

**New South Wales
Auditor-General's Report
to Parliament for 2002**

Volume One

Access to this report is available from our website
at <http://www.audit.nsw.gov.au/reports.htm>



GUIDE TO USING THIS VOLUME

This volume summarises the results of a number of our financial audits.

Readers familiar with the Auditor-General's reports to Parliament will notice a number of changes. In particular, we have attempted to adopt a 'plain English' style of writing. This is not always easy when describing technical issues, but we recognise the diversity of our readership and their needs.

We still divide the Volume into ministerial portfolios, each containing one or more government agencies. As a result, readers can easily locate information on individual agencies or portfolios.

Each agency comment now has a new structure.

We begin each agency comment with a summary of our **Audit Opinion**. It is a key result of each audit. An 'unqualified audit opinion' means we are satisfied that the agency has prepared its financial report in accordance with Australian Accounting Standards (and other mandatory requirements). It also means we believe the report has no material errors and the scope of our audit has not been limited. If any of these aspects are not met we issue a 'qualified audit opinion'.

The next section outlines any **Key Issues** we identified during the audit. These are matters such as:

- ♦ significant findings or outcomes of an audit
- ♦ any major developments impacting on an agency's role or activities
- ♦ repeat findings on issues we reported previously
- ♦ recommendations to Parliament.

The Audit Opinion and the Key Issues sections represent the more important findings. By targeting these sections, readers can quickly understand the major issues facing a particular agency, or glance through a number of reports to assess the financial health of a portfolio.

The next two sections contain analysis of issues we identified during our audit. While many of these will include suggestions for improvement, these are not as significant as the issues outlined in the first two sections of the agency comment.

Control Issues outline any shortcomings we have observed in the agency's internal checking mechanisms. These mechanisms should exist to ensure the effective safeguard of assets and resources.

Compliance Issues summarises whether the agency has complied with legislation and other relevant government requirements.

The next two sections describe more basic information about each agency's finances and activities. They will be a useful reference for those readers who rely on Auditor-General's reports as an initial source of information on the structure and finances of government agencies. These might include Members of Parliament, the general public, or officers in other public sector organisations.

Financial Information summarises the essential information from each agency's financial report. While this is sufficient for a broad understanding of the agency's financial position, readers can access more detailed financial statements in the agency's annual report or website.

Agency Activities summarises an agency's purpose, services, structure, relevant legislation, and its web address.

While some 'agency comments' in this volume will have all of the headings outlined here, this will vary depending on the size of the organisation and the findings of our audit. In each comment, however, the structure moves from the key audit findings, through our financial analysis, to more descriptive information. Different readers will be able to tailor their reading according to their needs.



The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY 2000

Pursuant to section 52A of the *Public Finance and Audit Act 1983*, I present
Volume One of my 2002 Report.

R J Sendt

Sydney
March 2002

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Significant Items

New South Wales Aboriginal Land Council

As reported over many years, actions of some current and past councillors have not always been in the best interest of the Council. p 13

Annual Reports for 1999 and 2000 are yet to be presented to Parliament. p 13

Mortgage Fund losses of \$4.5 million were incurred this year and further losses are anticipated. p 14

Poor financial management by LALCs has resulted in their debts to the New South Wales Aboriginal Land Council rising to \$6.3 million. Of this, \$2.8 million is treated as doubtful debts. p 14

At an extraordinary Council meeting on 21 September 2001, the Treasurer was relieved of his duties by a majority of councillors. He has commenced legal proceedings against the Council. p 15

A new Treasurer was elected at the October Council meeting. The election may be invalid as there are concerns whether a quorum of councillors was present. p 15

Waste Recycling and Processing Service

The provision for rehabilitation and future maintenance of landfill sites increased by \$42.9 million to \$60.6 million. p 44

Forestry Commission of New South Wales

State Forests intends to seek an increase to its borrowing facility. This should ease short term liquidity concerns. p 48

Trade debtors as a proportion of annual sales has significantly increased in recent years. p 48

The practice of continuing to trade with customers in financial difficulties has continued. One customer has gone into voluntary administration, owing \$6.0 million to State Forests. p 48

State Forests' share of an out-of-court settlement for the 1998 Wingello State Forest fire is expected to be significant. It was covered for this risk by HIH. p 48

Newcastle Showground and Exhibition Centre Trust

The Trust has been experiencing financial difficulties for a number of years. p 75

Waterways Authority

The Authority's net loss should be \$20.9 million instead of the reported \$2.1 million. This is due to the Authority not recognising its obligation to remediate certain contaminated areas of Homebush Bay. p 93

Introduction

Enron, HIH and other corporate collapses have focussed attention more than ever before on the role of auditors.

Some of this attention has reflected an 'expectation gap' – differing views as to how far the auditor's role extends.

One means of addressing this issue is for auditors to provide an 'engagement letter' to their clients. This is general audit practice. The letter sets out the role and responsibilities of the auditor.

While the Audit Office follows this practice with its client departments and authorities, we have in effect two clients. The more important in my view is Parliament itself.

Parliament is more important for a number of reasons. It is Parliament that establishes public sector agencies, either directly through specific legislation or indirectly through the *Public Sector Management Act 1988*.

It is Parliament that holds Executive Government accountable for the use of public resources.

And it is Parliament that establishes the position of Auditor-General and promotes the framework for public sector auditing.

Because of the key role of Parliament in holding executive government accountable, it is important that Parliament understands how the position of Auditor-General aids in that role.

I have therefore included a form of 'engagement letter' to Parliament in this Report. The timing of this letter reflects both the debate on auditors' roles and the recent legislative changes to my mandate.

This Report is the first in which I have given agency heads the opportunity to provide a response to our findings.

This is in line with one of the legislative changes made. While the change gave me the discretion to introduce the practice, I believe it is appropriate, provided the inclusion of agency responses does not compromise the timing of my Reports or the messages they convey. Only two agencies have requested that responses be included.



The Honourable Speaker and
Members of the Legislative Assembly

The Honourable President and
Members of the Legislative Council

SERVICES PROVIDED BY THE AUDIT OFFICE

In our system of government, Parliament is supreme – all authority for governmental activity ultimately stems from Parliament. Government agencies are therefore accountable to Parliament for their use of the resources and powers conferred by Parliament.

As part of its accountability arrangements, Parliament seeks assurance from an independent source – the Auditor-General – on key aspects of government performance and reporting.

The purpose of this letter is to assist Parliament's understanding of the Audit Office role.

Previous versions of this letter have been included in Auditor-General's Reports to Parliament following each State election. This updated version is included in this Report because of the:

- ◆ recent amendments to the *Public Finance and Audit Act 1983* and
- ◆ current interest in the role of auditors.

With the help of my Office I will continue to assist Parliament hold government accountable for its use of public resources. I will provide independent assurance that government agencies are performing, and accounting for their performance, in accordance with Parliament's expectations.

MEETING PARLIAMENT'S EXPECTATIONS

Legislation allows me to:

- ◆ audit the Treasurer's Public Accounts and Total State Sector Accounts and the Statement of Budget Result and express an opinion on the financial reports
- ◆ audit the accounts of all NSW public sector agencies and express an opinion on their financial reports. We conduct over 400 of these audits each year, reviewing budget dependent general government sector agencies, statutory bodies, state owned corporations, universities and associated companies

- ◆ conduct performance audits to examine the effectiveness, efficiency and economy of an agency's operations, or an issue across a number of agencies
- ◆ provide audit or audit-related services to the Parliament, the Treasurer and Ministers at their request. A list of these services is provided as an appendix to this Volume and will be included in the final Volume of the Auditor-General's Reports to Parliament each calendar year.

Financial Report Audits

The Audit Office undertakes its financial report audits in accordance with legislative requirements and Australian Auditing Standards.

The main purpose of an audit is to add credibility to a financial report by providing an independent audit opinion. When reading an opinion it is essential to have a clear understanding of what it provides and what a financial report audit covers.

The audit opinion provides users of the financial report with *reasonable* assurance that it is free of *material* error and complies with legislation and applicable accounting standards. It does *not*:

- ◆ provide a guarantee of absolute accuracy in the financial report
- ◆ express a view on the adequacy of the organisation's systems or the efficiency and effectiveness with which management conducts its affairs
- ◆ guarantee the organisation's future viability.

A financial report audit is a combination of systems checks and examination of a sample of transactions for all items in the financial report 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 reports. An audit does *not* examine every transaction of an organisation, as this would be prohibitively expensive and time-consuming.

It is also important to understand that the organisation's management, not the auditor, is responsible for:

- ◆ maintaining adequate accounting records and preparing the financial report
- ◆ maintaining a system of internal controls to prevent or detect errors or irregularities.

I recognise that, in the public sector, financial report audit opinions on their own will not meet Parliament's expectations. Firstly, most public sector agencies are not established purely for financial (profit-making) reasons. They exist to provide services to the public. Their financial reports will provide only limited information about these services.

Secondly, Parliament and the public have higher expectations of probity and proper conduct in public sector agencies.

Parliament has acknowledged the wider role of the public sector audit through the recent amendments to the *Public Finance and Audit Act 1983*.

Accordingly, when conducting financial report audits, the Audit Office will continue to have regard to:

- ◆ agency performance
- ◆ wastage of public resources
- ◆ lack of probity or financial prudence in the management of public resources
- ◆ compliance by agencies with legislative requirements and government policies and procedures.

Performance Audits

Our performance audits examine whether an agency is achieving what it set out to do, and whether it applied its resources economically, efficiently and within the law. An audit may cover the whole of an agency or one or more of its activities. It may also cover a single activity common across a number of agencies.

Performance audits are exhaustive reviews and only cover a few topics each year. The Audit Office selects these topics carefully after seeking Parliament's suggestions.

Performance audits comply with legislation and applicable Australian Auditing Standards.

REPORTING

I convey the results of my audits in a number of reports to the various 'stakeholders'.

Financial Report Audits

Auditor-General's Report to Parliament

Auditor-General's Reports to Parliament present the findings of my financial report audits of government agencies. These Reports address high-level issues in relation to agency operations. Minor matters are reported only where they are symptomatic of a larger problem or have not been addressed by the agency after we have raised them in previous years. I may also report on any matter that arises from or relates to my audit or other functions.

Reports are issued each year. The three main volumes are issued in May, November and December each year and cover the majority of Government agencies and the Total State Sector.

Over recent years, the scope of comments in these Reports has widened, reflecting the interests of Parliament in accountability issues beyond mere financial matters.

Independent Audit Report to Parliament

The Independent Audit Report expresses my opinion on an agency's financial report and is included in the agency's annual report. Annual reports are required by legislation to be presented to Parliament by the responsible Minister within four months of the agency's financial year-end.

The Independent Audit Report tells the reader whether the financial report complies with the Act (and other statutory requirements), applicable Australian Accounting Standards and other mandatory professional reporting requirements. A 'qualification' in the Report means that the agency's financial report does not comply with these requirements. Most Independent Audit Reports are 'unqualified'.

The Audit Office issues the Independent Audit Report no later than 10 weeks after receiving the financial report.

Statutory Audit Reports to Boards and Ministers

The Statutory Audit Report presents the results of the audit and any significant matters. The Report is issued to the Treasurer, the Minister and the head of the agency at the same time as the Independent Audit Report.

Client Service Reports to Agencies

The Client Service Report is a summary of audit outcomes, usually addressed to the agency's Audit Committee. This is only issued to large agencies, normally just before we issue the Independent Audit Report and Statutory Audit Report.

Management Letters to Agencies

A more detailed report is issued to heads of agencies on matters identified during the audit and may include recommendations for operational improvements. These matters are in addition to any 'qualification' in the Independent Audit Report.

Performance Audit Reports

A report on each performance audit is presented to Parliament, the relevant Minister and the relevant agency heads.

Procedural Fairness

The Audit Office checks its draft reports with relevant agency staff to ensure factual accuracy.

We also seek to ensure 'procedural fairness' or 'natural justice' by inviting Heads of agencies to submit a comment on our findings for inclusion in the Report to Parliament. This is a new provision under the Act that concerns our financial report audits and is quite separate to the existing provision in respect of performance audits, where agencies are given 28 days to respond to report comment. When an agency responds to a performance audit, it is included in the report to Parliament.

