch transactions.

Prudent Person Principle

The *Trustee Amendment (Discretionary Investments) Act 1997* introduced the 'Prudent Person Principle' for investment and management by trustees in New South Wales. The Act amended the *Trustee Act 1925* to allow a broader range of investments so long as they are prudent having regard to the circumstances of the trust; to provide a transitional period of two years; and to set out guidelines regarding the investment process.

A restructure of investments in line with the Prudent Person Principle is nearing completion. As part of this restructure the Trustee is considering outsourcing all or part of the management of the investment portfolio.

Implementation of Trust Estate and Asset Management System (TEAMS)

The third and final phase of this project was completed in June 2000. An unforeseen additional phase to provide further functionality was completed in January 2001.

Commission and Fees

Commission and fees charged by the Trustee are governed by the Public Trustee Regulation 1999, which contains fees, commissions and charges identical to those introduced in 1991. A proposal to change the fees was contained in a Regulatory Impact Statement (RIS) advertised in July 1999. The proposal was subsequently deferred to allow further consultation and consideration. A new RIS as required under Section 6(2) of the *Subordinate Legislation Act 1989* has been advertised and amounts to a reconsideration of the July 1999 proposal.

The new RIS contained a draft Public Trustee Regulation 2000 prepared on the basis of updating fees, charges and commissions (using the format of the existing Regulation) and taking note of the need for the Trustee to continue to be a self-funding Government enterprise. In the majority of clauses, the fee is based on the actual costs of providing services from the Trustee's activity based costing system.

The RIS was subject to public comment until 4 September 2000 and is now under consideration by the Government.

AUDIT FINDINGS

Audit Opinion

The Public Trustee's financial report consists of the Office Administration Account and Trustee Operations. The audit of the financial report for the Office Administration Account for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

The audit of the financial report for the Trustee Operations Account for the year ended 30 June 2000 resulted in the issue of a Qualified Independent Audit Report. There were two qualifications and these related to the cash flow statement and the accounting treatment of "book value switches" as follows:

Non-compliance with Australian Accounting Standard AAS 28 "Statement of Cash Flows"

As in previous years, as indicated in Note 2(iii), the Cash Movement on Client Accounts category in the Statement of Cash Flows is shown on a net basis because the Public Trustee's estate administration system does not provide sufficient detail for disclosure in gross terms. In my opinion this is a departure from Australian Accounting Standard AAS 28 "Statement of Cash Flows" which requires cash flows to be disclosed in gross terms.

Non-compliance with Australian Accounting Standards AAS 15 "Revenue" AAS 21 "Acquisitions of Assets" and AAS 10 "Accounting for the Revaluation of Non-Current Assets"

The Public Trustee - Trustee Operations has undertaken "book value switches" for the past nine years in respect of certain investments that were not performing to current market standards and when sold results in a capital loss. These switches involve the sale of one investment and the purchase of another and are accounted for as a single transaction with a net settlement rather than as two separate transactions. On the sale side the investment is disposed of for its book value which is greater than its market value. On the purchase side another investment is acquired for its market value and any premium, plus the difference between the book value and sale price of the investment sold.

This accounting treatment results in the loss on the sale being deferred and amortised over the life of the new investment rather than being immediately recognised. It also results in the investments acquired being carried above their market value.

In my opinion this treatment contravenes Australian Accounting Standards AAS 15 "Revenue", AAS 21 "Acquisitions of Assets" and AAS 10 "Accounting for the Revaluation of Non-Current Assets". It has not been practicable to reliably calculate the cumulative financial effect of this practice over the past nine years or on the comparative information. The relevant information is not readily available from Public Trustee records. However, the "book value switches" undertaken during the year ended 30 June 2000 resulted in an understatement of the Operating Deficiency for the year by \$1,017,000 and the overstatement of Investments by the same amount.

Control Issues

Following the phased implementation of the TEAMS project, difficulties were experienced in completing bank reconciliations for the Trustee Operations. This resulted in significant additional work by the Trustee to produce a fully supported bank reconciliation. This was not finalised until November 2000.

A number of other control issues were identified during the course of the audit and are being discussed with the Trustee's management.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could impact on the Trustee are reviewed on a cyclical basis. Requirements examined during 1999-2000 comprise compliance with: business activities being in accordance with the *Public Trustee Act 1913*; the operation of Special Deposits Account(s) as required by the *Public Trustee Act 1913*; Premier's Department SES Guidelines in respect of the CEO's contract of employment; and the *Public Sector Management Act 1988* and Public Sector Management (General) Regulation 1996 in regard to employment conditions and policies of the Trustee.

As a result of the reviews, it was found that the Trustee had complied with the requirements of the relevant legislation, SES Guidelines and its policies and procedures.

FINANCIAL INFORMATION

Office Administration Account

Income and Expenditure Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Commission and fees	19,651	18,987
Other	4,866	4,635
TOTAL INCOME	24,517	23,622
EXPENDITURE	25,457	23,622
OPERATING SURPLUS (LOSS) BEFORE ABNORMAL ITEM	(940)	--
Abnormal items – superannuation and revaluation increment	11,803	--
OPERATING SURPLUS AFTER ABNORMAL ITEM	10,863	--
Accumulated funds at year-beginning	33,058	33,058
ACCUMULATED FUNDS AT YEAR-END	43,921	33,058

The superannuation component of the abnormal item is income of \$7.9 million. Of this, \$6.2 million resulted from changed assumptions underlying the actuarial calculations of the 30 June 2000 superannuation position. Also, the Superannuation Administration Corporation (SAC) made a distribution from the State Superannuation Scheme (SSS) Contributor's Reserve, which increased the Employer's Reserve by \$1.7 million.

The revaluation component of the abnormal item was for the upward revaluation of land and buildings by \$3.9 million, which reversed a previous downward revaluation in 1994-95.

Balance Sheet

At 30 June	2000 \$'000	1999 \$'000
Current assets	5,962	6,071
Non-current assets	47,214	43,589
TOTAL ASSETS	53,176	49,660
Current liabilities	3,768	2,658
Non-current liabilities	5,487	13,944
TOTAL LIABILITIES	9,255	16,602
NET ASSETS	43,921	33,058
Accumulated funds	43,921	33,058
TOTAL EQUITY	43,921	33,058

Investments at 30 June 2000 totalled \$25.3 million compared to \$29.3 million at 30 June 1999, a 13.7 per cent decrease mainly due to expenditure on property, plant and equipment.

Property, plant and equipment increased from \$16.0 million to \$21.9 million, mainly due to the revaluation of land and buildings by \$3.9 million and expenditure of \$3.9 million on computer software, the majority of which was for TEAMS.

Non-current prepayments increased from \$2.1 million to \$3.6 million and the provision for employee entitlements decreased from \$15.5 million to \$7.3 million. These fluctuations were the result of the change in the superannuation position mentioned previously.

Cash Flows - Administration Account

Net cash used in operating activities was \$702,000 (\$1.8 million provided in 1998-99). Net cash provided by investing activities was \$54,000 (\$3.2 million used). Cash held decreased from \$390,000 at the beginning of the year to an overdraft of \$258,000 at year-end.

Trustee Operations

In accordance with commercial industry practice, audited financial reports are not published for accounts held specifically for Trustee operations. These reports cover the Trust Funds, Common Fund investments, the Estates Guarantee and Reserve Account and the Interest Suspense Account.

The cash balances of all estates and trusts under management form part of the Common Fund. The returns to the various client accounts, after deduction of administration expenses, were supplemented from undistributed earnings to the extent of \$960,000 (\$2.3 million in 1998-99). Trust funds and reserves held at 30 June 2000 amounted to \$925.6 million (\$856.8 million), which included \$73.6 million (\$74.6 million) in the interest suspense account.

In addition, real estate and other unrealised assets are held in the course of administration on behalf of estates and trusts. The worth of these assets has not been formally assessed and has not been included in the financial report for Trustee operations. Improved disclosure by way of a note to the financial report has been recommended in the Auditor-General's Reports to Parliament for the four previous years.

Return to Clients

Distribution to clients of \$61.5 million (\$59.6 million in 1998-99) was 101.8 per cent (104.0 per cent) of the net investment income. This ratio has been more than 100 per cent and has resulted in a decrease in the balance of the interest suspense account for five consecutive years from \$78.2 million in 1995-96 to \$73.6 million in 1999-2000.

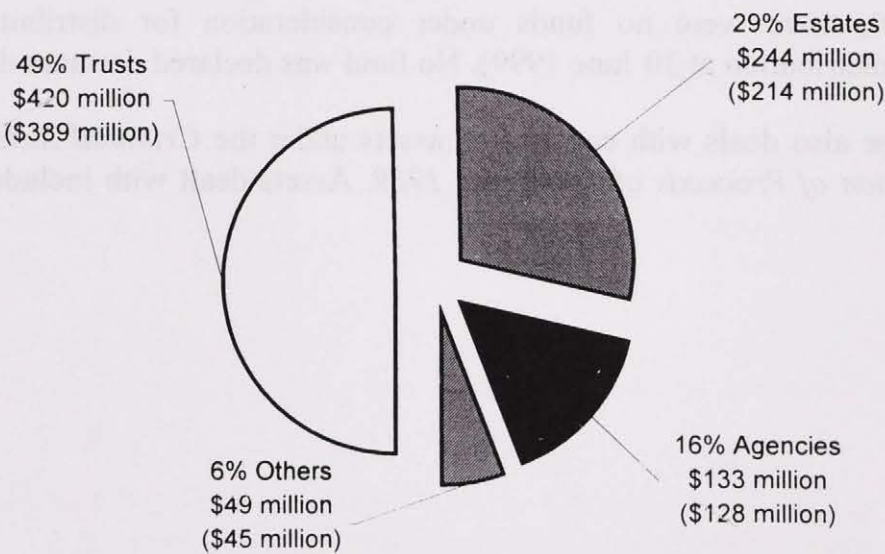
Under section 36A of the *Public Trustee Act 1913*, interest received from investments in the Common Fund may be distributed to clients at such time and at such rate as the Public Trustee may determine. The ability of the Public Trustee to draw on the interest suspense account to make distributions in excess of net investment income insulates clients' returns from market volatility, but may disadvantage those clients whose accounts are finalised at a time of high levels of undistributed income.

Components of Client Accounts

The total value of client accounts at 30 June 2000 was \$846 million (\$776 million), a 9.0 per cent increase from the previous year.

There are four main groups of client accounts: estates, trusts, agencies and others. The agencies category includes power of attorney matters, sale of real estate and staff agency accounts. Staff had \$15.2 million invested by the Trustee on their behalf. The 'others' group comprises primarily court matters, pending matters and non-interest bearing matters.

Components of Client Accounts

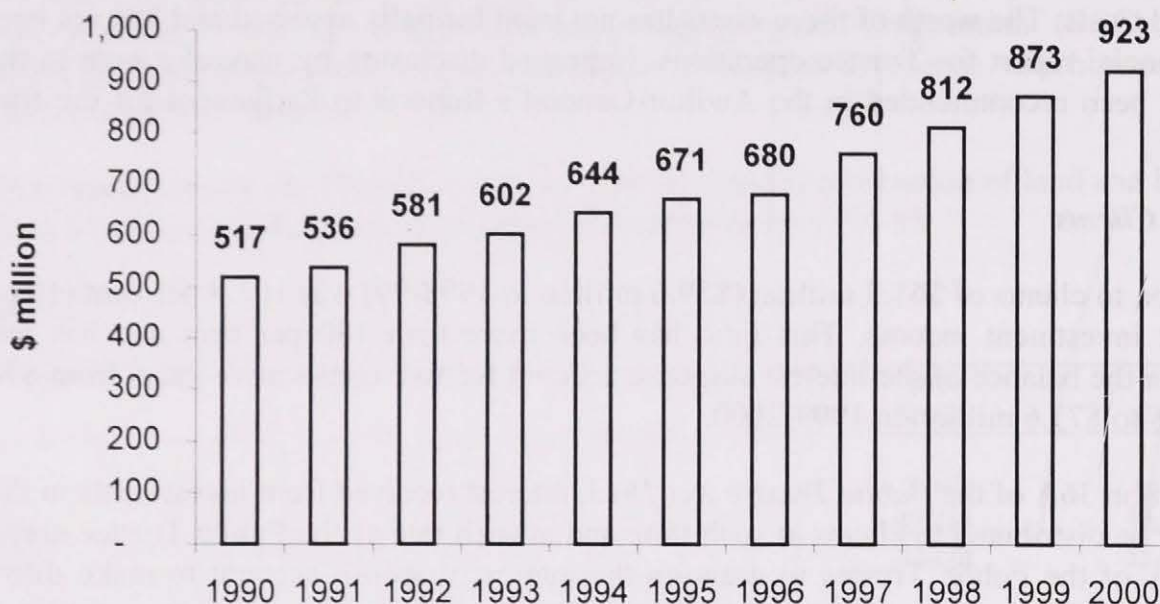


The individual groups maintained similar proportions within the client accounts in both 1999 and 2000. Previous year amounts are shown in parentheses in the chart above.

Investments in the Common Fund

Investments within the Common Fund include deposits at call, Australian government bonds, semi government stocks, local government loans, corporate bonds, mortgages, transferable certificates of deposit and floating rate notes.

Investments 1990 to 2000



Investments grew from \$517 million to \$923 million within a 10-year period (1990 to 2000), a 78.5 per cent increase.

Other Services

The *Dormant Funds Act 1942* empowers the Public Trustee as ex officio Commissioner of Dormant Funds to investigate and dispose of unused funds acquired by trustees for charitable or other public purposes.

During 1999–2000 there were no disposals (two disposals totalling \$27.7 million in 1998–99). A fee of \$100,000 related to the disposal of the Buckland Fund during 1998–99 was received in July 1999. Expenditure of \$21,798 to 30 June 2000 was incurred in the management of dormant funds. Of this, \$20,500 was recouped from the Attorney General's Department for salary costs.

At 30 June 2000, there were no funds under consideration for distribution (no funds under consideration for distribution at 30 June 1999). No fund was declared dormant during the year.

The Public Trustee also deals with confiscated assets under the *Criminal Assets Recovery Act 1990* and the *Confiscation of Proceeds of Crime Act 1989*. Assets dealt with include cash, jewellery, cars and real estate.

Minister for the Emergency Services

New South Wales Fire Brigades

New South Wales Fire Brigades

ESTABLISHMENT AND OBJECTIVES

The New South Wales Fire Brigades was established in January 1990 by proclamation of the *Fire Brigades Act 1989*. Its principal objectives are to: take all practicable measures to prevent and extinguish fires and to protect and save life and property in case of fire; perform non-fire rescues; reduce bush fire hazards; and act as the 'combat agency' at the scene of hazardous materials incidents. The Brigades is subject to the direction and control of the Minister for Emergency Services.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Fire Brigades Employee Union (FBEU) concerns regarding perceived inequity in death and disability benefits provided by the three existing super schemes covering permanent firefighters, resulted in industrial action (bans). Between 6 and 13 August 1999, the FBEU directed all staff not in the State Superannuation Scheme (SSS) to: not staff appliances; not leave stations; and, not perform duties that would expose them to risk. Firefighters covered by the SSS were not restricted by the bans and worked extensive overtime at penalty rates. To avoid further inflaming the dispute, the Brigades continued to pay firefighters impacted by the bans. However, because the bans resulted in half of the operational staff not taking part in any firefighting or operational activities which were deemed to place them in danger, the Brigades advise that some stations were temporarily closed.

A new raft of bans was introduced from 27 August 1999 until mid-December 1999, during which period it is understood significant overtime costs were incurred. The Government agreed in December 1999 to make two payments of \$350 each to all permanent firefighters, which resulted in the bans being lifted. Brigades' staff advised that these bans impacted the charging for false alarms contributing to a 47 per cent reduction in income from this source.

The Brigades identified that significant savings to offset the previously mentioned overtime costs could only be made by reductions in service delivery, namely closing of stations, termination of firefighters and reduction in the number of appliances in the fleet. Because of agreement that these were not viable options the Brigades 1999-2000 budget was supplemented by \$12.8 million. As at the date of preparation of this Report the Death and Disability Dispute remains unresolved.

In addition to the Death and Disability dispute, other unforeseen/unfunded events that adversely impacted the Brigades' financial resources are: retained firefighters workload costs (\$4.0 million), implementation of the GST (\$800,000); Y2K new years eve payroll costs (\$2.0 million) and award increases of \$6.8 million.

The Brigades has advised that these increasing costs have adversely impacted the budget for fleet and property maintenance and training with potential flow on effect to workers' compensation and occupational health and safety costs.

Capital works undertaken during the year amounted to \$39.4 million and included building works, \$15.0 million and fleet replacement, \$18.1 million. Major Building works included completion of fire stations at Horningsea Park, Huntingwood, Regentville, Kariong, Kelso, and Woolgoolga. In addition twenty-one existing fire stations were upgraded. The initial stages of the redevelopment of the City of Sydney Fire Station commenced with an estimated project value in excess of \$9.5 million, with expected completion in late 2002.

The *Fire Brigades Amendment Act 1997* authorised outsourcing of the Automatic Fire Alarm (AFA) monitoring system to third party network providers. The Brigades advise that third party service providers were contracted during the year to maintain alarm systems for metropolitan Sydney with a changeover deadline scheduled for 30 June 2001.

AUDIT FINDINGS

Audit Opinion

The audit of the Brigades' financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Accounting Issues

In July 1999 New South Wales Treasury forgave repayment of advances made to the Brigades totalling \$11.3 million. The debt forgiveness was recognised as abnormal revenue.

A revaluation of fire appliances during 1999-2000 resulted in an increment of \$10.6 million to carrying values being recognised through the asset revaluation reserve.

The Brigades discharges its long service leave liability through contributions to Treasury based on salary on-costs. Long service leave payments to employees are recouped from a pooled fund maintained by Treasury. During 1999-2000, \$4.1 million was contributed to Treasury for this purpose (\$4.2 million in 1998-99).

The Brigades' superannuation liability has been assumed by the Crown Entity. However the Brigades are required to make monthly payments to the Superannuation Administration Corporation. During 1999-2000, an amount of \$19.2 million (\$16.1 million in 1998-99) was paid to cover the estimated accruing liability for the year.

Control Issues

Significant problems identified during the audit of the bank reconciliation process adversely impacted timely finalisation of the financial report and issue of the Independent Audit Report.

Other opportunities for management to improve the financial reporting environment and to reduce risks were also identified during the external audit. These matters are currently being discussed with Brigades' staff and where appropriate will be formally referred to management. The more significant issues relate to assets, payroll, expenditure and management information and reporting systems.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could impact on the Brigades are reviewed on a cyclical basis. Requirements examined during 1999-2000 comprise compliance with: business activities being in accordance with the *Fire Brigades Act 1989*, the operation of Special Deposits Accounts as required by the *Fire Brigades Act 1989*, SES Guidelines in respect of the Commissioner's contract of employment; and key provisions of the *Public Sector Management Act 1988* and Parts 2 to 6 of the *Public Sector Management (General) Regulation 1996* as they relate to Brigade staff.

The Brigade substantially complied with these requirements.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Employee related	250,874	227,566
Other expenses	75,807	70,810
TOTAL EXPENSES	326,681	298,376
TOTAL REVENUE	24,957	19,178
Gain/(loss) on sale of non-current assets	(92)	817
NET COST OF SERVICES	301,816	278,381
Add Government Contributions	315,645	298,423
MOVEMENT IN ACCUMULATED FUNDS	13,829	20,042

The 10.2 percent increase in employee-related expenses was largely due to award increases and the impact of the previously mentioned death and disability dispute.

Revenue increased by 30.1 percent over 1998-99, largely due to the \$11.3 million debt forgiveness and a \$3.1 million insurance refund from the Treasury Managed Fund. Previous year's revenue included abnormal Natural Disasters Relief funding of \$8.6 million towards costs incurred following the Sydney Hailstorm in April 1999.

Abridged Statement of Financial Position

At 30 June	2000 \$'000	1999 \$'000
Current assets	30,157	52,305
Non-current assets	276,892	245,813
TOTAL ASSETS	307,049	298,118
Current liabilities	38,461	41,881
Non-current liabilities	3,582	15,633
TOTAL LIABILITIES	42,043	57,514
NET ASSETS	265,006	240,604
EQUITY		
Reserves	123,201	113,670
Accumulated funds	141,805	126,934
TOTAL EQUITY	265,006	240,604

Current assets included cash of \$25.1 million, a \$22.8 million reduction from the previous year. The Brigades has attributed this decline to a combination of factors, including the ongoing issue regarding funding of awards and Retained Firefighters workload costs. The Brigades' analysis of these costs indicates a \$9.8 million funding shortfall in 1999-2000 and a projected shortfall of \$15.3 million for 2000-01. Brigades' management acknowledges that this shortfall will require resolution to avoid impact on Brigade operations.

In addition to the previously mentioned forgiveness of debt, a lower level of assessment credits held on behalf of insurance companies (which fell from \$4.2 million to \$2.0 million) contributed to the decrease in liabilities.

Abridged Program Information

The following table details the Brigades' net cost of services on a program basis:

Program Description	Revenues \$'000	2000 Expenses* \$'000	Net Cost of Services \$'000	1999 Net Cost of Services \$'000
Operation and Maintenance of Brigades and Special Services	22,880	305,572	282,692	259,632
Fire Brigade Training and Development	821	11,133	10,312	11,831
Investigation, Research and Advisory Services	1,256	10,068	8,812	6,918
	<u>24,957</u>	<u>326,773</u>	<u>301,816</u>	<u>278,381</u>

* Includes loss on sale of non current assets

Minister for the Environment

The Waste Industry

Central Coast Waste Planning and Management Board

Illawarra Waste Planning and Management Board

Inner Sydney Waste Planning and Management Board

Lord Howe Island Board

Macarthur Waste Planning and Management Board

National Parks and Wildlife Service

Royal Botanic Gardens and Domain Trust

LACK OF OVERALL STRATEGY

There is a need to identify an overarching State strategy and to define the roles of the various Government agencies within the strategy. The lack of such a strategy is related to there being no overarching waste policy and providing direction within the waste industry. Volume Five of the Auditor General's Report to Parliament for 1994 indicated that there was no coherent vision in the industry for a single body providing co-ordination and direction for the waste industry. This is part of a lack of new technology investment in the period after five years of the Act's operation. In the absence of the central body with powers of direction, Waste Boards have relied on their own and varying activity and the tendency to charge back activities to waste disposal. This is very much consistent with arrangements where land use and activities are planned outside of the strategy and where the landfill resource is owned and controlled by Local Governments.

There is a State Waste Advisory Council (SWAC) which has a representative from the Government, Minister, Secretary of the Department, State Waste Board, or the Waste Recycling and Landfilling system. However, the Council does not have the power to direct and monitor Boards, thereby not being accountable to Ministers Government waste objectives. A recent draft discussion paper prepared by the Waste Boards for the review of the Act stated that SWAC is a consultative body and not the appropriate vehicle to provide the necessary vision for the waste industry as it was not provided for in the original legislation. The paper cited deficiencies in the current arrangement. The Council had evolved a number of sub-committees as SWAC in the process of reviewing the Act.

The Waste Industry

Volume Three of the Auditor-General's Report to Parliament for 1999 reported a number of issues relating to waste industry operations and the effects these were having on achieving the objectives and functions of the *Waste Minimisation and Management Act 1995*.

Some significant progress has since been made through the efforts of the various Waste Planning and Management Boards (Waste Boards). However, there is still no overriding body setting policy and providing direction within the waste industry. Targets for reductions in waste disposal through landfill are not being met, with one Board pursuing activities that appear in conflict with the objectives of the Act. Waste Recycling and Processing records indicate that during the 12 months to 30 June 2000 there was more waste than ever before placed into landfill in Sydney.

REVIEW OF THE ACT

Under section 91 of the Act, the Minister is to review the *Waste Minimisation and Management Act 1995* to determine whether the policy objectives of the Act remain valid and whether the terms of the Act remain appropriate for securing those objectives.

In particular, the Minister is to have regard to the establishing of new waste reduction targets after 2000.

The review is to be undertaken as soon as possible after the period of 5 years from the date of assent of the Act. The latter occurred on 22 December 1995.

The Minister initiated the review towards the end of 2000 and is required to table a report within 12 months. The Audit Office will report the outcomes in a future Volume of the Auditor-General's Report to Parliament.

LACK OF OVERALL STRATEGY

There is a need to identify an overarching State strategy and to define the roles of the various Government agencies within that strategy. The lack of such a strategy is related to there being no overriding body setting policy and providing direction within the waste industry. Volume Five of the Auditor-General's Report to Parliament for 1999 indicated that there was no common vision in the industry nor a single body providing co-ordination and direction for the waste industry. This in part has led to a lack of new technology infrastructure on the ground after five years of the Act's operation. In the absence of the central body with powers of direction, Waste Boards have relied on encouraging and coaxing industry and the community to change their attitudes to waste disposal. This is very time consuming with achievements often hard won and selective. The greatest results have occurred outside of the Sydney area where the landfill facilities are owned and controlled by Local Government.

There is a State Waste Advisory Council (SWAC) which has a representative from the Environment Protection Authority (EPA) but none from the various Waste Boards or the Waste Recycling and Processing Service. However, the Council does not have the power to direct and monitor Boards, industry and the community in achieving Government waste objectives. A recent draft discussion paper prepared by the Waste Boards for the review of the Act stated that SWAC in its current form was not the appropriate vehicle to provide the necessary thrust for the Waste Industry as it was not seen to be effective as an advisory body. The paper cited differences in the groups represented. The Minister has received a number of submissions on SWAC in the process of reviewing the Act.

It should be noted that the Boards have brought some discipline and direction to their respective regions. However, these Boards only cover the Sydney Basin, Illawarra, Central Coast and Hunter regions with a new Board recently established in the Southern Region of the State. The balance of the State appears to be predominantly self regulated. Where there is a broad regional co-operative approach, regional waste groups are formed. These are usually driven by Local Government.

Some Waste Boards (Hunter, Southern Sydney, Western Sydney and Illawarra) are involved, whether directly or indirectly, in the building of recycling facilities to reduce waste to landfill. However, each is pursuing what it believes to be the best practice even though they may have different engineered processes. This is not a criticism of the effectiveness of the facilities but an observation that each Waste Board has to independently provide its own solutions to its area's waste needs. There is a danger of duplicating efforts of other Board areas with similar costs being incurred. In the case of Southern Sydney Waste Board this has not occurred as it has relied upon the groundwork by Western Sydney Waste Board to expedite the process of acquiring a recycling plant. The situation with other Boards is unknown. The various approaches adopted by Boards in part stems from a lack of Statewide targets and performance measures for resource recovery and utilisation.

CONFLICTING OBJECTIVES

Boards have various approaches to recycling and the disposal of waste. One Board (Northern Sydney) appears to have as its main achievement the establishment of a landfill site at Woodlawn for the receipt of residual waste. It will receive a monetary payment for every tonne of regional waste placed in landfill. This appears to conflict with the main thrust of the Act which was to reduce waste into landfill.

However, access to landfill for Northern Sydney was critical with its access to the Lucas Heights site (Southern Region) being denied from 1 January 2001 because of an agreement in 1997 between the Waste Recycling and Processing Service (Waste Service) and Sutherland Shire Council. The Waste Service had intended to move Northern Sydney's waste to a proposed landfill site at Cessnock. This project failed to obtain the necessary approvals and did not proceed. The Northern Sydney Waste Board was faced with the problem of making alternative arrangements. While the future is uncertain the Northern Sydney Region has temporarily been allowed to transport its waste to Lucas Heights.

Also, the Boards in their earlier existence were led to believe that they had a limited period before they would be required to become fully self funding. Based on the above it is not difficult to see why the Northern Sydney Waste Planning and Management Board proceeded down this path.

CONTROL ISSUES

It would appear that a Waste Board can create a subsidiary company which can operate outside the control of Government. The Hunter Waste Planning and Management Board is in the process of establishing the Clean Hunter Centre Limited. The company will be jointly funded by the Commonwealth and the Board. The Board is predominantly funded through EPA (Waste Planning and Management Fund).

Contrary to Government policy (Premier's Memorandum 91/2 titled 'Guidelines for the Formation and Operation of Subsidiary Companies by Departments and Statutory Authorities'), the Minister for the Environment and the Treasurer will not be the shareholders. A Crown Solicitor's opinion was sought and it confirmed that the Board could establish the proposed company due to the powers under the Act. The Crown Solicitor has also advised that the Auditor-General will not be the auditor of the new company. This means the Government is funding a subsidiary of the Board while having no control over that subsidiary. There is also a lack of the usually expected accountability requirements. While the Clean Hunter Centre Limited is being established for a specific purpose, the ramifications of the Crown Solicitor's opinion means that Boards can establish subsidiaries and become mere funding 'mail boxes'.

WASTE BOARD ACHIEVEMENTS

Some of the Waste Boards have had considerable achievements in their industry. Examples of achievements include:

- ◆ The NSW Waste Boards have delivered cost savings to more than 250 businesses in NSW via waste auditing and the subsequent implementation of 120 Waste Management Plans. These strategies identified opportunities for businesses to divert 30 to 90 per cent of waste from landfill. As an example Macarthur Waste Board worked with the Macarthur Square Shopping Centre for two months to divert some 70 per cent of waste.
- ◆ The development of markets for recycled content products has been assisted by the production of an on-line guide to recycled content products and their manufacturers. Over 250 products with recycled content are listed on the Buy Recycled Guide web site which is updated regularly by the Hunter Waste Board.
- ◆ The Australian Reusable Resources Network (ARR Network) developed by the Illawarra Waste Board is an innovative on-line trading site, which enables businesses to trade their reusable goods and materials in a cost-effective manner. The site has 609 members actively seeking matches to their 761 active listings (401 listed items and 360 requested items).
- ◆ The NSW Waste Boards provide funding and assistance to the Recycled Organics Unit at the University of NSW. The unit (with assistance from the Central Coast Waste Board) has established a comprehensive demonstration and prototype trialing facility for on-site processing and utilisation of organics.
- ◆ The Southern Sydney Waste Board developed the 'Waste Makes No Cents' program, a total waste minimisation approach for business and industry addressing best practice waste management through industry guidelines, cleaner production and a better understanding of environmental impacts and their economic costs.
- ◆ A wood waste collection trial - facilitated by the Western Sydney Waste Board on behalf of the NSW Waste Boards - commenced in October 1999 at the Kurnell landfill facility.
- ◆ A 'Waste Planning Guide for Development Applications' has been developed to assist builders and developers address waste management issues and prepare waste management plans to submit with development applications to councils.
- ◆ The NSW Waste Boards, the Institute of Public Works Engineers Australia and the Construction & Demolition Division of the Waste Management of Australia have developed a 'Green Specification for Light Traffic Civil Works'. The project has resulted in a draft specification for the use of recycled Construction and Demolition materials in light traffic civil works such as roads, cul-de-sacs, car parks, bicycle-ways and footpaths.
- ◆ The Northern Sydney Waste Board was instrumental in assisting Northside Storage Tunnel to divert 2 million tonnes of material to a FreightCorp holding yard development. The Board will also be working with the Western Sydney Waste Board to divert the 4 million tonnes of material generated through the development of the Parramatta-Chatswood rail line for reuse in development in Western Sydney.
- ◆ Two 'state of the art' waste minimisation and electricity generation facilities at Wollongong are being developed in conjunction with Energy Developments Limited (EDL) and Wollongong City Council. These facilities when fully operational are expected to reduce the amount of Council's domestic and commercial waste going to landfill by up to 90 per cent, far exceeding the State Government's target of a 60 per cent reduction. These units came on-line in February 2001 and are expected to progressively move to full production.