AUDIT FEES

Agencies are charged for financial report audits. The fee is based on time and direct out-of-pocket expenses plus the goods and services tax (GST) where applicable. Any separate inspections or examinations under the Act are subject to an additional fee.

Costs are recovered from Treasury for preparation of the Auditor-General's Reports to Parliament. A contribution from Treasury covers approximately half the cost of performance audits.

To check our efficiency we benchmark our costs against other Australian audit offices or the private sector accounting firms, to the extent that information is available from them.

QUALITY

Under section 48A of the Act, the Public Accounts Committee appoints a person to review the Audit Office at least once every three years. The review examines the auditing practices and standards of the Auditor-General and whether the Auditor-General is complying with them. The last review was completed in February 2000. A new review will start in 2002.

The Audit Office's financial and performance audit services are independently accredited as meeting the requirements of International Quality Standard ISO 9001.



R J Sendt
Auditor-General

Section One

Commentary on Government Agencies

Minister for Aboriginal Affairs

New South Wales Aboriginal Land Council

New South Wales Aboriginal Land Council

AUDIT OPINION

The audit of the Council's financial report for the year ended 30 September 2001 resulted in a qualified Independent Audit Report.

The qualification relates to the Council not accruing revenues and expenses from investment activities for the year ended 30 September 1999. This was a departure from Australian Accounting Standard, AAS1 'Statement of Financial Performance'. The closing interest receivable balance for 1999 affected the result of operations for the year ended 30 September 2000 and impacts the comparatives in the current year's financial report.

The audit report also included an emphasis of matter relating to fringe benefits tax, due to uncertainty concerning the Council's liability for the tax. More information on this matter can be found under Key Issues.

KEY ISSUES

Corporate Governance

The *Aboriginal Land Rights Act 1983* prescribes that New South Wales Aboriginal Land Council consists of full-time Aboriginal councillors equal in number to the number of Regional Aboriginal Land Councils. At present there are thirteen councillors who effectively constitute the 'board'. Members of Local Aboriginal Land Councils (LALCs) within a particular region elect the councillor for that region.

Since the Council's inception, Auditor-General's Reports to Parliament have consistently included unfavourable comments on the actions of a number of current and past councillors. These actions include:

- ◆ misuse of Council assets (motor vehicles, telephones, fuel cards and travel advances)
- ◆ the lack of accountability of their time and movements
- ◆ financial mismanagement of their budgets
- ◆ instances of litigation between councillors
- ◆ failure to table annual reports of the Council in Parliament on a timely basis.

Best practice suggests that the tone of an organisation is set at the top, in this instance by councillors.

Annual Report – Repeat Finding

The Council's annual reports for the years ended 30 September 1999 and 30 September 2000 have not been tabled in Parliament. This is a breach of the timing provisions of the *Annual Reports (Statutory Bodies) Act 1984*, which requires the annual report to be forwarded to the Minister and Treasurer within four months of year-end and tabled in Parliament within another month. Delays have occurred in each of the last six years. The Council has advised that it intends to table these reports along with the 2001 report.

Mortgage Fund

The Council incurred mortgage loan losses of \$4.5 million in 2000-01 and appears likely to incur further large losses in subsequent years. Mortgage loans were provided to LALCs and to other borrowers on a commercial basis under an investment mortgage scheme. Volume Two of last year's Auditor-General's Report to Parliament reported major deficiencies in the documentation supporting loan approvals. These deficiencies resulted in funds being provided to mortgage borrowers who, it is now clear, would not have been eligible for loans of the size provided if sound practices had been used.

The \$4.5 million loss was incurred on two mortgages when only \$1.5 million was recovered from the sale of mortgaged properties with outstanding loans of \$6.0 million. In one case, the gross sale price obtained was \$908,000, for a property originally valued at \$7.5 million. The Council did not obtain an independent valuation of that property.

The Council recognised a further doubtful debt provision of \$3.0 million for five mortgages (totalling \$12.6 million) for the year ended 30 September 2001. The provision includes \$1.8 million for a property where the Council has elected to complete construction to lock-up stage at a cost of between \$3.5 and \$5.5 million. The additional cost will increase the current mortgage loan balance to between \$12 and \$14 million. Professional advice received by the Council is that this course of action offers the best prospects for full recovery of the loan or minimisation of losses. The alternative is to sell the partly completed building 'as is'.

At 30 September 2001, the balance of the mortgage fund was \$14.5 million (\$22.2 million at 30 September 2000), partly offset by a provision for doubtful mortgages of \$3.0 million (\$4.5 million).

The Council is continuing to investigate the circumstances and documentation supporting mortgage loans that have defaulted. The Council considers that it may have legal redress for recovery of losses. This is particularly so where valuations provided by accredited valuers at the time of the approval of the mortgage were significantly greater than subsequent independent valuations and the actual sale prices achieved.

Debts of Local Aboriginal Land Councils

This debt arises from the payment of rates by the Council on behalf of LALCs and from loans to LALCs for special purposes. At \$6.3 million, the total LALC debt increased by \$1.2 million in 2000-01.

As disclosed in previous Reports to Parliament, many LALCs have continued to experience liquidity problems over a number of years. This has mainly resulted from poor financial control over their funds and the non-collection of rent. As a result these LALCs have failed to pay their local council rates. Local government councils then claim the unpaid rates directly from the Council, which then raises the LALCs as debtors.

The Council negotiated repayment agreements with some LALCs and assigned a proportion of their annual funding towards debt repayment. The Council also passed a resolution to deduct 30 per cent from the 2001-02 budget allocation of all LALCs that have not entered into agreements.

Under the Act, the Minister for Aboriginal Affairs can exempt LALCs from the payment of rates on vacant land. Up to November 2001, the Council had lodged 1,021 applications for exemption of rates on behalf of 65 LALCs. Of these, 546 were granted with a total value of \$518,000.

The balance of long-term loans rose by \$1.3 million, to \$2.2 million at 30 September 2001. New loans included:

- ◆ \$1.2 million provided to Mungindi LALC to fund a cotton-growing venture
- ◆ \$280,000 to Eden LALC to assist with a large level of debt
- ◆ \$250,000 to Gandagara LALC to fund a property development project with Sutherland Shire Council.

In May 2000, the Council approved a loan of \$350,000 to Mungindi LALC, subject to a feasibility study being undertaken. The first payment on behalf of the venture was made in November 2000. By September 2001, the advances totalled \$1.2 million. It was not until May 2001, that the Council obtained a management and viability review of the project. The review indicated that while the project was viable, the amount of land planned to be irrigated could not be achieved within the budget of \$1.2 million.

In June 2001 all work was stopped and the Council capped expenditure at \$1.6 million. In January 2002, the Council secured the previously unsecured loan. The LALC and the Council entered into a property management agreement that effectively gave control of the property to the Council. Share-farmers have recently occupied the property.

The doubtful debts provision for LALC debts was increased from \$1.8 million to \$2.8 million during the year because recovery policies may be ineffective for a small number of LALCs that have very large and increasing debts.

Removal of the Council's Treasurer

On 21 September 2001, the Treasurer of the Council was relieved of his duties at an extraordinary meeting of councillors. The former Treasurer has commenced legal proceedings in the Supreme Court, claiming that the Council's actions were beyond the powers it has under the Act and/or that he was denied procedural fairness by the Council.

Appointment of New Treasurer

A new Treasurer was elected at the next ordinary meeting of the Council, on 9 October. However, the Council minutes of that meeting indicate only seven of the 13 councillors were present when the election took place. The Act stipulates that a 'quorum for a meeting of the Council is two thirds of the number of councillors constituting the Council for the time being'.

The election of the new Treasurer may therefore be invalid. If that is the case, any actions taken by him as Treasurer may also be invalid. These actions include the new Treasurer's purported delegation of all his duties to the Chief Executive Officer.

Audit Reports of LALCs

Under the provisions of the Act, LALCs appoint their own external auditors from a listing of preferred registered company auditors approved by the Council.

The audits show that the financial management of many LALCs remains a concern and in some cases is getting worse. Auditors of a significant number of LALCs have reported a number of control issues including:

- ◆ inadequate control over rental properties
- ◆ significant over expenditure resulting from poor budgetary control
- ◆ problems in meeting reporting deadlines.

This has resulted in either a qualified independent audit report because of serious breakdown in controls or a letter to management identifying significant financial control weaknesses, or both.

Funding of LALCs for 2000-01 was determined by the Council based on the audit results of the 1999-2000 financial year. An analysis of audit results shows:

Section 34C(1)(a) Report - Year ended 30 September	2000	1999
Satisfactory	82*	87*
Unsatisfactory	16	18
Disclaimer	9	5
Adverse	--	1
Not received	<u>11</u>	<u>7</u>
Total	<u>118</u>	<u>118</u>
*25 (23 in 1998-99) of the satisfactory reports include reservations on some issues		

The number of audit reports not being submitted to the Council increased during the current year, which reversed the trend of recent years. The number of satisfactory audit reports has decreased.

The classifications above affect the funding of various LALCs by the Council. However, the appointment of an administrator allows funding to continue. Due to the lack of financial controls, two LALCs had an administrator appointed during 2000-01. In addition, investigators were appointed to three LALCs because of concerns over the efficiency and effectiveness of their operations.

The status of funding of all LALCs at 30 September 2001, is shown below:

Funding Status at 30 September	2001	2000
Full funding	76	89
Full but conditional funding	2	3
Cessation funding	<u>40</u>	<u>26</u>
Total	<u>118</u>	<u>118</u>

When a LALC is placed under cessation funding, it does not receive its annual allocation from the Council, but the Council pays essential expenses on its behalf. The increase in the number of LALCs receiving cessation funding mainly occurred in the Far North Coast, North West and Wiradjuri regions.

The Council is still not utilising any financial or performance appraisal processes to determine whether LALCs are achieving their objectives. The Council says that it is still trying to ensure the financial accountability of LALCs before moving into this more complex area of performance evaluation.

Fringe Benefits Tax Liability

The Australian Taxation Office (ATO) advised the Council in January 2001 that it did not fall within the meaning of a 'benevolent' institution and is therefore subject to FBT. The ATO indicated that the advice was only general in nature and not legally binding on the Commissioner, as is the case with a private ruling. The recently amended (but not yet assented) Act now more fully describes the Council's role as a public benevolent institution and therefore the Council has again sought advice from the ATO on its eligibility for classification as a public benevolent institution. The Council believes that, in view of the changes to the Act, advice provided by a Queens Counsel in 1996 and a Council review of decisions taken by the ATO in other jurisdictions, it will ultimately be exempted from the requirement to pay FBT. Accordingly the Council has not recorded a liability for FBT.

CONTROL ISSUES

Response to Management Letters – Repeat Finding

At the conclusion of each year's audit a management letter that highlights opportunities for the improvement of the system of internal control is sent to the Council. Over the last decade, at least, these letters have highlighted problems in just about every aspect of the Council's operations. Many of the problems identified have been repeated year after year. While the Council always makes commitments to improve their systems, remedial action at best has been spasmodic.

A draft letter containing issues that arose during the 2000-01 audit, is currently with the Council for reply. The Council executive has agreed to ensure a timely reply and to help the adoption of the recommendations, where appropriate.

Some of the major issues raised this year are commented on below.

Matters Involving Councillors – Repeat Finding

As in the previous two years, Council officers have advised that budget analysis reports, implemented as a means of analysing councillor expenditure, were not being received from councillors. Each councillor is required to document reasons for material variances in their budgeted expenditure on a quarterly basis and to provide explanations for expenditure requests in excess of the approved budget. Examples where expenditure has exceeded budget are:

- ◆ councillors' expenses and remuneration of \$1.2 million was \$76,000 higher than last year but only slightly over budget. This expenditure excludes travel and accommodation costs charged by councillors for attendance at Council meetings, which was \$214,000 (\$181,000 in 2000) or \$94,000 higher than budget
- ◆ of the 13 councillors, eight exceeded their individual budgets by between 0.9 per cent and 16.5 per cent
- ◆ motor vehicle expenses in total were \$29,000 or 31.6 per cent in excess of the budget. The requirement that councillors make a contribution of 10 per cent of their annual fuel costs has again not been observed.

For several years there have been concerns relating to travel advances and the travel claims submitted by some councillors and the use of their fuel cards and mobile phones.