- ◆ The Macarthur Waste Board in association with constituent Councils, Waste Service and a number of other organisations have developed a community awareness program highlighting the correct disposal of sharps and medical waste.

PUBLIC ACCOUNTS COMMITTEE REVIEW

Resulting from a matter raised in the Auditor-General's Report to Parliament for 1999, the Public Accounts Committee undertook a review of the long term financial viability of the Waste Recycling and Process Service. Representatives from the Audit Office of New South Wales gave evidence before the Committee in May 2000.

The Committee issued its report in July 2000. The report made the following recommendations for the future review of the *Waste Minimisation and Management Act* to improve the existing waste industry framework:

- ◆ realignment of Government sponsored waste activities to better achieve waste minimisation activities
- ◆ clarification of the Waste Service's objectives especially in relation to the balance between commercial and social obligations
- ◆ clarification of the operational responsibilities of the regional Waste Boards
- ◆ change the membership of the State Waste Advisory Council and regional waste boards, with a view to increasing the level of commercial expertise
- ◆ fund, and otherwise facilitate, alliances between stakeholders in the waste industry chain, particularly those relating to innovative practices at regional levels
- ◆ expand the ability of regional Waste Boards to better co-ordinate commercial, industrial and building waste streams
- ◆ clarification of the Environmental Protection Authority's responsibilities to oversight the co-ordination and implementation of changes in Government waste policy, including monitoring and reporting the effectiveness of new structures.

OTHER MATTERS

Board Representation

The Boards predominantly draw their directors from Local Government. While this has many advantages particularly in the domestic waste area, there is no representation from industry. This is not seen as conducive to fostering the development and implementation of appropriate policies and procedures to meet the objectives and functions of the Act. The Boards have acknowledged the need for a more diverse representation. It is also noted that some Boards, regardless of the governing legislation and their main source of funding, see themselves as being part of Local Government.

Financial Matters

The Environment Protection Authority administers the funding of the Boards from the Waste Planning and Management Fund. The Macarthur Waste Planning and Management Board indicated that it had been encouraged to expend its available funds towards the end of 1999-2000 leaving it in a serious financial position in the first quarter of 2000-2001 due to a lack of ongoing funding. The EPA advises that the Macarthur Board is receiving \$1.71 million in 2000-01.

Central Coast Waste Planning and Management Board

ESTABLISHMENT AND OBJECTIVES

The Central Coast Waste Planning and Management Board was established as a statutory body in September 1996 under the *Waste Minimisation and Management Act 1995*. This Board was one of eight Regional Waste Boards created at that time to achieve the underlying principle of the Act of reducing by 60 per cent the quantity of waste that goes into landfills by the end of year 2000.

Membership of the Board consists of seven directors, represented by three nominees from each of Gosford and Wyong Councils which included a community representative for each Council area. The General Manager is also a Director of the Board. With the exception of the General Manager, all are appointed by the Minister.

The Act allows the Minister for the Environment to give directions to the Board in relation to the exercise of its functions. No ministerial directions were given during the year.

AUDIT FINDINGS

Audit Opinion

The audit of the financial report of the Board for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Total revenue for the year was \$1.7 million (\$1.5 million in 1998-99). The revenue mainly represented grants received from the Waste Planning and Management Fund. The grants included \$393,000 (\$620,000 as recurrent grants, \$513,000 (nil) from the Waste Management Fund and \$450,000 (\$500,000) as Cross Regional Funding.

Expenses for the year totalled \$1.8 million (\$1.0 million) of which \$381,000 (\$353,000) was incurred on employee-related costs. Operating expenses of \$1.4 million (\$645,000) included \$926,000 (nil) on contractors and \$114,000 (\$441,000) on consultants. The operating deficit for the year was \$97,000 (surplus of \$445,000 in 1998-99).

Accumulated funds at 30 June 2000 of \$936,000 (\$1.0 million in 1998-99) were represented by cash and other current assets \$1.0 million (\$1.0 million), plant and equipment \$87,000 (\$106,000), offset by current liabilities of \$155,000 (\$89,000).

Illawarra Waste Planning and Management Board

ESTABLISHMENT AND OBJECTIVES

The Illawarra Waste Planning and Management Board was established as a statutory body in September 1996 under the *Waste Minimisation and Management Act 1995*. This Board is one of eight Regional Waste Boards created at that time to achieve the underlying principle of the Act of reducing by 60 per cent the quantity of waste that goes into landfills by the end of year 2000.

The Board consists of seven directors including the chairperson. Four of the directors represent local government councils in the Illawarra Region, two are appointed as community representatives by the Minister for the Environment and the seventh director is the General Manager. The Minister also appoints the Deputy Directors of the Board, of which there are currently four. A new Board was appointed in February 2000, with three of the original directors standing aside.

The Act allows the Minister for the Environment to give directions to the Board in relation to its functions. No ministerial directions were given during the year.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The required 60 per cent reduction of waste into landfill by the industry as per the Act was not achieved by the target date of 31 December 2000. Despite the efforts of all Waste Boards, waste to landfill is still a significant issue.

The Illawarra Waste Planning and Management Board has been responsible for the Cross Regional Information Technology Program since early 1998. The achievements of the program to date include the development and maintenance of the NSW Waste Boards Internet site and Intranet site, which facilitates communication between Boards. An online trading facility, which enables businesses to trade their re-useable goods and materials by directly accessing the Internet or with the assistance of Board staff. A Memorandum of Understanding has been signed between LGA Queensland and ACT Waste to expand membership and to promote the site and encourage its use. The Cross Regional Technology Program budget for 2000-01 of \$450,000 (\$510,000 in 1999-2000) will be used to maintain and enhance these sites.

AUDIT FINDINGS

Audit Opinion

The audit of the financial report of the Board for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Control Issues

A draft Management Letter relating to suggested improvements for internal control issues arising during the audit has been issued to the Board for consideration. The main area relates to the production of proper working papers to support the financial statements.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could have a financial impact on the Board are reviewed on a cyclical basis. Requirements examined during 1999–2000 comprise compliance with: core business activities being in accordance with the *Waste Minimisation and Management Act 1995* and the Premier's Department Senior Executive Service guidelines in respect of the CEO's contract.

As a result of the reviews, it was found that the Board has complied with the requirements of the relevant legislation and guidelines.

FINANCIAL INFORMATION

Total revenue for the year aggregated \$1.4 million (\$1.8 million in 1998-99), and included \$1.2 million (\$1.6 million) received from the Waste Planning and Management Fund. Expenses for the year totalled \$1.9 million (\$1.3 million) of which \$50,000 (\$52,000) related to directors' costs and \$381,000 (\$276,000) was charged to employee-related costs. Other operating expenses of \$1.5 million (\$1.0 million) included \$1.2 million (\$820,000) for Project Expenditure. The operating deficit for the year was \$492,000 (surplus \$428,000).

Accumulated funds at 30 June 2000 of \$596,000 (\$1.1 million in 1999), were represented by cash and receivables \$552,000 (\$980,000), fixed assets of \$170,000 (\$164,000) net of current liabilities of \$126,000 (\$56,000).

GENERAL

Further, comments relating to the waste industry generally are reported under the heading "The Waste Industry" earlier in this volume.

Inner Sydney Waste Planning and Management Board

ESTABLISHMENT AND OBJECTIVES

The Inner Sydney Waste Planning and Management Board was established as a statutory body in September 1996 under the *Waste Minimisation and Management Act 1995*. This Board is one of eight Regional Waste Boards created at the time to achieve the underlying principle of the Act of reducing by 60 per cent the quantity of waste that goes into landfills by the end of the year 2000. This has not been achieved. This has been acknowledged by the Minister and a set of new targets has been developed by the Board. The new target is for 50 per cent reduction in landfill to be achieved by year 2005.

The Board members consist of ten directors including a chairman. Eight members represent the various councils in the Inner Sydney Region. There is one director as a community representative and the Board's General Manager. With the exception of the General Manager, all are appointed by the Minister.

The Act allows the Minister for the Environment to give directions to the Board in relation to its functions. No ministerial directions were given during the year.

AUDIT FINDINGS

Audit Opinion

The audit of the financial report of the Board for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Compliance Issues

As well as reviewing legislative requirements that govern the form or content of the financial report, other legislative requirements that could have a financial impact on the agency are reviewed on a cyclical basis. Requirements applicable to the Board examined during 1999–2000 comprised core business activities being in accordance with *Waste Minimisation and Management Act 1995*; certain aspects of the *Public Sector Management Act 1988* and Public Sector Management (General) Regulation 1996 and the Premier's Department SES Guidelines in respect of the Chief Executive's contract.

The Board complied with relevant legislation and its policies and practices.

FINANCIAL INFORMATION

Total revenue for the year was \$1.3 million (\$2.7 million in 1998–99) which included \$1.2 million (\$2.6 million) for grants received from the Waste Planning and Management Fund. Expenses for the year totalled \$2.7 million (\$1.5 million) of which \$84,000 (\$84,000) related to directors' costs and \$471,000 (\$392,000) was charged to employee-related costs. Other operating expenses of \$2.1 million (\$1.1 million) included \$1.4 million (\$65,000) for contract services. The operating deficit for the period was \$1.5 million (\$1.2 million surplus).

Accumulated funds as at 30 June 2000 of \$990,000 (\$2.5 million in 1999) were represented by cash and other current assets of \$1.1 million (\$2.5 million), fixed assets of \$70,000 (\$96,000) and current liabilities of \$152,000 (\$109,000).

GENERAL

Further comment on the progress and processes relating to waste appears earlier in this report under the heading of "The Waste Industry".

Lord Howe Island Board

ESTABLISHMENT AND OBJECTIVES

The Lord Howe Island Board was constituted under the provisions of the *Lord Howe Island Act 1953*. It is charged with the care, control and management of the Island and all adjacent islands and coral reefs within one marine league of the Island. The Board, on behalf of the Islanders, carries out all local government functions; administers the Island's health services; generates and reticulates electricity; manages all Crown land; conducts a palm nursery and a liquor distribution outlet; maintains and operates the aerodrome and provides other miscellaneous services. It is also responsible for the management of the Island's Permanent Park Preserve and the Gower Wilson Memorial Hospital. The Board is subject to the control and direction of the Minister for the Environment.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Lord Howe Island Marine Park (Commonwealth Waters) was proclaimed on 7 June 2000. It is understood that this new marine park covers approximately 300,510 hectares making it the largest Commonwealth marine park off the New South Wales Coast.

The Lord Howe Island Biowaste Treatment Facility was commissioned on 30 June 2000. The facility was supplied and constructed by a New Zealand firm at a cost of some \$950,000, funded jointly by the State and Commonwealth Governments.

Arrangements were made to transfer the Statutory Health Corporation known as the Gower Wilson Memorial Hospital effective from 1 July 2000 to the South Eastern Sydney Area Health Service. The transfer includes hospital plant and equipment assets. However it is understood that the Board retains ownership of all land, buildings and other hospital infrastructure.

The Lord Howe Island Historical Museum (with a carrying value of \$142,000) was demolished to facilitate construction of the new Island Museum and Visitor Centre by the Lord Howe Island Historical Society and Museum Trust. The write-off was recognised as an abnormal expense. The Board contributed \$212,000 towards construction of the new museum.

The Board has advised that despite a serious injury to a casual seeder in March 2000, it achieved a 44 per cent reduction in Workers Compensation claims over the previous year.

A review of the *Lord Howe Island Act 1953* in accordance with National Competition Policy guidelines was undertaken during the year. The Board has advised that while the outcome of the review is not yet known it is anticipated that legislative changes may be required. Amounts totalling \$57,000 were paid to consultants engaged by the Board for the purpose of the review.

AUDIT FINDINGS

Audit Opinion

The Board was granted a two-week extension to 25 August 2000 for lodgement of its financial report. The Audit Office received the report on 30 August 2000. The audit identified that some amendments were required, the most significant being adjustments to asset values. After receipt of the amended financial report, an unqualified Independent Audit Report was issued on 16 November 2000.

Control Issues

The Board receives grants from the Commonwealth Department of Environment and Heritage for funding of World Heritage projects. Under the agreement with the Commonwealth, New South Wales is also required to contribute agreed amounts to the various projects. It is understood that while the Board's accounts recognise and specifically allocate expenditure from Commonwealth funding, overhead expenditure for World Heritage Projects funded by the State is not always specifically allocated. Accordingly ledger balances do not support the reported acquittal of State funds.

Other opportunities for management to improve the financial reporting environment and to reduce risks were also identified during the external audit. These matters are currently being discussed with Board staff and where appropriate will be formally referred to management. The more significant issues relate to inventory valuation and pricing and management information and reporting systems.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could impact on the Board are reviewed on a cyclical basis. Requirements examined during 1999-2000 comprise compliance with: business activities being in accordance with the *Lord Howe Island Act 1953*, the operation of Special Deposits Accounts as required by the *Lord Howe Island Act 1953*, and key provisions of the *Public Sector Management Act 1988* and Parts 2 to 6 of the *Public Sector Management (General) Regulation 1996* as they relate to Board staff.

The Board substantially complied with these requirements.

FINANCIAL INFORMATION

Income and Expenditure Statement

The lower operating surplus, \$217,000 (\$4.5 million in 1998-99), was largely due to "one-off" Government subsidies totalling \$4.5 million in 1998-99. The operating surplus reflected a surplus from palm and liquor activities, \$659,000 (\$377,000); a deficit of \$2.9 million (\$2.5 million deficit) from other service operations; and contributions from the State and Commonwealth Governments totalling \$2.5 million (\$6.7 million).

Revised actuarial assumptions contributed to a \$106,000 improvement in the superannuation position that was recognised as abnormal income.

Balance Sheet

Assets totalled \$25.7 million (\$21.3 million at 30 June 1999), the major component being property, plant and equipment with a carrying value of \$20.7 million (\$16.6 million). The increase reflected revaluation of land and buildings and infrastructure assets that resulted in a \$3.8 million increment to carrying values. Other components of total assets were cash and investments, \$3.6 million (\$3.3 million); inventories, \$905,000 (\$709,000); and receivables \$457,000 (\$654,000).

Year-end liabilities of \$1.1 million (\$740,000 at 30 June 1999), comprise creditors and accruals of \$817,000 (\$412,000), and employee entitlements of \$325,000 (\$327,000).

Year-end capital and retained earnings, \$24.6 million (\$20.6 million at 30 June 1999) comprise accumulated funds totalling \$13.1 million (\$12.9 million) and an asset revaluation reserve of \$11.5 million (\$7.7 million).

Macarthur Waste Planning and Management Board

ESTABLISHMENT AND OBJECTIVES

The Macarthur Waste Planning and Management Board was established as a statutory body in September 1996 under the *Waste Minimisation and Management Act 1995*. This Board is one of eight Regional Waste Boards created at that time to achieve the underlying principle of the Act of reducing by 60 per cent the quantity of waste that goes into landfills by the end of year 2000.

The Board consists of seven directors including the General Manager and a Chairman. Four directors represent the various councils in the Macarthur Region and two are community representatives. The Board normally holds monthly meetings.

The Act allows the Minister for the Environment to give directions to directors in relation to the exercise of the Board's functions. No ministerial directions were received during the year.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The required 60 per cent reduction of waste into landfill by the whole of the industry as per the Act was not achieved by the target date of 31 December 2000.

The first quantifiable investigation into illegal dumping in the region uncovered 370 illegal dumping incidents at six major hotspots. Twenty law enforcement officers have been trained in this field.

During 1999–2000, \$230,000 (\$201,000 in 1998–99) was spent on Cross-Regional consultants.

Grants from the Waste Planning and Management Fund for two cross-regional programs totalling \$685,000 (\$570,000) were allocated to the Board. These projects related to communication, education and household hazardous waste.

AUDIT FINDINGS

Audit Opinion

The audit of the financial report of the Board for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Control Issues

A Management Letter relating to suggested improvements for internal control issues arising during the audit has been issued.

Compliance Issues

As well as reviewing legislative requirements that govern the form or content of the financial report, other legislative requirements that could impact on the Board are reviewed on a cyclical basis. Requirements examined during 1999–2000 comprise compliance with: core business activities being in accordance with the *Waste Minimisation and Management Act 1995*; key provisions of the *Public Sector Management Act 1988* and Public Sector Management (General) Regulation 1996 and the Premier's Department Senior Executive Service guidelines in respect of the CEO's contract.

As a result of the reviews, it was found that the Board had complied with the requirements of the relevant legislation and guidelines.

FINANCIAL INFORMATION

Total revenue for the year was \$2.2 million (\$1.6 million in 1998–99). The major component of the revenue was \$1.6 million (\$1.4 million) in grants received from the Waste Planning and Management Fund. Expenses for the year totalled \$2.1 million (\$1.3 million) of which \$57,000 (\$53,000) related to directors' costs and \$725,000 (\$529,000) was charged to employee-related costs. Other operating expenses were \$1.3 million (\$721,000), the increase due to a \$326,000 rise in consultant and contractor related expenses and a \$87,000 rise in advertising costs. The operating surplus for the year was \$136,000 (\$321,000).

Accumulated funds at 30 June 2000 of \$1.0 million (\$866,000 in 1999) were represented by cash and receivables \$922,000 (\$820,000), fixed assets \$173,000 (\$163,000) and net of liabilities \$93,000 (\$117,000).

GENERAL

Further comment appears elsewhere in this report on the progress and processes relating to waste under the general heading of "The Waste Industry".

National Parks and Wildlife Service

ESTABLISHMENT AND OBJECTIVES

The Service was constituted by the *National Parks and Wildlife Act 1974* (the Act). Under this Act the Director-General of the Service is responsible for the care, control and management of all areas dedicated as national parks, nature reserves, historic sites, Aboriginal areas, and State game reserves.

The Director-General in the exercise and discharge of the powers, authorities, duties and functions conferred or imposed, is subject to the control and direction of the Minister for the Environment.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Matter referred to the Independent Commission Against Corruption

In Volume Three of the Auditor-General's Report to Parliament for 1999, it was reported that probity issues associated with some transactions identified during the 1999 audit were referred to the Independent Commission Against Corruption (ICAC). The transactions were in relation to invoice splitting and payment for goods not received. The matter was referred back to the Service by ICAC on 7 December 1999, with a directive under the ICAC Act to complete the investigation.

An independent investigator was appointed by the Director-General to conduct an investigation into the allegations. Major findings were:

- ◆ the former administration had not addressed issues relating to the conduct and protection of staff, thereby employing inadequate corporate governance
- ◆ harassment and grievance resolution procedures were several years old; in addition no Protected Disclosures policy existed
- ◆ the investigator concluded that the invoice splitting had occurred, but could not determine who had directed this to occur
- ◆ it was found that an officer of the Service had possibly acted corruptly with regard to payment for goods not received. The officer in question has since left the employ of the Service.

ICAC advised the Service on 4 February 2000 that it was satisfied that due and proper action had been taken and that the matter was closed.

New Land Dedications

New parks reserved under the Act totalled 12 (compared to 119 for 1998–99). These comprised two (41) national parks, nine (76) nature reserves and one aboriginal area. When combined with additions to existing Service-managed lands, land holdings total 5.1 million hectares (about 6.4 per cent of New South Wales).

New Park Entry Fees

The Service recently reviewed park entry fees, including day and annual passes, camping fees, landing fees, bus fees and exemptions and concessions. A new pricing structure became effective from 1 November 2000.

Financial Management System

The Service has substantially completed implementation of the new integrated financial management system, which commenced operation on 1 July 1999. The system is designed to improve the efficiency of accounts payable, purchasing, accounts receivable, financial information and asset management functions. At 30 June 2000 the total cost of purchase and implementation of the system was \$6.2 million (\$4.6 million at 30 June 1999).

Implementation of the Aurion Payroll System

The Service completed the implementation of the new human resource and payroll system (Aurion) in 1999–2000. The Aurion system is now fully operational in all service centres. The Service has prepared a procedure manual to assist staff with the new system. There are plans in place for the continual upgrade of the system in 2000–01 and beyond. As at 30 June 2000 the total cost of purchase and implementation of Aurion was \$1.3 million (\$1.0 million at 30 June 1999.)

Thredbo Landslide

The findings of the Coronial Inquest into the landslide that occurred at Thredbo Alpine Resort in July 1997 were released on 29 June 2000. The Coroner concluded that inaction by government agencies over a number of years had contributed to the landslide, with the Service being one of those agencies. In addition to the families of victims, a number of businesses and individuals in Thredbo and Jindabyne may possibly seek compensation. Substantial expenditure on rectification works on the Alpine Way continues to be incurred by the Service.

Plans of Management

Section 72 of the *National Parks and Wildlife Act 1974* requires that a plan of management be prepared, as soon as practicable, for each national park, nature reserve, historic site, state recreation area, regional park, state game reserve or karst conservation reserve and Aboriginal area. As at 30 June 2000, of the 498 management plans required to be prepared, 119 have been adopted, 46 have been exhibited and 50 are currently being prepared. Service management advises that a management plan usually takes approximately two years to prepare.

Bush Fires

Service records provide the following particulars regarding bushfires over the last six years:

Year	No of fires	Area Burnt (ha)	Bushfire Related Expenditure* \$m
1994–95	250	89,112	4.4
1995–96	189	15,192	1.1
1996–97	194	12,670	2.1
1997–98	466	236,152	17.2
1998–99	189	14,195	8.3
1999–2000	166	6,715	0.9

* Represents employee related and hire and replacement of equipment costs, claimable from Treasury Managed Fund.

Ku-ring-gai Chase National Park Fire Deaths

A routine hazard reduction operation at Ku-ring-gai Chase National Park resulted in the death of four of the Service's officers, while three other officers were severely injured. A Coronial Inquest is to be undertaken into this incident. The Service has no basis for knowing whether the findings of the inquest will result in claims against the Service.

Redundancies

In 1999–2000, expenditure on redundancies was \$5.2 million (\$468,000 in 1998–99). The increase in redundancy expenditure was primarily due to the fact that a major part of the restructuring of the Service took place during the year.

Native Title Claims

Under the *Commonwealth Native Title Act 1993*, a National Native Title Tribunal provides a method for determining the existence and extent of native title. The Tribunal's claimant procedures aim to reach agreement between parties by mediation before registering any agreement in the Federal Court. If agreement is not reached the matter is referred to the Federal Court for determination. The Premier has signed an agreement with the NSW Aboriginal Land Council on national parks on behalf of the State.

AUDIT FINDINGS

Audit Opinion

The audit of the Service's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report. The qualification related to the comparative amounts disclosed in the financial report and stated:

As disclosed in Note 19, in accordance with Treasurer's Directions the Service for the year ended 30 June 1999 recognised assets transferred to it as a result of an administrative restructure, as an adjustment to the opening balance of Accumulated Funds.

The treatment is a departure from the requirements of Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments". The value of the net asset transfer of \$42.7 million should have been recognised as revenue within the operating statement for the year ended 30 June 1999. Had this been done, the net cost of services for that year would have decreased by this amount to \$90.8 million and the surplus would have increased to \$89.8 million. There would have been no effect on net assets. The audit report on the financial report for the year ended 30 June 1999 was qualified accordingly.

Accounting Issues

In accordance with Treasury policy, dedicated land (ie, national parks, nature reserves, historic sites and Aboriginal areas), non-dedicated land (off park sites used for workshops and depots, etc) and other amenities and facilities (picnic areas, camping grounds, lookouts, etc) were revalued at 1 July 1999. The revaluation resulted in an increment of \$114 million in the recorded value of these assets.

Control Issues

Due to difficulties experienced by the Service in processing transactions into the new financial management system, particularly in the early part of the financial year, internal controls in the revenue and fixed assets business cycles were not considered to have operated effectively throughout the year. The main areas of concern included: the inability to reconcile the general ledger bank balance to the balance of the bank account until the latter part of the year; and information relating to fixed assets not being updated to the fixed assets module until the latter part of the year. Reviews of the Service's control environment in other areas were generally satisfactory. Matters noted during the audit have been discussed with management and where appropriate will be included in the forthcoming management letter to the Service.

Compliance Issues

As well as considering requirements governing the form and content of the financial report, other legislative requirements that could have a financial impact on agencies are reviewed by the Audit Office on a cyclical basis. Requirements examined during 1999–2000 comprised compliance with: core business activities being in accordance with the *National Parks and Wildlife Act 1974*; the operation of Special Deposit Accounts; key provisions of Part 2 of the *Public Sector Management Act 1988* and Parts 2 to 6 of the *Public Sector Management (General) Regulation 1996*; and the Premier's Department SES Guidelines in respect of the Director-General's contract of employment.

The Service has substantially complied with the relevant legislation and its policies and procedures.

Abridged Operating Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Employee related	115,943	108,062
Other expenses	123,538	119,280
TOTAL EXPENSES	239,481	227,342
TOTAL REVENUE	53,061	91,028
Gain/(loss) on sale of assets	410	(2)
NET COST OF SERVICES	186,010	136,316
Add Government Contributions	218,908	183,407
Movement in Accumulated Funds	32,898	47,091

Employee related expenditure increased by \$7.9 million, primarily due to redundancies and the use of temporary assistance.

Revenue decreased by \$38.0 million, primarily due to the previous year having \$41.3 million in contributed assets, compared to only \$2.4 million in the current year. Contributed assets comprise land, buildings, roads and other infrastructure transferred to the Service from other agencies.

Abridged Statement of Financial Position

At 30 June	2000 \$'000	1999 \$'000
Current Assets	13,665	7,739
Non-Current Assets	1,680,575	1,541,780
TOTAL ASSETS	1,694,240	1,549,519
TOTAL LIABILITIES	20,675	22,638
NET ASSETS	1,673,565	1,526,881
Accumulated funds	1,439,581	1,406,683
Reserves	233,984	120,198
TOTAL EQUITY	1,673,565	1,526,881

Non-current assets increased by \$138.8 million primarily due to revaluations of dedicated and non-dedicated land, other amenities and facilities comprising picnic areas, camping grounds and lookouts.

Included in employee entitlements is a provision for redundancy payments of \$1.4 million.

Program Information

The table below details the Service's net cost of services on a program basis. As in previous years, the distribution of expenses across programs has been based on estimates derived from a survey of work practices.

Program Description	1999-2000		Net Cost of Services \$'000	1998-99 Net Cost of Services \$'000
	Revenues \$'000	Expenses \$'000		
Conservation Policy, Assessment and Planning	8,407	53,746	45,339	39,339
Protection of Conservation Assets	12,196	76,182	63,986	39,178
Promotion of Conservation	32,705 (a)	108,192	75,487	56,743
Regional Park Management	163	1,361	1,198	1,056
	<u>53,471</u>	<u>239,481</u>	<u>186,010</u>	<u>136,316</u>
(a) Includes gain on sale of assets.				

Royal Botanic Gardens and Domain Trust

ESTABLISHMENT AND OBJECTIVES

The Trust was constituted under the *Royal Botanic Gardens and Domain Trust Act 1980*. The principal objectives of the Trust are to maintain and improve the Trust lands, the National Herbarium and the Trust's collections of living and preserved plant life. At 30 June 2000, the lands vested in the Trust comprised the Royal Botanic Gardens, the Domain, Mount Tomah Botanic Gardens and Mount Annan Botanic Gardens. The Trust also maintains the grounds of Government House.

Under the Act, the Trust is subject to the control and direction of the Minister for the Environment.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Olympic Games

A Memorandum of Understanding with the Olympic Co-ordination Authority (OCA) entitles the Trust to be compensated for costs associated with the staging of Olympic and Paralympic activities including the staging of test and actual games events for the Triathlon; various cultural and marketing activities; and the construction of temporary spectator grandstands, media stands and compounds. The Trust is currently negotiating the settlement of costs incurred in accordance with that agreement. On current estimates, the total costs associated with the Olympic period are \$381,564. After receiving a payment of \$200,000 from OCA the Trust is negotiating the recovery of a further \$181,564.

AUDIT FINDINGS

Audit Opinion

The audit of the Trust's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report. The qualification stated:

As detailed in Note 1(j) to the financial statements, a value for Herbarium Collection assets has not been recognised in the statement of financial position, nor has any potential flow on effect to the operating statement from increased depreciation expense. In my opinion, this is a departure from Australian Accounting Standard AAS29 "Financial Reporting by Government Departments" as it is probable that the future economic benefits embodied in these assets will eventuate and that they possess a cost or value that can be measured reliably. The recognition of Herbarium Collection assets is fundamental to an understanding of the Trust's financial position and the results of its operations. My audit opinion on the financial report for the year ended 30 June 1999 was similarly qualified.

Accounting Issues

Collection Assets

As disclosed in Volume Three of the Auditor-General's Report to Parliament for 1999, an initial valuation of the Trust's collection assets undertaken during 1998–99 to meet accounting standards. Accordingly, the audit of the Trust's financial report for the year ended 30 June 1999 resulted in the issue of a qualified Independent Audit Report.

During 1999–2000 the Trust applied a more rigorous valuation methodology for collection assets comprising monuments, heritage furniture, works of art, rare books and general books which were recognised as an asset at 30 June 2000 at a value of \$22.2 million.

In respect of the herbarium collection, the Trust undertook a number of valuation processes in an effort to refine the valuation of the collection. However, the issues pertaining to reliable valuation of the wider herbarium collection could not be resolved at 30 June 2000.

A more rigorous valuation methodology, and application of that methodology, in the valuation process is essential to avoid a continuance of the audit qualification.

The Trust does not have a comprehensive coordinated database that includes all collection assets. The process of recording the herbarium collection database is ongoing and Trust curatorial staff estimate the herbarium collection catalogue is 30 per cent complete. A comprehensive database might facilitate greater control over the collection and provide more accurate detail for the valuation exercise mentioned earlier in this report. It might also prompt fundamental reviews of the collection to help ensure the cost of collection management is warranted in light of the collections' intrinsic value to the State.

Domain Car Parking Station

A dispute with South Sydney City Council regarding rent renegotiation for the operation of the Domain Car Parking Station has not been finalised. The Trust was successful in the Equity Court against the Council and in a subsequent appeal. The Council filed an appeal which resulted in the Court of Appeal overturning the earlier decisions. Subsequent to this the Trust sought and was granted special leave to appeal by the High Court and it is anticipated that the matter will be listed for hearing towards the middle of 2001. If the Trust loses the appeal, the Trust's liability could be up to \$3.0 million.

Control Issues

During the course of the audit, instances were noted where existing procedures can be improved. These have been referred to Trust management for comment prior to the issue of the 1999–2000 management letter.

Compliance Issues

As well as reviewing legislative requirements that govern the form or content of the financial report, other legislative requirements that could have a financial impact on the agency are reviewed on a cyclical basis. Requirements examined during 1999–2000 comprise compliance with: business activities being in accordance with the *Royal Botanic Gardens and Domain Trust Act 1980*, as amended; the Premier's Department SES Guidelines in respect of the Director and Chief Executive's contract of employment; and the key provisions of Part 2 of the *Public Sector Management Act 1988* and Parts 2 to 6 of the *Public Sector Management (General) Regulation 1996*.

As a result of the reviews, it was found that the Trust had complied with the requirements of the relevant legislation, SES Guidelines and policies and procedures.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Employee related	15,360	15,472
Other expenses	11,892	10,430
TOTAL EXPENSES	27,252	25,902
TOTAL REVENUE	8,644	6,754
Gain on sale of non-current assets	3	34
NET COST OF SERVICES	18,605	19,114
Add Government Contributions	22,754	20,800
SURPLUS FOR THE YEAR	4,149	1,686

The 14.0 per cent increase in other expenses was primarily due to maintenance expenditure on restoration of sandstone structures and monuments of \$1.3 million (\$765,000 in 1998–99) provided at no charge under the Heritage Buildings Program of the Office of the Minister for Public Works and Services.

Total revenue increased by 28.0 per cent, primarily due to a \$1.4 million increase in income from grants and contributions to \$3.0 million. During 1999–2000 the Trust received \$949,000 to fund capital projects including a \$500,000 bequest to renovate cottage number four and \$325,000 from the Royal Botanic Gardens Sydney Foundation to improve wayfinding signage and first encounters gardens. Grants and contributions also reflected the \$580,000 increase in funding provided under the Heritage Buildings Program, referred to above.

Abridged Statement of Financial Position

At 30 June	2000 \$'000	2000 \$'000
Current assets	2,574	4,093
Non-current assets	171,649	131,262
TOTAL ASSETS	174,223	135,355
Current liabilities	2,352	3,522
TOTAL LIABILITIES	2,352	3,522
NET ASSETS	171,871	131,833
Reserves	26,600	12,870
Accumulated funds	145,271	118,963
TOTAL EQUITY	171,871	131,833

The 30.8 per cent increase in non-current assets was primarily due to the first time inclusion of certain collection asset categories at a value of \$22.2 million, referred to previously in this comment, and an increment of \$13.7 million in the value of land following the revaluation of this asset after a five year interval.

Current liabilities decreased by 33.2 per cent, reflecting the elimination of a \$1.2 million cashbook overdraft balance largely comprising unpresented cheques at the close of the previous year.

Abridged Program Information

The table below details the Trust's net cost of services on a program basis:

Year ended 30 June	2000		1999	
	Revenues *	Expenses *	Net Cost of Services	Net Cost of Services
	\$'000	\$'000	\$'000	\$'000
Research	1,261	4,065	2,804	3,134
Management of Resources	4,899	20,237	15,338	15,319
Interpretation, Education and Visitor Services	2,487	2,950	463	661
Not Attributable to any program – Government Funding	22,754	--	(22,754)	(20,800)
Total all programs	31,401	27,252	(4,149)	(1,686)

* Includes gain/(loss) on sale of non-current assets.

Forestry Commission of New South Wales (trading as State Forests of New South Wales)

ESTABLISHMENT AND OBJECTIVES

The Forestry Commission is a corporation sole constituted by the *Forestry Act 1916*. Under this legislation the Commission is required, amongst other things, to conserve and utilise the timber on Crown timber lands; to provide adequate supplies of timber from Crown timber lands for building, commercial, industrial, agricultural, mining and domestic purposes; and to preserve and improve, in accordance with good forestry practice, the soil resources and water catchment capabilities of Crown timber lands.

State Forests manages approximately 3 million hectares of forest across New South Wales. These forests are spread throughout the State, but the largest areas are concentrated on the coast and coastal escarpment. The dominant trees are the eucalypts of which there are more than 200 species. To complement the native forests, State Forests has established plantations. These include some 209,000 hectares of conifer plantations and approximately 50,000 hectares of eucalypt plantations on land purchased by State Forests and in joint ventures with private landowners.

The Commission, except in relation to the contents of a recommendation or report made by it to the Minister for Forestry, is subject in all respects to the control and direction of the Minister.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Commercial Advantage to Certain Customers

Commentary in Volume Three of the Auditor-General's Report to Parliament for 1999 noted that two mid North Coast companies were not paying royalties for timber within trade terms. Of the total outstanding balance for both companies as at January 2001 of \$2.0 million, some \$1.6 million was over 90 days old. State Forests has negotiated repayment terms with both of the companies, and repayments (including interest on the larger debt) are being received in compliance with these terms. Despite the financial difficulties that these debtors are obviously facing, State Forests was satisfied that the provision for doubtful debts of \$30,000 at 30 June 2000 was adequate. It should also be borne in mind that competitors to the two companies might view the situation as providing the companies with an unfair competitive advantage. A complaint to this effect has already been received by State Forests.

Liquidity Situation

On the surface, the level of State Forests' current assets of \$36.8 million (excluding inventories and prepaid superannuation) as compared to current liabilities of \$46.0 million (excluding employee entitlements) would indicate some liquidity concerns. However, there are some key factors that need to be considered: the ability of State Forests to roll over current borrowings, \$16.7 million, as and when they fall due; the inclusion of \$12.9 million of revenue in advance within creditors; and the substantial finalisation of State Forests' redundancy program in 1999-2000 involving payments of some \$9.1 million, which should result in a decrease in future employee related expenses. These factors combined would indicate that, at least in the short term, the liquidity concerns are mitigated, although the situation needs to be monitored closely by the Board of the Forestry Commission and the Government.

Employee Housing

State Forests has a number of cottages available for rental to employees. State Forests' policy is that the cottages are to be rented at the full market rate, but in some circumstances it is permitted for the managing director/delegated officers to approve the charging of less than market rates. In accordance with State Forests' Employee Housing Policy (which is based on Premier's Memorandum 94-10), where a reduced rent is applied, fringe benefits tax must be paid on the difference between the reduced rent and the market rate. Tenancy agreements must also be prepared for all State Forests properties which are rented to employees. The agreements, which should be for no more than 12 months, set out the conditions for occupancy of cottages and should document reasons for reductions in rent.

For a number of cottages reviewed, it was noted that:

- ◆ reasons for rent reductions were not always documented in the tenancy agreement
- ◆ officers without delegation were approving tenancy agreements
- ◆ some properties did not have tenancy agreements
- ◆ market rentals were not always being assessed on a yearly basis
- ◆ market rentals for some cottages had not been assessed since 1995
- ◆ in view of some of the above, FBT is not always being calculated on the appropriate market rental rates.

Sharing of Risk in Timber Supply Agreement

As noted in Volume Three of the Auditor-General's Report to Parliament for 1999, State Forests signed a contract with a private sector company in late 1998 for the establishment of a kraft pulp and paper mill. Under this contract, State Forests is to use its best endeavours to establish or procure, as part of its ongoing program, an additional 20,000 hectares of new softwood plantations within the economic supply zone of the mill over the next 10 years. At the time of preparing this Report, 3,800 hectares of land had been planted by State Forests in the Tumut/Hume region for this purpose. The company has a corresponding obligation to plant or procure an additional 10,000 hectares. State Forests has advised that to date the company has not planted any hectares. Construction of the mill commenced in November 1999, and it is expected to be in full production by mid to late 2002.

The contract with the company, is for 30 years with a 30 year option. In reviewing the terms of the contract, it is difficult to determine if a fair sharing of risks between State Forests and the company has been achieved. While the benefits of establishing a long term customer base is acknowledged, certain aspects of this contract give rise to the perception that the company has successfully minimised its operational risk by shifting some of the risk to State Forests, including:

- ◆ State Forests being obliged to compensate the company for increases in its costs arising from changes to laws and authority requirements
- ◆ a market price adjustment mechanism that effectively protects the margin between what the company pays State Forests for the timber and what it can sell it for; and
- ◆ State Forests only being able to sell its assets, rights and liabilities and the assets necessary to enable State Forests to perform its covenants and obligations under the Agreement, if the prospective purchaser agrees to the obligations of the contract.

Government Restructure of the Native Forest Industry

In September 1996, the Government announced a forestry reform package to further the implementation of the 1992 National Forest Policy Statement (NFPS). The NFPS proposes the establishment of a national forest reserve system which is comprehensive, adequate and representative and which provides for wood production and industry development based on ecologically sustainable use of native forests and plantations. The Government has agreed to carry out comprehensive regional assessments (CRAs) which will be incorporated into formal Regional Forest Agreements (RFAs) with the Commonwealth.

CRAs and RFAs are being coordinated by the Resource and Conservation Assessment Council (RACAC) under the administration of the Minister for Urban Affairs and Planning. State Forests is an active participant in this process.

The four regions in New South Wales where CRAs are being undertaken are Eden, Upper North East (UNE), Lower North East (LNE), and Southern. RFAs have now been signed for Eden, UNE and LNE. An RFA for the Southern Region is expected to be completed in early 2001.

The NSW Government has commenced the Southern Brigalow Forest Assessment in the western area of the State. As there will be no Commonwealth involvement for the Western Region, an RFA will not be signed. However a State forest agreement (i.e. without Commonwealth endorsement) will be signed. Finalisation of the western assessment is not expected until 2002.

Carbon Credits

The December 1997 Climate Change Convention in Kyoto resulted in agreement on national targets for the reduction of greenhouse gas emissions. At this stage the Kyoto Protocol will only enter into force after it has been ratified by at least 55 parties to the Convention. Key Protocol issues that need to be resolved include rules for obtaining credit for improving "sinks"; a regime for monitoring compliance with commitments; and accounting methods for national emissions and emission reductions. These were to be resolved in November 2000 at the United Nations Framework Convention on Climate Change (COP 6), however resolution is not likely until discussions resume in Bonn in May 2001.

As an initiative in greenhouse gas reduction, in February 2000 State Forests signed an agreement with an overseas based company, to establish 1,000 hectares of new forest, with plans for an ongoing program of between 10,000 and 40,000 hectares over the next ten years. To date, some \$2.3 million has been received from the company under this initiative.

State Forests' view is that a standardised method of accounting for carbon sinks is a key issue. In August 1999, State Forests and Hancock Victorian Plantations Pty Ltd signed a memorandum of understanding to establish an agreed methodology for accounting for carbon sequestration. The Carbon Accounting Standard (CAS) was established and was subsequently adopted by Standards Australia for further development. State Forests is a member of the committee set up by Standards Australia.

Natural Resources Legislation Amendment (Rural Environmental Services) Act 1999

The *Forestry Act 1916*, the *Mining Act 1992* and the *Electricity Supply Act 1995* were amended by the *Natural Resources Legislation Amendment (Rural Environmental Services) Act 1999*. The amendments to the *Forestry Act 1916* increased State Forests' objects and powers to facilitate the delivery of natural resource environmental services to Government and private investors. The changes to the *Mining Act 1992* allow for afforestation and reforestation of areas damaged by mining, and for reduction of greenhouse emission levels. The *Electricity Supply Act 1995* was amended to allow for the development of strategies involving biomass energy and afforestation projects to reduce greenhouse emission levels.

Salinity Credits

As part of the NSW Government's salinity strategy, State Forests is planning a 400 hectare operational scale forestry near Gunnedah to help stimulate investment in reforestation projects in salinity-prone catchments.

Hardwood Plantations

The following table details the targeted hardwood plantation hectares and the actual hectares attained over the past three years. The table does not show actual hectares planted per year, but shows hectares planted as adjusted for buy-backs and environmental conditions (eg drought, fire) which affect the growth of hardwood plantation. Therefore prior year hectare figures are adjusted for current year conditions.

Year ended 30 June	2000	1999	1998
Target hectares	<u>5,000</u>	<u>10,000</u>	<u>10,000</u>
Joint venture hectares	2,920	58	704
State Forests hectares	<u>2,380</u>	<u>3,171</u>	<u>6,237</u>
Actual hectares	<u>5,300</u>	<u>3,929</u>	<u>6,941</u>
Government funding	\$6.0m	\$18.0m	\$21.4m

The table illustrates a move from Government sourced funding of plantation establishment to an increasing base of private sector investment. This involves funding being provided to State Forests for managing and establishing plantations owned by those investors, including in the current year from the TEPCO investment in hardwood plantations.

Native Title Claims

Under the *Commonwealth Native Title Act 1993*, a National Native Title Tribunal exists to provide a method for determining the existence and extent of native title. The Tribunal's claimant procedures aim to enable an agreement to be reached between parties by mediation before registering an agreement in the Federal Court.

The following table summarises the number of claims in which State Forests potentially has an interest:

Calendar Year	Claims Made potentially affecting SF	Passed Registration Test or before Federal Court*	Failed Registration Test	Number of Claims considered having no or minor impact on State Forests *
1994	2	1		1
1995	1	1		0
1996	11	7	1	3
1997	15	3	10	2
1998	4	1	1	2
1999	3	-	-	3
2000	<u>2</u>	<u>2</u>	<u>-</u>	<u>0</u>
Total	<u>38</u>	<u>15</u>	<u>12</u>	<u>11</u>

* As at 27 November 2000

The initial claim in this process, made by the Yorta Yorta Aboriginal Clan, involved approximately 60,000 hectares of State Forests' land along the Murray River. The Federal Court adjudicated in December 1998 that native title does not persist in any of the land or waters under claim. An appeal on behalf of the applicants was dismissed by the full bench of the Federal Court in February 2001.

Forestry Act 1916 Requirements

The *Forestry Act 1916* requires all reasonable and practicable steps to be taken to maintain an area of not less than 3.3 million hectares of land dedicated as State Forests. Due to the revocation and transfer of large areas of land under the Forest Agreements in 1999, State Forests now holds 3 million hectares of dedicated land.

The Act also requires the Commission to take all reasonable and practicable steps to ensure that not less than 600,000 hectares be dedicated as exotic conifers. State Forests at 30 June 2000 had a gross area of 275,030 (260,670 in 1998-99) hectares of which 209,091 (207,980) is stocked and 21,794 (18,365) hectares available for planting exotic conifers. The remaining 44,145 (34,325) hectares include exclusions, roads and areas not suitable for plantation.

If it is not practicable, or if it is not reasonable, for State Forests to comply with the existing legislative requirements, then consideration would need to be given to amending the legislation.

Logging Breaches

During 1999-2000, State Forests identified 2,039 (875) breaches of pollution control licence (PCL) conditions. The increase is attributed to improved supervision, training and reporting by State Forests staff. Breaches included incorrect felling of trees into filter strips, machine encroachment in filter strips, excessive rutting and inadequate slashing of extraction tracks.

As outlined in Volume Three of the Auditor-General's Report to Parliament for 1999, State Forests was prosecuted on six counts by the National Parks and Wildlife Service and fined \$7,800 in relation to three of the breaches. The other three matters were withdrawn on 21 December 1999, with the prosecutor directed to pay State Forests' costs.

Damages for Failure to Supply Timber from Mount Royal Area

As reported in Volume Three of the Auditor-General's Report to Parliament for 1999, there are two sawmilling companies involved in legal claims against State Forests in relation to timber supply from the Mount Royal area. The claim of one of the companies was upheld, and it was referred to the Supreme Court to assess damages. The matter is still under consideration. The other case has yet to be decided.

Year 2000 Millennium Strategy

There were no major operational problems experienced by State Forests due to the Year 2000 changeovers on both 1 January and 29 February 2000. Minor problems were incurred on individual PCs and supplementary systems, however the main central system servers, software packages and communication network operated without any problems.

The main system which State Forests identified as needing to be made Y2K compliant was the timber product sales system, FORSALE. The cost of rectification was \$311,500.

NSW Forest Industry Structural Adjustment Package (FISAP)

The package was implemented in December 1995 as a joint State-Commonwealth fund to assist structural change in the native forest industry. The three major financial components of the package are Worker Assistance, Industry Development Assistance and Business Exit Assistance. State Forests received \$679,000 in the 2000 year to fund private property acquisition.

AUDIT FINDINGS

Audit Opinion

The audit of State Forests' financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report. The qualification stated:

Non-compliance with Public Finance and Audit (General) Regulation 1995

Within native forests and hardwood plantations, the value of land, roads and bridges, and growing stock has not been separately disclosed. Within softwood plantations, the value of relevant land, roads and bridges has been disclosed as one asset class. These disclosures do not comply with the requirements of the *Public Finance and Audit (General) Regulation 1995* and Treasurer's Direction. The values of the asset classes requiring separate disclosure have not been determined. The same situation existed in the prior year.

Non-compliance with Australian Accounting Standard AAS 4 "Depreciation"

Depreciation expense for roads and bridges has been calculated on the historical cost of these assets and not their revalued amount. This is a departure from Australian Accounting Standard AAS 4 "Depreciation". It is not possible to ascertain the financial effect of this departure because of the absence of a separate valuation for roads and bridges. The same situation existed in the prior year.

As at 30 June 1995, native forest assets were carried at an amount based on what could be considered modified historical cost. Because this valuation basis was considered inappropriate, State Forests obtained a market value for these assets in 1995-96. State Forests sought to determine separate valuations as required by the *Public Finance and Audit (General) Regulation 1995* and Treasurer's Direction for component assets being Land, Timber, Roads and Bridges. However, significant practical issues at that time prevented the determination of component values.

It is expected that both of the above qualifications will not be applicable once State Forests revalues its native forests, land, roads and bridges in order to comply with AAS 35 "Self-Generating and Re-Generating Assets". This would also address the uncertainty related to the existing valuation. The Audit Office understands that the CRA/RFA process is almost finalised. Once that occurs the need for that part of the emphasis of matter noted below will disappear.

The audit report also included an emphasis of matter regarding the following inherent uncertainty:

Valuation of Forest Assets and Forestry Reform Package

State Forests' valuation of broadleaf and cypress pine forests and native plantations is dependent upon the validity of data used by the valuer. Because of the assumptions required to estimate the key components of this data the accuracy of the valuation is uncertain. Attention was also drawn to the implications of the State Government's forestry reform package, the effects of which may have significant, but as yet unquantifiable, effects on State Forests' financial position, operations and viability. The same situation existed in the prior year.

Accounting Issues

Australian Accounting Standard AAS 35 "Accounting for Self-Generating and Regenerating Assets" was issued in August 1998 and becomes operative for financial years ending on or after 30 June 2001. The Standard is largely consistent with policies adopted by State Forests in accounting for softwood plantations. However, the Standard requires that the value of forest assets be separated from associated infrastructure such as land and roads.

Australian Accounting Standard AAS 34 "Borrowing Costs" resulted in \$7.6 million (\$8.1 million in the prior year) of interest on borrowings being capitalised, which had the effect of increasing the operating surplus by the same amount. Upon adoption of AAS 35, the treatment of interest on borrowings is likely to revert to being an expense.

Control Issues

Matters relating to existing control procedures are currently being discussed with State Forests and will be formally included in a management letter to be issued shortly. These matters are as follows:

- ♦ delay in reconciliation between growing stock records and the general ledger
- ♦ non-compliance with State Forests' employee housing policy
- ♦ risks associated with the debtors credit policy, in that the appropriateness of certain credit limits, in the Audit Office's view, might need to be reconsidered.

Compliance Issues

As well as reviewing legislative requirements that govern the form or content of the financial report, other legislative requirements are reviewed on a cyclical basis. Requirements examined during 1999-2000 comprised compliance with:

- ♦ core business activities being in accordance with the *Forestry Act 1916*
- ♦ key provisions of Part 2 of the *Public Sector Management Act 1988* and Parts 2 to 6 of the *Public Sector Management (General) Regulation 1996* or equivalent policy or procedures; and
- ♦ the Premier's Department SES Guidelines in respect of the Chief Executive's contract.

No significant issues arose from these reviews.

FINANCIAL INFORMATION

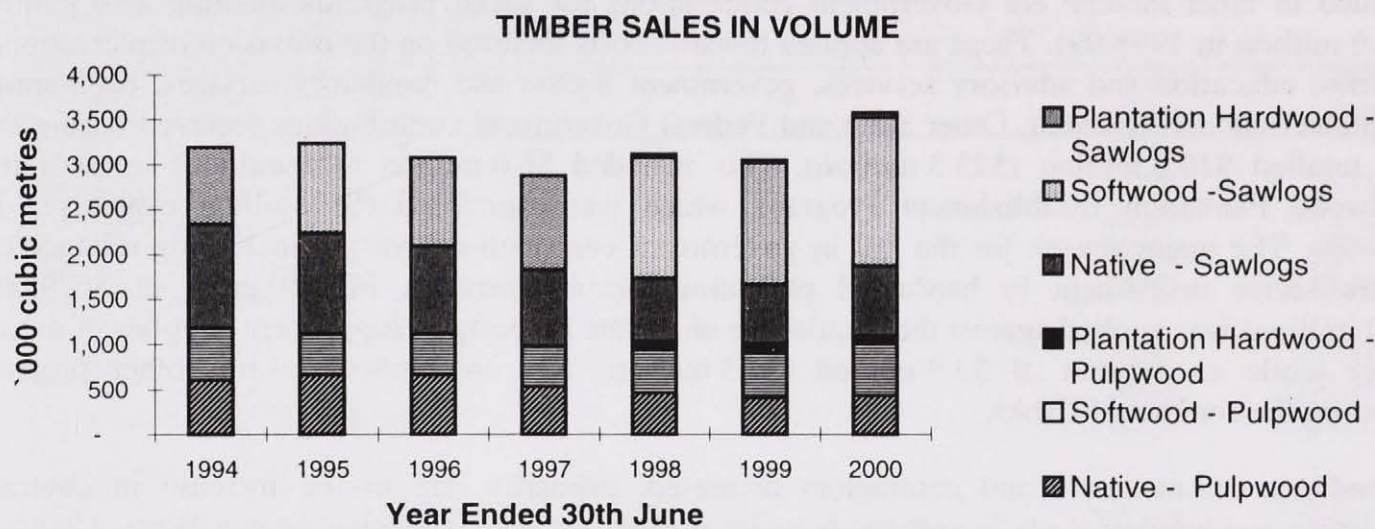
Abridged Income and Expenditure Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Sale of timber and related products	115,684	105,312
Other	53,533	46,678
TOTAL INCOME	169,217	151,990
Labour and related costs	58,001	63,945
Materials and contractors	45,770	32,694
Other	35,905	38,205
TOTAL EXPENDITURE	139,676	134,844
OPERATING SURPLUS BEFORE MARKET VALUE INCREMENT AND ABNORMAL ITEMS	29,541	17,146
Market value increment/(decrement)	63,523	998
Abnormal items	17,921	(5,211)
OPERATING SURPLUS/(LOSS) BEFORE INCOME TAX EQUIVALENT	110,985	12,933
Income tax	9,830	11,737
OPERATING SURPLUS/ (LOSS) AFTER TAX	101,155	1,196
State Government Capital Contribution and FISAP	6,679	15,004
Retained earnings at 1 July	208,403	158,186
Total available for appropriation	316,237	174,386
Appropriations (to)/from:		
Revaluation Reserves	(40,625)	(40,061)
Dividend	(9,277)	(6,044)
RETAINED EARNINGS AT 30 JUNE	266,335	208,403

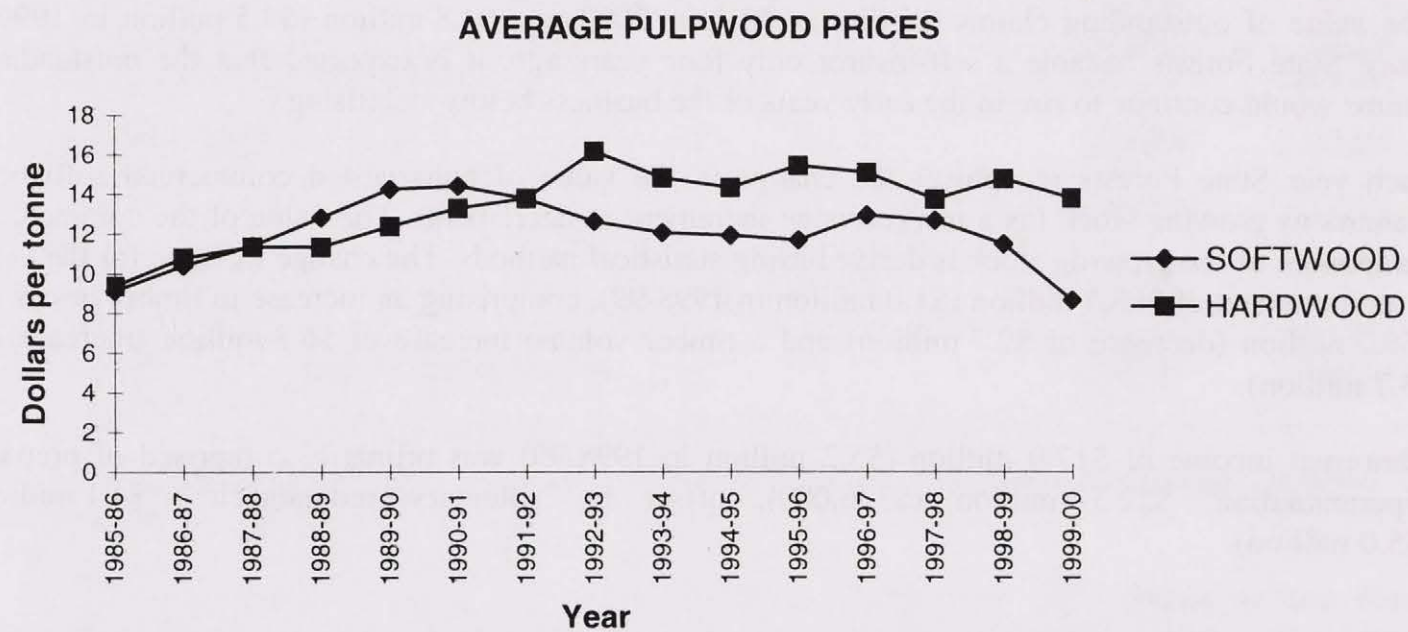
Sale of timber and related products for the year comprised primarily softwood sales, \$69.4 million (\$65.6 million in 1998-99), native hardwoods, \$40.5 million (\$34.5 million), and cypress pine, \$3.9 million (\$3.6 million).

This was the first year for some time that native hardwood sales increased. State Forests advise that this was due to a drier year in 2000, with sawmills keen to replenish their timber stocks after last year's poor weather conditions. The lead up to the introduction of the GST also had a positive effect on market demand.

The following chart illustrates sales volumes over the past seven years and shows an increase in the volume of native forest timber sold in the current year. The increase in native sawlog sales volume was quite significant in comparison to the increase in native pulpwood volume. There has also been a steady increase in softwood sales. While softwood sawlogs continued to increase, softwood pulp sales experienced only a marginal increase.



The following two charts show movements in sawlog and pulpwood prices from 1986 to 2000. The price of hardwood sawlogs has increased over recent years relative to softwood sawlog prices. This is understood to reflect increasing recognition of the relative value of this product in the market place. Both softwood and hardwood prices for sawlogs and pulpwood fell in the current year, with a substantial fall in softwood pulp prices following a decrease in world prices for medium density fibre products and newsprint.



State Forests has advised that the two price charts reflect average prices over a range of size/quality/price grades. As a result, interpretation may be difficult. In particular, shifts in the size/quality/price grade mix affect the price trends. Further, State Forests advises that the product groups (softwood, hardwood, and cypress) represent significantly different products in quality, grade recovery, grade range etc such that comparison of absolute average prices for each category is of limited value.

Included in other income are Government contributions for social programs totalling \$9.6 million (\$14.6 million in 1998-99). These are applied towards costs incurred on the provision of recreational facilities, education and advisory services, government liaison and regulatory services, community fire protection, and research. Other State and Federal Government contributions received during the year totalled \$10.6 million (\$23.3 million). This included \$6.0 million (\$18 million) towards the Hardwood Plantation Establishment Program, which was capitalised (\$12 million capitalised in 1998-99). The major reason for the fall in government contributions was an increasing reliance on private sector investment in hardwood plantation establishment. A FISAP grant of \$679,000 (\$3.0 million) was applied against the acquisition of private property to supplement supplies of native timber while an amount of \$3.9 million (\$2.3 million) was contributed towards other projects including the conduct of CRAs.

Expenditure on materials and contractors increased, primarily due to the increase in contract harvesting and haulage costs in softwoods under revised log merchandising arrangements. Contract harvesting continued to be rolled out in the Riverina and Hunter Regions and totalled \$23.4 million (\$11.2 million in 1998-99). This increase in expenditure was in line with the increase in revenue obtained from contract harvesting (included in "Other" income).

Labour and related costs comprise salaries and wages, annual leave, long service leave and payroll tax. The decrease in these costs is primarily due to the reduction in staff numbers from an average 1,367 during 1998-99 to 1,247 in 1999-2000 as the voluntary redundancy program and the restructure were finalised.

State Forests is a licensed self-insurer under the provisions of the *Workers Compensation Act 1987*. The value of outstanding claims liability at 30 June 2000 was \$4.8 million (\$3.5 million in 1999). Since State Forests became a self-insurer only four years ago, it is expected that the outstanding claims would continue to rise in the early years of the business before stabilising.

Each year State Forests recognises the change in the value of unharvested commercial softwood plantations growing stock (as a market value increment or decrement). The value of the commercial component of the growing stock is derived using statistical methods. The change in value for the year is an increment of \$63.5 million (\$1.0 million in 1998-99), comprising an increase in timber prices of \$56.7 million (decrease of \$2.7 million) and a timber volume increase of \$6.8 million (increase of \$3.7 million).

Abnormal income of \$17.9 million (\$5.2 million in 1998-99) was primarily comprised of prepaid superannuation, \$22.3 million (\$336,000), offset by voluntary redundancies, \$4.1 million (\$5.0 million).

Abridged Balance Sheet

At 30 June	2000 \$'000	1999 \$'000
Cash and Investments	12,674	11,757
Receivables	24,153	22,324
Other	39,345	49,260
TOTAL CURRENT ASSETS	76,172	83,341
Forest assets	173,927	170,827
Other	76,018	81,086
TOTAL NON-CURRENT ASSETS	249,945	251,913
Plantations		
Softwood	1,093,868	1,014,400
Hardwood	82,839	72,927
Native Forests	181,861	184,195
TOTAL SELF GENERATING AND REGENERATING ASSETS	1,358,568	1,271,522
TOTAL ASSETS	1,684,685	1,606,776
Creditors	29,321	22,000
Borrowings	16,700	25,721
Provisions	15,248	21,419
TOTAL CURRENT LIABILITIES	61,269	69,140
Borrowings	109,418	100,351
Provisions	19,652	49,775
Other	144,567	136,288
TOTAL NON-CURRENT LIABILITIES	273,637	286,414
TOTAL LIABILITIES	334,906	355,554
NET ASSETS	1,349,779	1,251,222
Contributed capital	421,706	421,706
Retained earnings	266,335	208,403
Revaluation Reserves	661,738	621,113
TOTAL CAPITAL AND RETAINED EARNINGS	1,349,779	1,251,222

'Other' current assets includes prepaid contributions to the State Superannuation Scheme of \$32.3 million (\$41.9 million).