We reviewed moneys advanced to or owing by councillors. Councillors usually receive these advances to meet anticipated travel expenses. At 30 September 2001, councillors owed amounts or had unacquitted travel advances totalling \$18,094 (\$12,723). Six councillors had balances exceeding \$1,000 at that time. The audit revealed the following issues, the majority of which have been previously reported:

- ◆ advances for cancelled trips repaid by payroll deduction instead of by immediate lump sum settlement
- ◆ high level of cancelled trips by two councillors
- ◆ delays of over six months in submitting expenditure acquittals
- ◆ no regular pattern of repayments for various debts
- ◆ possible conflict in the locations of one councillor as detailed in travel, mobile phone and fuel card records
- ◆ a former councillor still owing money to the Council
- ◆ large debts brought forward from the previous year, still outstanding at year-end
- ◆ inadequate detail of journey on some travel claims.

Recent Auditor-General's Reports to Parliament have disclosed that the majority of councillors do not record details related to the use of their motor vehicles on motor vehicle running sheets. Without the maintenance of proper log sheets, unauthorised journeys or journeys not on behalf of the Council cannot be identified. There may also exist an unidentified FBT liability relating to any private journeys undertaken by councillors.

Councillors are not employed under an award that specifies their conditions of employment. Councillors are not required to maintain attendance records and attendance responsibilities are not specified and some hold part-time positions with other organisations. However, councillors still receive four weeks annual leave per annum. Four of the councillors have annual leave balances in excess of 50 days at 30 September 2001. Seven councillors took less than 10 days leave during the year.

Other Matters – Repeat Finding

Other issues of concern included:

- ◆ In financial terms, the rural property section is a relatively minor function of the Council. Despite this, the Audit Office has, over many years, advised the Council about concerns over the lack of effective internal controls in the section.

In the current year the Council appointed a consultant to examine the farm management practices, stock and records of all five farms owned by the Council. The consultant's report referred to a background of heavy losses on the various farm ventures over a period of 11 years. The report's findings included:

- the current farm managers lack the necessary skills to achieve the full potential of the properties, despite being dedicated to the task
- lack of communication between NSWALC branch offices and the farms
- lack of consistent policies across the five properties.

The consultant recommended that the properties be retained for a minimum period of two years to determine whether profitability can be achieved. It was also recommended that a farming expert be appointed to work in conjunction with the current farm managers. This will enable the introduction of a strategic plan, a budget, a cropping strategy and a livestock program for each farm.

- ◆ Previous Auditor-General's Reports to Parliament have also referred to the Council and LALCs not implementing recommendations made by the Council's internal audit section. A significant proportion of recommendations that are initially accepted in face-to-face meetings with auditors are subsequently ignored. Further, many of the recommendations where written agreement is obtained, are never implemented.
- ◆ incomplete reconciliation of debtors
- ◆ a large number of reconciling items in the reconciliation of the fixed assets register to general ledger.

COMPLIANCE ISSUES

We tested whether the Council complied with long service leave provisions of the Premier's Department Personnel Handbook, which it chooses to follow. The Council complied with these requirements.

OTHER ISSUES

Funeral Fund

The *Funeral Funds Act 1979* requires all funeral funds to be registered with the Department of Fair Trading. As previously reported, the Council established a funeral fund during 1993 for the benefit of Aboriginal people. Subsequent to receiving approval to operate from the Department, a private funeral fund company lodged an injunction and the operation of the fund was suspended. The Council's appeal to the High Court of Australia was dismissed.

At 30 September 2001, contributions from members of the Aboriginal community and interest totalled \$204,000 (\$193,000 in 2000). The funds have been deposited in a separate bank account with the equivalent amount shown as a liability in the Council's financial statements. The Council has kept the fund intact pending the examination of a number of proposals to determine those that would not contravene the court ruling.

While the fund was legally precluded from operating during 2000-01, the Council continued to pay a contribution to the funeral expenses of Aborigines as a grant from its revenues. These payments totalled \$491,000 (\$458,000 in 2000), of which \$130,000 (\$157,000) related to members of the fund.

Review of Aboriginal Land Rights Act

Amendments to the *Aboriginal Land Rights Act 1983* have been passed by Parliament and a new regulation is currently being drafted. The Department of Aboriginal Affairs expects the amended Act to be proclaimed around the middle of the year.

Land Claims

The Council has lodged various land claims under the NSW ALR Act.

Claims lodged up to 31 May 2001, as provided by the Department of Land and Water Conservation are shown below. The figures showing the status of claims do not agree with the total lodged because a number of claims are part approved, duplicated or withdrawn.

Year	Claims Lodged	Claims Granted	Area of Granted Claims (ha)	Value of Granted Claims \$m*	Claims Refused	Appeal Pending	Claims Unresolved
1983-97	6,095	1,449	62,753	284.0	2,752	162	574
1997-98	71	171	1,782	104.3	84	1	24
1998-99	82	173	4,776	182.1	185	2	34
1999-2000	222	88	147	5.8	138	4	192
2000-01	126	73	120	3.3	83	--	114
Total	<u>6,596</u>	<u>1,954</u>	<u>69,578</u>	<u>579.5</u>	<u>3,242</u>	<u>169</u>	<u>938</u>

*Value has been adjusted for each year by the Consumer Price Index

Native Title Applications

Under the Commonwealth *Native Title Act 1993*, the Council has been appointed as a Native Title Representative Body. This gives the Council the powers and responsibilities to assist the native title applications process.

A grant of \$3.3 million was received during 2000-01 (\$3.3 million in 1999-2000) from the Aboriginal and Torres Strait Islander Commission (ATSIC) to cover the Council's costs in undertaking this role. The Council's costs on this project, which is handled by the Council's Native Title Unit, were \$2.8 million (\$3.1 million).

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 September	2001 \$'000	2000 \$'000
Interest income on investments	33,881	33,264
Grants and subsidies	4,416	3,724
Other income	<u>2,969</u>	<u>8,171</u>
TOTAL INCOME	<u>41,266</u>	<u>45,159</u>
Employee expenses	5,159	5,158
Funding of regional and local Aboriginal Land Councils	12,306	11,271
Net decrement on investment revaluation	6,297	--
Other expenses	<u>19,429</u>	<u>16,620</u>
TOTAL EXPENDITURE	<u>43,191</u>	<u>33,049</u>
OPERATING SURPLUS/(DEFICIT) FROM ORDINARY ACTIVITIES	(1,925)	12,110

The Council's interest and investment income rose marginally by 1.9 per cent. An unfavourable economic climate for investments led to losses on sale of some investments of \$2.8 million and a decrease in the value of the portfolio at 30 September 2001 of \$18.8 million. Of this total, \$6.3 million was expensed and \$12.5 million offset to the asset revaluation reserve. Apart from some repositioning from current to non-current investments, the Council substantially retained the investment strategy adopted in 1998-99 following the cessation of land tax funding. The strategy is mainly achieved by placing funds with fund managers to obtain capital growth over the long-term and provide funds for the Council's operations.

Earnings of \$18.7 million (\$29.7 million in 2000) from the statutory fund were used for administrative costs of the Council. Of this amount, \$12.3 million (\$11.3 million) was used to fund regional and local land councils, mainly provided on the basis of standard allocations of \$100,000.

Abridged Statement of Financial Position

At 30 September	2001 \$'000	2000 \$'000
Current assets	142,693	199,102
Non-current assets	<u>373,432</u>	<u>329,254</u>
TOTAL ASSETS	<u>516,125</u>	<u>528,356</u>
Current liabilities	2,294	2,054
Non-current liabilities	<u>459</u>	<u>357</u>
TOTAL LIABILITIES	<u>2,753</u>	<u>2,411</u>
NET ASSETS	<u>513,372</u>	<u>525,945</u>

The decrease in the level of assets results primarily from losses of \$18.8 million mentioned earlier, offset by new investments made from excess earnings.

The movement in the Council's assets from current to non-current is mostly attributable to the Council's decision to move more of its investments to individual managed funds that offer more potential for higher returns. Funds were therefore reinvested with an Australian fixed interest unit trust fund, which is classified as non-current in the statement of financial performance.

Statutory Fund

At 30 September 2001, the balance of the Statutory Fund, with interest and other gains and losses and administrative usage, was \$498.2 million (\$506.9 million in 2000). This comprised:

At 30 September	2001 \$'000	2000 \$'000
Cash	186	262
Commercial bills/promissory notes	22,686	19,163
Fixed interest securities portfolio	198,199	252,784
Units in managed fixed interest pool fund	41,626	--
Units in property trusts	54,881	36,278
Mortgages (net)	11,518	17,662
Money market funds	7,788	13,845
Units in managed share fund	149,309	155,897
Land and building, plant and equipment	11,511	10,812
Receivables	571	205
Creditors	(113)	--
	<u>498,162</u>	<u>506,908</u>

As referred to above the Council has largely maintained an investment strategy that is consistent with the previous year. This strategy largely conforms with the advice provided by the Investment Adviser. However, since the new investment strategy was commenced in 1998-99, the Council has initiated some investments that were not part of the overall strategy devised by the investment adviser. The most notable of these is the mortgage loan scheme, referred to earlier in this comment.

Seven external fund managers handle the bulk of the Council's investments (91.4 per cent at September 2001). Average rates of returns from these managers ranged from negative 27.2 per cent to positive 15.5 per cent.

The balance of the funds was managed by Council staff. The in-house strategy was to invest mainly in commercial bills and money market funds in order to have sufficient available liquidity to meet Council's requirements and to reduce risk. The in-house managed funds had average returns of negative 16.3 per cent to 6.4 percent.

The average earnings during the year was 6.86 (6.90) per cent. Investment income of the Statutory Fund for the last five years is summarised below:

Year	Opening Balance \$'000	Closing Balance \$'000	Net Income \$'000	Average Fund Balance \$'000	Average Earning %
1996-97	383,856	437,012	25,812	397,528	6.49
1997-98	437,012	485,342	22,390	449,982	4.98
1998-99	485,342	482,183	24,718	471,404	5.24
1999-2000	482,183	506,908	32,985	478,053	6.90
2000-01	506,908	498,162	33,341	485,864	6.86

The following table summarises the transactions of the Statutory Fund since inception:

Analysis of Statutory Fund: 1983 – 2001	\$'000	\$'000
Total Government allocation		262,058
Total interest/investment income	322,746	
Total rental income	<u>18,459</u>	
Total income	341,205	
Total losses and expenses	<u>(112,634)</u>	
Total net income earned		228,571
Reserve transfer		<u>7,533</u>
Balance as at 30 September 2000		<u>498,162</u>
Growth of Statutory Fund over Government allocation		<u>90.1%</u>

Contingent Liabilities

The maximum value of outstanding legal claims estimated by Council solicitors at 30 September 2001 has increased by \$1.3 million to \$1.4 million mainly due to a number of significant cases involving possible liabilities from native title issues.

Legal Proceedings Against the Audit Office

In March 1999, the Aboriginal Land Council served on the Audit Office as First Defendant, a Statement of Claim alleging negligence and breach of duty causing the Council to suffer loss and damage. The State of New South Wales was named as the Second Defendant.

The Statement of Claim relates to an investment made by the Council in 1990 and subsequent losses incurred in 1993. The Council is seeking damages, interest and costs.

The Crown Solicitor's Office is acting on behalf of the Audit Office and the matter will be defended. The Office has instructed the Crown Solicitor to enjoin in the proceedings the directors and management of the Council during the period referred to in the Statement of Claim. Earlier Auditor-General's Reports to Parliament canvass this investment issue.

COUNCIL ACTIVITIES

The Council was constituted under the *Aboriginal Land Rights Act 1983*. It comprises 13 members, each elected by registered members of the Local Aboriginal Land Councils (LALCs) within the 13 regions of New South Wales.

The Council's functions include:

- ♦ administering the New South Wales Aboriginal Land Council Account and the Mining Royalties Account (established under the Act)
- ♦ granting funds for the payment of the administrative costs and expenses of Regional Aboriginal Land Councils (RALCs) and LALCs
- ♦ acquiring land on its own behalf or on behalf of or to be vested in a LALC and to transfer land acquired on behalf of a LALC to such a Council
- ♦ determining and approving or disapproving the terms and conditions of agreements proposed by LALCs to allow mining or mineral exploration of land
- ♦ making claims to Crown lands, either on its own behalf or, if requested by an LALC, on behalf of that Council

- ◆ managing the affairs of an LALC, with the agreement of that Council
- ◆ making grants or lending money to, or the investing money for or on behalf of, Aborigines
- ◆ advising the Minister on matters relating to Aboriginal land rights.