Forest assets consist of land, roads and bridges in softwood plantations, and additions to land, roads and bridges in hardwood plantations and native forests since valuation. Timber within native forests and plantations are separately recorded as self generating and regenerating assets. Because the valuation for hardwood plantations and native forests includes land, roads and bridges, these could not be separately recorded under forest assets.

"Other" non-current assets includes non-forest assets, comprising: land identified as not forming part of the forest estate, \$2.8 million (\$2.8 million in 1998-99); buildings and installations, \$25.5 million (\$26.6 million); plant and equipment, \$34.3 million (\$38.3 million); and capital works in progress, \$2 million (\$594,000). The balance consists of future income tax benefits of \$11.4 million (\$12.8 million).

Creditors of \$29.7 million (\$22.7 million in 1998-99) includes revenue in advance, \$13.0 million (\$8 million); trade creditors, \$3.1 million (\$2.7 million) and accrued expenses \$5.6 million (\$4 million).

State Forests' approved borrowing limit of \$127 million had been fully utilised at 30 June 2000.

Provisions decreased by \$36.3 million predominantly due to a change in disclosure in line with changes to the *Superannuation Administration Act 1966* which now allows for unfunded superannuation liabilities to be netted off against prepaid superannuation contributions. Other reasons included a decrease in the provision for redundancy costs and a decrease in employee leave entitlements due to the finalisation of the redundancy program.

Within "Other" non-current liabilities is an amount of \$144.1 million for deferred income tax (\$135.6 million in 1999).

Self-generating and Regenerating Assets.

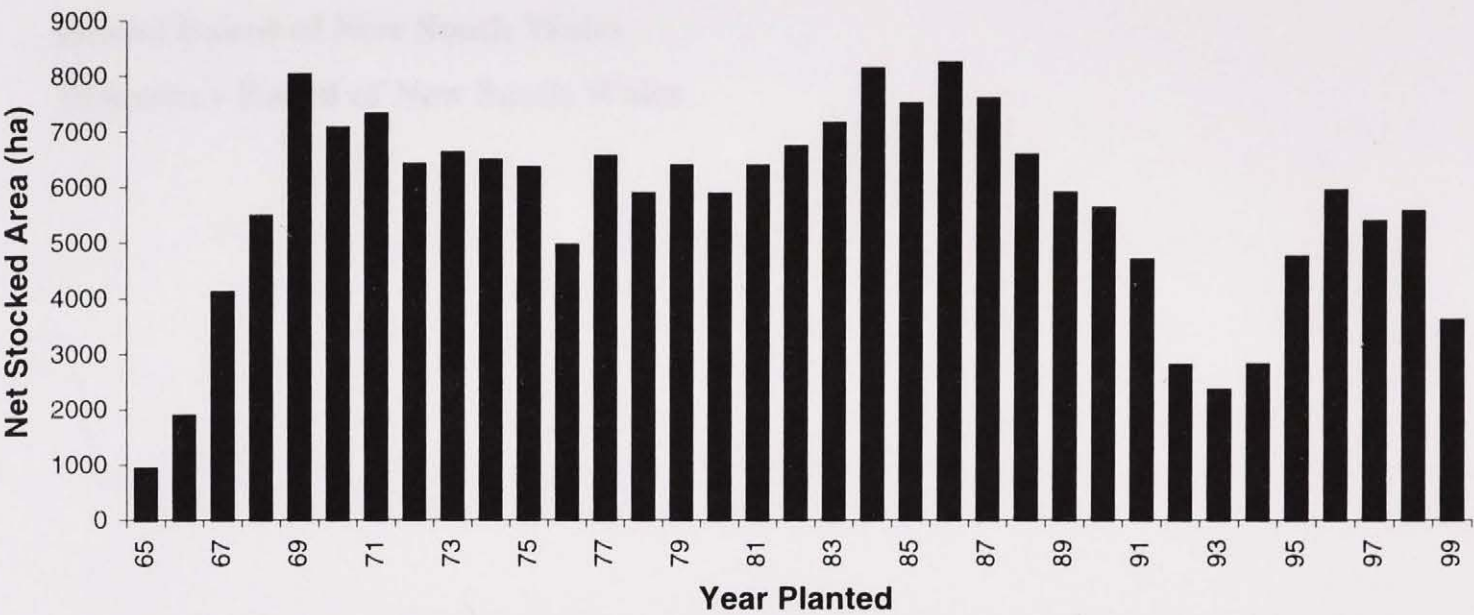
The value of softwood and hardwood plantations increased by \$89 million during the year. This was mainly attributable to a \$63 million market value increase in softwoods; plantation establishments with private land holders (\$6.7 million); hardwood plantation establishment (\$6 million); and the capitalisation of borrowing costs (\$7.6 million).

Commercial softwood plantations are plantations between 12 and 15 years of age which have experienced a commercial operation, and all plantations 15 years of age or greater. These plantations are valued using statistical methods.

For non-commercial softwood plantations, direct costs together with other attributable costs comprising fire prevention and suppression, road maintenance, forest management and planning, research and district administration and management are capitalised until a plantation reaches the age of 15 years, or the first commercial thinning of the plantation (which could be as early as age 12). From this point until the plantation is completely harvested all costs are expensed when incurred, with the exception of costs expended on fertilising and pruning programs (to improve stand quality) which are capitalised.

An analysis of softwood plantation growing stock by age class from 1965 to 1999 can be seen in the chart below. There are some small amounts of older age classes planted before 1965, which are available for harvest. It is understood that these may never be harvested (due to their location, species and quality) and that timber in the 1965 to 1972 age classes is currently being harvested (with thinning occurring in the younger age classes).

NET STOCKED AREA BY PLANTED YEAR



The chart illustrates that, over the last 15 years, the volume of timber planted has varied substantially - from a low of 2,351 hectares in 1993 to a high of 8,229 hectares in 1986. State Forests records indicate that in 1999–00, 4,507 hectares of plantations were clearfelled. Although planting levels appear irregular, State Forests advises that sufficient timber will be available to meet future demands (including commitments under existing long term contracts with customers). State Forests further advises that higher yields are being obtained from newer stands through the implementation of improved silvicultural techniques such as fertilising, thinning and pruning programs, and that there will be no requirement for State Forests to provide higher valued timber as pulp to fulfil long-term thinning contracts.

Dental Board of New South Wales
Pharmacy Board of New South Wales

The Minister for Health is pleased to announce that the Dental Board of New South Wales and the Pharmacy Board of New South Wales have been established.

In accordance with the Act, the Dental Board is a corporation which consists of 12 members and four members appointed by the Minister for Health. The Board reports on its operations to the Minister through its annual report. The Governor has the power to appoint members of the Board under certain circumstances.

ADMINISTRATIVE

Annual Report

The audit of the financial report of the Board for the year ended 30 September 1990 is the subject of an independent independent Audit Report.

Financial Report

During the course of the audit no material internal control weaknesses were identified which adversely affected the financial statements of the Board.

Compliance Report

During 1989-90 the Board received 1,000 letters, which was classified within the Department of Health as an operating issue. The Board received 1,000 letters during 1989-90, it was determined that the Board was a primary issue and has not been resolved as such as the financial statements of the Board for the year ended 30 September 1990. The Board was not able to complete the audit of the Board for the year ended 30 September 1990. The Board was not able to complete the audit of the Board for the year ended 30 September 1990. The Board was not able to complete the audit of the Board for the year ended 30 September 1990.

As well as reviewing annually the Board's financial statements the Board also reviewed the financial statements of the Board for the year ended 30 September 1990. The Board was not able to complete the audit of the Board for the year ended 30 September 1990. The Board was not able to complete the audit of the Board for the year ended 30 September 1990.

The Board substantially complied with the requirements.

OPERATIONAL MATTERS

At 30 September 1990, the Board was 1,000 (1,000) in September 1990. During the year, the Board was 1,000 (1,000) in September 1990.

During the year ended 30 June 1990, the Board received 11,100 complaints against dentists. Of these complaints, 7,100 were classified as either a complaint to the patient, or a complaint to the Board. Of these complaints, 1,100 were classified as either a complaint to the patient, or a complaint to the Board. Of these complaints, 1,100 were classified as either a complaint to the patient, or a complaint to the Board.

Dental Board of New South Wales

ESTABLISHMENT AND OBJECTIVES

The main function of the Dental Board is to regulate the practice of dentistry through the maintenance of a register of dentists and the administration of disciplinary provisions of the *Dentists Act 1989*.

In accordance with the Act, the Dental Board is a corporation which consists of five elected members and four members appointed by the Minister for Health. The Board reports on its operations to Parliament through its annual report. The Governor has the power to remove appointed members of the Board under certain circumstances.

AUDIT FINDINGS

Audit Opinion

The audit of the financial report of the Board for the year ended 30 September 2000 resulted in the issue of an unqualified Independent Audit Report.

Control Issues

During the course of the audit no material internal control weaknesses were observed which adversely affected the financial statements of the Board.

Compliance Issues

During 1998–99 the Board entered into a lease, which was classified within the financial statements as an operating lease. On further review during 1999–2000, it was determined that the lease was a finance lease and has now been recognised as such in the financial statements of the Board. At the time of entering the lease arrangement, the cost value of the asset was \$136,000. This borrowing arrangement did not have the necessary approvals required by the *Public Authorities (Financial Arrangements) Act 1987*. This non-compliance was noted in the Board's 30 September 2000 financial report.

As well as reviewing annually those requirements that govern the form and content of the financial report, other requirements that could impact on the agency are reviewed on a cyclical basis. The area subject to review this year was compliance with core business activities being in accordance with the *Dentists Act 1989*.

The Board substantially complied with the requirement.

OPERATIONAL MATTERS

At 30 September 2000, there were 4,018 (3,945 at September 1999) dentists registered with the Board.

During the year ended 30 June 2000, the Board received 113 (100) complaints against dentists. Of these complaints, 35 (38) were conciliated by either a refund to the patient, patient to return to dentist to allow treatment to be completed, or dentist not to pursue the outstanding fees. Because of no evidence of professional misconduct, 52 complaints were dismissed.

KEY FINANCIAL INFORMATION

Year ended 30 September	2000 \$'000	1999 \$'000
Income	565	520
Salaries and related expenses	127	123
Other expenses	497	343
Operating surplus/(deficit)	(59)	54
Net assets	367	426

Pharmacy Board of New South Wales

ESTABLISHMENT AND OBJECTIVES

The Board is constituted under the provisions of the *Pharmacy Act 1964*. Its main functions are to promote and maintain the highest standards of professional conduct and ethics, to register and maintain a roll of pharmacists and pharmacies eligible to practise or operate in the State and to monitor, and investigate if necessary, the conduct of pharmacists and pharmacies.

In accordance with the Act, the Board consists of five elected members and four members appointed by the Minister for Health and is an autonomous statutory authority required to advise the Minister on matters relating to pharmacy. The Governor has the power to remove appointed members of the Board under certain circumstances.

AUDIT FINDINGS

Audit Opinion

The audit of the financial statements of the Board for the year ended 30 September 2000 resulted in the issue of an unqualified Independent Audit Report.

Control Issues

During the course of the audit no material weaknesses were observed which adversely affected the financial statements of the Board.

Compliance Issues

As well as reviewing annually those requirements that govern the form and content of the financial report, other requirements that could impact on the agency are reviewed on a cyclical basis. The area subject to review this year was compliance with core business activities being in accordance with the *Pharmacy Act 1964*.

The Board substantially complied with the requirement.

OPERATIONAL MATTERS

At 30 September 2000, there were 6,962 (6,811 at September 1999) pharmacists and 1,768 (1,758) pharmacies registered with the Board.

During 1999-2000, Boards of Inquiry, at public hearings, heard complaints of professional misconduct against seven pharmacists. The Board interviewed 27 pharmacists as part of the complaint investigation process, all but three were resolved to the complainants satisfaction. Of these three, investigations are continuing with two and a complaint of professional misconduct is being prepared against the other pharmacist.

KEY FINANCIAL INFORMATION

Year ended 30 September	2000 \$'000	1999 \$'000
Income	1,131	1,073
Salaries and related expenses	493	431
Other expenses	663	641
Operating surplus	5	1
Net assets	603	597

Minister for Information Technology

Board of Surveyors of New South Wales

Department of Information Technology and Management

New South Wales Government Telecommunications Authority

Board of Surveyors of New South Wales

ESTABLISHMENT AND OBJECTIVES

The Board of Surveyors of New South Wales is constituted under the *Surveyors Act 1929* (the Act) to provide for the registration of surveyors of land and to regulate the making of surveys of land.

The operations of the Board are subject to the control and direction of the Minister for Information Technology.

AUDIT FINDINGS

Audit Opinion

The audit of the Board's financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could have a financial impact or other impact on the Board are reviewed on a cyclical basis. Requirements applicable to the Board examined during 1999-2000 comprised compliance with core business activities being in accordance with the *Surveyors Act 1929*.

The Board substantially complied with relevant legislation and its policies and practices.

FINANCIAL INFORMATION

Administered Revenue

Under section 21(1) of the Act, registration and other fees collected by the Board are payable to the Consolidated Fund. During the year \$441,000 (\$352,000 in 1998-99) was collected, the largest component being annual registration fees of \$384,000 (\$291,000). The annual registration fee increased from \$275 to \$360.

The Board receives a grant from the Department of Information Technology and Management to fund its expenditure. Under current arrangements the Crown Entity reimburses the Board the difference between the amount paid into the Consolidated Fund and the grant it receives from the Department. The difference payable to the Board for 1999-2000 was \$141,000 (\$52,000).

Income and Expenditure

Total income for the year was \$441,000 (\$352,000 in 1998-99) and included a grant of \$300,000 (\$300,000) from Department of Information Technology and Management.

Expenditure totalled \$314,000 (\$326,000) with the major items being employee related expenses, \$119,000 (\$106,000) and fees for services rendered, \$73,000 (\$110,000).

Balance Sheet

There was a significant increase in accumulated funds, from \$66,000 to \$193,000, due mainly to the recognition of \$141,000 receivable from the Crown Entity as mentioned earlier. At 30 June 2000 the Board was owed \$219,000 by the Crown Entity.

Department of Information Technology and Management

ESTABLISHMENT AND OBJECTIVES

The Department of Information Technology and Management was established on 8 April 1999 following an administrative order issued under the *Public Sector Management Act 1988*. The Department comprises the following business units:

- ◆ Office of Information Technology (OIT),
- ◆ Land Titles Office (LTO),
- ◆ Valuer General's Office (VGO)
- ◆ Land Information Centre (LIC),
- ◆ Forestry Structural Adjustment Unit (FSAU), Office of Western Sydney (OWS) and Minister's Office (MO).

The Department provides central leadership and co-ordination of information technology, telecommunications and on-line activities, policies and strategies for New South Wales. It also provided integration and co-ordination of land and property information.

The Minister for Information Technology is responsible for the Department.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Department has significant commercial operations that generate profits from which a dividend is paid into the Consolidated Fund. The Department also receives an appropriation from the Consolidated Fund to fund its non-commercial operations. The consequent unusual nature of the Department's financial report was commented on in Volume Three of the Auditor General's Report to Parliament for 1999.

To better report on its operations, as from 1 July 2000, VGO, LIC and LTO have formed a General Government Non-Budget dependent agency called Land and Property Information New South Wales (LPI). LPI will be the commercial operation of the Department and a separate financial report will be prepared. The LPI will remain part of the Department and will be consolidated with the remainder of the Department for the Department's financial report.

The Department had a contract to supply 9,000 communication handsets to Sydney Organising Committee for the Olympic Games (SOCOG) for use in the Olympic Radio Network. The handsets were leased to SOCOG for \$2.5 million. The cost of the purchase of the handsets was \$23.4 million. Following the completion of the Olympic Games, options for disposals of the handsets are still under consideration.

Included in the funding for the Department was \$2.0 million towards the establishment of the Australian Centre for Advanced Computing and Communications at the Australian Technology Park. The Centre is a joint venture between the New South Wales Government Telecommunications Authority (Telco) and eight universities. The Government through Telco, will invest a total of \$12.0 million in the centre. As at 30 June 2000, \$1.1 million had been expended by the Department towards establishing the Centre

AUDIT FINDINGS

Audit Opinion

The audit of the financial report of the Department for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Control Issues

Instances where internal controls could be improved will be included in a management letter to the Department.

Compliances Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could have a financial or other impact on the Department are reviewed on a cyclical basis. Requirements applicable to the Department examined during 1999-2000 comprised core business activities being in accordance with approved program descriptions; key provisions of Part 2 of the *Public Sector Management Act 1988* and Parts 2 to 6 of the *Public Sector Management (General) Regulation 1996*; operation of the Torrens Assurance Fund in the Special Deposits Account in accordance with the *Real Property Act 1900* and the Premier's Department SES Guidelines in respect of the Director-General's contract.

The Department substantially complied with relevant legislation and its policies and practices.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2000 \$'000	Period 8 April to 30 June 1999 \$'000
Employee related	43,573	19,336
Other operating expenses	59,064	16,450
Grants and subsidies	44,717	9,108
TOTAL EXPENSES	147,354	44,894
TOTAL REVENUES	129,538	29,222
Gain/(Loss) on disposal of non-current assets	(4)	3
NET COST OF SERVICES	17,820	15,669
GOVERNMENT CONTRIBUTIONS		
Recurrent appropriation	72,484	22,839
Capital appropriation	26,584	925
Acceptance by the Crown Entity of employee entitlements and other liabilities	2,852	763
TOTAL GOVERNMENT CONTRIBUTIONS	101,920	24,527
SURPLUS FOR THE PERIOD	84,100	8,858

Grants and subsidies expenditure included \$37.7 million (\$8.8 million for the period 8 April to 30 June 1999) for forestry restructuring. The grants are used to provide assistance for workers and business adversely affected by reductions in available resources due to restructure of the industry.

Of the \$129.5 million (\$29.2 million) in total revenue, \$103.7 million (\$23.2 million) was derived from fees and charges relating to land and property information.

Employee related expenses were reduced by a \$23.2 million (nil) adjustment resulting from an increase in over funding for superannuation liabilities.

Abridged Statement of Financial Position

At 30 June	2000 \$'000	1999 \$'000
Current assets	80,980	75,791
Non-current assets	<u>127,647</u>	<u>104,208</u>
TOTAL ASSETS	<u>208,627</u>	<u>179,999</u>
Current liabilities	75,384	48,153
Non-current liabilities	<u>32,718</u>	<u>39,178</u>
TOTAL LIABILITIES	<u>108,102</u>	<u>87,331</u>
NET ASSETS	<u>100,525</u>	<u>92,668</u>
Accumulated funds	94,485	87,902
Torrens assurance reserve	<u>6,040</u>	<u>4,766</u>
TOTAL EQUITY	<u>100,525</u>	<u>92,668</u>

The increase in non-current assets was due mainly to the purchase of communication handsets for use in the Olympic Radio Network mentioned earlier.

Accounts payable of \$61.0 million (\$34.6 million at 30 June 1999) included a dividend and tax equivalent to the Consolidated Fund of \$41.5 million (\$16.3 million) and telecommunication rebates to public sector agencies of \$10.5 million (\$6.9 million). Accounts payable also included \$3.5 million representing unspent allocations at year end. Unspent Consolidated Fund monies of \$22.7 million at 30 June 1999 were repaid to the Consolidated Fund during 1999-2000.

Included in equity is the Land Titles Office's Torrens Assurance Fund. The Fund meets claims for losses arising from fraud or Office error and is funded by a \$2 charge on each property dealing lodged. The expense for the year is dependent upon the extent of successful claims. As at 30 June 2000, funds held to meet claims were \$6.0 million (\$4.8 million).

The Department was required to pay a dividend to the Treasury of \$34.2 million (\$2.6 million) for the year, of which \$5 million (nil) was paid prior to year end.

New South Wales Government Telecommunications Authority

ESTABLISHMENT AND OBJECTIVES

The New South Wales Government Telecommunications Authority was constituted by the *Government Telecommunications Act 1991* to control and manage the Government's telecommunication network.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

As noted in previous Auditor-General's Reports to Parliament, the Authority has been inactive since 1996. Financial reports for the periods ending 30th June 1997, 1998 and 1999 were prepared and audited but, because the Board of the Authority term expired at 30 June 1996 without renewal or replacement, the financial reports were not accompanied by the signed statutory members' statements, thus precluding issue of Independent Audit Reports. A financial report for the year ended 30 June 2000 has not been prepared and submitted for audit.

In October 2000 the Authority entered into a joint venture with eight universities to establish the Australian Centre for Advanced Computing and Communications Pty Limited. The Authority is to invest \$12.0 million giving it a 57 per cent shareholding. Funding of the Authority's investment is being provided from the Consolidated Fund through the Department of Information Technology and Management. Further details will be included in the next report on the Authority following the audit of the financial reports for 2000 and 2001.

Minister for Land and Water Conservation

Broken Hill Water Board

Coleambally Irrigation Limited

Department of Land and Water Conservation

Land Development Working Account

Luna Park Reserve Trust

Newcastle Showground and Exhibition Centre Trust

Broken Hill Water Board

ESTABLISHMENT AND OBJECTIVES

The Broken Hill Water Board operates as a statutory body under the *Water Supply Authorities Act 1987*. Under the Act the Board consists of one full time member and five part time members all of who are appointed by the Governor and includes nominees from mining companies and the Council of the City of Broken Hill. Under this legislation, the Board is responsible for:

- ◆ ensuring that the water and related resources within the Board's area of operations are allocated and used in ways which are consistent with environmental requirements and provide the maximum long-term benefit for the area and the State
- ◆ providing water and sewerage related services to meet the needs of users in a commercial manner consistent with the overall policies of the Government.

The *Water Supply Authorities Act 1987* provides the Minister for Land and Water Conservation with the power to direct or control the Board.

The Board estimates that approximately 10,000 properties and a population of 24,000 are served by its water reticulation system. Most domestic consumers are provided with a filtered, chlorinated and fluoridated water supply.

SIGNIFICANT DEVELOPMENTS

Merger with Australian Inland Energy (AIE)

On 28 July 2000 the Acting Minister for Land and Water Conservation issued a direction under Section 10(1)(b) of the *Water Supply Authorities Act 1987* to the Board to delegate certain of its functions to AIE. As a result a deed of delegation was signed between the Board and AIE. The agreement allows AIE to use the Board's assets and direct the Board's employees where necessary to carry out the functions of the Broken Hill Water Board. AIE is able to collect revenue on behalf of the Board but AIE must remit all such moneys to the Board. The agreement specifies that ownership of the Board's assets remains with the Board, and AIE cannot appoint or terminate the Board's staff without the Board's approval. All expense incurred by AIE in performing these duties will be reimbursed by the Board.

On 15 December 2000 the *Australian Inland Energy Water Infrastructure Act 2000* dissolved the Broken Hill Water Board (BHWB) and transferred its assets and liabilities to a new entity titled Australian Inland Energy Water Infrastructure.

AUDIT FINDINGS

Audit Opinion

The audit of the Board's financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Accounting Issues

During the year the Board revalued all water mains and reticulation assets, based upon indices supplied by the Department of Public Works and Services. The result was an upward revaluation of \$2.3 million for the related assets.

Control Issues

The Board has been advised of matters noted during the audit where internal controls were inadequate and could be improved. The more significant items related to control over the payroll function and calculation of the long service leave liability.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could have an impact on the Board are reviewed on a cyclical basis. Requirements examined during 1999–2000 comprise compliance with core business activities being in accordance with the *Water Supply Authorities Act 1987* and key provisions of the *Public Sector Management Act 1988*.

There were no significant instances of non compliance.

Other Issues

Outstanding Debts

For a number of years the Board has carried a high level of doubtful debts caused by outstanding amounts relating to vacant properties. These debts had no active collection procedures in place to recover the outstanding amount because the owners are untraceable and/or there is limited ability for disposal of properties to recover the Board's debts. This issue was raised in the Auditor-General's Report to Parliament for 1999 and in a number of management letters. As a result the Board introduced a new doubtful debts policy where an amount is recognised as doubtful where part of the outstanding amount was raised prior to January 1999 and either:

- ♦ no payment arrangement had been made or
- ♦ an arrangement had been made but no payment has been received since 30 June 1999.

Previously the Board's policy was that amounts were considered doubtful when they were more than 12 months overdue.

The Board has engaged a debt collection agency so that recovery action may be commenced on long outstanding amounts.

At 30 June 2000 the provision for doubtful debts was \$773,000 (\$851,000 in June 1999).

Introduction of New Accounting and Operating Systems

In 1999 the Board introduced new operating systems with accompanying new accounting, payroll and income systems costing approximately \$700,000. Full implementation had been scheduled for early 1999. However difficulties with the implementation of changes to the software and delays on the part of the vendor, which required payments to be withheld, resulted in full implementation not proceeding until 1 July 1999.

FINANCIAL INFORMATION

In 1999 The Board changed its reporting year-end to 30 June from 31 December. Therefore for comparison purposes, prior period amounts relate to the six months from 1 January to 30 June 1999.

Operating revenue for the year ended 30 June 2000 was \$7.7 million (\$4.6 million in the six months ended 30 June 1999) principally from sales of water and sewerage services, \$6.8 million (\$4.3 million).

Operating expenditure was \$13.6 million (\$7.4 million) including \$7.1 million (\$3.7 million) for operations and maintenance, \$2.7 million (\$1.3 million) for administration and management and \$2.9 million (\$1.3 million) for depreciation. This resulted in an operating deficiency prior to deficit subsidies of \$5.9 million (\$2.8 million).

In terms of the *Water Supply Authorities Act 1987*, deficiencies of the Water Fund are borne by the State Government and mining companies in prescribed proportions. The deficit subsidy for the year was \$5.8 million (\$2.5 million).

Total assets of \$85.6 million at 30 June 2000 (\$83.7 million at 30 June 1999) included \$80.8 million (\$78.6 million) in property, plant and equipment, and \$3.6 million (\$3.3 million) in receivables and prepayments.

Total liabilities at 30 June 2000 were \$8.0 million (\$8.2 million) comprising borrowings and bank overdraft, \$5.2 million (\$4.0 million), employee provisions, \$1.8 million (\$1.8 million) and accounts payable and accruals, \$1.0 million (\$2.3 million). The high level of accounts payable in the previous year is largely attributable to amounts owing on a contract over two years for implementation of a new management information system.

For the purposes of cash flow, cash includes cash on hand or in banks and highly liquid investments. Net cash outflow from operating, investing and financing activities was \$1.9 million (\$1.4 million for the six months ended 1999). As a result cash held decreased from \$609,000 to a cash deficit of \$1.4 million.

Coleambally Irrigation Limited

ESTABLISHMENT AND OBJECTIVES

Coleambally Irrigation Corporation was established as a State owned corporation on 1 July 1997. On that date the Corporation assumed control of all assets, liabilities, rights and obligations of the Coleambally Irrigation Area arm of the Department of Land and Water Conservation.

As the owner and operator of irrigation infrastructure, the Corporation provided water distribution services and related environmental management services to customers connected to the supply and drainage network.

On 10 December 1999 provisions of the *Irrigation Corporation Amendment Act 1998* were commenced, resulting in the conversion of the Corporation from a statutory State owned corporation to a company State owned corporation. Subsequently, on 9 June 2000 the Ministerial shareholders of the corporation transferred their shares to irrigators in the Coleambally area and the company became an irrigator owned and operated enterprise.

AUDIT OPINION

The audit of the Corporation's financial statements for the period ended 8 June 2000 resulted in the issue of a qualified Independent Audit Report. The qualification stated:

As detailed in Notes 11 and 25 the Company has entered into a Heads of Agreement with the Department of Land and Water Conservation and irrigator shareholders to undertake certain activities from funds provided by irrigators and government. The agreement is retrospective to March 1994 and the Company is reviewing its records and costing its past activities to identify accurately past costs which qualify as Land and Water Management Plan expenditure and to accurately identify the funds held that are yet to be spent. The Company has recognised \$2.238 million as a liability for unspent funds. As the determination of relevant funding and corresponding expenditures is incomplete I am unable to confirm the liability.

FINANCIAL INFORMATION

Profit and Loss Account

Operating revenue for the period totalled \$5.8 million (\$8.1 million in 1998–99) and included water sales, \$5.0 million (\$5.7 million); interest, \$562,000 (\$537,000); disposal of non-current assets, \$27,000 (\$217,000); and Government grants, \$9,000 (\$1.4 million).

Operating expenditure included: employee-related expenses, \$2.2 million (\$2.3 million); depreciation, \$1.1 million (\$1.7 million); bulk water supply charge, \$1.4 million (\$1.2 million); and operations, \$1.7 million (\$2.6 million).

Abnormal expenditure during the period totalled \$34.6 million and comprised \$34.2 million resulting from the write down in the carrying value of water distribution and infrastructure assets and \$457,000 costs of privation and reconstruction.

The resulting operating loss after tax was \$35.6 million (\$310,000 profit).

Balance Sheet

Total assets at 8 June 2000 were \$55.6 million (\$77.8 million) and included property, plant and equipment, \$28.1 million (\$63.0 million); cash, \$20.4 million (\$9.4 million) and accounts receivable, \$7.1 million (\$5.3 million).

Property, plant and equipment comprised infrastructure, \$13.2 million (\$45.5 million); earth channels, \$11.3 million (\$13.8 million); land, \$1.3 million (\$1.3 million); buildings, \$1.2 million (\$1.2 million); and plant and equipment, \$1.0 million (\$1.1 million).

Liabilities totalled \$5.8 million (\$2.5 million) and included accounts payable, \$5.1 million (\$1.8 million) and provisions for employee entitlements, \$689,000 (\$657,000).

Shareholders equity of \$49.7 million (\$75.3 million) was represented by share capital of \$50.4 million (nil) and accumulated losses \$605,000 (\$961,000 accumulated profits). During the year the share premium reserve (which represented the difference between the net assets vested in the Corporation on 1 July 1997 and the paid-up value of issued capital by the voting shareholders) was adjusted to the extent of the write down in the carrying value of assets referred to above, \$34.2 million, with the remainder transferred to share capital in accordance with the requirements of the Corporations Law.

Department of Land and Water Conservation

ESTABLISHMENT AND OBJECTIVES

The Department of Land and Water Conservation is responsible for the integrated management of the State's land, soil and water resources, principally under the *Crown Lands Act 1989*, *Soil Conservation Act 1938*, *Water Administration Act 1987* and the *Native Vegetation Conservation Act 1998*.

The land development operations managed by the Department are reported as a commercial activity of the Crown and are commented on separately in this Report. These operations comprise mainly development and sale of land for commercial and residential purposes in country New South Wales.

Legislation subjects the operations of the Department to the control and direction of the Minister for Land and Water Conservation.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Restructure of the Department

In April 1999, the Public Sector Management (General) Order 1999 removed the State Valuation Office from the Department of Land and Water Conservation and added it to the Department of Public Works and Services.

As in previous years, relocation of staff to rural locations, redeployment and voluntary redundancies continued in 1999–2000. Redundancy payments to 134 employees amounted to \$5.6 million (79 employees costing \$4.3 million in 1998–99). A voluntary redundancy program has been initiated in 2000–01 to address the 48 remaining displaced employees as at 30 November 2000.

During the year, transactions previously processed at Regional Offices have been centralised at the Parramatta Office. This move in processing is expected to relieve regional staff of administrative procedures allowing for a greater focus on core business without staff reductions.

Valuation of Crown Land in New South Wales

The Department estimates that there are some 930,000 separate State owned lots of land in New South Wales including some 90,000 Crown tenancies with annual revenue of \$60.4 million. The value of the Crown land that is not leased is reported at a notional value in the Department's financial statement as an administered asset. The Department initiated a process to identify, record and value all parcels of Crown lands in New South Wales. A valuation committee was formed for this purpose held its first meeting on 18 July 2000. No subsequent meetings were held to 31 December 2000.

Salinity in New South Wales

Salinity refers to the presence of excessive quantities of salt in soils and water and relates to the concentration of salt on the land and its accumulation in water systems. In New South Wales salinity is generally grouped into three categories namely dryland salinity, irrigation salinity and urban salinity. The Department estimates that between 120,000 and 174,000 hectares of dry land and 320,000 hectares of irrigated land have been affected by salinity in New South Wales. Farm practices have been primarily responsible for the raising of the water table thus bringing salt to land surface.

It has been estimated that the capital loss of land due to salinity nationwide is \$700 million with lost production estimated at \$130 million per year.

The Department notes that the role of managing the growing problem of salinity is a responsibility that must be shared by the community and government and is undertaking the New South Wales Lead Agency role in partnership with other State agencies and the community. The New South Wales Salinity Strategy is an attempt to manage salinity on a scale that has not been previously attempted. It proposes a comprehensive series of tools for implementation across New South Wales to address the problem of salinity.

In October 2000, the Federal Government committed \$700 million over the next seven years to tackle Australia's salinity and water quality crisis including land clearing prohibitions and a clawback of water allocations. The New South Wales Government is required to match the funding from the Federal Government on a dollar for dollar basis and implement the plan.

The Department is to receive \$15.0 million in 2000–01 from the Treasury to implement the Salinity Strategy in New South Wales.

Water Management Reforms

Water Management Act

The Water Management Bill 2000 was assented by the Governor in December 2000 and replaced the *Water Act 1912*, *The Rivers and Foreshores Improvement Act 1948* and numerous other Acts. The main features introduced by this bill include:

- ◆ definition of water-sharing principles between ecosystems and rights to divert water.
- ◆ establishment of water management areas and management committees
- ◆ water management plans and review of the related implementation program
- ◆ land-holder rights including domestic and stock rights and harvestable rights
- ◆ access licences and regulating access licence transfers
- ◆ recognition of applications under Section 91 of the *Environmental Planning and Assessment Act 1979* and provision of approvals under the new Act
- ◆ administration and enforcement of the provisions of the Act.

Water Licence Amnesty

In April 1998, the Minister announced a water licence amnesty. The amnesty was an undertaking not to prosecute landholders who came forward between 1 July and 31 August 1998, for past illegalities. The amnesty did not guarantee works and activities would be licensed but that people who registered would be given an opportunity to apply for a licence if this was needed. The Department finalised 4,700 registrations under the amnesty during 1999–2000.

There were approximately 100,000 water licences in New South Wales at 30 June 2000. There were 3,600 renewals and 4,000 new licences during the year.

Private Sector Infrastructure

The *Tweed River Entrance Sand Bypassing Act 1995* provides for the execution of agreements between the States of New South Wales and Queensland with regard to the improvement of the navigability of the Tweed River entrance, and the bypassing of sand around that entrance so that it can replenish southern Queensland beaches.

The project is being implemented in two initial stages. The first stage completed in May 1998 involved the maintenance dredging of three million cubic metres of sand from the Tweed River entrance and associated nourishment of the southern Gold Coast beaches. The second stage comprises the design, construction, operation and maintenance of a sand bypassing system for a period of approximately 25 years, following which the system will continue to be operated and maintained, including replacement as required, so as to provide a sand bypassing system in perpetuity.

The heads of agreement and the deed of agreement have been signed by the two State Governments. The agreements commit the Governments to undertake cost sharing of the entrance dredging, beach nourishment and construction and operation in perpetuity.

In December 1999 contracts were signed with a consortium of companies for design, construction, financing, operation and maintenance of a system until September 2024. The estimated cost of stage two is \$50.0 million.

The deed of agreement provides for New South Wales to be the coordinating State, and as such the Department shall have the following functions for the purpose of managing the investigation, design, construction, commission, operation, maintenance and replacement from time to time of the system.

AUDIT FINDINGS

Audit Opinion

The audit of the Department's financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

Accounting Issues

Compliance with the Australian Accounting Standards

The Urgent Issues Group's view is that correct application of Australian Accounting Standard AAS 4 'Depreciation', should ensure that the loss of future economic benefits embodied in non-current assets with limited useful lives is recognised. In keeping with the standard, asset lives should be reviewed regularly to ensure that loss of economic benefits is being accurately reflected in the accounts. More extensive condition based life reviews are currently being undertaken by the Department in preparation of the next asset revaluation, due for land and buildings and infrastructure assets in 2000-01.

Revaluation of Land under Infrastructure Assets

In accordance with the Treasurer's Directions and the Department's policy, land under infrastructure assets is revalued every five years.

The revaluation was performed during the year ended 30 June 2000 by the State Valuation Office on the basis of existing use and written down replacement value. The revaluation resulted in an increment of \$10.5 million. These increments have been appropriately accounted in accordance with the Australian Accounting Standards in the asset revaluation reserve.

Control Issues

The following control deficiencies have been brought to the Department's attention:

- ♦ the Department's general computer control environments are improving but full resolution of outstanding issues will only be achieved with the implementation of agreed recommendations

- ♦ journal preparation procedures are inadequate. This was raised with the Department in the 1998-99 audit. Journals are regularly unauthorised, lack supporting documentation and descriptions and audit tests revealed a lack of segregation of duties during preparation
- ♦ as in 1999, there are data quality problems with the information sourced from the payroll system for calculation of employee entitlements. Although Audit Office testing of the system during the current year has not identified material errors, the results have indicated the need for an internal quality review of information recorded in the system.

These and other issues of a less significant nature have been included in a management letter issued to the Department.

Compliance Issues

As well as reviewing legislative and policy requirements that govern the form and content of the financial report, other legislative requirements that could have a financial impact on the agency are reviewed on a cyclical basis. Requirements examined during 1999-2000 comprised compliance with:

- ♦ core business activities being in accordance with primary legislation and approved program descriptions
- ♦ the Premier's Department SES Guidelines in respect of the Director General's contract.

As a result of the reviews, it was found that the Department had generally complied with the requirements of the relevant legislation, SES Guidelines and its policies and procedures.

Other Issues

Implementation of New System

The Department plans to implement a new (SAP) payroll system from 1 March 2001 to replace the existing system (Lattice).

Bulk Water

The Independent Pricing and Regulatory Tribunal of New South Wales determines the charges which the Department can set for services relating to the delivery of bulk water. In its last determination the Tribunal set prices for 1998-99 and 1999-2000 to give stakeholders greater certainty at a time when the Department was separating its resource management and operator functions while improving its information cost base.

Since the Tribunal's last determination the Department has created a commercial water business, State Water, and made progress in implementing the Tribunal's recommendations. However, considerable work is still required to provide all the cost information the Tribunal believes should be made available.

The Tribunal has made a determination applicable from 1 July 2000. The prices the Tribunal set for 2000-01 will result in an average increase in bulk water prices by eight per cent across all water sources.

Litigation against the Department

In 1992 the Water Administration Ministerial Corporation ('the trading arm of the Department) supplied water to an irrigation customer for the purposes of irrigation of a potato crop under cultivation. The crop was damaged, allegedly by chemically polluted water supplied by the Corporation.

The customer instituted proceedings in the Supreme Court of New South Wales seeking damages against the Corporation for negligence. It was alleged that the Corporation had failed to test water for chemicals likely to damage crops, had failed to warn of the fact that water was contaminated and to clear the water of contaminants and had permitted the contaminants to remain in the water by failing to drain the irrigation channel from which the Corporation supplied the water.

On 9 September 1999, on appeal from the Supreme Court of New South Wales, the High Court of Australia allowed the appeal with costs. An amount of \$2.8 million (damages and interest) was paid during the year from the Treasury Managed Fund.

Native Vegetation Management Fund

From the Native Vegetation Management Fund, the Department paid \$7.1 million during 1999–2000 (\$531,000 1998–99) to landholders for conservation and management of native vegetation on their properties. The agreements covered more than 58,000 hectares. Management advises that payments from the fund are expected to rise during 2000–01 following increased awareness and applications by landholders.

Reserve Trusts

Pursuant to section 92(1) of the *Crown Lands Act 1989* the Minister may establish and name a reserve trust and appoint it as trustee of any one or more specified reserves or any one or more parts of a reserve. The Department should review its procedures to monitoring and controlling the activities of its trusts.

FINANCIAL INFORMATION

As mentioned earlier, financial operations of the commercial activity of the Department are reviewed elsewhere in this Report. The following tables detail the Department's operations.

Abridged Operating Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Operating expenses:		
Employee related	177,276	178,742
Other operating	110,253	111,834
Grants and subsidies	154,751	174,015
Other expenses	76,260	68,671
TOTAL EXPENSES	518,540	533,262
Sale of goods and services	87,920	83,396
Other revenue	25,142	29,642
TOTAL REVENUE	113,062	113,038
Gain/(Loss) on sale of non-current assets	(651)	(395)
NET COST OF SERVICE	406,129	420,619
Add Government Contributions	374,966	376,362
DEFICIT FOR YEAR	31,163	44,257

Grants and subsidies decreased by \$19.3 million, mainly due to a one off payment of \$15.5 million in 1998–99 to Murrumbidgee Irrigation and Coleambally Irrigation relating to their privatisation.

Other expenses increased by \$7.6 million, mainly due to increased work and payments relating to native vegetation (\$6.6 million).

Sale of goods and services increased by \$4.5 million, mainly due to an increase in revenue from the Murray-Darling Basin Commission as a result of increased work and Menindee Lakes rental income (\$2.6 million), and increased income from the River Management Agreements (\$1.5 million).

Other revenue decreased by \$4.5 million, and included a decrease in investment income (\$1.0 million) and a reduction in income from Federal agencies of (\$1.5 million).

Abridged Statement of Financial Position

At 30 June	2000 \$'000	1999 \$'000
Current assets	79,742	104,940
Non-current assets	<u>2,292,935</u>	<u>2,284,785</u>
TOTAL ASSETS	<u>2,372,677</u>	<u>2,389,725</u>
Current liabilities	68,002	68,925
Non-current liabilities	<u>17,632</u>	<u>13,045</u>
TOTAL LIABILITIES	<u>85,634</u>	<u>81,970</u>
NET ASSETS	<u>2,287,043</u>	<u>2,307,755</u>
Accumulated funds	2,261,524	2,292,687
Reserves	<u>25,519</u>	<u>15,068</u>
TOTAL EQUITY	<u>2,287,043</u>	<u>2,307,755</u>

The table below details the Department's net cost of services on a program basis.

Program Description	Revenues \$'000	Expenses* \$'000	1999-2000 Net Cost of Services \$'000	1998-99 Net Cost of Services \$'000
Rivers and groundwater	77,409	227,771	150,362	182,216
Land and vegetation	14,408	91,733	77,325	54,079
Catchment, coastal and floodplain	11,930	157,069	145,139	142,362
State land assets	<u>9,315</u>	<u>42,618</u>	<u>33,303</u>	<u>41,962</u>
Total all programs	<u>113,062</u>	<u>519,191</u>	<u>406,129</u>	<u>420,619</u>
* Includes loss on sale of non-current assets				

Land Development Working Account

ESTABLISHMENT AND OBJECTIVES

Commercial activities of the Crown Entity that are conducted by the Department of Land and Water Conservation are recorded in the Land Development Working Account and, in accordance with Treasury policy, are reported separately from the Department's operational activities. These commercial activities mainly comprise the development and sale of land for commercial and residential purposes in country New South Wales.

AUDIT FINDINGS

Audit Opinion

The audit of the Account's financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

FINANCIAL INFORMATION

The entity achieved an operating surplus of \$623,000 (\$1.8 million in 1998–99), representing income from land sales of \$8.9 million (\$10.1 million) less expenditure of \$8.3 million (\$8.4 million). Expenditure comprised cost of sales, \$7.6 million (\$7.1 million) and other operating expenses, \$730,000 (\$1.3 million). During the year funds paid or payable to Treasury totalled \$500,000 (\$1.9 million).

At 30 June 2000, assets totalled \$21 million (\$24 million in 1999). This included cash, \$3.4 million (\$5.7 million) and inventories of \$17.6 million (\$18.4 million). Liabilities of \$17.3 million (\$20.5 million) included 'Amount due to the Crown Entity', \$13.2 million (\$12.7 million) and a Treasury advance of \$3 million (\$3 million). Accumulated funds at 30 June 2000 were \$3.6 million (\$3.5 million).

The vast majority of the land in inventories is subject to the provisions of the Commonwealth *Native Title Act 1993* and/or the *Aboriginal Land Rights Act 1983*. These land parcels are not offered for sale until:

- ◆ sufficient evidence is obtained to indicate the extinguishment of native title; or
- ◆ where that criterion cannot be satisfied, a non-claimant application is lodged with the Native Title Tribunal in respect of the land. If that application is unopposed, then sale will proceed.

Any future compensation claim which might arise under the legislation in regard to land disposals is accepted by the Crown rather than the purchaser.

During the current and the previous years no compensation payments were paid under these Acts.

Luna Park Reserve Trust

ESTABLISHMENT AND OBJECTIVES

The Luna Park Reserve Trust was created in October 1990 under the *Luna Park Site Act 1990*. The purpose of the Trust is to control the Luna Park site, which has been dedicated as an area for public amusement, recreation and entertainment. The Trust is subject to the direction and control of the Minister for Land and Water Conservation. The Minister appointed Mr J M Millar as Administrator of the Trust in May 1995.

AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 1998 resulted in an unqualified Independent Audit Report. The late issuing of the Independent Audit Report reflected both the late signing of the 1997 financial report (in April 1999) and delays by the Administrator in providing a signed 1998 financial report.

It is anticipated that the 1999 financial report will be received by the Audit Office for audit by 31 January 2001.

FINANCIAL INFORMATION

The Trust had an operating deficit of \$1.9 million (\$1.6 million in 1996–97). Income totalled \$124,000 (\$526,000) including interest of \$19,000 (\$63,000) and car park rental of \$41,000 (\$27,000).

Expenditure of \$2.0 million (\$2.1 million) included depreciation \$1.2 million (\$1.2 million), other contracted services \$251,000 (\$313,000) and administrator's fees \$219,000 (\$243,000).

Total assets were \$28.7 million (\$30.6 million) and included property, plant and equipment \$28.5 million (\$29.8 million).

Property, plant and equipment mainly comprised buildings \$9.5 million (\$9.7 million), plant and equipment \$2.7 million (\$3.5 million), infrastructure \$9.3 million (\$9.5 million) and land \$7.0 million (\$7.0 million).

Liabilities totalled \$6.6 million (\$6.7 million) and included an advance by the Department of Land and Water Conservation \$5.5 million (\$5.5 million) and trade creditors \$1.1 million (\$1.2 million).

Equity of \$22.0 million (\$23.9 million) comprised an asset revaluation reserve \$11.0 million (\$11.0 million) in addition to an accumulated surplus \$11.0 million (\$12.9 million).

Contingent Liabilities

The State Rail Authority has a claim against the Trust for \$1.4 million for works completed in relocating the train line at Lavender Bay. The Trust has recorded \$999,000 as a liability, but \$376,000 remains in dispute and has been reported as a contingent liability.

Another matter, which remains unresolved, relates to a Statement of Claim for \$802,000 lodged against the Trust in December 1996 covering non-performance in respect of a lease for a restaurant in Crystal Palace. The Trust denies liability but should this claim and legal fees be paid in full the amount would be approximately \$1.1 million. This matter has been recognised as a contingent liability.

The Trust was unsuccessful in litigation regarding the noise generated by the Big Dipper Roller Coaster and legal costs awarded against the Trust are estimated to be approximately \$260,000. In the absence of a claim, this estimate has not been included in the financial report.

CONTROLLED ENTITY - Luna Park Amusements Pty Limited

Luna Park Amusements Pty Limited (LPA) had no assets or liabilities as at 30 June 1998 and no transactions have occurred since 1 July 1996. All assets and remaining liabilities of the company were transferred to the Trust effective 30 June 1996. The directors intend to apply to the Australian Securities and Investments Commission to have LPA deregistered.

Newcastle Showground and Exhibition Centre Trust

ESTABLISHMENT AND OBJECTIVES

The Newcastle Showground and Exhibition Centre Trust administers a Crown Reserve under the auspices of the *Crown Lands Act 1989* and the *Newcastle Agricultural, Horticultural and Industrial Association Act 1905*. The Trust's charter is to provide facilities for the staging of the Newcastle Show and other activities for recreation, entertainment and exhibition purposes.

The *Crown Lands Act 1989* provides the Minister for Land and Water Conservation with the power to direct or control the Trust.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Trust has projected a cash shortfall for the period December 2000 to June 2001 mainly due to the decline in the Australian dollar, which affects the ability to attract overseas artists. Other major factors are the general downturn in revenue streams associated with the Olympic year and the loss of its anchor tenant, the Newcastle Falcons basketball team.

In November 2000 the Minister for Land and Water Conservation requested the Treasurer to provide the Trust with an operating subsidy of \$551,000 for the period December 2000 to June 2001. The Treasurer has approved a \$358,000 subsidy for the three months to March 2001.

The \$358,000 provided to meet the Trust's projected cash shortfall to March 2001 was conditional on:

- ◆ a business plan and statement of financial performance being provided to Treasury by 31 March 2001; and
- ◆ the commissioning of a full review of the Trust and its operations, the findings being reported to the Treasurer. The review is to take into account that further government funding is limited.

Under current arrangements, the Department of Land and Water Conservation has been providing an annual interest subsidy of \$387,000 which is associated with the Trust's government guaranteed NSW Treasury Corporation (T-Corp) debt of \$3.2 million. This debt is due to be repaid in December 2001 and the Trust will not be in a position to fund the repayment from its own resources. The Treasurer has recently approved the continuation of the interest subsidy and the extension of the maturity of the debt for another twelve months.

The Trust has also identified the need to undertake capital and maintenance works approximating \$11.6 million over the next four years and has applied for government funding for these works.

AUDIT FINDINGS

Audit Opinion

The audit of the Trust's financial report for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report. The report included an emphasis of matter section drawing attention to the inherent uncertainty regarding the Trust's ability to continue as a going concern.

FINANCIAL INFORMATION

Income and Expenditure

The operating surplus for the year was \$32,000 (deficit of \$10.3 million in 1998-99). There were no abnormal items this year (expense of \$9.7 million).

Operating income for the year of \$3.5 million (\$3.4 million) included gross income from concessions outlets of \$1.3 million (\$1.3 million), an interest subsidy from the Department of Land and Water Conservation of \$387,000 (\$387,000) and ground and entertainment centre hiring fees of \$1.0 million (\$1.1 million).

Operating expenditure for the year of \$3.3 million (\$3.2 million) included cost of sales for concession outlets of \$527,000 (\$500,000), salaries of \$1.1 million (\$992,000), management fees of \$299,000 (\$304,000), interest and bank charges of \$490,000 (\$496,000), and repairs and maintenance expenses of \$240,000 (\$337,000).

Balance Sheet

At 30 June 2000 assets of \$4.6 million (\$5.4 million) included cash and bank balances of \$1.4 million (\$2.0 million) and property, plant and equipment of \$3.0 million (\$3.2 million).

Liabilities of \$5.6 million (\$6.5 million), included government guaranteed loans from the NSW Treasury Corporation of \$3.2 million (\$3.2 million) and a \$1.0 million (\$1.1 million) commercial bill facility from the Commonwealth Bank of Australia, secured by registered mortgage.

At 30 June 2000 net liabilities were \$1.0 million (\$1.1 million) represented by an asset revaluation reserve of \$714,000 (\$714,000) offset by an accumulated deficiency of \$1.8 million (\$1.8 million).

Centennial Park and Moore Park Tours Premier

Centennial Park and Moore Park Trust

Premier's Department

Centennial Park and Moore Park Trust

ESTABLISHMENT AND OBJECTIVES

The Trust, constituted under the *Centennial Park and Moore Park Trust Act 1983*, commenced operations in November 1984. Its principal objectives are to maintain and improve Trust lands, to encourage the public use and enjoyment of those lands by promoting and increasing the recreational, historical, scientific, educational, cultural and environmental value of those lands, and to ensure the protection of the environment within Trust lands. Lands vested in the Trust at 30 June 2000 comprised the area known as Centennial Park, Queen's Park and Moore Park, together with the E.S. Marks Athletic Field and the Sydney Showground.

AUDIT FINDINGS

Audit Opinion

The audit of the Trust's financial report for the year ended 30 June 2000 resulted in an unqualified Independent Audit Report.

Accounting Issues

During 1998 trees situated on Trust lands were valued and recognised as an asset for the first time at a carrying value of \$90.4 million. The Trust has not established a policy for the ongoing accounting for these assets, however it is proposing to establish a working party to develop this policy.

Control Issues

There appears to be insufficient follow-up action on aged debtors. With the advent of the Goods and Services Tax, the collection of outstanding debts becomes more critical because of cash flow considerations.

Compliance Issues

There were no exceptions noted in the conduct of compliance reviews undertaken in the 1999–2000 financial year.

FINANCIAL INFORMATION

The net cost of services for the year was \$767,000 (\$3.4 million in 1998–99). This was represented by expenses, \$11.1 million (\$11.3 million), revenues of \$11.9 million (\$8.0 million) and loss on sale of non-current assets, \$7,000 (\$148,000).

Costs included employee-related expenses of \$3.8 million (\$3.6 million), other operating expenses, \$3.0 million (\$3.7 million), depreciation and amortisation, \$2.5 million (\$2.4 million) and maintenance, \$1.8 million (\$1.6 million). Income included sale of goods and services, \$4.9 million (\$4.2 million) investment income, \$3.1 million (\$1.7 million), grants and contribution, \$2.5 million (\$1.2 million) and other revenue \$1.3 million (\$853,000).

Government contributions to defray the cost of operations were \$5.8 million (\$18.7 million). Consolidated Fund appropriations amounted to \$5.5 million (\$18.4 million) and the acceptance by the Crown Entity of Trust liabilities for employee superannuation and long service leave entitlements totalled \$314,000 (\$306,000).

At 30 June 2000, assets totalled \$522 million (\$516 million at 30 June 1999). This included land and buildings, \$349 million (\$339 million), roads and infrastructure, \$158 million (\$163 million), plant and equipment, \$568,000 (\$809,000), cash at bank \$4.4 million (overdraft of \$91,000), receivables, \$614,000 (\$5.1 million) and investments, \$8.6 million (\$8.1 million).

Current liabilities of \$707,000 (\$1.8 million) included accounts payable of \$217,000 (\$703,000), provision for employee entitlements of \$402,000 (\$304,000) and unearned income arising from compensation receivable from the Roads and Traffic Authority (RTA) for the use of land in Moore Park, of \$88,000 (\$738,000).

At year-end equity comprised accumulated funds, \$513 million (\$506 million) and an asset revaluation reserve, \$8.4 million (\$8.4 million).

Premier's Department

ESTABLISHMENT AND OBJECTIVES

The Premier's Department: provides strategic advice and services to the Premier as head of Government; manages issues and projects of significance to the State; directs and leads the New South Wales Public Sector, especially in relation to management of staff and resources; and aims to ensure a whole of government approach to policy development and service provision within the public sector.

The Department has six major areas of operation: the Public Sector Management Office; Ministerial and Parliamentary Services; Strategic Projects; State Administration Services; the Review and Reform Division; and the Infrastructure Coordination Unit.

The Office of the Director of Equal Opportunity in Public Employment is part of the Department, however the Director reports directly to the Premier.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Office of the Council on the Cost of Government and the Corporate Services Reform Unit were merged to form the Review and Reform Division.

The Infrastructure Coordination Unit, established within the Strategic Projects Division following abolishment of the Ministry of Urban Infrastructure Management in April 1999, is now a separate Division of the Department reporting directly to the Director-General.

AUDIT FINDINGS

Audit Opinion

The audit of the Department's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report relating to comparative amounts. The qualification states:

In accordance with Treasurer's Directions, the Department for the year ended 30 June 1999 recognised net assets transferred from its control as a result of an administrative restructure as an adjustment to the opening balance of Accumulated Funds.

The treatment is a departure from the requirements of Australian Accounting Standard AAS29 "Financial Reporting by Government Departments". In my opinion the value of the net assets at date of transfer of \$14.5 million should have been recognised as an expense within the operating statement for the year ended 30 June 1999. Had this been done, the Net Cost of Services for that year would have been increased by this amount to \$80.7 million and the deficit for that year would have been increased to \$20.2 million. There would have been no effect on net assets. The audit report on the financial report for the year ended 30 June 1999 was qualified accordingly.

Accounting Issues

The land and buildings comprising Government House, previously carried at \$30.4 million, were revalued (as at 30 June 2000) to \$42.6 million (land \$23 million, buildings \$19.6 million). Because the valuer's report was not received until September 2000, the financial report submitted for audit on 21 July 2000 was incomplete in that it did not reflect the revised carrying value.

The Department does not depreciate the heritage components of the Government House site because, as a heritage building, it is considered as having an indeterminate useful life. These heritage components comprise approximately 80 per cent of the carrying value of buildings.

Control Issues

The Department has engaged the Central Corporate Services Unit (CCSU) of the Department of Public Works and Services to maintain its accounts and records and to prepare its financial report. In previous years issues impacting the recording, stocktake, depreciation and reconciliation of non-current assets complicated the preparation and audit of the Department's financial report. Although the audit was planned in the expectation that these problems would not recur, certain controls were again found not to have operated as intended. Departmental ledgers continued to reflect disposed assets. This issue, and other matters relating to reconciliations and internal control practices and reporting procedures have been formally referred to departmental management for consideration of recommendations for improvement.

Compliance Issues

As well as reviewing those requirements that govern the form or content of the financial report, other legislative requirements that could impact on the Department are reviewed on a cyclical basis. Requirements examined during 1999-2000 were: business activities being in accordance with the approved program descriptions of the Premier's Department; the Premier's Department's SES Guidelines in respect of the Director-General's contract of employment; and the *Public Sector Management Act 1988* and the *Public Sector Management (General Regulation) 1996*.

The Department complied with these requirements.

FINANCIAL INFORMATION

Abridged Operating Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Employee related	33,070	34,761
Other expenses	49,246	48,427
TOTAL EXPENSES	82,316	83,188
TOTAL REVENUE	9,809	16,965
Loss on disposal of non-current assets	856	--
NET COST OF SERVICES	73,363	66,223
Add Government Contributions	75,380	60,547
MOVEMENT IN ACCUMULATED FUNDS	2,017	(5,676)

Previous year's revenue and expenses reflected the operations of the former Office of Information Technology prior to its transfer to the Department of Information Technology and Management in April 1999. Included within other expenses are grants and subsidies, \$12.1 million (\$6.8 million in 1998-99), rental, \$8.4 million (\$7.6 million), payments of \$7.3 million (\$3.8 million) for the staging of events associated with the Australia Day Council and preparations for Centenary of Federation activities, and corporate service fees of \$3.9 million (\$3.9 million).

Abridged Statement of Financial Position

At 30 June 2000	2000 \$'000	1999 \$'000
Current assets	6,908	5,883
Non-current assets	48,244	37,596
TOTAL ASSETS	55,152	43,479
Current liabilities	6,919	9,452
Non-current liabilities	--	27
TOTAL LIABILITIES	6,919	9,479
NET ASSETS	48,233	34,000
Asset revaluation reserve	12,216	--
Accumulated surplus	36,017	34,000
TOTAL EQUITY	48,233	34,000

Current assets comprise cash and receivables of \$5.4 million and \$1.5 million respectively (\$359,000 and \$5.5 million at 30 June 1999). The \$5.0 million increase in cash is due to net inflows of \$5.8 million (\$4.3 million outflow in 1998-99) from operating activities offset by purchases of plant and equipment, \$722,000 (\$1.6 million).

Liabilities at 30 June 2000 included accounts payable totalling \$2.1 million (\$5.1 million at 30 June 1999) and employee leave entitlements of \$4.8 million (\$4.4 million).

Program Information

The table below details the net cost of services on a program basis:

Program Description	Revenue \$'000	2000 Expenses* \$'000	Net Cost of Services \$'000	1999 Net Cost of Services \$'000
Services for the Governor's Office	--	1,622	1,622	1,479
Services for the Leaders of the Opposition	--	1,465	1,465	1,696
Council on the Cost of Government	61	3,743	3,682	2,453
Equal Opportunity in Public Employment	76	2,040	1,964	1,827
Ministerial and Parliamentary Services	2,866	20,650	17,784	15,845
Public Sector Management Office	1,848	13,614	11,766	10,989
Strategic Projects	3,434	15,347	11,913	6,770
State Administration Services	1,524	24,691	23,167	20,670
Office of Information Technology	--	--	--	4,494
	<u>9,809</u>	<u>83,172</u>	<u>73,363</u>	<u>66,223</u>

* Includes loss on sale of non-current assets.

Minister for Public Works and Services

ESTABLISHMENT AND OBJECTIVES

Department of Public Works and Services

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Integrated Management Information System

The phased implementation of the Department's new integrated management information system continued throughout 1999-2000 and is expected to be completed by May 2001 at a forecasted estimated cost of \$21 million.

Underemployed Public Staff and Voluntary Recruitment

DPWS statistics indicate that 2,516 full-time staff were employed as 30 June 2000 (1,374 as 30 June 1999). The Department has acknowledged that underemployed staff is a concern impacting on performance and estimates that, as the date of presentation of this report, over 1,300 positions will be subject to requirements under provisions of the Corporate Change Program. The Department received \$1.4 million (all in 1999-00) from Commonwealth Fund towards the cost of underemployed staff.

During the year 94 employees accepted voluntary redundancy at a cost of \$4.9 million.

Government Cleaning Contract

On 28 January 1999 the State Contracts Control Board awarded a new government cleaning contract to Peter Petersen Pty Ltd. In October 1999 one of the companies advised the Department of an alleged dispute with the Australian Labor Union (ALU) and the Australian Workers Union (AWU). Negotiations between Government agencies and union representatives resulted in agreement that the matter be referred to an independent review. The review was completed on 15 February 2000 and found that the ALU and the AWU were in breach of their respective contracts and the ALU was in breach of its contract with the Government. The ALU and the AWU were ordered to pay the Government \$1.5 million and the ALU was ordered to pay the Government \$1.5 million on 15 November 1999.