In relation to its administrative functions under the Act, the Council is subject to the control of the Minister. This control arises from the Minister's power to direct the Council and approve its operating budget.

RESPONSE BY HEAD OF THE COUNCIL

The NSW Aboriginal Land Council acknowledges receipt of the above report in relation to this agency and welcomes the opportunity to comment on the report's findings.

As the inaugural appointee to the newly established position of Chief Executive Officer, NSW Aboriginal Land Council I believe the report's findings, justify the actions and changes which have been set in place since my commencement as the CEO in June 2001.

I believe the actions taken address and will alleviate most of the issues raised in the report. Some of the actions include:

- ◆ a review of staffing and structure
- ◆ a baseline financial review
- ◆ a review of council's rural properties.

I assure you that we will be working very hard to improve the accounting and internal control procedures in order to get an unqualified Audit Report this Financial Year.

A large number of amendments have been made to the Aboriginal Land Rights Act which will also assist Council in addressing a number of the issues raised. It is expected that the amendments to the Act will be assented to in July 2002.

The changes and actions outlined are but some of the restructure process that Council is currently undergoing. I firmly believe that as a result of the changes being introduced and the attention being paid to the strengthening of internal control measures and adherence to the organisation's statutory obligations, future reports to Parliament will be of a totally different vane.

Minister for Ageing

Department of Ageing Disability and Home Care

Department of Ageing, Disability and Home Care

AUDIT OPINION

At the time of preparing this comment the audit of the Department was incomplete. It is expected that the audit of the Department's financial report for the period 11 April 2001 to 30 June 2001 will result in an unqualified Independent Audit Report.

KEY ISSUES

The Department was created on 11 April 2001. The functions of the former Ageing and Disability Department and the Disability Services Branch and Program from the Department of Community Services were transferred to the Department.

The restructure brings together in a single agency the responsibility for supporting older people, people with a disability and their families. It allows the Department of Community Services to focus on early intervention and protection of children at risk.

CONTROL ISSUES

We identified opportunities for improvement in internal control procedures. These were minor and will be reported to the Director-General of the Department in a letter to management.

COMPLIANCE ISSUES

We tested whether the Department complied with:

- ◆ long service leave provisions of the Premier's Department Personnel Handbook
- ◆ delegation provisions of legislation administered by the Department and its own policies.

The Department complied with these requirements.

FINANCIAL INFORMATION

The following abridged Statement of Financial Performance and abridged Program Information table combine all revenues and expenses for the Department of Ageing, Disability and Home Care, the former Ageing and Disability Department, and the Disability Services' Program provided by the Department of Community Services.

Abridged Statement of Financial Performance

Period ended 30 June	2001 \$'000
Employee related	374,239
Grants and subsidies	505,239
Other expenses	<u>87,896</u>
TOTAL EXPENSES	<u>967,374</u>
TOTAL REVENUE	<u>37,386</u>
Loss on sale of non-current assets	<u>(151)</u>
NET COST OF SERVICES	<u>930,139</u>

Abridged Statement of Financial Position

At 30 June	2001 \$'000
Current assets	44,134
Non-current assets	<u>241,034</u>
TOTAL ASSETS	<u>285,168</u>
Current liabilities	39,668
Non-current liabilities	<u>63</u>
TOTAL LIABILITIES	<u>39,731</u>
NET ASSETS	<u>245,437</u>
Reserves	11,159
Accumulated funds	<u>234,278</u>
TOTAL EQUITY	<u>245,437</u>

Abridged Program Information

Program Description	2001		
	Revenues \$'000*	Expenses \$'000	Net Cost of Services \$'000
Ageing, Home and Community Care and Disability	9,713	541,872	532,159
Disability Services	<u>27,673</u>	<u>425,653</u>	<u>397,980</u>
	<u>37,386</u>	<u>967,525</u>	<u>930,139</u>
* Includes gain/loss on sale of assets			

DEPARTMENT ACTIVITIES

The Department was established in April 2001 and provides strategic policy advice, planning, funding, quality assurance, evaluation and monitoring services for older people and people with disabilities, as well as providing direct assistance to people with a disability and their carers.

The Disability Council of NSW and the Guardianship Tribunal are responsible to the Department for administrative purposes. The Disability Council is the official adviser to the NSW Government on issues affecting people with disabilities and their families. The Guardianship Tribunal appoints guardians and financial managers for people 16 years and over who have a disability and are incapable of making their own decisions or managing their own affairs, and who have no other safe or appropriate arrangements in place. Operating transactions and balances at year-end of the Council and the Tribunal are included in the Department's financial report.

For further information on the Department, refer to www.dadhc.nsw.gov.au.

Minister for Agriculture

Board of Veterinary Surgeons of New South Wales

Board of Veterinary Surgeons of New South Wales

AUDIT OPINION

The audit of the Board's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

We identified opportunities for improvement in internal controls/procedures. These were minor and were reported to the President of the Board.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	787	482
Expenses	758	601
Operating surplus/(deficit)	29	(119)
Net liabilities (at 30 June)	(60)	(89)

BOARD ACTIVITIES

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 2001, the number of veterinary surgeons registered was 2,376 (2,339 at 30 June 2000).

For further information on the Board, refer to www.vsb.nsw.gov.au.

Minister for Community Services

Department of Community Services

Department of Community Services

AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

KEY ISSUES

On 11 April 2001 the Disability Services Branch and the Disability Services Program were transferred from the Department of Community Services to the newly created Department of Ageing, Disability and Home Care.

CONTROL ISSUES

We identified opportunities for improvement in internal control/procedures. These were minor and will be included in a letter to the Director-General of the Department.

COMPLIANCE ISSUES

We tested whether the Department complied with:

- ◆ long service provisions of the Premier's Department Personnel Handbook; and
- ◆ Premier's Department policy and departmental policy for fleet operations and Treasurer's Directions and departmental policy for fuel card usage.

The Department complied with these requirements with the exceptions that:

- ◆ annual reconciliations are not performed for each SES officer who has a packaged vehicle;
- ◆ there is no formal delegation from the Director-General to garage vehicles at officers' homes;
- ◆ packaged vehicles taken under a business/private split are not used as pool vehicles when available
- ◆ the Department did not observe the Premier's Department policy in determining the split of business and private use by SES officers.

The Department has subsequently advised that it has taken action to rectify those exceptions.

FINANCIAL INFORMATION**Abridged Statement of Financial Performance**

Year ended 30 June	2001 \$'000	2000 \$'000
Employee related	394,130	466,103
Grants and subsidies	289,986	265,193
Other expenses	113,876	119,087
TOTAL EXPENSES	<u>797,992</u>	<u>850,383</u>
Grants and contributions	240,167	280,110
Other revenue	21,536	20,888
TOTAL REVENUE	<u>261,703</u>	<u>300,998</u>
Loss on sale of non-current assets	<u>(33)</u>	<u>(76)</u>
NET COST OF SERVICES	<u>536,322</u>	<u>549,461</u>
Add government contributions	532,420	560,956
MOVEMENT IN ACCUMULATED FUNDS	<u>(3,902)</u>	<u>(11,135)</u>

The decreases in employee-related expenditure and net cost of services were mainly due to the removal of the Disability Service Program from the Department. The associated reduction in grants provided by the former Ageing and Disability Department was partially offset by increased Government funding of a number of grants programs, principally refuges for men and women, and for the provision of family and individual support.

Abridged Statement of Financial Position

At 30 June	2001 \$'000	2000 \$'000
Current assets	28,491	52,179
Non-current assets	75,320	297,434
TOTAL ASSETS	<u>103,811</u>	<u>349,613</u>
Current liabilities	14,580	55,483
TOTAL LIABILITIES	<u>14,580</u>	<u>55,483</u>
NET ASSETS	<u>89,231</u>	<u>294,130</u>
Reserves	26,669	48,845
Accumulated funds	62,562	245,285
TOTAL EQUITY	<u>89,231</u>	<u>294,130</u>

The decrease in net assets was primarily due to the transfer of assets and liabilities totalling a net \$205.5 million to the new Department of Ageing, Disability and Home Care.

Abridged Program Information

Program Description	2001		Net Cost of Services \$'000	2000 Net Cost of Services \$'000
	Revenues \$'000*	Expenses \$'000		
Child and Family Support	2,369	326,113	323,744	286,613
Children's Services	116	101,937	101,821	99,073
Community Resources	469	45,965	45,496	41,809
Disability Services	<u>258,716</u>	<u>323,977</u>	<u>65,261</u>	<u>121,966</u>
	<u>261,670</u>	<u>797,992</u>	<u>536,322</u>	<u>549,461</u>
* Includes gain/loss on sale of assets				

DEPARTMENT ACTIVITIES

The Department is responsible for administering the major portion of the State's community welfare programs. These programs are aimed at providing assistance to disadvantaged or vulnerable families and children, adolescents and communities.

The Department's role is based on the *Community Welfare Act 1987* and related legislation:

- ◆ Child Protection – *Children (Care and Protection) Act 1987, Child Welfare (Commonwealth Agreement Ratification) Acts of 1941 and 1962, Children and Young Persons (Care and Protection) Act 1998, Evidence (Children) Act 1997*
- ◆ Adoption – *Adoption of Children Act 1965, Adoption Information Act 1990*
- ◆ Disaster Welfare – *State Emergency and Rescue Management Act 1989*
- ◆ Crisis Accommodation Services - the *Commonwealth Supported Accommodation Assistance Act 1994*

For further information on the Department refer to www.community.nsw.gov.au.

Minister for the Environment

Southern Sydney Waste Planning and Management Board

Waste Recycling and Processing Service

Southern Sydney Waste Planning and Management Board

AUDIT OPINION

The audit of the financial report of the Board for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

KEY ISSUES

In 2001 Parliament passed the *Waste Avoidance and Resource Recovery Act 2001*. This Act dissolved the Waste Board effective from 7 October 2001. All assets and liabilities were transferred to a new body, Resource NSW. All permanent staff except for the General Manager were transferred to the new body.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	5,721	4,996
Salaries and related expenses	1,368	991
Other expenses	4,266	5,739
Operating surplus/(deficit)	87	(1,734)
Net assets (at 30 June)	3,702	3,615

The increase in employee related expenses mainly resulted from the appointment of five additional staff during the year. The fall in other expenses was due to a decrease in consultant fees paid.

BOARD ACTIVITIES

The Board was established as a statutory body in September 1996 under the *Waste Minimisation and Management Act 1995*. It was one of nine Regional Waste Boards created to manage waste on a regional basis and to reduce waste to landfill.

For further information refer to www.sswb.nsw.gov.au or www.resource.nsw.gov.au.

Waste Recycling and Processing Service

AUDIT OPINION

The audit of the Service's financial report for the period ended 31 August 2001 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Corporatisation

The Service changed to the Waste Recycling and Processing Corporation on 1 September 2001. All assets, liabilities and staff of the Service were transferred to the Corporation. The trade name Waste Service NSW remained unchanged.

The Treasurer extended the final accounting period of the Service to cover the period 1 July 2000 to 31 August 2001.

Alternative Waste Management Technology

Waste Service NSW aims to progressively move its business of putrescible waste management from landfilling to technology based processing.

The Service invited worldwide expressions of interest for alternative waste management technologies in November 2000. Seven of those who expressed interest were invited to submit proposals by 15 February 2002.

CONTROL ISSUES

We identified opportunities for improvement in internal controls/procedures. These were minor and have been included in a letter to management.

COMPLIANCE ISSUES

We tested whether the Service complied with:

- ◆ long service leave provisions of the Premier's Department Personnel Handbook
- ◆ delegation provisions of the *Waste Recycling and Processing Service Act 1970* and other applicable legislation and policies.

The Service complied with these requirements.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

	14 months ended 31 August 2001 \$'000	12 months ended 30 June 2000 \$'000
Operating revenue	187,178	163,915
Operating expenses	<u>232,802</u>	<u>167,177</u>
OPERATING LOSS BEFORE TAX	(45,624)	(3,262)
Income tax attributable to operating loss	(11,607)	3,723
OPERATING LOSS AFTER TAX	(34,017)	(6,985)
Retained profits at the beginning of the financial period	74,152	86,137
TOTAL AVAILABLE FOR APPROPRIATION	40,135	79,152
Dividend provided	--	<u>5,000</u>
ACCUMULATED FUNDS AT END OF PERIOD	<u>40,135</u>	<u>74,152</u>

Operating expenses included a \$42.9 million charge to the provision for rehabilitation and future maintenance of landfill sites, increasing this provision to \$60.6 million. The increase resulted from a review of the provision by Deloitte Touche Tohmatsu. Their report expresses the rehabilitation and after-care liabilities in net present value terms. The Service has been advised that it is likely to take approximately 40 years before most of the Sydney metropolitan landfills achieve the environmental guidelines set by the Environment Protection Authority and Sydney Water Corporation.

Abridged Statement of Financial Position

	At 31 August 2001 \$'000	At 30 June 2000 \$'000
Current assets	40,114	40,411
Non-current assets	<u>150,994</u>	<u>158,550</u>
TOTAL ASSETS	<u>191,108</u>	<u>198,961</u>
Current liabilities	34,617	41,949
Non-current liabilities	<u>100,191</u>	<u>64,402</u>
TOTAL LIABILITIES	<u>134,808</u>	<u>106,351</u>
NET ASSETS	<u>56,300</u>	<u>92,610</u>
Accumulated funds	40,135	74,152
Reserves	<u>16,165</u>	<u>18,458</u>
TOTAL EQUITY	<u>56,300</u>	<u>92,610</u>

SERVICE ACTIVITIES

The Service was constituted under the *Waste Recycling and Processing Service Act 1970* to provide a waste processing, recycling and disposal service within the Sydney metropolitan area. It managed a network of waste management centres, including seven solid waste transfer stations; four engineered landfills (Grange Avenue closed February 2001), one of which also operates as a transfer station; a treatment plant for industrial liquid and sludge waste; and two materials recycling facilities. The Waste Recycling and Processing Service Board, comprising five part-time members and the Managing Director, was subject to the control and direction of the Minister for the Environment.

For further information on the Service refer to www.wasteservice.nsw.gov.au.

Minister for Forestry

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

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

AUDIT OPINION

The audit of the State Forests of New South Wales financial report for the year ended 30 June 2001 resulted in a qualified Independent Audit Report, for the following reasons:

- ◆ The depreciation expense for roads and bridges was calculated using historical cost instead of their revalued amounts. This is a departure from Australian Accounting Standard AAS 4 'Depreciation'. Had the revalued amounts been used, the depreciation expense for the year, based on the estimated remaining useful life of the assets as determined by the valuers, would have increased by about \$10.6 million.
- ◆ Grants received of \$11.8 million were recognised as a current liability. These grants are non-reciprocal transfers that State Forests controlled at year-end. Therefore, according to the requirements of Australian Accounting Standard AAS 15 'Revenue', the grants should have been recognised as revenue. Had this been done, total revenue for the year would have increased from \$170 million to \$181.8 million.
- ◆ State Forests has not maintained sufficient records to provide evidence of the liability for deferred income tax of \$197.3 million, and the deferred income tax asset of \$14.1 million, recognised in the Statement of Financial Position. Accordingly, there is uncertainty over the completeness and accuracy of these tax balances, as well as the tax benefit for the year of \$24.3 million in the Statement of Financial Performance. We brought this matter to management's attention last year and also included it in the Statutory Audit Report. We advised State Forests that a reconciliation of the deferred tax balances ('proof in total') should be performed, and that the validity of carrying forward tax losses should be reconfirmed. Management did not address these issues during 2001, resulting in this qualification. State Forests has undertaken to perform this reconciliation in 2001-02.

Land, buildings, roads and bridges and plant and equipment were all revalued during the year. The revaluation of these assets was carried out at 30 June 2001. This enabled State Forests to record and disclose the relevant asset classes separately as required by the Public Finance and Audit Regulation 2000 and Treasurer's Directions. In previous years, State Forests had not complied with these requirements, resulting in a qualification.

We had drawn attention in the Independent Audit Report in previous years to inherent uncertainties regarding the valuation of forestry assets, and the Forestry Reform Package. The uncertainty regarding the valuation of forestry assets has now been resolved as a result of the revaluations that occurred during the year. The uncertainty regarding the Forestry Reform Package has also been resolved with the completion during the year of the Southern Regional Forest Agreement. The only unknown future land revocations relate to the Western region, and this will not be material.

KEY ISSUES

Liquidity

There is only about a \$2.0 million difference between the assets easily convertible to cash and the liabilities to be settled in cash in 2001-02. This is a small difference, particularly given the size of State Forests and the expected slow down in the economy during 2002.

In the short-term this liquidity situation was mitigated by:

- ◆ an unutilised borrowing facility of \$3.5 million that, if required, could be drawn down
- ◆ State Forests' intention to seek an increase to its borrowing facility from the current level of \$142 million to \$160 million during 2001-02. There was nothing to suggest that Executive Council approval for this increase would not be forthcoming.

Default in Payments by Certain Customers – Repeat Finding

An increasing number of customers appear to be failing to pay royalties for timber within trade terms. In previous Auditor-General's Reports to Parliament, we reported that allowing customers to accumulate debts and then negotiating repayment terms could be seen as providing them with a commercial advantage.

This practice was extended during the year to another customer who had accumulated debts of \$3.8 million at 30 June 2001. Because of repayment difficulties, State Forests fully provided for this balance as a doubtful debt in 2000-01. State Forests continued to trade with the customer after negotiating repayment terms for the outstanding debt. In our Statutory Audit Report to State Forests of 24 December 2001, we said we were not convinced that the negotiated terms would recover State Forests' debt. Since then the repayment terms have not been complied with by the customer. State Forests suspended supply and terminated the agreement with the customer on 28 January 2002, by which time the debt had increased to \$6.0 million. The debtor has since gone into voluntary administration and State Forests is in the process of exploring avenues to recover the money owed.

Another customer, while paying for current purchases, has defaulted on payment of debts from previous years, despite negotiated repayment terms being in place. The amount of debt involved is about \$1 million, and this was also fully provided for as a doubtful debt in the 2001 accounts.

Increasing Level of Doubtful Debts

Trade debtors as a proportion of annual sales have significantly increased in recent years. At 30 June 1997, the level of debtors was equal to 41 days (average) sales. This compares to 73 days in 2001 (66 days if GST is excluded). We also noted that debtors are taking longer to pay their bills than in the past. State Forests increased its provision for doubtful debts in 2001 by approximately \$5.7 million. This incorporates the two individual debts discussed above, while the remainder relates primarily to debts over 90 days old.

Wingello State Forest Fire

State Forests and other parties are currently negotiating claims arising from the death or injury of volunteer fire fighters during the 1998 Wingello State Forest fire. We understand that such risks were covered by an insurance policy that State Forests had with HIH Insurance. Subsequent to HIH's collapse, State Forests is liable to pay any damages arising from these claims. State Forests' share of any settlement is expected to be significant.

Pulp and Paper Mill

State Forests signed a contract with a private sector company in late 1998 to establish a kraft pulp and paper mill. We commented in Volume One of the 2001 Auditor-General's Report to Parliament on risk issues under this agreement.

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 by 31 December 2013. At the time of preparing this Report, State Forests had planted 5,550 hectares. The company has a corresponding obligation to plant or procure an additional 10,000 hectares. State Forests has advised that, to its knowledge, the company had not planted any hectares to date. Construction of the mill commenced in November 1999, and began production in July 2001.

CONTROL ISSUES

We identified opportunities for improving controls in a number of areas:

- ◆ bank reconciliations were not performed on a timely basis
- ◆ certain customer credit limits were allowed to exceed the amount covered by bank guarantees, contravening State Forests' credit policy
- ◆ State Forests' credit policy is failing with some of its customers
- ◆ lack of a timely and comprehensive reconciliation of growing stock records with the general ledger
- ◆ lack of qualitative and quantitative checks on the softwood growing stock database used for valuation purposes.

Other findings on the audit have been included in a letter to State Forests.

COMPLIANCE ISSUES

We tested whether State Forests complied with:

- ◆ long service leave provisions of the Premier's Department Personnel Handbook
- ◆ Premier's Department policy for motor vehicle operations
- ◆ Treasurer's Directions for fuel card usage.

While the Corporation substantially complied with these requirements, recommendations for improvement (largely relating to motor vehicle operations and fuel card usage) were made. Management has agreed to implement most of the recommendations.

State Forests did not submit its financial report for 2001 to us within the six week period after balance date, as required by the Public Finance and Audit Act 1983. The initial unsigned financial report submitted on 11 September 2001 contained material errors and omissions, requiring significant amendments. The signed financial report was received on 24 December 2001.

OTHER ISSUES

Carbon Credits

The December 1997 Climate Change Convention in Kyoto agreed on a Protocol including national targets for the reduction of greenhouse gas emissions. These agreements are subject to ratification by at least 55 parties to the Convention. To date, over 40 countries have ratified it.

State Forests has approval from the NSW Government to sell up to 250,000 tonnes of sequestered carbon dioxide (50,000 tonnes for each year of the first Kyoto Protocol commitment period, 2008-2012). The carbon dioxide is sequestered in State Forests' own plantations, which meet the requirements of the Protocol.

As an initiative in greenhouse gas reduction, State Forests signed an agreement with the Tokyo Electric Power Company Inc, to establish between 10,000 and 40,000 hectares of new forest over the next ten years. To date, over 2,000 hectares have been planted. There are also other negotiations taking place to establish and manage carbon sinks, with two other large international parties.

Salinity Credits

During the year the NSW Salinity Strategy was released. As part of the strategy, the NSW Government agreed to inject \$52 million of new expenditure into salinity management actions over four years. Of this, \$2 million will go to State Forests over a period of four years.

In order to gain a better understanding about planting trees in low rainfall areas, State Forests has planted a number of trial sites. Each trial site ranges from 2 hectares to 400 hectares. State Forests hope that these trials will answer questions on forest establishment techniques, the most appropriate species, appropriate width of plantings, etc required in low rainfall areas.

Hardwood plantations

The following table details the targeted hardwood plantation hectares to actual hectares over the past four years. Figures include second rotation establishment.

Year ended 30 June	2001	2000	1999	1998
State Forests' target hectares	<u>5,000</u>	<u>5,000</u>	<u>10,000</u>	<u>10,000</u>
3 rd party forests managed by State Forests	590	516	--	--
Joint venture hectares	2,463	2,920	758	704
State Forests hectares	<u>447</u>	<u>1,864</u>	<u>3,171</u>	<u>6,237</u>
Actual hectares	<u>3,500</u>	<u>5,300</u>	<u>3,929</u>	<u>6,941</u>
Government funding	\$6.0m	\$6.0m	\$18.0m	\$21.4m

State Forests established a target of planting 5,000 hectares in 2000 and 2001 and 10,000 in 1999 and 1998. In three of the last four years these targets were not met.

The Government committed \$30.0 million in 1999-2000 to State Forests to establish 10,000 hectares of hardwood plantations over a period of five years. At 30 June 2001, 5,007 hectares had been established. Government funding for 2000 and 2001 was for planting 2,000 hectares per year. This target was achieved in both years.

State Forests' funds are increasingly being used to manage and establish plantations owned jointly with investors. Third party plantations are managed by State Forests on a fee-for-service basis.

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 enable agreements to be reached between parties by mediation before registering an agreement in the Federal Court.

The following table summarises the number of claims and affected land in which State Forests potentially has an interest and which remain active at 18 January 2002.

Calendar Year	Claims made potentially affecting SF which remain active	SF Area affected (Ha) for active claims
1994	2	64,500
1995	1	40,100
1996	7	236,760
1997	13	409,607
1998	2	74,850
2000	2	73,400
2001	<u>3</u>	*
Total	<u>30</u>	
*Figure yet to be determined		

One claim made in 1996 involves 208,300 hectares. However, a part of this land was transferred to the National Parks and Wildlife Service consequent to the Southern Regional Forest Agreement in April 2001.

Forestry Act 1916 Requirements – Repeat Finding

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, State Forests at 30 June 2001 held only 2.85 million hectares of dedicated land (3.0 million hectares at 30 June 2000).