The Independent Review and Regulatory Tribunal (IRRT) was asked to review the contract and to recommend any changes to the contract. IRRT advised that on 16 April 2000 the ALU and the AWU accepted the review's recommendations and signed an agreement accepting the review's findings and stating the ALU and the AWU agreed to pay the Government \$1.5 million and the Government agreed to pay the ALU and the AWU \$1.5 million in respect of productivity. The review also recommended that the Government should consider the independence of the independent review. The ALU and the AWU agreed to pay the Government \$1.5 million in respect of productivity improvements.

A reference to the Audit Office was made by the Department's legal adviser for the contract. DPWS also advised that while the contract was properly awarded in terms of the cleaning contract, it was not in line with the Government's policy on the award of contracts. The ALU and the AWU were ordered to pay the Government \$1.5 million and the Government agreed to pay the ALU and the AWU \$1.5 million on 15 November 1999.

Department of Public Works and Services

ESTABLISHMENT AND OBJECTIVES

The Department of Public Works and Services (DPWS) was established in April 1995 as part of an administrative restructure following a change in Government. The Department provides a range of services to the Government and client agencies including: involvement in building and construction work; advice on total asset management (which also involves strategies for Government property assets); environmentally sensitive design; and procurement and supply of a wide range of goods and services.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Integrated Management Information System

The phased implementation of the Department's new integrated management information system continued throughout 1999-2000 and is expected to be completed by May 2001 at a (revised) estimated cost of \$21 million.

Underutilised/Excess Staff and Voluntary Redundancy

DPWS statistics indicate that 2,516 full-time equivalent staff were employed at 30 June 2000 (2,574 at 30 June 1999). The Department has acknowledged that underutilised staff is adversely impacting its performance and estimates that, at the date of preparation of this Report, some 120 positions will be surplus to requirements upon finalisation of the Corporate Change Program. The Department received \$1.4 million (nil in 1998-99) from Consolidated Fund towards the cost of underutilised staff.

During the year 96 employees accepted voluntary redundancy at a cost of \$4.9 million.

Government Cleaning Contract

On 29 January 1999 the State Contracts Control Board awarded five-year government cleaning contracts to three private sector companies. In October 1999 one of the companies advised the Department of an industrial dispute with the Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMU). Negotiations between Government, company and union representatives resulted in agreement that: the issues be reviewed by an independent party; a moratorium on further cuts to cleaning hours until 19 February 2000 (in exchange for a total of \$2.0 million being paid to the Company); and the LHMU using every endeavour to bring about a return to work on 15 November 1999.

The Independent Pricing and Regulatory Tribunal (IPART) was asked to review and comment on productivity targets in the contract. DPWS advises that: on 10 April 2000 the parties adopted the review's recommendation and signed an agreement capping the productivity change and ending the dispute; the Company sought a one off 'amelioration' payment to release the Government from further claim in respect of productivity levels over the remaining life of the contract; following consideration of the independent review, Cabinet agreed to pay the company \$15.0 million to cap productivity improvements.

It is not clear to the Audit Office what, if any, was the Government's legal liability for these payments. DPWS has advised that 'while the contracts were properly specified in terms of the cleaning outcomes required and all risks with the cleaning process (including industrial relations risk) were borne by the company, the Government acted on the independent advice to protect the health and safety of school children'.

Disposal of Surplus Properties

With the exception of specifically exempted agencies with in-house property expertise, Government requirements are for DPWS to manage the disposal of surplus properties which have a highest and best use value in excess of \$3 million. Agencies are also required to advise DPWS of all proposed disposals of property with a highest and best value of between \$1 million and \$3 million for assessment of potential strategic value. During the year DPWS managed the sale of 21 (28 in 1998-99) surplus government properties, valued at over \$257 million (\$124 million) in total.

Volume Three of the Auditor-General's Report to Parliament for 1999 indicated that DPWS intended to seek Government approval to review the records of some agencies to determine the status of properties and their potential for disposal (following instances of non-compliance with government requirements). The Department advises that while approval was obtained from the Government on 18 November 1999, the review is at a preliminary stage pending the findings of a Steering Committee established to examine options to rationalise the "landbank and the property disposal functions of agencies" and to "assess the effectiveness, efficiency and appropriateness with which agencies manage their disposals".

AUDIT FINDINGS

Audit Opinion

The Treasurer, under section 45E of the *Public Finance and Audit Act 1983*, directed DPWS to prepare its financial report in conformity with financial reporting requirements applicable to statutory bodies.

The audit of DPWS's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report. Implementation of the previously mentioned new integrated management information system required realignment of project structures and supporting information. At 30 June 2000 the realignment process was incomplete. While no matters have been identified to date that will have an impact on the operating result and net assets, the accuracy of these balances can only be confirmed after completion of the review process. The audit qualification states:

As disclosed in Note 26 to the financial report under the heading of Work in Progress and Advance Claims, the Department's review of realigned project structures and supporting subsidiary documentation is in progress. Until completion of this process there is uncertainty as to the values of Work in Progress and Advance Claims at 30 June 2000 and the operating result for the year.

Accounting Issues

State Valuation Office (SVO)

DPWS assumed administrative responsibility for the SVO from 8 April 1999. DPWS derived the capacity to control operations and activities of the SVO from 1 July 1999 and the SVO's financial results and position were consolidated within DPWS' accounts for the first time in 1999-2000.

Control Issues

Cheques

Volume Three of the Auditor-General's Report to Parliament for 1999 referred to attempted fraudulent manipulation of cheques and the Department's request that the Audit Office refrain from providing further details regarding this matter (to avoid jeopardising the investigation). DPWS has advised that: it has completed its investigation and referred the matter to the New South Wales Police Service and the Australian Federal Police; no conviction had resulted at the date of preparation of this Report; to further strengthen controls, the cheque drawing function has now been centralised.

State Mail Service - Invoicing

Volume Three of the Auditor-General's Report to Parliament for 1999 referred to continued reliance on lodgement dockets completed by State Mail Service customers to record the volume of sales and generate invoices. New technology encompassing hand held scanners was introduced in 1999-2000. DPWS has advised that some issues have been identified that impact the reliability of the data collected by the scanners and the use of lodgement dockets completed by customers has continued. It is understood that these issues are being addressed with the expectation that scanned data will be used to record sales from April 2001.

Auctioning of Government Vehicles

The Audit Office referred concerns regarding possible misrepresentation of motor vehicles (as ex Government) by auctioneers to the Department's Audit Services Branch. The Department has advised that, following investigation, instances of possible misrepresentation were identified. The auctioneers wrote to the Department (on 10 January 2001) advising that only a very small number of vehicles were involved and that the practice would cease. It is understood that the Department now monitors auctions to ensure that such practices do not recur.

Compliance Issues

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could impact on the Department are reviewed on a cyclical basis. Requirements examined during 1999-2000 comprised compliance with: the Premier's Department SES Guidelines in respect of the Director General's contract of employment; and, key provisions of Part 2 of the *Public Sector Management Act 1988* and Parts 2 to 6 of the *Public Sector Management (General) Regulation 1996*.

The Department substantially complied with these requirements.

Other Matters

Building and Construction

Major development projects managed by DPWS include the King Street Wharf and the Walsh Bay redevelopment.

The development of King Street Wharf is a \$750 million project being undertaken by a consortium of private sector organisations and provides for a 99-year lease over most of the five-hectare site. Construction work commenced in July 1999. DPWS managed the detailed call process and negotiation and execution of the master development agreements between the NSW Waterways Authority and the Development consortium. The Department is currently managing the fit-out of charter vessel facilities and the negotiation of charter vessel leases and licences on behalf of the Waterways Authority.

Walsh Bay construction works commenced in November 1999. The \$650 million redevelopment of the Walsh Bay precinct (which covers eight hectares of land and seven hectares over water) is being undertaken by a consortium of private sector organisations and is being managed by DPWS on behalf of the Waterways Authority and the NSW Ministry for the Arts.

International Business

In addition to work completed in New South Wales, DPWS provides services interstate and overseas. One overseas project is a Total Integrated Wastewater and Sewerage System Project currently being undertaken in Indonesia under a "Sister State" agreement. Costs incurred by DPWS as at the date of preparation of this report totalled \$747,000. The agreement provides for recovery of these costs upon appointment of a "prime contractor", which is not expected to occur until the end of 2001. Because of this uncertainty full provision for loss has been made.

Premier's Memorandum 93-31 provides "Guidelines for the Export of the Skills and Expertise of NSW Public Sector Agencies". DPWS advises that the Guidelines refer to its predecessor organisation, the "Public Works Department", that was classified as one which required the approval of the Minister and Treasurer "for all export projects". DPWS considers the original classification not applicable because the revised structure categorises the Department as a self-sufficient fully competitive body, thereby not requiring the approval of the Minister and the Treasurer. It is recommended that DPWS seek clarification as to the applicability of the guidelines.

Memorandum of Understanding

Volume Three of the Auditor-General's Report to Parliament for 1999 stated that the Department renegotiated a new Memorandum of Understanding (MOU) with the Department of Land and Water Conservation (DLWC) (effective from 8 March 1999 and subject to an annual review of performance) for the provision of services associated with the Country Towns Water Supply and Sewerage Program. DPWS advises that the first annual review has been deferred at the request of DLWC, which it is understood, will seek to modify the MOU when the review is conducted. DPWS further advises that its services to DLWC and local councils have not been impacted by the deferment.

Government Printing Service (GPS)

This business unit was established to provide the Government and its agencies with printing, publishing and forms management services. Sales for the year totalled \$21.2 million (\$21.4 million in 1998-99). Approximately 6 per cent (4 per cent) of these sales were made to customers other than State Government agencies. Although GPS as a business unit registered a net profit, six (six) of the fifteen (sixteen) GPS branches recorded losses during 1999-2000 and some have consistently operated at a loss. The continued losses have been attributed to a small client base, increasing incidence of high-speed copiers being acquired by other agencies, and poor siting of branches. DPWS management acknowledges that despite continuing efforts to improve profitability, further rationalisation may be required.

Q Stores

Q Stores provides a sourcing, warehouse and distribution service for common use consumables. In February 1994, the State Contracts Control Board entered into an agreement with a private company for the provision of facilities management services related to the management and operation of the warehouse and distribution system of Q Stores. The contract period was for five years, with the State Contracts Control Board reserving the absolute discretion to extend the contract for one or more periods totalling no more than two years. The existing contract expired on 7 February 2001.

In November 2000, the Department advised the Minister of a need to enter into a new short term Facilities Management and Distribution Agreement with the existing provider of those services because of its intention to review warehouse and distribution functions within Q Stores. DPWS advises that a specification, tender and evaluation process for a short-term contract would be both costly and counter productive. A new agreement with the existing provider, without a formal tender process, required the Minister to exercise the discretion available to him under the Public Sector Management Act (Goods and Services) Regulation 2000. The Minister authorised a new agreement with the existing provider for a period of twelve months on 7 December 2000. DPWS advises that, at the date of preparation of this Report, the new agreement was being negotiated.

From the inception of the contract in 1994 to 30 June 2000, the facilities manager has been paid \$48.4 million (\$8.2 million in 1999–2000).

FINANCIAL INFORMATION

Abridged Income and Expenditure Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Fees	218,069	188,558
Sales and services	142,660	136,085
Other income	8,608	8,157
TOTAL INCOME	369,337	332,800
Employee related	202,258	173,990
Cost of sales	98,973	95,298
Other expenses	70,422	60,011
TOTAL EXPENDITURE	371,653	329,299
OPERATING SURPLUS/(DEFICIT) BEFORE INCOME TAX, CAPITAL GRANTS AND ABNORMAL ITEMS	(2,316)	3,501
Capital grants	2,454	--
Abnormal items	88,232	11,046
OPERATING SURPLUS BEFORE INCOME TAX	88,370	14,547
Income tax equivalent	--	1,261
OPERATING SURPLUS AFTER INCOME TAX	88,370	13,286
Accumulated funds at the beginning of the financial year	299,091	294,798
Restructuring adjustment – State Valuation Office	497	--
Provision for major periodic maintenance written back	--	296
TOTAL AVAILABLE FOR APPROPRIATION	387,958	308,380
Dividend payable to State Government	500	9,289
ACCUMULATED FUNDS AT END OF FINANCIAL YEAR	387,458	299,091

DPWS has explained that:

The \$29.5 million increase in fee income is largely attributable to the inclusion for the first time of SVO fees (\$14.0 million), higher charge out rates, and higher earnings from sales made by private sector suppliers under State Contracts Control Board contracts (resulting from expenditure associated with Year 2000 and GST compliance).

Income from sales and services comprised: Q Stores, \$60.7 million (\$60.0 million in 1999-2000); State Mail Services, \$25.5 million (\$24.8 million); Government Advertising Agency, \$20.1 million (\$18.0 million), the 11.7 per cent increase relating to additional work undertaken as a result of the staging of the Olympics; Government Printing Service, \$21.2 million (\$21.4 million); State Fleet Services, \$11.8 million (\$8.4 million), the 40.5 per cent rise being attributable to new clients and the "extra car" product; and Government Information Services, \$3.4 million (\$3.5 million).

The 16.2 per cent increase in employee related costs is largely due to the previously mentioned first-time inclusion of the State Valuation Office, the voluntary redundancy program and award increases.

Capital appropriations were received to fund rectification of problems associated with the network computing infrastructure supporting the Department's Central Corporate Service Unit clients and for Year 2000 remedial work.

Revised actuarial assumptions contributed to a \$88.2 million (\$11.0 million in 1998-99) increase in prepaid superannuation. The increase was recognised as abnormal income.

DPWS received \$17 million from Consolidated Fund in respect of the abovementioned cleaning contractor payments. The receipt and disbursement of these monies was recognised as offsetting abnormal income and expenditure.

The dividend of \$500,000 reflected the Department's contribution to the Government's City Improvement Project.

Abridged Balance Sheet

At 30 June	2000 \$'000	1999 \$'000
Current assets	620,872	463,709
Non-current assets	131,732	110,639
TOTAL ASSETS	752,604	574,348
Current liabilities	303,567	223,684
Non-current liabilities	51,880	48,795
TOTAL LIABILITIES	355,447	272,479
NET ASSETS	397,157	301,869
Asset Revaluation Reserve	9,699	2,778
Accumulated funds	387,458	299,091
TOTAL EQUITY	397,157	301,869

DPWS has explained that:

In addition to the previously mentioned \$88.2 million increase in prepaid superannuation, the \$157 million increase in current assets is largely attributable to: a \$30.7 million rise to \$112 million in amounts due from clients (attributed to problems encountered in billing clients following the introduction of the new integrated management information system); increases in reimbursements outstanding for motor vehicles purchased on behalf of banks participating in Government leasing arrangements (from \$18.8 million to \$32.0 million); and a \$17.7 million increase in work-in-progress (to \$71.7 million).

At 30 June 2000, the Department's cash at bank and investments totalled \$117 million (\$117 million). Since that time however the Department's cash and investment balances have decreased and in September 2000 the Department's cash position was in overdraft. The average daily bank balance during October 2000, November 2000 and December 2000 was an overdraft of \$18.6 million, \$23.6 million and \$26.0 million respectively. It is understood that this is the first time that the Department has been operating in overdraft since it commenced operating on a commercial basis. The Department's projections indicate that a positive cash balance is not expected until March 2001.

DPWS advises that prior to entering into overdraft the situation was discussed with Treasury who advised that formal approval to operate an overdraft facility through the Treasury Banking System was not required. Following Audit Office enquiries further clarification was requested from Treasury. Treasury has now advised that in accordance with the *Public Authorities (Financial Arrangements) Act 1987*, formal approval should be obtained to the provision of financial accommodation through the Treasury Banking System. Treasury also advised that action has since been taken to seek the necessary approval.

The deterioration in the cash position has been attributed to the increase in trade debtors (particularly debtors in excess of 60 days), revised arrangements regarding prompt payment of contractors (without offsetting similar requirements on clients), and GST requirements regarding payment of amounts due to the Australian Tax Office. The Department has initiated strategies to improve its cash position, including action to recover outstanding debtors, review of work in progress, and ensuring adherence to debtor recovery policy.

A revaluation of land and buildings resulted in a \$6.9 million increment to carrying values being recognised through the asset revaluation reserve. The increase in non-current assets also reflects new management information system costs capitalised during the year (\$8.6 million), and other additions to property plant and equipment.

Current liabilities include payables of \$61.3 million (\$34.2 million), amounts due to contractors for work-in-progress, \$58.0 million (\$80.6 million), advance claims totalling \$130 million (\$69.6 million), and provision for employee entitlements amounting to \$14.4 million (\$12.3 million).

Non-current liabilities comprise amounts owing to employees for long service leave entitlements. This liability is met by the payment of an oncost on salaries to Treasury. This payment extinguishes DPWS's liability, which is then assumed by the State. In accordance with AAS 30 'Accounting for Employee Entitlements', employee long service leave entitlements of \$55.6 million (\$51.3 million) have been recognised as current \$3.7 million (\$2.5 million) and non-current liabilities \$51.9 million (\$48.8 million), with the corresponding reimbursable amounts from the Crown Entity being recognised as current and non-current assets.

Minister for Transport

Marine Ministerial Holding Corporation

Waterways Authority

Marine Ministerial Holding Corporation

ESTABLISHMENT AND OBJECTIVES

The Marine Ministerial Holding Corporation (MMHC) was constituted on 1 July 1995 under the *Ports Corporatisation and Waterways Management Act 1995* as a statutory body representing the Crown. The MMHC is a 'corporation sole' without employees, managed and controlled by the Minister for Transport.

The functions of the MMHC were: to hold, retain, transfer and dispose of assets, rights and liabilities transferred to it under the Act on behalf of the Crown; to acquire, exchange, lease, dispose of and deal with property; to develop and manage land transferred to it under the Act; and to carry on any business in relation to the assets, rights and liabilities of the MMHC. To assist in the performance of these functions the MMHC is given the power to do all things supplemental or incidental to the performance of these functions.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Transfer and Dissolution of the MMHC

The Government determined that the functions of the MMHC were surplus to Government needs and could be transferred to other appropriate agencies. As a result the Minister for Transport transferred all assets, rights and liabilities of the MMHC at 10 March 2000 to the Waterways Authority (Waterways) under section 45(1) of the *Ports Corporatisation and Waterways Management Act 1995*, with the exception of land held by the MMHC at Walsh Bay and Woolloomooloo. On 29 June 2000, the *Statute Law (Miscellaneous Provisions) Act 2000* abolished the MMHC and formally transferred its remaining assets, rights and liabilities to Waterways.

Property Construction

Construction of the 620 metre long wharf at Rozelle Bay was completed in June 2000 at a cost of \$6.8 million. This included work on the wharf, installation of paving, drainage and tenant services along the wharf, with the new wharf overlaying the existing structure.

Woolloomooloo Bay

The developer completed the \$300 million redevelopment of Woolloomooloo Bay in April 2000.

The final stage was the redevelopment of the Finger Wharf. As advised by Waterways this involved construction of 315 apartments, restaurants, retailing, 65 boat mooring berths and a 109 room four star hotel at the southern end of the wharf. In return for granting 99 year leases to the final purchasers, the MMHC received \$12.4 million (\$3.1 million in 1998-99) representing 5 per cent of the sale proceeds of the terraces, wharf apartments, and an agreed amount of \$1.5 million for the hotel.

Walsh Bay

Details of this development were included in Volume Three of the Auditor-General's Report to Parliament for 1999.

The refurbishment of Piers 8/9 was completed in late 2000, consisting of commercial office space. Construction of the substructures for Piers 6/7 commenced in August 2000 following the removal of the pier sheds in May 2000.

The redevelopment of Pottinger Street commenced in late November 1999. This involved the demolition of the bond stores and the commencement of construction of terraces. The MMHC spent \$1.1 million during 1999-2000 on the removal of contaminated waste discovered by the developer at this site. The demolition of Bond Store 4 and Bond 4 office has been completed to enable the construction of the drama theatre and apartments.

Darling Harbour

The Darling Harbour development covers former wharves 9 and 10 and associated land fronting Sussex Street, Sydney and is known as 'King Street Wharf.' The wharves and associated land have been leased to a private sector consortium for various periods with the major portion being for 99 years. In return for granting leases Waterways is to receive \$61.2 million in cash and \$59.2 million in infrastructure assets. Work commenced on the development in July 1999.

Stages 1 and 2A of the development were completed in August 2000, including retail and commercial premises, residential apartments, serviced apartments, and their associated carparking, charter boat facilities, a public ferry wharf, a waterfront public promenade, and the interconnecting roadways and footpaths. At 30 June 2000 the developer had expended \$25.8 million on infrastructure assets.

Stages 3 and 4 of the project are expected to be completed by 2003-04. Stage 3 of the development is to include commercial office space and residential accommodation, as well as infrastructure assets including roads and bridges, landscaping and a coach layover facility. Stage 4 of the development is to include a hotel, retail and commercial office space as well as further infrastructure assets, including service facilities for charter vessels.

AUDIT FINDINGS

Audit Opinion

The audit of the MMHC's financial report for the period ended 29 June 2000 resulted in the issue of a qualified Independent Audit Report. The 2000 qualification was:

Included in Note 21 to the financial report are details of estimated remediation costs in relation to specified contamination areas of Homebush Bay. An obligation existed for the Corporation to carry out this remediation, the estimated cost of which should have been recognised as a liability prior to the liability transferring to the Waterways Authority on 10 March 2000. If this liability had been recognised, the operating surplus would have decreased by \$19.5m. The audit opinion for the year ended 30 June 1999 was similarly qualified as follows: if this liability had been recognised current liabilities would have increased by \$1m, non-current liabilities by \$18.9m and the operating result and accumulated funds would have decreased by \$19.9m.

Accounting Issues

The MMHC has entered into a number of projects with private sector developers involving long-term leases. The leases included up-front payments by the developers for the value of the leases. NSW Treasury has reviewed its policy for accounting for these type of leases. The Treasury confirmed and clarified its policy that the leases be treated as sales. This treatment affects leases at Walsh Bay, Woolloomooloo and Darling Harbour.

In past years the MMHC's financial report was qualified for non-compliance with Australian Accounting Standard AAS 17 'Accounting for Leases' for its lease of the Maritime Centre. This site was leased to a consortium of companies in 1984-85 for the purpose of erecting a twin tower office building, with the smaller tower leased back under a sub lease. The MMHC (and now Waterways) is to receive a total of \$335.1 million in rental income over twenty-six years and is to pay \$354.5 million over twenty-five years as lessee under the sub lease. Following the clarification of Treasury policy the accounting for the lease of the land was changed to a sale and the building as a purchase at the lease commencement date. The change in accounting treatment means that the previous qualification is no longer required and resulted in a \$2.8 million adjustment to opening accumulated funds and a \$1.4 million reduction in the operating surplus.

Substantial delays occurred in the preparation of this year's financial report and the associated audit. The delays were due to the complexities of the various contractual arrangements with developers and the Treasury's review of accounting for long term leases. Significant adjustments were required to the initial accounting for transactions associated with the major projects.

Control Issues

During the course of the audit, there were no material weaknesses observed which would adversely impact on the financial report of the MMHC. However, an issue detected was an unreconciled difference in the bank reconciliation that could not be explained. Additional audit work was undertaken to ensure there was no material impact on the financial report. A management letter detailing suggested improvements in internal control and administrative procedures will be forwarded to Waterways.

Compliance Issues

The Waterways Authority assumed responsibility for the Circular Quay refurbishment project on 10 March 2000. The Minister for Transport approved the initial budget for this project. Subsequent budget enhancements were approved, within delegation, by officers of the MMHC. The transfer of functions between the former MMHC and the Authority, its effect on expenditure delegations and the necessity to complete the project prior to the commencement of the Sydney 2000 Olympic Games meant that by 30 June 2000, actual expenditure incurred exceeded approved expenditure, contravening the *Public Finance and Audit Act 1983*. This situation was corrected after 30 June 2000 by the Minister approving the incurrence of additional expenditure.

As well as reviewing legislative requirements that govern the form and content of the financial report, other legislative requirements that could have a financial or other impact on the MMHC are reviewed on a cyclical basis. Requirements examined during 1999-2000 comprise compliance with core business activities being in accordance with the *Ports Corporatisation and Waterways Management Act 1995*. It was found that the MMHC had complied with the requirements of the relevant legislation.

FINANCIAL INFORMATION

Abridged Statement of Income and Expenditure Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Channel Fees	4,166	6,080
Property income	14,157	29,141
Interest	8,058	2,540
Other	2,432	1,585
TOTAL OPERATING INCOME	28,813	39,346
Financial expenses	5,856	8,235
Management fees	5,788	8,528
Other	12,150	13,902
TOTAL OPERATING EXPENDITURE	23,794	30,665
OPERATING SURPLUS/(LOSS) BEFORE ABNORMAL ITEMS	5,019	8,681
Abnormal items	12,363	(15,427)
OPERATING SURPLUS/(LOSS)	17,382	(6,746)
ACCUMULATED FUNDS AT THE BEGINNING OF THE YEAR	(40,274)	(21,485)
Adjustment to opening accumulated funds	(2,776)	--
Distribution paid/provided to the State Government	(10,241)	(12,043)
ACCUMULATED FUNDS AT 29 JUNE	(35,909)	(40,274)

Major variations are principally due to the transfer effected at 10 March 2000 with the majority of the MMHC's income and expenditure for the period 11 March to 29 June 2000 reported in the Waterways Authority financial report.

Property income included \$6.0 million (\$7.7 million in 1998-99) for the lease of office space in the Maritime Trade Centre and \$4.3 million (\$6.3 million) for foreshore leases.

Interest income included \$5.7 million for the Maritime Centre site lease.

Financial expenses included \$5.8 million in interest paid by the MMHC in relation to the Maritime Tower lease.

Management fees represent amounts paid to the Waterways Authority for administration services provided to the MMHC and amounts paid to the Port Corporations and the Authority for management of MMHC owned properties within the port areas.

Abnormal income related to profit recorded on the sale of properties by the MMHC.

The MMHC distributes to government all proceeds on disposal of property. Other distributions are made based on the operating result taking into account current and anticipated cash requirements for the operation of the MMHC. The 1999-2000 distribution is from commissions received on the sale of strata title units at the Woolloomooloo wharf development and proceeds from the development of Darling Harbour wharves.

Abridged Balance Sheet

At 30 June	2000 \$'000	1999 \$'000
Current assets	1,569	61,260
Non-current assets	<u>23,824</u>	<u>396,524</u>
TOTAL ASSETS	<u>25,393</u>	<u>457,784</u>
Current liabilities	3,628	32,023
Non-current liabilities	<u>3,104</u>	<u>59,143</u>
TOTAL LIABILITIES	<u>6,732</u>	<u>91,166</u>
NET ASSETS	<u>18,661</u>	<u>366,618</u>
Capital	406,892	406,892
Capital transferred to Waterways Authority	(352,322)	--
Accumulated funds	<u>(35,909)</u>	<u>(40,274)</u>
TOTAL EQUITY	<u>18,661</u>	<u>366,618</u>

The decrease in assets and liabilities is the result of the transfer at 10 March 2000 discussed earlier. Balances transferred to the Waterways Authority comprised cash of \$423,000; investments of \$57.7 million; receivables of \$23.4 million; property, plant and equipment of \$335 million; creditors and borrowings of \$59.2 million and provisions of \$5.4 million.

The remaining balances shown in the above table were transferred to the Authority on 29 June 2000 comprising receivables of \$3.5 million; property, plant and equipment of \$21.9 million and creditors and borrowings of \$6.7 million.

Capital represents the net assets acquired from the former Maritime Services Board on 1 July 1995. The MMHC has determined a policy that this figure will not be adjusted as elements of the assets acquired are disposed of and the funds received are distributed to the State Government. As a consequence, the accumulated funds of the MMHC became negative.

Waterways Authority

ESTABLISHMENT AND OBJECTIVES

The Waterways Authority was established on 1 July 1995 under the *Ports Corporatisation and Waterways Management Act 1995* as a statutory body representing the Crown. It reports to the Minister for Transport. The Authority's principal responsibility is to manage the boating community: boat registrations, licensing and the provision of safe, navigable waters.

In the exercise of its functions the Authority is subject to the control and direction of the Minister for Transport.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

Transfer of Functions of the Maritime Assets Division (MAD)

The MAD was transferred to the Department of Transport in April 1999 from the former Ministry for Forests and Marine Administration. In July 1999 the Minister of Transport transferred the MAD to the Authority.

Transfer and Dissolution of the Marine Ministerial Holding Corporation (MMHC)

The MMHC was created on 1 July 1995 under the *Ports Corporatisation and Waterways Management Act 1995* as a statutory body with custodian powers to hold port related and other marine assets and liabilities on behalf of the Minister for Transport. In 2000 the functions of the MMHC were transferred to the Authority in two stages. On 10 March 2000 the Minister for Transport, under section 45(1) of the *Ports Corporatisation and Waterways Management Act 1995*, transferred all assets, rights and liabilities of the MMHC, with the exception of land held by the MMHC at Walsh Bay and Woolloomooloo. On 29 June 2000, the *Statute Law (Miscellaneous Provisions) Act 2000* abolished the MMHC and formally transferred its remaining assets, rights and liabilities to the Authority including responsibility as successor entity to the former Maritime Services Board.

AUDIT FINDINGS

Audit Opinion

The audit of the Waterways Authority's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report. The qualification related to liabilities transferred from the MMHC. The relevant section from the Independent Audit Report was:

Remediation Costs

Included in Note 24 within the financial report are details of estimated remediation costs in relation to specified contamination areas of Homebush Bay. An obligation exists for the Authority to conduct this work, which should be recognised as a liability. If this liability had been recognised, current liabilities would increase by \$5.0 million, non-current liabilities by \$14.5 million and the operating result and accumulated funds would decrease by \$19.5 million.

Accounting Issues

The combined effect of the transfer of assets from the MAD and the MMHC to the Authority resulted in additions of \$60.3 million to cash and investments; \$6.5 million to current receivables; \$357.6 million to property, plant and equipment; \$20.5 million to non-current receivables; \$26.9 million to accounts payable; \$341,000 to employee entitlements and \$45.1 million to other liabilities.

Control Issues

During the course of the audit, there were no material weaknesses observed which would adversely impact on the financial report of the Authority. A management letter detailing suggested improvements in internal control and administrative procedures will be forwarded to the Authority.

Compliance Issues

As well as reviewing legislative requirements that govern the form or content of the financial report, other legislative requirements that could have a financial or other impact on the agency are reviewed on a cyclical basis. Requirements applicable to the Authority examined during 1999–2000 comprise compliance with: business activities being in accordance with the *Ports Corporatisation and Waterways Management Act 1995*; the Premier's Department SES guidelines in respect of the Chief Executive Officer's contract; and *Public Sector Management Act 1988* and Public Sector Management (General) Regulation 1996 in regard to employment conditions and policies of the Authority.

As a result of the reviews, it was found that the Authority had complied with the requirements of the relevant legislation, SES Guidelines and its policies and procedures.