The Act also requires State Forests to take all reasonable and practicable steps to ensure that not less than 600,000 hectares be dedicated as exotic conifers. State Forests in January 2002 had a gross area of 337,000 (275,000 at June 2000) hectares of which 210,000 (209,000) is planted and 17,000 (22,000) hectares is available for planting exotic conifers. The remaining 110,000 (44,000) hectares include exclusions, roads and areas not suitable for plantation.

We have reported over a number of years that, if it is not practicable, or if it is not reasonable, for State Forests to comply with the existing legislative requirements, then it would seem appropriate to amend the legislation.

Logging Breaches

Checks are undertaken by State Forests to monitor compliance with its Codes of Operation and external licence conditions. During 2000-01, State Forests identified 1,538 (2,039 in 1999-00) breaches. The number of checks conducted was 3,424 (5,848). The decrease in the number of checks corresponds to the downturn in the timber industry, leading to fewer harvesting operations. Breaches included incorrect felling of trees into filter strips and stream exclusions zones, soil erosion and water quality.

The Environment Protection Authority issued five (three in 1999-2000) fines for breaches of soil and water regulation.

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. In 2000-01, State Forests received \$5.8 million (\$679,000 in 1999-2000) to acquire private property of which all but \$92,000 has been spent.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2001 \$'000	2000 \$'000
TOTAL REVENUE	<u>169,998</u>	<u>179,819</u>
TOTAL EXPENDITURE	<u>160,183</u>	<u>120,313</u>
OPERATING PROFIT BEFORE MARKET VALUE INCREMENT/DECREMENT AND TAX	9,815	59,506
Market value increment/(decrement)	(78,614)	58,158
Income tax benefit/(expense)	<u>24,331</u>	<u>(9,830)</u>
OPERATING PROFIT/ (LOSS) AFTER TAX	(44,468)	107,834
Increase in asset revaluation reserve	562,964	
Increment in net market value of Native Forest as at 1 July 2000*	145,267	
Dividend	--	<u>(9,277)</u>
CHANGES IN EQUITY	<u>663,763</u>	<u>98,557</u>
* relates to initial adoption of AAS 35		

The major reason for the increase in expenditure from \$120.3 million to \$160.2 million is a fluctuation in employee superannuation. In the previous year, State Forests had a superannuation 'credit' of \$19.3 million, while this year there was an expense of \$9.2 million.

The \$78.6 million market value decrease was mainly due to the reclassification of significant areas of softwood plantations from pre-commercial to commercial (pre-commercial is valued at cost while commercial ones are valued at net market value). On reclassification the trees carry a lower value as they are young and have a low volume of timber.

The \$145 million (after tax) increase in the value of native forests was mainly due to a change in the application and method for valuing such assets.

Abridged Statement of Financial Position

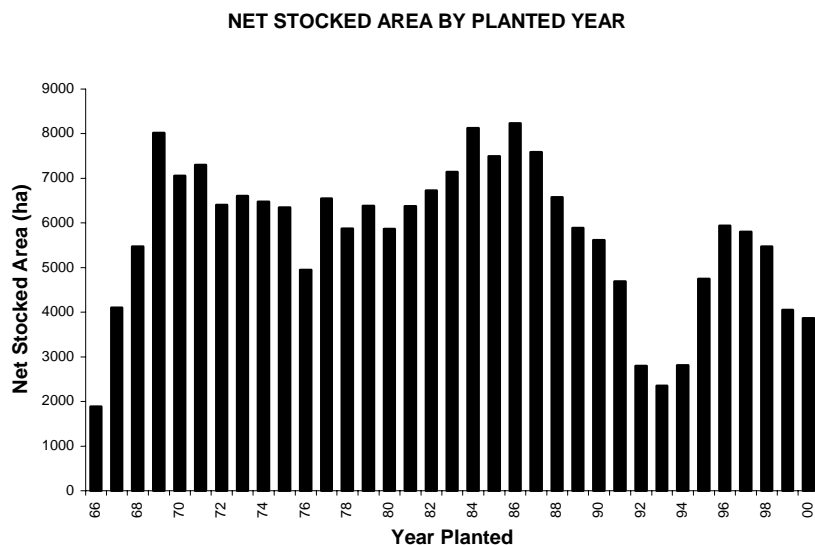
At 30 June	2001 \$'000	2000 \$'000
CURRENT ASSETS	<u>57,963</u>	<u>76,172</u>
Property, plant and equipment	806,248	339,326
Deferred income tax asset	<u>14,089</u>	<u>11,439</u>
TOTAL NON-CURRENT ASSETS	<u>820,337</u>	<u>350,765</u>
Plantations		
Softwood	1,037,127	n.a.
Hardwood	51,124	n.a.
Native Forests	<u>342,555</u>	<u>n.a.</u>
TOTAL SELF GENERATING AND REGENERATING ASSETS	<u>1,430,806</u>	<u>1,257,748</u>
TOTAL ASSETS	<u>2,309,106</u>	<u>1,684,685</u>
CURRENT LIABILITIES	<u>57,144</u>	<u>61,269</u>
NON-CURRENT LIABILITIES	<u>340,689</u>	<u>273,637</u>
TOTAL LIABILITIES	<u>397,833</u>	<u>334,906</u>
NET ASSETS	<u>1,911,273</u>	<u>1,349,779</u>

Current assets comprise cash, \$4.4 million (\$9.7 million in 1999-2000), other financial assets \$213,000 (\$3.0 million), receivables, \$19.7 million (\$22.9 million), inventories \$7.4 million (\$7.1 million) and other assets, \$26.2 million (\$33.5 million). 'Other' includes prepaid contributions to the State Superannuation Scheme of \$24.3 million (\$32.2 million).

Property, plant and equipment of \$806 million (\$339 million in 1999-2000) primarily consist of land, \$566 million (\$212 million in 1999-2000), buildings, \$32 million (\$25.5 million), and roads and bridges, \$169 million (\$64.0 million). The significant increase in the value of these assets is due to their revaluation at 30 June 2001. Timber within native forests and plantations are separately recorded as self-generating and regenerating assets. Due to the revaluation, a meaningful comparative figure for the previous year for these assets could not be provided.

Total liabilities of \$398 million (\$335 million in 1999-2000) comprise trade creditors, \$15.8 million (\$16.4 million), revenue in advance, \$17.8 million (\$12.9 million), interest bearing liabilities, \$138 million (\$126 million), deferred income tax, \$197.3 million (\$144 million) and provisions, \$28.5 million (\$25.6 million). The increase in deferred income tax liability is due mainly to the tax effect on the increase in the value of native forests on initial application of AAS 35.

An analysis of softwood plantation growing stock by age class from 1966 to 2000 can be seen in the chart below. Timber older than 1986 is currently being harvested and is classified as commercial, with thinning operations also taking place in the younger age classes which are classified as pre-commercial.



The chart illustrates that, over the last 15 years, the area of timber planted has varied substantially, from a low of 2,351 hectares in 1993 to a high of 8,229 hectares in 1986. An analysis of softwood data by State Forests indicates that approximately 130,000 hectares of softwood plantations would need to be maintained to meet the average annual demand for softwood sawlogs, based on the past five years' data, of 1.3 million m³. This means that although planting levels appear irregular, the existing plantation of 204,818 hectares is more than adequate in State Forests' view to produce the required timber at current levels of demand. State Forests advises that its business plans incorporate planting an average of 8,580 hectares per annum for the next four years, of which 1,840 hectares will be on newly established areas. This will increase the size of the softwood plantation estate to around 212,000 hectares, which would be adequate to satisfy an average annual demand for sawlogs of 2.1 million m³.

STATE FORESTS' ACTIVITIES

State Forests is a corporation sole constituted by the *Forestry Act 1916*. It:

- ◆ conserves and utilises the timber on Crown timber lands
- ◆ provides adequate supplies of timber from Crown timber lands for building, commercial, industrial, agricultural, mining and domestic purposes
- ◆ preserves and improves, in accordance with good forestry practice, the soil resources and water catchment capabilities of Crown timber lands.

State Forests manages approximately 2.85 million hectares of forests across New South Wales. While spread throughout the State, 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 approximately 205,000 hectares of conifer plantations and approximately 50,000 hectares of hardwood plantations on land purchased by State Forests and in joint ventures with private landowners.

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

For further information on State Forests of New South Wales, refer to www.forest.nsw.gov.au.

RESPONSE BY HEAD OF STATE FORESTS**AUDIT OPINION*****Depreciation***

The depreciation effect calculated by the Audit Office may be overstated due to the valuers under estimation of the remaining useful life of the road assets. State Forests has commenced a review of depreciation rates on road assets and is obtaining comparable information from forestry agencies in other States, private forestry companies and other road owning organisations.

Grants

The grants referred to of \$11.8 million relate to monies received but unspent at the end of the year. State Forests differs with the Audit Office on the nature of the grant monies received in relation to the Regional Forest Agreements (RFA). To be recognised as revenue Australian Accounting Standard AAS 15 Revenue paragraph 9.1.1 requires monies to be non-reciprocal. State Forests view (supported by NSW Treasury) is that the monies received are reciprocal and as such a liability to the organisation until the tasks required under the RFA have been carried out.

Deferred Income Tax

The NSW Audit Office has audited State Forests movement in tax balances since becoming subject to the Tax Equivalence Regime in 1994. In order to comply with the Audit Office request for a 'proof in total', State Forests in conjunction with external tax advisors has commenced a full review of all tax movements during the past seven years.

COMPLIANCE ISSUES

State Forests late submission of financial reports was due to the large task required to implement the new accounting standard Australian Accounting Standard 35 – Self Generating and Regenerating Assets. This standard required the valuation of the native forest estate, the revaluation of State Forests land and roading network in addition to the softwood plantation valuation conducted each year. Major buildings and installations also required revaluation in the 2000/2001 financial year.

Minister for Health

Dental Board of New South Wales

Pharmacy Board of New South Wales

Dental Board of New South Wales

AUDIT OPINION

The audit of the Board's financial report for the year ended 30 September 2001 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

No significant control issues were identified during the course of the audit.

FINANCIAL INFORMATION

Year ended 30 September	2001 \$'000	2000 \$'000
Income	583	565
Expenditure	463	624
Operating surplus/(deficit)	120	(59)
Net assets (at 30 September)	487	367

BOARD ACTIVITIES

The Board's main function is to regulate the practice of dentistry by maintaining a register of dentists and administering the disciplinary provisions of the *Dentists Act 1989*.

The Dental Board is a corporation which consists of five elected members and four members appointed by the Minister for Health. The Governor has the power to remove appointed members of the Board under certain circumstances.

Pharmacy Board of New South Wales

AUDIT OPINION

The audit of the Board's financial report for the year ended 30 September 2001 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

No significant control issues were identified during the course of the audit.

COMPLIANCE ISSUES

We tested whether the Board complied with provisions of the *Long Service Leave Act 1955*. The Board substantially complied with these provisions.

FINANCIAL INFORMATION

Year ended 30 September	2001 \$'000	2000 \$'000
Income	1,161	1,131
Salaries and related expenses	539	493
Other expenses	822	663
Operating surplus/(deficit)	(200)	5
Net assets (at 30 September)	402	603

BOARD ACTIVITIES

The Board was established under the *Pharmacy Act 1964*. Its main functions are to:

- ◆ promote and maintain the highest standards of professional conduct and ethics
- ◆ register and maintain a roll of pharmacists and pharmacies eligible to practise or operate in the State
- ◆ monitor, and investigate if necessary, the conduct of pharmacists and pharmacies.

The Board consists of five elected members and four members appointed by the Minister for Health. The Governor has the power to remove appointed members of the Board under certain circumstances.

For further information on the Board refer to www.phbnsw.org.au.

Minister for Information Technology

Australian Centre for Advanced Computing and Communications Pty Ltd

Board of Surveyors of New South Wales

Department of Information Technology and Management

Australian Centre for Advanced Computing and Communications Pty Ltd

AUDIT OPINION

The audit of the financial report of the Centre for the period ended 30 June 2001 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

We identified opportunities for improvements in several areas; eg timeliness in submission of the Centre's financial report, retention of lease agreements, adherence to investment powers and the need for independent advice on the Centre's tax status. Our letter to management included recommendations for improvements in these areas.