FINANCIAL INFORMATION

Abridged Statement of Income and Expenditure

Year ended 30 June	2000 \$'000	1999 \$'000
Boating income	28,204	26,020
Rentals	10,860	7,112
Other	12,920	5,083
TOTAL REVENUE	51,984	38,215
Employee related	20,126	17,606
Service contractors	12,237	6,118
Other	22,460	15,846
TOTAL EXPENSES	54,823	39,570
OPERATING SURPLUS/(LOSS) BEFORE ABNORMAL ITEMS	(2,839)	(1,355)
Abnormal item	7,317	785
OPERATING SURPLUS/(LOSS)	4,478	(570)
ACCUMULATED FUNDS AT THE BEGINNING OF THE YEAR	18,560	19,130
Net Assets Transferred		
From Maritime Assets Division	1,537	--
From Marine Ministerial Holding Corporation at 10 March 2000	352,322	--
From Marine Ministerial Holding Corporation at 29 June 2000	18,661	--
Dividends	(6,000)	--
ACCUMULATED FUNDS AT THE END OF THE YEAR	389,558	18,560

Major variations are principally due to inclusion of the operating results of the MMHC for the period 11 March 2000 to 30 June 2000 following the transfer effected on 10 March 2000. Excluding the effect of MMHC the Authority recorded total revenue of \$42.3 million (\$38.2 million in 1998-99), total expenditure of \$44.2 million (\$39.6 million) and abnormal income of \$7.3 million (\$785,000) to give an operating surplus after abnormal items of \$5.4 million (\$570,000 loss in 1998-99).

The Authority received a Consolidated Fund recurrent appropriation of \$1.6 million (\$1.4 million) of which \$1.2 million (\$870,000) was for Olympic related expenses and \$400,000 (\$515,000) was for the Waterways Safety Awareness Program. The Authority also received a capital appropriation of \$222,000 (\$222,000) which was utilised for Olympic-related purposes.

The Authority recorded an abnormal item relating to a gain on superannuation funding of \$7.3 million (\$785,000 in 1998-99) as assessed by the Superannuation Administration Corporation following revision of the assumptions underlying the calculation of the liability.

Included in other income is interest on investments, where there was a substantial increase of \$3.7 million, due to the transfer of the MMHC's and MAD's cash and investments of \$60.3 million and the resulting interest earned.

Abridged Balance Sheet

At 30 June	2000 \$'000	1999 \$'000
Current assets	49,924	13,385
Non-current assets	447,223	36,260
TOTAL ASSETS	497,147	49,645
Current liabilities	68,094	22,076
Non-current liabilities	39,495	9,009
TOTAL LIABILITIES	107,589	31,085
NET ASSETS	389,558	18,560
EQUITY EMPLOYED		
Accumulated funds	389,558	18,560
TOTAL EQUITY	389,558	18,560

The increase in assets and liabilities is the result of the transfer of assets and liabilities of the former MAD and MMHC as discussed earlier.

Property, plant and equipment of \$413 million (\$30.4 million) within non-current assets, consists of mostly land and buildings \$194 million (\$12.9 million) and wharves, jetties and breakwaters \$159 million (\$1.2 million).

Non-current assets include prepaid superannuation of \$13.4 million (\$5.9 million in 1998-99).

Current and non-current liabilities include boating fees of \$20.3 million received in advance. The recorded liabilities reflect the service potential to be provided by the Authority in regard to three-year boating licences in the future.

Crown Property Portfolio

Treasurer

ESTABLISHMENT AND OBJECTIVES

Crown Property Portfolio

Energy Industries Superannuation Schemes and Energy Industries Superannuation Scheme Pty Limited

First State Superannuation Fund

Superannuation Services Company Pty Limited

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Planning & Markets Taskforce was created in September 1999 to identify and recommend the optimum solution for Government in respect of future management of the land at the Port Jackson and A detailed strategy was established which provided a framework for direct negotiation with the lessee (Sydney Markets Limited). The current lease expired on 31 October 2002 with renewal options for a further 25 years.

The lessee's offer to purchase the land at property was not of sufficient value for the Government to proceed with the sale. The Australian Valuation Office (AVO) has advised:

- that the fifteen year lease at a rental level substantially less than market reduced the value of the property
- that the offer to purchase the land at property was not of sufficient value for the Government to proceed with the sale
- that the effect of the lease was to provide Sydney Markets Limited with a large income stream on the property and to sell the property at a price at that stage at any price other than market value would result in a loss to the Government
- that the value of the property increases at about 15 million per year over the next 25 years, which the effect of the lease is to reduce the value of the property.

AUDIT FINDINGS

Audit Opinion

The audit of the Portfolio's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report as follows:

The Crown Property Portfolio has entered into a commercial arrangement for the use of a portion of the New State Centre. The payment for the use of the space, together with the Portfolio's other commercial obligations, effectively amounts to a substantial debt to the State Treasury. The substance of the commercial arrangement is consistent with the principles in Australian Accounting Standards AASB 17 "Accounting for Leases". The arrangement is in the absence of a lease or similar, the payment obligation will be recognised as a liability of the Portfolio. The value of the obligation is to be \$11.5m (plus GST) at 30 June 2000. The value of the obligation is to be \$11.5m (plus GST) at 30 June 2000. The value of the obligation is to be \$11.5m (plus GST) at 30 June 2000.

Crown Property Portfolio

ESTABLISHMENT AND OBJECTIVES

The Crown Property Portfolio is a commercial activity of the Crown Entity. The Portfolio's principal activity is management (including collection of rent) of multi-occupancy buildings owned and leased by the New South Wales Government and of properties retained by the Government for strategic reasons. The Department of Public Works and Services (DPWS) manages the portfolio activities under an agreement with Treasury. DPWS has outsourced day-to-day property management of office buildings to a private sector agent.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR

The Flemington Markets Taskforce was created in September 1999 to "identify and negotiate the optimum solution for Government in respect of future management of the land ..." at the Flemington site. A disposal strategy was established which provided a framework for direct negotiation with the lessee (Sydney Markets Limited). The current lease expires on 31 October 2012 with renewal options for a further 20 years.

The lessee's offer to purchase the freehold property was not of sufficient quantum for the Government to proceed with the sale. The Australian Valuation Office (AVO) has advised:

- ◆ that the fifteen year lease at a rental level substantially less than market reduced the value of the property
- ◆ of its assumption that the original rental was set at a substantially reduced level to assist in the establishment and initial financial success of Sydney Markets Limited
- ◆ that "the effect of the lease was to provide Sydney Markets Limited with a large lessee interest in the property, and to sell the property to them at this stage at any price other than market value vacant possession would provide Sydney Markets Limited with a huge realisable gain."
- ◆ that the value of the property increases "at about \$5 million for each year that the lease continues, without the effect of any increases in property values ...".

AUDIT FINDINGS

Audit Opinion

The audit of the Portfolio's financial report for the year ended 30 June 2000 resulted in the issue of a qualified Independent Audit Report as follows:

The Crown Property Portfolio has entered into a contractual arrangement for the use of a portion of the State Bank Centre. The payment for the right to use the floor space, together with the Portfolio's other contractual obligations, effectively transfers to it substantially the risks and benefits incident to ownership of the entire property. The substance of the contractual arrangement is consistent with the principles in Australian Accounting Standards AAS 17 "Accounting for Leases". On this basis, and in the absence of a superior standard, the present obligation and asset require recognition. The Audit Office estimates the value of this obligation to be \$188m (\$187m at 30 June 1999), but is unable to quantify the value of unrecognised related assets and the effect that this may have on the operating result. Adoption of this accounting treatment would require reversal of the recognition of the liability of \$15.6m (\$15.4m at 30 June 1999), being the difference between the head lease and the sub lease for the State Bank Centre. The audit opinion for the year ended 30 June 1999 was similarly qualified.

Accounting Issues

As indicated previously, sub lease receipts in relation to the State Bank Centre are not sufficient to meet the Portfolio's head lease commitments. The net present value of the excess of head lease commitments over sub lease receipts has been recognised as a provision for shortfall in lease payments.

Further shortfalls between sub lease receipts and head lease commitments were also recognised during the year in relation to Governor Macquarie Tower. These were recognised as an abnormal item of expense (\$11.6 million), resulting in the provision for shortfall in lease payments increasing to \$27.2 million (\$15.4 million at 30 June 1999).

The previous year's financial report was also qualified because unresolved contractual issues precluded appropriate valuation of the former Sydney Market Authority's land and buildings. The Australian Valuation Office valued these assets during the year. While the contractual issues remain, the property was revalued on the basis of the Portfolio being responsible for reasonable repairs over the property and certain other assumptions. The net reduction in value of the subject land and buildings, \$25.2 million, was recognised as abnormal expenditure. The net decrement is comprised of an increase in land value (\$22.0 million) and a decrease in value of buildings (\$47.2 million).

Control Issues

DPWS has taken action to address instances where the performance of the private sector agent responsible for day-to-day property management has not been consistent with expectations.

Other opportunities for management to improve the financial reporting environment and to reduce risks were also identified during the external audit. These matters are currently being discussed with departmental staff and where appropriate will be formally referred to management. The more significant issues relate to capital expenditure, unsigned tenancy agreements and review of bank reconciliations.

FINANCIAL INFORMATION

Abridged Income and Expenditure Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Property rental and other income	133,784	129,862
Profit/(loss) on disposal of property	(1,453)	8
Consolidated Fund allocation	8,113	8,118
TOTAL INCOME	140,444	137,988
EXPENDITURE	132,953	134,824
OPERATING SURPLUS BEFORE ABNORMAL ITEMS	7,491	3,164
Abnormal items	(36,817)	(20,833)
OPERATING DEFICIT	(29,326)	(17,669)
Accumulated funds at beginning of the financial year	301,794	320,705
Transfer from asset revaluation reserve	5,750	13,934
TOTAL AVAILABLE FOR APPROPRIATION	278,218	316,970
Contribution to Treasury	16,414	15,176
ACCUMULATED FUNDS AT END OF FINANCIAL YEAR	261,804	301,794

The loss on disposal of property is largely due to the sale of land with a carrying value of \$5.8 million to Pittwater Council for \$4.3 million. The sale arrangements include a deferred settlement whereby final payment will be made in 2001-02.

The contribution to Treasury reflects surplus rental proceeds of \$16.1 million (\$15.1 million in 1998-99) and proceeds from property sales of \$339,000 (\$37,000).

Abridged Balance Sheet

At 30 June	2000 \$'000	1999 \$'000
Current assets	24,729	20,808
Non-current assets	506,860	548,236
TOTAL ASSETS	531,589	569,044
Current liabilities	52,923	40,482
Non-current liabilities	108,631	112,810
TOTAL LIABILITIES	161,554	153,292
NET ASSETS	370,035	415,752
Accumulated funds	261,804	301,794
Asset revaluation reserve	108,231	113,958
TOTAL EQUITY	370,035	415,752

Included within current assets are cash and receivables of \$17.7 million and \$7.1 million respectively (\$8.1 million and \$4.2 million at 30 June 1999). Current assets at 30 June 1999 also included head lease prepayments totalling \$8.5 million.

Non-current assets comprise owned property, \$433 million (\$472 million at 30 June 1999), and property occupied under finance lease arrangements (the McKell Building and Noel Park House at Tamworth), \$74 million (\$76.3 million). Major owned properties include: the Sydney Markets site at Flemington, \$86.5 million; the Education Building at Bridge Street, \$52.8 million; and the Goodsell Building, \$36.3 million.

In addition to the previously mentioned provision for shortfall in lease payments, significant liabilities include lessor incentives, \$36.8 million (\$42.5 million), and lease liabilities, \$91.6 million (\$89.3 million).

AUDIT FINDINGS

Loan Repayment

The tables of the financial report of each of the entities for the year ended 30 June 2000 were audited by qualified independent Audit Systems.

Both 1999 Pool A and 1999 Pool B were audited and reported on by the same independent Audit Systems (Superior Audit Systems).

Superior Audit Systems was audited by the Auditor-General's Office for the year ended 30 June 2000. The Auditor-General's Office reported on the audit of the financial report of Superior Audit Systems for the year ended 30 June 2000.

Superior Audit Systems had not been audited by the Auditor-General's Office for the year ended 30 June 1999. The Auditor-General's Office reported on the audit of the financial report of Superior Audit Systems for the year ended 30 June 1999.

Energy Industries Superannuation Schemes and Energy Industries Superannuation Scheme Pty Limited

ESTABLISHMENT AND OBJECTIVES

The *Superannuation Administration Act 1996* made provision for the establishment of the following entities for the administration of NSW Energy Industries employees superannuation:

- ◆ Energy Industries Superannuation Scheme (EISS) – Pool A and Pool B
- ◆ Energy Industries Superannuation Scheme Pty Limited - Trustee of Energy Industry schemes.

Scheme administration services are provided by NSP Buck Pty Limited. The Funds' custodial activities are provided by Commonwealth Custodial Services Limited, whilst the management activities of the schemes were provided by a number of fund managers:

There are two distinct superannuation schemes – EISS Pool A and EISS Pool B.

EISS Pool A is an accumulation scheme and comprises:

- ◆ Division A (accumulation scheme) – former members of the First State Superannuation Scheme
- ◆ Division E (executive scheme) – former members of the Public Sector Executives Superannuation Scheme
- ◆ Division F – allocated pension and rollover plans.

EISS Pool B is a defined benefits scheme and comprises:

- ◆ Division B (retirement scheme) – former members of the State Authorities Superannuation Scheme
- ◆ Division C (basic benefit scheme) – former members of the State Authorities Non-contributory Superannuation Scheme
- ◆ Division D (defined benefit scheme) – former members of the State Superannuation Scheme.

AUDIT FINDINGS

Audit Opinion

The audits of the financial report of each of the entities for the year ended 30 June 2000 resulted in the issue of qualified Independent Audit Reports.

Both EISS Pool A and EISS Pooled B were qualified with respect to compliance with the *Superannuation Industry (Supervision) Act 1993*. The qualification for both funds stated:

Section 36 had not been complied with as the annual return for the year ended 30 June 2000 had not been lodged within the required timeframe.

Section 113 had not been complied with as the financial statements and underlying information for the year ended 30 June 2000 were not made available to allow the completion of the audit and signing of the audit report within the required timeframe.

Control Issues

During the course of the audit of EISS Pool A and Pool B, opportunities for improvement in internal control were identified in a management letter. Trustees agreed to implement appropriate corrective action where necessary.

FINANCIAL INFORMATION – EISS POOL A (ACCUMULATION)

Operating Statement

Year ended 30 June	2000 \$'000	1999 \$'000
Investment income	1,980	1,931
Changes in market values	4,550	1,137
	6,530	3,068
Less: investment expenses	(68)	(37)
NET INVESTMENT REVENUE	6,462	3,031
Employer contributions	10,741	7,723
Member contributions	15,170	6,068
TOTAL CONTRIBUTION REVENUE	25,911	13,791
TOTAL REVENUE	32,373	16,822
Death or invalidity premiums	(23)	(24)
Scheme administration expenses	(40)	(139)
TOTAL EXPENSES	(63)	(163)
OPERATING RESULT BEFORE INCOME TAX	32,310	16,659
Less: income tax expense	(2,103)	(1,372)
Less: superannuation contributions surcharge	(130)	(116)
BENEFITS ACCRUED AS A RESULT OF OPERATIONS	30,077	15,171

Investment Revenue

In accordance with Australian Accounting Standard AAS 25 ‘Financial Reporting by Superannuation Plans’, all investments are recognised at balance date at net market value.

Net investment returns as advised by the Trustees for each of the strategies were as follows:

Year ended 30 June	2000 %	1999 %
High Growth	14.9	8.5
Diversified	12.5	7.6
Balanced	10.4	6.2
Capital Guarded	8.2	5.0
Cash Plus	4.9	3.8
BT Retirement Fund	12.7	7.9
BT Stable Capital Fund	7.0	6.5
Westpac Cash Management	4.4	5.4

Statement of Financial Position

At 30 June	2000 \$'000	1999 \$'000
Short term investments	2,515	3,654
Australian fixed interest	16,230	5,355
Australian equities	18,069	8,858
International investments	17,376	8,336
Property trusts	2,698	2,558
Pooled superannuation trusts	14,409	14,249
TOTAL INVESTMENTS	71,297	43,010
Cash	726	3,807
Receivables	808	148
TOTAL ASSETS	72,831	46,965
Provision for income tax	1,559	724
Creditors and accruals	34	274
Provision for deferred income tax	136	228
TOTAL LIABILITIES	1,729	1,226
NET ASSETS AVAILABLE TO PAY BENEFITS	71,102	45,739
Funds allocated to members' accounts	71,004	45,630
Funds not yet allocated to members' accounts	(353)	8
Administration Reserve	157	--
Death or invalidity reserve	294	101
Liability for accrued benefits	71,102	45,739

FINANCIAL INFORMATION – EISS POOL B (DEFINED BENEFITS)

Statement of Changes in Net Assets

Year ended 30 June	2000 \$'000	1999 \$'000
NET ASSETS – opening balance	1,088,280	1,030,565
Investment revenue	57,821	37,784
Changes in market values	163,338	74,716
Total investment revenue	221,159	112,500
Investment expenses	(8,784)	(3,865)
Net investment revenue	212,375	108,635
Transfers in	6,704	--
Other revenue/(expenses)	98	94
Total investment and other revenue	219,177	108,729
Employer contributions	225	2,174
Member contributions	19,137	18,145
Total contribution revenue	19,362	20,319
TOTAL REVENUE	238,539	129,048
Benefits paid	(37,344)	(71,979)
Scheme administration expenses	(5,281)	(1,986)
TOTAL SCHEME EXPENDITURE	(42,625)	(73,965)
Increase in net assets before abnormal items and income tax	195,914	55,083
Abnormal item	--	5,466
Increase in net assets before income tax	195,914	60,549
Income tax expense	(15,234)	(2,453)
Superannuation Contributions Surcharge	(658)	(381)
Increase in net assets after income tax and abnormal items	180,022	57,715
NET ASSETS AVAILABLE TO PAY BENEFITS AT END OF FINANCIAL YEAR	1,268,302	1,088,280

Investment Revenue

In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans', investments are brought to account at net market value.

The earning rate of the fund, as advised by the Trustees, was 19.5 per cent (9.8 per cent in 1998-99) and resulted in a crediting rate of 18.0 per cent (11.15 per cent).

Statement of Net Assets

At 30 June	2000 \$'000	1999 \$'000
Short term investments	72,914	35,099
Australian fixed interest	143,131	118,005
Australian equities	512,545	425,267
International investments	436,279	399,809
Property trusts	135,909	124,600
TOTAL INVESTMENTS	1,300,778	1,102,780
Cash	5,499	3,054
Receivables	10,047	18,527
TOTAL OTHER ASSETS	15,546	21,581
TOTAL ASSETS	1,316,324	1,124,361
Reserve units	166	139
Creditors	20,568	24,100
Provisions	27,288	11,842
TOTAL LIABILITIES	48,022	36,081
NET ASSETS AVAILABLE TO PAY BENEFITS	1,268,302	1,088,280

FINANCIAL INFORMATION - ENERGY INDUSTRIES SUPERANNUATION SCHEME
PTY LIMITED

Energy Industries Superannuation Scheme Pty Limited's financial report discloses receipts from customers of \$3.0 million (1998-99 \$2.3 million) and payments to suppliers of \$2.8 million (\$2.1 million). The company had a nil operating result. Included in income of the company was \$3.0 million (\$2.3 million) for trustee fees. Included in payments was \$332,000 for directors' remuneration (\$293,000).

First State Superannuation Fund

ESTABLISHMENT AND OBJECTIVES

The First State Superannuation (FSS) Fund was established under the *First State Superannuation Act 1992* and commenced in December 1992. It is an accumulation fund and under the terms of the Act, employees determine the level of their contribution. Public sector employers are required to pay minimum levels of contribution in respect of all employees in accordance with the Commonwealth Government's Superannuation Guarantee Charge (SGC). These contributions can be paid to FSS or other eligible schemes.

The FSS Trustee Corporation (FTC) is the trustee of the Fund and was established under the *Superannuation Administration Act 1996*.

Scheme administration services for FSS are carried out by the Superannuation Administration Corporation (SAC). JP Morgan (previously Chase Manhattan Bank) performs custodial activities while the funds management activities are provided by a number of fund managers.

AUDIT FINDINGS

It was reported in Volume Six of the Auditor-General's Report to Parliament for 2000, that the Fund's administrator was experiencing difficulty in reconciling the general ledger to the underlying membership system and that an external consultant had been appointed to perform an analysis on the underlying member data stored by the system to ascertain its completeness and accuracy. This had delayed the sending of the members statements.

The external consultant completed its assignment in January 2001 and concluded, that apart from minor differences, the membership system data was consistent with the administrator's initial derived system balances. This work allowed the majority of member statements to be sent out in December 2000 and January 2001.

The administrator will now complete the reconciliation of the membership system to the general ledger as at 30 June 2000. The audit of the 2000 financial report will be finalised once this process is complete.

Commentary on the financial operations of FSS and FTC will be included in a future Volume.

Superannuation Services Company Pty Limited

ESTABLISHMENT AND OBJECTIVES

Superannuation Services Company Pty Limited (SSC) is a prescribed statutory body under Division 4 of Part 3 of the *Public Finance and Audit Act 1983*. SSC was established to provide executive, managerial and administrative services to various organisations including the Local Government Superannuation Scheme (LGSS) and the Energy Industries Superannuation Scheme (EISS). The company is jointly owned by the Trustees of EISS and LGSS.

AUDIT FINDINGS

Audit Opinion

The audit of the financial report of the Company for the year ended 30 June 2000 resulted in the issue of an unqualified Independent Audit Report.

FINANCIAL INFORMATION

The financial report discloses \$4.6 million (\$1.7 million in 1998-99) in management fees received. The management fees did not completely cover expenses and the company recorded a before tax loss of \$124,000 (\$59,000). At 30 June 2000 SSC had accumulated losses of \$237,000 (\$115,000) and a deficiency in equity of \$237,000 (\$115,000). The directors have indicated that the company will continue as a going concern on the basis that they have received a pledge of financial support from the shareholders and it is their belief that such financial support will continue to be available. At 30 June 2000 the company is supported by a short term advance of \$1.9 million (\$409,000).

Section Three

Performance Auditing

Reports Tabled in Parliament since Volume Six of 2000

TAFE NSW: Review of Administration

Performance Audits in Progress

Public Housing Maintenance

Ambulance Staff Deployment

EPA Pollution Control and Reduction

E-Government

Department of Corrective Services: Prison Industries

Risk Management

Management of Intellectual Property

This Section provides a summary of Performance Audit Reports presented to the Legislative Assembly. The full Reports are available on the Audit Office website <http://www.audit.nsw.gov.au/reports.htm>

TAFE NSW

Review of Administration

THE AUDIT

A report on *TAFE NSW: Review of Administration* was presented to the Legislative Assembly on 6 February 2001. The audit reviewed the efficiency and effectiveness of 'administration' within TAFE NSW. In particular, the Audit Office reviewed the information (and its reporting) available to TAFE NSW to assess its own performance. For the purpose of this audit, 'administration' excludes the arrangements for teaching and teaching outcomes [educational delivery], but includes those functions which support those outcomes, directly and indirectly.

AUDIT OPINION

The Audit Office recognises that TAFE NSW has undergone significant change in the last decade in order to improve service delivery. Whilst the focus of change has been TAFE NSW's core educational role, administration has also benefited. The Quality Management Systems introduced by the Institutes are an example.

The Audit Office is of the opinion that TAFE NSW needs a means by which the efficiency and effectiveness of administrative functions can be assessed notwithstanding initiatives by certain Institutes to introduce monitoring, benchmarking and reporting of administration.

In the interests of accountability, TAFE NSW requires the establishment of a common performance reporting framework for administration in each Institute and across Institutes. Along with other key result areas of TAFE NSW's operations, a reporting framework would better enable the TAFE Commission Board to inform the Minister for Education, in compliance with the Act, of the efficiency and effectiveness of the administrative functions.

The diversity and large number of courses (almost 2000), the range of industry and the particular needs of country and metropolitan communities support the notion of a decentralised approach to learning and its delivery in NSW.

In recent years the Australian National Training Authority has promoted the development of a more competitive training market. Management of TAFE NSW has encouraged a competitive environment between Institutes.

While devolution improves service delivery, it may result in increased costs of service. The Audit Office is of the view that there are opportunities to manage administration better from a 'TAFE-wide' perspective by sharing services and resources. Within the Sydney metropolitan area there are, for example, six Institutes with separate finance units, human resource units, property units etc.

In this regard many better practice organisations have established shared service centres to lower costs through economies of scale.

The business relationship between State Office and Institutes in terms of service delivery needs to be formalised so that the costs might be charged to Institutes and the benefits derived might be more readily identified and assessed in terms of value for money. Institutes could then have the option of purchasing services from the most efficient and cost effective service provider.

RECOMMENDATIONS

The report contains a number of recommendations designed to improve the efficiency and effectiveness of administration in TAFE NSW.

Performance Audits in Progress

The proposed tabling arrangements for audits in progress are as follows:

Title	Planned Tabling Date
*Ambulance Staff Deployment	1 st quarter 2001
*Public Housing Maintenance	1 st quarter 2001
*EPA Pollution Control and Reduction	2 nd quarter 2001
*E-Government	2 nd quarter 2001
*Department of Corrective Services: Prison Industries	2 nd quarter 2001
Management of Intellectual Property	2 nd quarter 2001
*Risk Management	3 rd quarter 2001

*The objectives of these audits have been identified within prior volumes of the Auditor-General’s Reports to Parliament.

One audit has commenced since the tabling of Volume Seven of 2000 namely:

MANAGEMENT OF INTELLECTUAL PROPERTY

The effective and appropriate management of Intellectual Property (IP) has become an emerging strategic issue for public sector organisations for a variety of reasons.

Firstly, agencies have flexibility in determining how to acquire (that is create, buy, licence or outsource) IP for core business and greater opportunities to exploit IP.

This flexibility and opportunity carries risks which must be managed including:

- ◆ a potential liability arising out of the creation of IP unauthorised or the use of IP where ownership rests with others
- ◆ a failure to optimise the benefits from the investment in creating IP
- ◆ the destruction and loss of control of IP critical to the performance of core agency functions.

Secondly, there is growing concern, as evidenced at the National Innovation Summit, that the management of IP needs to be improved if Australia is to become more competitive and innovative.

The objective of this audit is to assess the efficiency and effectiveness of the management of IP in the NSW public sector. The audit will comprise a review of whole-of-government arrangements for the management of IP and cases studies of selected agencies.

The report will seek to identify issues of significance and propose improvements to a complex area.

Appendix

Introduction

The Auditor-General is required by section 52(3) of the Public Finance and Audit Act 1987 to publish any requests for a legal opinion submitted to the Attorney-General or the Crown Solicitor under section 37 of the Act. It is also required to publish the responses to these requests.

The subject matter of the legal opinions requested was:

- a) Advice on s11(2), Public Finance and Audit Act - Standing Order 300, Legislative Assembly
- b) Delegation from Minister for Health of power under s127(3) of the Health Services Act 1987.

The latter opinion provided further views on the matter reported in Volume Six of the Auditor-General's Report to Parliament for 1992.

Legal Opinions Provided by the Crown Solicitor

Legal Opinions Provided by the Crown Solicitor

Introduction

The Auditor-General is required by section 52(2) of the *Public Finance and Audit Act 1983* to publish any requests for a legal opinion submitted to the Attorney General or the Crown Solicitor under section 33 of the Act. He is also required to publish the responses to those requests.

The subject matter of the legal opinions are in regard to:

- a) Advice on s38(2), *Public Finance and Audit Act* – Standing Order 310, Legislative Assembly
- b) Delegation from Minister for Health of power under s127(3) of the *Health Services Act 1997*.

The latter opinion provided further advice on the matter reported in Volume Six of the Auditor-General's Report to Parliament for 2000.

a) Advice on s38(2), *Public Finance and Audit Act* – Standing Order 310, Legislative Assembly

Mr I V Knight
Crown Solicitor
Level 5, 60-70 Elizabeth Street
SYDNEY 2000

A547/Z743

4 January 2001

Dear Mr Knight

I refer to our discussions in late November 2000 concerning section 38 of the *Public Finance and Audit Act 1983*. These discussions were in the context of providing to the Public Accounts Committee, documents such as Audit Office working papers relating to the NSW Grains Board and our management letters to that Board. As you were made aware, the PAC was in the process of conducting an inquiry into the Grains Board.

We particularly discussed two issues -

1. whether the section 38(2)(a) exemption from the general secrecy requirement was relevant in this matter
2. whether any powers available to the PAC, including any under Legislative Assembly Standing Order 310, would override the secrecy provision of section 38.

Your oral advice at the time was to the effect that neither of these avenues applied and that I was prevented by section 38 from releasing the documents. I would now seek written confirmation of that advice.

This opinion is sought under section 33 of the *Public Finance and Audit Act 1983*.

Yours sincerely

R J Sendt
Auditor-General

Advice

Re: Production of documents to the Public Accounts Committee by the Auditor General.

1. Advice sought

- 1.1 By letter dated 4 January 2001 you seek my opinion pursuant to s. 33 of *the Public Finance and Audit Act 1983* (the *Act*) as to the power of the Public Accounts Committee (PAC) to require the production by the Auditor General of working papers of the Audit Office prepared in connection with an audit of an agency and management letters and the effect of s. 38 of *the Act* upon the ability of the Auditor General to disclose such documents.
- 1.2 You refer to an earlier discussion we had in relation to these matters and ask specifically whether any powers of the PAC, including any under Legislative Assembly Standing Order 310, would override the secrecy provisions of s. 38, and whether the exemption from the general secrecy requirement is relevant..

2. Relevant legislation

- 2.1 Section 38 of the *Act* provides:

“(1) The Auditor-General, an auditor and an authorised person shall preserve and aid in preserving secrecy with respect to all matters and things that come to the knowledge of the Auditor-General, auditor or authorised person in the exercise of the functions of the Auditor-General, auditor or authorised person under this Act and the prescribed requirements and shall not communicate to any person any such matter or thing.

(2) Nothing in subsection (1) applies to or in respect of:

- (a) the conduct of any matter necessary for the proper administration of this Act or the prescribed requirements,
- (b) proceedings for an offence relating to public money, other money, public property or other property or for the recovery of public money, other money, public property or other property,
- (c) disciplinary proceedings brought against an officer of an authority, or
- (d) a report or communication authorised or required to be made by or under this Act or the prescribed requirements.”

- 2.2 Part 4 of the *Act* provides for the PAC and s. 54(1) states:

“(1) As soon as practicable after the commencement of the first session of each Parliament, a committee of members of the Legislative Assembly, to be known as the Public Accounts Committee, shall be appointed.”

- 2.3 At any time when the Chairman of the PAC is absent etc the Vice-Chairman may exercise the functions of the Chairman under the *Act* or under *the Parliamentary Evidence Act 1901* (s. 55(3)).