FINANCIAL INFORMATION

Period ended 30 June	2001 \$'000
Revenue	789
Expenses	4,378
Operating loss	(3,589)
Net assets (at 30 June)	5,351

Expenses included \$1.2 million for pre-incorporation costs.

AGENCY ACTIVITIES

The Centre was registered on 10 November 2000 as a proprietary company limited by shares under the *Corporations Act 2001*. Its objective is to provide high performance computer centres in New South Wales for the benefit of industry, commerce, research and education.

The Government and eight New South Wales universities are financing the establishment of the Centre. The Government is to provide \$12.0 million giving it a 57 per cent shareholding. The universities hold the remaining shares and are providing cash of \$2.8 million and in kind contributions. The New South Wales Government Telecommunications Authority holds the Government's investment.

For further information on the Centre refer to www.ac3.com.au.

Board of Surveyors of New South Wales

AUDIT OPINION

The audit of the Board's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	424	441
Expenses	223	314
Net profit	201	127
Net assets (at 30 June)	394	193

BOARD ACTIVITIES

The Board was constituted under the *Surveyors Act 1929* to register surveyors of land and to regulate surveys of land.

Department of Information Technology and Management

AUDIT OPINION

The audits of the financial reports of the Department and its controlled entity for the year ended 30 June 2001 resulted in the issue of unqualified Independent Audit Reports.

Previous Auditor-General's Reports to Parliament reported on our inability to issue audit opinions on the financial reports of the Authority's controlled entity, the New South Wales Government Telecommunications Authority, for the years ended 30 June 1997, 1998 and 1999. This was because no Board members had been appointed and hence the financial reports could not be signed to allow the issue of Independent Audit Reports.

Following discussions with Treasury on the interpretation of amendments to the *Public Finance and Audit Act 1983* the situation was resolved. The Act allows the Authority's acting general manager to sign the financial reports until Board members are appointed. The reports were signed and unqualified Independent Audit Reports were issued for those years. Also the outstanding financial report for the year ended 30 June 2000 was received, audited and an unqualified Independent Audit Report issued.

CONTROL ISSUES

We identified opportunities for improvement in a number of areas:

- ◆ timeliness and quality of the financial report and supporting work papers
- ◆ updating the accounting/procedures manual
- ◆ expanding the current risk management policy to include all areas of the Department
- ◆ improving the reconciliation process for payroll, bank, revenue, payables and receivables
- ◆ undertaking a complete asset stocktake
- ◆ taking action to decrease delays in receiving and disbursing telephone rebates
- ◆ improving compliance with the Treasurer's Direction regarding the use of corporate credit cards
- ◆ ensuring review of all master file changes.

Our letter to management included recommendations for improvements in these areas.

COMPLIANCE ISSUES

We tested whether the Department complied with:

- ◆ Treasurer's Directions and the Department's policy for credit card usage
- ◆ long service leave provisions of the Premier's Department Personnel Handbook
- ◆ AAS 4 'Depreciation'; Treasury Circular 1995/11, 'Accounting Policies for Various Financial Reporting Issues'; and the 'Financial Reporting Code for Budget Dependent General Government Sector Agencies' regarding fully depreciated assets.

The Department complied with these requirements except for not having a written policy and procedure guideline for credit cards usage, and failing to annually review depreciation rates.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	Consolidated*	Department	
	2001 \$'000	2001 \$'000	2000 \$'000
Employee related	84,652	84,111	43,573
Other operating expenses	80,121	76,284	59,064
Grants and subsidies	43,094	50,015	44,717
TOTAL EXPENSES	207,867	210,410	147,354
Sale of goods and services	110,275	110,192	120,450
Other	14,213	13,507	9,088
TOTAL REVENUE	124,488	123,699	129,538
Gain/(Loss) on disposal of non-current assets	(615)	(615)	(4)
NET COST OF SERVICES	83,994	87,326	17,820
GOVERNMENT CONTRIBUTIONS			
Recurrent appropriation	60,965	60,965	72,484
Capital appropriation	1,038	1,038	26,584
Acceptance by the Crown Entity of employee entitlements and other liabilities	612	612	2,852
TOTAL GOVERNMENT CONTRIBUTIONS	62,615	62,615	101,920
SURPLUS/(DEFICIT) FOR THE YEAR	(21,379)	(24,711)	84,100
NET PROFIT/(LOSS) ATTRIBUTABLE TO OUTSIDE EQUITY INTERESTS	(1,543)	--	--
NET PROFIT/(LOSS) ATTRIBUTABLE TO THE DEPARTMENT	(19,836)	(24,711)	84,100
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	(21,379)	(24,711)	84,100
*A consolidated statement was not prepared for 2000			

At the Department level, the increase in employee related expenses was due to movements in employees' superannuation arising from actuarial assessments and the inclusion of Land Information Centre superannuation liabilities which had been assumed by the Crown. This year there was a \$19.7 million expense compared with a \$23.2 million gain last year.

The increase in other operating expenses was due to a \$13.4 million reduction in the value of radio handsets purchased for use during the Olympics. As mentioned last year, 9,000 handsets were supplied to the Sydney Organising Committee for the Olympic Games. Due to their limited frequency range, the handsets had limited resale value.

The decrease in Government contributions followed a reorganisation of the Department's activities into commercial and non-commercial. Commercial operations were grouped under a new entity within the Department called Land and Property Information New South Wales (LPI). Some activities previously funded by Government contributions were included in LPI and funded from LPI revenue.

Abridged Statement of Financial Position

At 30 June	Consolidated*	Department	
	2001 \$'000	2001 \$'000	2000 \$'000
Current assets	44,798	41,482	80,980
Non-current assets	115,320	112,388	127,647
TOTAL ASSETS	160,118	153,870	208,627
Current liabilities	31,289	30,148	70,572
Non-current liabilities	47,907	47,907	37,530
TOTAL LIABILITIES	79,196	78,055	108,102
NET ASSETS	80,922	75,815	100,525
Retained profits	81,525	75,815	100,525
Outside equity interest	(603)	--	--
TOTAL EQUITY	80,922	75,815	100,525

*A consolidated statement was not prepared for 2000

At the Department level, the decrease in current assets was mainly due to a reduction in cash following payment of \$41.5 million to the Consolidated Fund for dividends and tax payable for 1999-2000. The reduction in non-current assets was due to the revaluation of Olympic handsets mentioned above.

Liabilities decreased primarily due to no dividend or tax equivalent payable for 2000-01.

The New South Wales Government Telecommunication Authority

The New South Wales Telecommunications Authority is a controlled entity of the Department and forms part of its consolidated financial report.

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	6,921	1,079
Expenses	--	--
Net profit	6,921	1,079
Net assets (at 30 June)	7,756	835

The Department provided grants of \$6.9 million (\$1.1 million in 1999-2000) to the Authority for investing purposes. The Authority entered into a joint venture arrangement in October 2000 with eight New South Wales based universities to establish the Australian Centre for Advanced Computing and Communications Pty Ltd (ac3). The Authority has a controlling 57 per cent interest in the Centre, which was incorporated on 10 November 2000. The Authority's total investment in the Centre will be \$12.0 million, of which \$8.0 million has been invested to date.

The Government's interest in the Centre is included in the Department's financial report due to the consolidation of the Authority's operations with the Department's. Separate comment on the Centre appears elsewhere in this Volume.

DEPARTMENT ACTIVITIES

The Department consists of commercial and non-commercial business units. Non-commercial units are: the Office of Information Technology, the Office of Western Sydney and the Offices of Forestry Information. Commercial activities are grouped under LPI and include the operations of the former Land Titles Office, Valuer General's Office and Land Information Centre.

Appropriations are received from the Consolidated Fund to fund the Department's non-commercial activities.

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

For further information on the Department of Information Technology and Management, refer to www.ditm.nsw.gov.au.

The New South Wales Government Telecommunication Authority

The Authority is controlled by the Department and was constituted under the *Government Telecommunications Act 1991* to control and manage the Government's telecommunication network.

Minister for Land and Water Conservation

Newcastle Showground and Exhibition Centre Trust

Wollongong Sportsground Trust

Newcastle Showground and Exhibition Centre Trust

AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

The Report included an emphasis of matter concerning the inherent uncertainty of the Trust's ability to continue as a going concern.

KEY ISSUES

The Trust has been experiencing financial difficulties for a number of years. Its ability to continue operating depends on financial support from Government. Following an approach from the Minister for Land and Water Conservation, the Treasurer has approved the rollover of Treasury Corporation debt and the continuation of an interest subsidy for a further 12 months. Further funding assistance of \$812,000 was also approved to meet the Trust's debt servicing costs and projected operating shortfall to 31 March 2002.

The Treasurer has requested a full review of the Trust setting out what options are available to Government, including an exit strategy, if the Centre is unable to be self-sufficient in the future.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	2,906	3,471
Salaries and related expenses	1,072	1,249
Other expenses	1,881	2,190
Operating surplus/(deficit)	(47)	32
Net liabilities (at 30 June)	(696)	(1,049)

The fall in revenue was caused by fewer events and hirings during the year. The low value of the Australian dollar contributed to the reduction in the number of events as Australian promoters were less inclined to pay overseas artists.

The decrease in net liabilities was mainly due to a \$400,000 increase in the value of the Trust's land.

The Trust's total liabilities at year-end were \$5.0 million (\$5.6 million in 2000). They mainly comprised \$3.2 million (\$3.2 million) in long-term government guaranteed loans from the NSW Treasury Corporation and an \$875,000 (\$1.0 million) commercial bill facility from the Commonwealth Bank of Australia, secured by registered mortgage.

TRUST ACTIVITIES

The Trust administers a Crown Reserve under the *Crown Lands Act 1989* and the *Newcastle Agricultural, Horticultural and Industrial Association Act 1905*. The Trust provides facilities for the staging of the Newcastle Show and other activities for recreation, entertainment and exhibition purposes. The Minister for Land and Water Conservation has the power to direct and control the Trust.

For further information on the Trust refer to www.nentcent.com.au

Wollongong Sportsground Trust

AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

KEY ISSUES

In August 2001 the Trust signed an \$8 million design and construction contract for the new northern grandstand at WIN Stadium. The project has commenced and will be partially funded by \$4 million to be received from WIN TV Corporation (WIN) for naming rights, and a loan approximating \$2.5 million from NSW Treasury Corporation.

The naming rights agreement between the Trust and WIN gives WIN the naming rights to the Wollongong Entertainment Centre and WIN Stadium for a period of 25 years.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	6,199	2,673
Salaries and related expenses	889	782
Other expenses	1,706	1,881
Operating surplus	3,604	10
Net assets (at 30 June)	15,175	11,571

The Trust received \$6.0 million for the sale of Brandon Park to the Ministerial Holding Corporation. The \$3.8 million gain on disposal is reflected in the increased revenues and operating surplus.

Cash holdings of \$5.6 million at year-end were \$4.9 million higher than the prior year. This is reflected in the increase in net assets at 30 June.

TRUST ACTIVITIES

The Trust is constituted by the *Wollongong Sportsground Act 1986*. The Wollongong Showground and the Brandon Park complex were placed under the care, control and management of the Trust.

The Trust's major objectives are to:

- ◆ develop the Wollongong Showground for tourist and recreation purposes
- ◆ encourage, promote and facilitate the use and enjoyment of the Trust lands by members of the public.

The Minister for Land and Water Conservation has the power to control and direct the Trust.

For further information on the Trust refer to www.wec.org.au.

Premier

Australia Day Council of New South Wales

New South Wales Centenary of Federation Committee



Australia Day Council of New South Wales

AUDIT OPINION

The audit of the Council's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Government grants	779	761
Sponsorship and donations	1,099	1,222
Other revenue	1,120	579
Salaries	793	442
Production costs	1,221	977
Other expenses	871	1,093
Operating surplus	113	50
Net assets (at 30 June)	363	251

COUNCIL ACTIVITIES

The Council was incorporated in January 1992 as a public company limited by guarantee. Its principal function is to prepare, promote and organise the activities for Australia Day, including liaising with other Australia Day Councils and Commonwealth, State and Local Governments.

For further information on the Council refer to www.australiaday.com.au.