- 2.4 The functions of the PAC are set out in s. 57(1) which provides:

“(1) The functions of the Committee are:

- (a) to examine the Public Accounts transmitted to the Legislative Assembly by the Treasurer,
- (b) to examine the accounts of authorities of the State, being accounts that have been:
 - (i) audited by the Auditor-General or an auditor appointed under section 47 (1), or
 - (ii) laid before the Legislative Assembly by a Minister of the Crown,

- (c) to examine the opinion or any report of the Auditor-General transmitted with the Public Accounts or laid before the Legislative Assembly with the accounts of an authority of the State (including any documents annexed or appended to any such opinion or report),
- (c1) to examine any report of the Auditor-General laid before the Legislative Assembly,
- (d) to report to the Legislative Assembly from time to time upon any item in, or any circumstances connected with, those accounts, reports or documents which the Committee considers ought to be brought to the notice of the Legislative Assembly,
- (e) to report to the Legislative Assembly from time to time any alteration which the Committee thinks desirable in the form of those accounts or in the method of keeping them or in the method of receipt, expenditure or control of money relating to those accounts,
- (f) to inquire into, and report to the Legislative Assembly upon, any question in connection with those accounts which is referred to it by the Legislative Assembly, a Minister of the Crown or the Auditor-General, and
- (g) to inquire into expenditure by a Minister of the Crown made without Parliamentary sanction or appropriation or otherwise than in accordance with the provisions of this Act or any other Act and report to the Legislative Assembly from time to time upon any matter connected with that expenditure which the Committee considers ought to be brought to the notice of the Legislative Assembly.”

2.5 Section 58 deals with the taking of evidence. Sub ss. (1), (2), (3)–(6) and (11) provide:

- “(1) Subject to this section, the Committee shall take all evidence in public.
- (2) Where, in the opinion of the Committee, any evidence proposed to be given before, or the whole or a part of a document produced or proposed to be produced in evidence to, the Committee relates to a secret or confidential matter, the Committee may, and at the request of the witness giving the evidence or producing the document shall:
 - (a) take the evidence in private, or
 - (b) direct that the document, or the part of the document, be treated as confidential......
- (3) Where a direction under subsection (2) is applicable in respect of a document, or a part of a document, produced in evidence to the Committee, the contents of the document or part shall, for the purposes of this section, be deemed to be evidence given by the person producing the document and taken by the Committee in private.
- (4) Where, at the request of a witness, evidence is taken by the Committee in private:
 - (a) the Committee shall not, without the consent in writing of the witness, and
 - (b) a person (including a member of the Committee) shall not, without the consent in writing of the witness and the authority of the Committee under subsection (6), disclose or publish the whole or a part of that evidence.

Maximum penalty: 20 penalty units or imprisonment for a term not exceeding 3 months.

- (5) Where evidence is taken by the Committee in private otherwise than at the request of a witness, a person (including a member of the Committee) shall not, without the authority of the Committee under subsection (6), disclose or publish the whole or a part of that evidence.

Maximum penalty: 20 penalty units or imprisonment for a term not exceeding 3 months.

(6) The Committee may, in its discretion, disclose or publish or, by writing under the hand of the Chairman, authorise the disclosure or publication of evidence taken in private by the Committee, but this subsection does not operate so as to affect the necessity for the consent of a witness under subsection (4).

(11) The production of documents to the Committee shall be in accordance with the practice of the Legislative Assembly with respect to the production of documents to select committees of the Legislative Assembly."

3. Advice

Power of the PAC to require the production of documents

The Act

3.1 While the *Act* recognises that in the course of the exercise by the PAC of its functions documents will be produced to it in evidence and provision is made for such evidence which relates to a secret or confidential matter to be taken in private and for the circumstances in which it can be published, there is no provision in the *Act* which expressly confers on the PAC the power to require a person to produce a document.

3.2 This situation may be contrasted with that which applies in the case of the Parliamentary Joint Committee on the ICAC and the Parliamentary Joint Committee on the Ombudsman and the Police Integrity Commission.

Both the *Independent Commission Against Corruption Act 1988* (the *1988 Act*), in s. 69(1), and the *Ombudsman Act 1974* (the *1974 Act*), in s. 31G(1), confer on these Committees "power to send for persons, papers and records". The extent of this power is not entirely clear but it does seem that it is intended to confer a power to require documents to be produced, although it is not clear how that requirement is to be enforced.

Unlike the secrecy provision in s. 38 of the *Act*, the secrecy provision in s. 111 of the *1988 Act* provides in sub s.(3) for the obligation of ICAC staff in relation to a requirement to produce documents to a "court" (which is defined to include any tribunal, authority or person having power to require the production of documents or the answering of questions and on the view I prefer, would include a parliamentary committee which can require the answering of questions under the *Parliamentary Evidence Act 1901*) and the secrecy provision in s. 34 of the *1974 Act* provides expressly in sub s.(4) for the situation where the Ombudsman is to produce the whole or any part of a document to the Joint Committee.

3.3 Both the *1988 Act* and the *1974 Act* contain a provision in the same terms as s. 58(11) of the *Act* (ss. 69(4) and 31G(4) respectively). The fact that the *1988 Act* and the *1974 Act* both also contain a separate provision expressly conferring power to send for papers and records confirms the intention conveyed by the language of s. 58(11) that it is not a source of power to require production but goes only to procedure in relation to the production of documents.

3.4 I do not know whether the failure to confer on the PAC a power to require the production of documents and to address specifically the position of the Auditor General in relation to disclosure of information to the PAC was an oversight or it was thought unnecessary to do so having regard to the functions of the PAC. The accounts and opinions which the PAC is to examine and report upon pursuant to the functions in s.57(1)(a)-(e) are otherwise available to the PAC and the PAC does not need a power to require their production. I also doubt that the function of "examining" the specified accounts and opinions and of reporting on them extends to examining other documents such as the working papers of the Auditor General prepared in the course of audit. It is possible I suppose that in the exercise of the functions in paras (d), (f) and (g) the PAC could, in a particular case, need to see some document not otherwise available to it but I suspect the Legislature may have proceeded on the assumption that in the exercise of these functions the PAC would be able to obtain any necessary documents without the need to have a power to require production. If the Legislature did turn its mind to the position of documents which might be in the possession of the Auditor General, it may have formed the opinion that the functions of the PAC in s. 57(1) would not necessitate that it be able to require the Auditor General to

produce such documents to it, particularly internal documents, such as working papers, prepared by the Auditor General in the course of audit. This is, of course, speculation on my part.

The Parliamentary Evidence Act 1901

- 3.5 The *Parliamentary Evidence Act 1901* does not confer a power on the PAC to require the production of documents; it only confers power on the Houses and committees to require answers to questions.

Implied statutory power and Legislative Assembly Standing Order 310

- 3.6 Legislative Assembly Standing Order 310 provides: "The House may order Ministers to lay papers on the Table. The order shall be communicated in writing to the Premier by the Clerk." The Standing Order is not a source of power to order Ministers to table papers; it provides the procedure to give effect to the implied statutory power of the House to order Ministers to produce State papers (see, in the case of the Legislative Council, Standing Order 18 and *Egan v Willis & Anor* (1998) 195 CLR 424).
- 3.7 The power of the House to order Ministers to produce State papers seems to have been implied by the High Court in *Egan v Willis* from the legislative grant of power establishing the Legislature, ie the power of the Legislature in s.5 of the *Constitution Act 1902* to make laws for the peace, welfare and good government of New South Wales, rather than being an inherent power (although this is not entirely clear as some members of the Court make reference to inherent power). The test for whether the power exists was held to be whether "reasonable necessity" requires the House to have the power to order the production of State papers in order to exercise its functions. (The word "reasonably" seems to have been added by the High Court to some of the earlier formulations and McHugh J., dissenting on the point, found it was not "reasonably necessary" for a House to be able to call for State papers as to have such a power would merely be convenient or helpful, the function would not be impossible without it.)
- 3.8 The High Court was not called upon in *Egan v Willis* to decide whether a committee of the House possesses a power to order Ministers to produce State papers. If the power of a House to call for State papers is inherent in a Legislature such as that of New South Wales or is implied from the legislative grant of power establishing it, the basis upon which it could be said a committee has inherent or implied power is not clear given that it consists of a number of the members of the House and does not have a legislative grant of power such as is conferred on the Legislature by s. 5 of the *Constitution Act 1902*. Even if a test of "reasonable necessity" can be applied to determine the powers of a committee, it is difficult to see why, when the House itself has the power to order Ministers to produce State papers, it is reasonably necessary that a committee also be able to order Ministers to produce State papers. Nor is it clear on what basis a House could purport to delegate its power to or confer such power on a committee. Reasonable necessity would not seem to require that where the House itself possesses a power to call for State papers it should be able to delegate or confer that power on a committee. In the absence of an express grant of power by statute and any authority that such power exists, I do not think it can be conceded that a committee has the power to order Ministers to produce State papers.
- 3.9 In holding that there was an implied power in the House to order Ministers to produce State papers, the High Court seems to have accepted the definition of State papers of Gleeson CJ in the NSW Court of Appeal: "papers which are created or acquired by ministers, office- holders, and public servants by virtue of the office they hold under, or their service to, the Crown in right of the State of New South Wales." You are the holder of an office and I think it can be said that the Crown sufficiently controls the appointment of the Auditor General to the office that it can be said that the office is under the Crown. I appreciate that the PAC has the power to veto a proposed appointment pursuant to s. 57A of the *Act* but only a person proposed by the Crown can be appointed and the actual appointment is made by the Governor pursuant to s. 28(1) of the *Act*. I think it should be assumed that papers created or acquired by you by virtue of the office you hold could be held to be State papers.
- 3.10 There is no authority to the effect that a House can order a person other than a Minister, such as the Auditor General, to produce State or other papers to it and the existence of such a power could not be conceded.

Ability of Auditor General to voluntarily disclose working papers

- 3.11 Whether the Auditor General can volunteer a document to the PAC or to a Minister who is the subject of an order by the Legislative Assembly pursuant to Standing Order 310 depends upon the application of s. 38 of the *Act*.
- 3.12 Sub s.(1) of s. 38 requires that the Auditor General, an auditor and an authorised person shall preserve and aid in preserving secrecy with respect to all matters and things that come to the knowledge of the Auditor-General, auditor or authorised person in the exercise of their functions under the *Act* and the prescribed requirements and shall not communicate to "any person" any such matter or thing. I see no basis for restricting the meaning of "any person" in s. 38(1) so as to exclude persons who are members of the PAC.
- 3.13 As I have said, s. 38 makes no express provision for disclosure by the Auditor General to the PAC or to a Minister who is subject to an order pursuant to Standing Order 310. The only exceptions to the requirement to preserve secrecy in sub s.(1) are those set out in paras (a) – (d) of sub s. (2). The only exception which could be applicable in the subject circumstances would seem to be that in para (a): "the conduct of any matter necessary for the proper administration of the *Act* or the prescribed requirements". (The exception in para (d) would not appear to be applicable as I doubt the producing of a document would constitute the making of a report or communication within the meaning of para (d) and, even if it did, the making of such a report or communication is not authorised by or under the *Act* or the prescribed requirements and, on the view I prefer, cannot be required by the PAC under the *Act*.)
- 3.14 I think the better view is that the volunteering of a document by the Auditor General to the PAC in connection with the exercise by the PAC of one of its functions under the *Act* would not be part of the conduct of any matter necessary for the proper "administration of the *Act* or the prescribed requirements" within the meaning of s. 38(2)(a). The words "the administration of an Act" have been distinguished from "carrying out its objects", "enforcing" it (in the sense of prescribing standards required by the Act to put the Act into practical operation) and prosecuting for offences against it: *Bedingfeld v Keogh* (1912) 13 CLR 601, at 607. In *Kunakool v Boys & Anor* (1987) 77 ALR 435 the "execution" of the laws of the Commonwealth was held to mean the carrying out or carrying into effect of those laws and included the discharge of a statutory duty. The "enforcement" of the laws of the Commonwealth was held to mean compelling fulfilment of the law and included compelling compliance with obligations imposed by law (see also *R v Bates* (1982) 2 NSWLR 894 where to "enforce" the *Motor Traffic Act 1909* was held to mean "to compel observance of"). The administration of the *Act* and the prescribed regulations "as pure administration would, I think, fall short of carrying out its objects" (to use the words of Isaacs J in *Bedingfeld v Keogh* at p. 607) and would not include the exercise by the PAC of its functions under the *Act*. That "administration" is used in the sense of pure administration would seem to be confirmed by the apparent view of the Legislature that the exception in para (a) would not include the circumstances provided for separately in para (d).
- 3.15 For the same reason, I do not think that the voluntary disclosure of a document by the Auditor General to a Minister for the purpose only of enabling the Minister to respond to an order for production under Standing Order 310 would be part of the conduct of a matter necessary for the proper administration of the *Act*. If the Minister receives the document from the Auditor General for the purpose only of the Minister responding to the PAC then its disclosure would not fall within the conduct of a matter necessary for the proper administration of the *Act* within the meaning of s. 38(2)(a). There could be circumstances in which the disclosure of a document by the Auditor General to the Treasurer, who is the Minister who administers the *Act*, may be for the proper administration of the *Act*. If the Treasurer were to receive a document in such circumstances there would be no breach by the Auditor General and the document would be in the hands of the Treasurer who could respond appropriately to an order for production under Standing Order 310.
- 3.16 I should add that I do not think that it can be argued that s. 38 is invalid for the reason that it alters the powers of the Legislative Council within the meaning of s.7A(1)(a) of the *Constitution Act 1902* and the Bill for the *Act* did not comply with the procedure required by s. 7A. Section 38 does not purport to alter the power of the Legislative Council to order a Minister to produce State papers or the power of the Legislative Council to take action against a Minister to compel compliance with its order. The effect of it is to preclude a Minister who is the subject of an order for the production of State papers obtaining from the Auditor General a State paper which is not in the custody and control of the Minister. The power of a House to order a Minister to produce State papers appears to be confined to State papers which are in the custody and control of the Minister or which the Minister is able to obtain: *Egan v Willis*, at pp 444 and 447. If the power is confined to such State papers ie State papers

which the Minister has or can obtain, then s. 38, in precluding the Minister from obtaining a State paper from the Auditor General, cannot be said to alter that power.

- 3.17 Nor do I think it can be argued that s. 38 is invalid on the basis that it burdens the freedom of communication about government or political matters which is an indispensable incident of the system of representative government and is protected by the Commonwealth Constitution: *Lange v ABC* (1997) 145 ALR 96. That freedom of communication extends to communication about State governmental or political matters. Where a law of a State is alleged to infringe the constitutional requirement of freedom of communication, it has to be determined whether the law effectively burdens freedom of communication about government or political matters and, if so, whether the law is reasonably appropriate and adapted to serve a legitimate end the fulfilment of which is compatible with the maintenance of the constitutionally prescribed system of representative and responsible government. I think it should be assumed that a law such as s. 38 which restricts disclosure by the Auditor General of all matters and things which come to his knowledge in the exercise of his functions may be held to effectively burden freedom of communication about governmental or political matters. I think however that there is a very strong argument that the *Act* is reasonably appropriate and adapted to serve the legitimate end of the proper and effective auditing of the State's finances and that, because of the exceptions to secrecy provide for in s. 38(2) and the system prescribed in Division 6 of Part 3 for the presentation of Accounts and for reports by the Auditor General to the Legislative Assembly, the fulfilment of the proper and effective auditing of the State's finances is compatible with the maintenance of the constitutionally prescribed system of representative and responsible government.

4. Conclusions

- 4.1 The PAC has no power to require the production of documents from any person, including the Auditor General.
- 4.2 The voluntary disclosure by the Auditor General to the members of the PAC of documents which come to the knowledge of the Auditor General in the exercise of the functions of the Auditor General under the *Act* and the prescribed requirements, such as working papers and management letters, would be a breach by the Auditor General of the statutory obligation in s. 38(1) to preserve secrecy.
- 4.3 The voluntary disclosure by the Auditor General of a document to a Minister for the purpose only of the Minister responding to an order for production under Standing Order 310 would be a breach of the statutory obligation in s. 38(1).
- 4.4 It would seem desirable that the position of the Auditor General in relation to the production of documents to the PAC be addressed specifically in the *Act*. That would seem to require a consideration of the need for the PAC, having regard to its functions, to be able to have access to documents not otherwise available to it which are in the possession of the Auditor General and, if such need is identified, the way in which access is to be obtained and the protection to be afforded to the documents (there are already provisions in s. 58 of the *Act* protecting secret matters in documents which are produced to the PAC). Assistance may be obtained from an examination of the relevant provisions of the 1974 *Act* and the 1988 *Act* referred to in 3.2 above.

Signed:

I V Knight

Crown Solicitor

b) Delegation from Minister for Health of power under s127(3) *Health Services Act 1997*

Tel: (02) 9224 5227

Prepared for: The Audit Office

Date: 01 February 2001

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4 January 2001

Mr R J Sendt
Auditor-General
The Audit Office
GPO Box 12
SYDNEY NSW 2000

Dear Mr Sendt

Re: Delegation from Minister for Health of power under s.127(3) *Health Services Act 1997*

I refer to my advice to you on this topic dated 29 November 2000.

I have received a letter from Mr Robert McGregor, Deputy Director-General, Operations, Department of Health. This encloses a copy of a letter sent to you regarding the advice.

The letter notes that the advice did not address the provisions of s.21 of the *Health Administration Act 1982* which gives a power of delegation to Minister, among others.

The failure to address this provision was an oversight on my part, for which I apologise. I note that I was not provided with a copy of the delegation, which may indicate on its face the power relied upon.

Mr McGregor suggests that the advice be reviewed and requests that I discuss this matter with him. However I could not do so without instructions from you.

If you wish me to re-examine this matter, please let me know. I am happy to discuss this matter with you at any time.

Yours faithfully

Christa Ludlow
A/Assistant Crown Solicitor
for Crown Solicitor

Advice

Re: Delegation from Minister for Health of power under s.127(3) of the *Health Services Act 1997*

5. Advice sought and background

- 5.1 I refer to my advice dated 29 November 2000 in which I concluded that the power in s.127(3) of the *Health Services Act 1997* could not be delegated to the Director-General of the Department of Health and the delegation (which I was instructed existed, although I had not seen it) from the Minister to the Director-General and other officers of the Department was not valid.
- 5.2 Correspondence has now been received from the Deputy Director-General of the Department of Health in which he states "the Crown Solicitor has not raised any issue about the provisions of s.21 of the *Health Administration Act 1982* and whether these provisions may be more appropriate to be utilised in the circumstances discussed."
- 5.3 In light of this you have asked me to review my earlier advice.

6. Relevant legislation

- 6.1 Section 127 of the *Health Services Act 1997* ("the HSA") provides:

"(1) In determining what amount of money (if any) is to be paid to each area health service out of money appropriated from the Consolidated Fund, the Minister is to have regard to the following matters:

- (a) the size and health needs of the population resident within the area of the area health service concerned,
- (b) the health services provided to patients from outside the area of the area health service concerned,
- (c) the net receipts and expenditures of the area health service for the financial year,
- (d) probable requirements for capital maintenance and expenditure of the area health service for the financial year,
- (e) such other matters as are prescribed by the regulations or as the Minister thinks fit.

(2) In determining what amount of money (if any) is to be paid to each statutory health corporation and affiliated health organisation out of money appropriated from the Consolidated Fund, the Minister may have regard to such matters as the Minister thinks fit.

(3) The Minister may, after considering any recommendation made under section 122 (e) for the purpose, determine what amounts of money (if any) should be paid out of money appropriated from the Consolidated Fund in any financial year to any such area health service, statutory health corporation or affiliated health organisation. Any such amount is payable in accordance with that determination.

(3A) The Minister may vary a determination under subsection (3) in such circumstances as the Minister considers appropriate.

(4) The Minister may attach to the payment of any subsidy such conditions as the Minister thinks fit.

(5) If any such condition is breached, the Director-General may make such recommendations to the Minister as the Director-General thinks fit concerning any action to be taken against the public health organisation concerned or any officer or employee of the organisation."

- 6.2 Section 122 relevantly provides:

"The Director-General has the following functions under this Act:

-
- (e) to recommend to the Minister what sums of money (if any) should be paid from money appropriated from the Consolidated Fund in any financial year to any public health organisation,
-"

Section 123 provides:

"(1) The Director-General may inquire into the administration, management and services of any organisation or institution providing health services (other than a public health organisation) if those services are wholly or partly funded with money paid from the Consolidated Fund.

(2) However, the Director-General cannot make any inquiry under this section in respect of a private hospital, nursing home or day procedure centre.

(3) The Director-General may delegate the conduct of any inquiry under this section to any other person.

(4) Nothing in this section prevents the Director-General inquiring into the administration, management and services of any public health organisation under section 122 (c)."

6.3 Section 21 of the *Health Administration Act 1982* ("the HAA") provides:

"(1) The Minister, Director-General or Corporation may, by instrument in writing, under seal (in the case of the Corporation), delegate such of their functions (other than this power of delegation) conferred or imposed by or under this or any other Act as are specified in the instrument to any person, and may, by such an instrument, revoke wholly or in part any such delegation.

(2) A delegation under subsection (1) may be made to:

- (a) a specified person (whether a natural person or a corporation), or
- (b) a person for the time being holding a specified office.

(3) Except in so far as the instrument of delegation otherwise provides, a person to whom a function has been delegated under subsection (1) may:

- (a) in the case of a natural person---by writing under the person's hand, or
- (b) in the case of a corporation---by writing under its seal,

authorise another person to exercise the function so delegated, and may, in like manner, revoke wholly or in part any such authority.

(4) An authority under subsection (3) may be given to:

- (a) a specified person, or
- (b) a person for the time being holding a specified office.

(5) Any act or thing done or suffered in the exercise of a function by a person to whom the function has been delegated under subsection (1) or by a person authorised by the delegate under subsection (3) to exercise the function has the same force and effect as if it had been done or suffered by the Minister, Director-General or Corporation, as the case may require, and shall be deemed to have been done or suffered by the Minister, Director-General or Corporation, as the case may require.

(6) A delegation under subsection (1) does not prevent the exercise of a function by the Minister, Director-General or Corporation, as the case may require.

(7) The giving of an authority under subsection (3) does not prevent the exercise of a function by the person by whom the authority was given.

(8) A document purporting to be signed by a person as a delegate of the Minister, Director-General or Corporation shall be deemed, unless the contrary is

established, to have been signed by such a delegate and to have been so signed pursuant to the exercise of a function duly delegated to the person under subsection (1).

(9) A document purporting to be signed by a person authorised by a delegate of the Minister, Director-General or Corporation to sign the document shall be deemed, unless the contrary is established, to have been signed by a person so authorised and to have been so signed pursuant to the exercise of a function that the person is duly authorised by such a delegate to exercise.

(10) A delegation or authority under this section may be made or given subject to such conditions or such limitations as to the exercise of any of the functions delegated, or as to time or circumstances, as may be specified in the instrument of delegation or authority.

(11) The provisions of this section are in addition to and not in derogation of any other provision which authorises or provides for the authorisation of a person to exercise any function of the Minister, Director-General or Corporation.

(12) This section does not authorise the delegation of the power to give an approval for the purposes of section 23 (3) (b) of this Act or to conduct an inquiry referred to in section 123 of the *Health Services Act 1997*."

3. The Delegation

3.1 I have been provided with an unsigned copy of the instrument of delegation which states:

"I, Andrew John Refshauge, Minister for Health, pursuant to the powers invested in me under section 12 of the Public Finance and Audit Act 1983, and section 21 of the Health Administration Act 1982, hereby: -

...

DELEGATE the exercise or performance of each of the powers, authorities, duties and functions conferred or imposed on the Minister for Health, by or under an Act or Regulation which is specified in and appears above each of the bracketed numbers ...(F52)... contained in the pages attached hereto, subject to the respective conditions or limitations which have application to such powers, authorities, or duties or functions,

TO the person or persons for the time being holding the specified office or offices which appear after, and are referable to, the power, authority, duty or function specified above the same bracketed number.

..."

Delegation F52 states "Approval of the allocation of funds and determination of conditions for the payment of any subsidy to public health organisations." It refers to s.127 of the *HSA* and the delegates are stated to be the Director-General, the Deputy Director-General Operations and the General Manager Finance and Commercial Services. I shall assume this constituted an intention to delegate the power in s.127(3) to determine the amounts of money to be paid.

4. Advice

4.1 The power in s.127 is a power in the Minister to determine what amount (if any) is to be paid to each area health service etc out of money appropriated from the Consolidated Fund. The power may only be exercised "after considering any recommendation made under s.122(e) for the purpose". That recommendation is one by the Director-General as to "what sums of money (if any) should be paid from money appropriated from the Consolidated Fund in any financial year to any public health organisation".

4.2 Section 21(1) of the *HAA* provides that the Minister may, by instrument in writing, delegate such of his or her functions (other than this power of delegation) conferred or imposed by or under the *HAA* or any other Act as are specified in the instrument to any person. Clearly, s.21(1) is intended to be able to have application to powers under the *HSA* as the view must have been taken that without the inclusion of sub-s.(12) s.21(1) could have had application to the power in s.123 of the *HSA*.

- 4.3 While the power in s.21(1) of the *HAA* to delegate powers to "any person" is intended to be able to have application to powers under the *HSA*, the problem is that the Legislature may not have intended the reference to "any person" in s.21(1) to include a person who is required to make a recommendation upon which the exercise of the delegated power is predicated. The Legislature in conferring upon the Minister the power in s.127(3) provided that the Director General should first make a recommendation which the Minister must consider before determining amounts of money. No doubt it was considered to be desirable in relation to the allocation of appropriated monies to the subject organisations that there first be a recommendation by the head of the Department. While it is true that the Director General could, pursuant to s.21(1) of the *HAA*, delegate the power under s.122(e) to make the recommendation, that does not seem to be sufficient to suggest the Legislature would have intended the Minister's power was capable of being delegated to the Director General pursuant to s.21(1). There would be no guarantee that the Director General would delegate the power to make the recommendation and, even if the Director General did delegate that power, such delegation would not prevent the exercise of the power by the Director General (s.21(6), *HAA*).
- 4.4 In another advice (CS ref: PLN124.31) I was called upon to advise whether the Minister administering the *Environmental Planning and Assessment Act 1979* could delegate functions relating to the making of LEPs under s.70 to a council pursuant to s.23 which expressly authorised the Minister to delegate his functions under that or any other Act to a council.

I said, in part:

"3.7 There is a further matter, however, which may indicate that, although the Minister's functions under s.70 may be delegated under s.23(1) such cannot be delegated to a council even though a council is specifically referred to as a body capable of receiving such delegation. The structure of Div.4 of Pt.3 is that a draft plan is prepared and exhibited by a council but is then subject to scrutiny [by way of Director's report] and ultimate approval by the Minister. If a draft plan is to be subject to a report by the body which has prepared it, and is then able to be finally made by the same body, the scheme for scrutiny of various stages of the plan making process may be lost. Thus, the argument would be that the power of delegation cannot be used to fundamentally alter the statutory scheme for the making of plans. That scheme requires, it could be said, that a plan is prepared by one body [the council] and finally approved and made by another body. If that is correct, then the power of delegation in s.23 would not be construed to authorise delegation to a council so that a council in effect performed every function in the plan making process. **It may be that not every function conferred on the Minister in s.70 is capable, as a matter of construction, of delegation to a council – for instance, the power to make alterations of significance for State or regional planning, or directing a council to take certain action. It would be illogical, [so the argument might go] for a council to be given a power to direct itself, and hence the power of delegation would not be construed to so extend.** The range of possible actions available to the Minister under s.70 may indicate that an independent mind is to be brought to bear upon the plan as submitted and matters relevant to it. In support of that argument it might also be said that the courts have identified 'clear legislative division of responsibility and authority for local planning matters between local councils on the one hand and the Minister and his department on the other'.

3.8 Although I think there is some force in this argument, I have come to the conclusion [with some hesitation] that the express power of delegation in s.23(1) and the absence of any exclusion from that power of the functions in s.70 when other functions are expressly excluded, indicate that the Minister's functions under s.70 of the Act may be delegated to a council. While it has been suggested that in 'the case of important judicial and disciplinary functions the court may be disposed to construe general powers of delegation restrictively', it is, I think, a question of construction of the particular statute in each case." (Emphasis added)

Just as it would be illogical for a council to be intended to be given a power to direct itself so might it be said that it would be illogical for a power to be intended to be given to a person who is also required to make a recommendation upon the making of which the exercise of the power is predicated.

- 4.5 If, on the view I prefer, the power in s.21(1), HAA, is not intended to be able to be used to delegate the power in s.127(3) of the HSA to the Director General, that part of Delegation F52 is not valid and the delegation of the power to the Deputy Director-General, Operations, and the General Manager, Finance and Commercial Services, will only survive if the Legislature intended the power in s.127(3) could be delegated pursuant to the power in s.21(1), HAA, to a person who is an officer in the Department junior to the Director General and the invalid delegation to the Director General can be severed.
- 4.6 Because the power in s.127(3) is predicated expressly upon the making of a recommendation by the Director General, I prefer the view the Legislature would not have intended that the power could be delegated to the Director General and that "any person" in s.21(1), HAA, should be read down accordingly. I doubt, however, that the power of delegation in s.21(1) can be read down so as to exclude delegation of the power in s.127(3) to Departmental officers who will necessarily be junior to the Director General. While it seems undesirable that the decision maker could be a Departmental officer junior to the person making the recommendation, there is less justification for reading down "any person" in s.21(1), HAA, to exclude departmental officers junior to the Director General than there is to exclude a person who is to make a recommendation upon the making of which the exercise of the subject power is predicated. In the case of the latter it is the statutory requirement for a recommendation by the Director General which is incompatible with an intention that the power in s.127(3) may be delegated to the Director General. In the case of the former it is more likely that the Legislature would have intended that the Minister would have an unqualified discretion to delegate the power but would take responsibility for the appropriateness of any delegation to a departmental officer necessarily junior to the Director General.
- 4.7 I also think that the invalid delegation of the power in s.127(3) to the Director General can be severed from that to the Deputy Director General, Operations, and the General Manager Finance and Commercial Services with the result they survive.
- 4.8 I should also mention the possibility of an administrative law challenge to a decision to delegate the power in s.127(3) to the Director General or to a departmental officer junior to the Director General. It is possible, I suppose, that an organisation aggrieved by a decision to allocate monies under s.127(3) could seek to have the decision reviewed in a case where the Director General made the required recommendation and the Director General or a more junior Departmental officer made the decision allocating monies. It might be argued the decision to so delegate the power in s.127(3) was unreasonable in the sense described in *Associated Provincial Picture Houses Ltd v Wednesbury Corporation* (1948) 1 KB 223, at 229. *Wednesbury* unreasonableness can be a ground on which to challenge a delegation: *R v Secretary of State for the Home Department; ex parte Oladehinide* (1991) 1 AC 254. An administrative decision remains valid until set aside.

Signed:

I V Knight
Crown Solicitor

Prepared for: Auditor-General
Date: 6 February 2001
Client ref: Maria Spriggins A547/Z210
CSO ref: AUD018.82 Christa Ludlow

[illegible]

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