New South Wales Centenary of Federation Committee

AUDIT OPINION

The audit of the Committee's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Government grants	11,470	8,930
Other revenue	1,186	195
Salaries	2,727	1,534
Production costs	6,976	319
Other expenses	4,342	2,706
Operating surplus/(deficit)	(1,389)	4,566
Net assets (at 30 June)	4,620	6,009

COMMITTEE ACTIVITIES

The Committee was incorporated on 22 February 1999 as a public company limited by guarantee. Its principal function was to work on behalf of the State Government, and in association with the Commonwealth Government, to produce celebrations, programs and educational initiatives to mark the 2001 centenary of the Commonwealth of Australia.

The Directors have reported that the company will be wound-up as soon as practicable after 31 December 2001. A resolution, in accordance with the company's constitution, was passed on 21 November 2001 for surplus net assets (anticipated to be in excess of \$1 million) to be assigned to the Australia Day Council of NSW.

For further information on the Committee refer to www.cofc.nsw.gov.au.

Special Minister of State

Gila and Vistajura Limited

Gila Pty Limited and Vistajura Pty Limited

AUDIT OPINION

The audit of the financial reports of both Gila Pty Limited and Vistajura Pty Limited for the year ended 31 December 2000 resulted in an unqualified Independent Audit Reports.

KEY ISSUES

Sale of Companies

On 6 February 2001 Gila and Vistajura were sold to an investor outside the NSW public sector.

Taxation

The Australian Taxation Office (ATO) determined that a swap arrangement entered into on 13 October 1986 between an associated company, Hadenis Pty Limited and its then owner, the SAS Trustee Corporation, was not a swap agreement for income tax purposes. A settlement was negotiated with the ATO. Under the settlement Hadenis was judged to be in a non-taxable position and both Gila and Vistajura were issued with revised assessments for 1996, 1997 and 1999. The ATO regards the issue as finalised.

FINANCIAL INFORMATION

Year ended 31 December	2000 \$'000	1999 \$'000
Gila		
Revenue	21,566	21,174
Expenditure	21,556	21,772
Operating profit/(loss) after income tax	10	(598)
Total equity/(deficiency) (at 31 December)	(5,912)	(5,922)
Vistajura		
Revenue	10,783	10,587
Expenditure	10,778	10,886
Operating profit/(loss) after income tax	5	(299)
Total equity/(deficiency) (at 31 December)	(2,956)	(2,961)

COMPANIES ACTIVITIES

Gila and Vistajura were wholly owned companies of the SAS Trustee Corporation Pooled Fund. Gila holds a 10 per cent interest and Vistajura a 5 per cent interest in the Ulan Coal Mine joint venture. The joint venture's main activity is the mining and production of coal for resale. Gila's and Vistajura's financial reports reflect the companies' respective interests in the joint venture's assets and liabilities.

Minister for Transport

Tow Truck Authority of New South Wales

Waterways Authority

Tow Truck Authority of New South Wales

AUDIT OPINION

The audit of the Authority's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Going Concern Issue

The Authority is dependent upon the support of the NSW Department of Transport and Treasury to meet its debts. Its net liabilities are \$336,000 due to operating deficits for the past two years.

Job Allocation Scheme

The *Tow Truck Industry Act 1998* (Section 52) provides for the establishment of a Job Allocation Scheme. The Scheme will enable tow truck operators to be rostered to attend motor vehicle accidents and provides potential to deliver operating efficiencies to participating operators.

While the Scheme has not commenced, the Authority has been funding the development of the Scheme since 1999. This has contributed to the operating deficits recorded by the Authority over the last two years.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	1,384	1,164
Salaries and related expenses	1,068	1,054
Other expenses	880	802
Operating surplus/(deficit)	(564)	(692)
Net assets/(liabilities) (at 30 June)	(336)	228

AUTHORITY ACTIVITIES

The Authority was constituted by the *Tow Truck Industry Act 1998* in November 1998 as a body corporate to replace the Tow Truck Industry Council. It is responsible for regulating and promoting the tow truck industry and reports to the Minister on licensing, design, construction and equipping of tow trucks. It is a self-funding body established primarily to address policy development, enforcement priorities, licensing improvements and a more effective disciplinary process.

The Act also established the Tow Truck Industry Advisory Council to advise the Authority on:

- ♦ the effect of the Act
- ♦ developments in the tow truck industry
- ♦ proposed regulatory reforms and their impact on the industry
- ♦ industry management and regulation with particular emphasis on standards and integrity.

Waterways Authority

AUDIT OPINION

The audit of the Waterways Authority's financial report for the year ended 30 June 2001 resulted in a qualified Independent Audit Report.

The qualification related to remediation costs of certain contaminated areas of Homebush Bay. As an obligation exists for the Authority to conduct this work, these costs should be recognised as a liability by the Authority in its financial report, rather than only as a commitment. If the liability had been recognised, current liabilities would increase by \$500,000, non-current liabilities by \$18.3 million, the net loss would increase by \$18.8 million and retained profits would decrease by \$18.8 million.

CONTROL ISSUES

We identified opportunities for improvement in several areas:

- ◆ timeliness and quality of the financial report and supporting work papers
- ◆ monitoring of debtors
- ◆ adhering to delegation limits
- ◆ timely updating of the delegations manual
- ◆ monitoring security access
- ◆ consistency in accounting policies between the Authority's Rozelle operations and its Maritime Assets Division
- ◆ need for documented approval for modifications to its computer application system.

Our letter to management included recommendations for improvements in these areas.

COMPLIANCE ISSUES

We tested whether the Authority complied with:

- ◆ long service leave provisions of the Premier's Department Personnel Handbook
- ◆ fine and penalty provisions of the *Ports Corporatisation and Waterways Management Act 1995*.

The Authority complied with these requirements.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2001 \$'000	2000 \$'000
Boating revenue	30,702	28,204
Rentals	37,483	10,860
Other	47,517	12,920
TOTAL REVENUE FROM ORDINARY ACTIVITIES	115,702	51,984
Employee related expenses	29,277	12,809
Service contractors	15,865	12,237
Revaluation decrement	36,443	--
Other expenditure	36,278	22,460
TOTAL EXPENSES FROM ORDINARY ACTIVITIES	117,863	47,506
NET PROFIT/(LOSS)	(2,161)	4,478
REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		
Net increase in asset revaluation reserve	66,457	--
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH GOVERNMENT AS OWNERS	64,296	4,478

Figures for 2000-01 are not directly comparable with those for 1999-2000. In 1999-2000 the former Marine Ministerial Holding Corporation (MMHC) was merged with the Authority. The merger was done in two stages resulting in the 1999-2000 figures not showing a full year's transactions for the merged entity. Significant movements for 2000-01 were:

- ◆ an increase in other revenue due to the developer of King Street Wharf, Darling Harbour providing \$30.3 million of physical assets to the Authority. The assets are part of the consideration for granting 99-year site leases to the developer. Included in this amount was \$25.8 million for assets received in 1999-2000
- ◆ an increase in superannuation expense within employee related expenses due to the reassessment of superannuation liabilities. For this year an expense of \$8.9 million was incurred compared with a gain of \$5.8 million last year
- ◆ a \$36.4 million reduction in the value of land following a revaluation of non-current physical assets on 1 July 2000.

Abridged Statement of Financial Position

At 30 June	2001 \$'000	2000 \$'000
Current assets	42,676	49,924
Non-current assets	<u>472,429</u>	<u>447,223</u>
TOTAL ASSETS	<u>515,105</u>	<u>497,147</u>
Current liabilities	44,676	68,094
Non-current liabilities	<u>38,075</u>	<u>39,495</u>
TOTAL LIABILITIES	<u>82,751</u>	<u>107,589</u>
NET ASSETS	<u>432,354</u>	<u>389,558</u>
EQUITY		
Retained profits	365,897	389,558
Asset revaluation reserve	<u>66,457</u>	<u>--</u>
TOTAL EQUITY	<u>432,354</u>	<u>389,558</u>

Non-current assets increased primarily due a revaluation of physical assets as at 1 July 2000. The revaluation resulted in asset value increases of \$66.4 million and decreases of \$36.4 million. As required by accounting standards the increases were taken to the asset revaluation reserve and the decreases to expenses.

The decrease in current liabilities related to accounting for physical assets provided by the developer of King Street Wharf. In 1999-2000 assets valued at \$25.8 million were transferred to the Authority. The Authority was not entitled to these assets until certain milestones were completed. Entitlement was obtained in 2000-01 resulting in a reduction in current liabilities and recognition of the amount in other revenue (part of the \$30.3 million mentioned above).

AUTHORITY ACTIVITIES

The Authority was established in July 1995 under the *Ports Corporatisation and Waterways Management Act 1995* as a statutory body representing the Crown. The Authority manages the boating community by issuing boat registrations, licensing and providing safe, navigable waters. The Authority is subject to the control and direction of the Minister for Transport.

For further information on the Authority refer to www.waterways.nsw.gov.au.

Treasurer

Energy Industries Superannuation Scheme Pty Limited
Superannuation Services Company Pty Limited

Energy Industries Superannuation Scheme Pty Limited

AUDIT OPINION

The audit of Energy Industries Superannuation Scheme Pty Limited's (EISS) financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

CONTROL ISSUES

Recommendations on the unit pricing mechanism for the Pool A scheme and other minor areas of improvements in fund administration relating to the superannuation schemes have been made to EISS.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Net assets	8	8
Total equity	8	8

EISS does not process transactions. All transactions relate to the superannuation schemes and are recorded in the financial report of each scheme.

TRUSTEE ACTIVITIES

EISS is the trustee of the Energy Industries Superannuation Scheme. It is a company formed under the *Corporations Act 2001* and its shareholders are the Electricity Association of NSW (three shares), Transgrid (one share), the Electrical Trades Union (two shares), the Federated Municipal and Shire Council Employees' Union (NSW Division) (one share) and the Labor Council (one share).

EISS is also joint shareholder of Superannuation Services Company Pty Limited (SSC), a company which provides executive, managerial and administrative services to the Energy Industries Superannuation Scheme and other clients.

Commentary on the Energy Industries Superannuation Scheme for the year ended 30 June 2001 was included in Volume Seven of the Auditor-General's Report for 2001. Commentary on the financial operations of SSC can be found elsewhere in this Report.

For further information on the Scheme refer to www.eisuper.com.au.

Superannuation Services Company Pty Limited

AUDIT OPINION

The audit of Superannuation Services Company Pty Limited's financial report for the year ended 30 June 2001 resulted in an unqualified Independent Audit Report.

FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Revenue	5,450	2,754
Expenses	5,463	2,878
Total equity/(deficiency) (at 30 June)	(239)	(237)

Despite the Company's continuing accumulated losses, the directors have assumed that it 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 2001 the company is supported by a short-term advance of \$2.4 million (\$1.9 million).

COMPANY ACTIVITIES

The Company is formed under the *Corporations Act 2001* and provides executive, managerial and administrative service to the Energy Industries Superannuation Scheme and other clients. The Company was incorporated in January 1997 and is jointly owned by the Trustees of the Local Government Superannuation Scheme and the Energy Industries Superannuation Scheme.

Minister for Urban Affairs and Planning

Sydney Harbour Foreshore Authority

Sydney Harbour Foreshore Authority

AUDIT OPINION

The audit of the Authority's financial report resulted in an unqualified Independent Audit Report.

KEY ISSUES

The Darling Harbour Authority (DHA) merged with the Authority on 1 January 2001. The Authority also acquired the Australian Technology Park Precinct Management Ltd on 1 August 2000.

CONTROL ISSUES

We identified a number of areas where improvement in internal controls was required. The more important of these were:

- ◆ a lack of timeliness in processing transactions, reconciling accounting records and transferring work in progress to completed assets
- ◆ instances of non-compliance with expenditure delegations
- ◆ a lack of supporting documentation for some transactions.

A letter recommending improvements was sent to management.

COMPLIANCE ISSUES

We tested whether the Authority complied with the:

- ◆ delegation provisions of the *Sydney Harbour Foreshore Authority Act 1999* and other applicable legislation and policies
- ◆ long service leave provisions of the Premier's Department Personnel Handbook.

The Authority substantially complied with the requirements.

OTHER ISSUES

Sydney Fish Markets

The Authority has agreed terms with NSW Treasury for the purchase of the Sydney Fish Markets site from the Crown Property Portfolio for approximately \$21.0 million. The site is to be redeveloped by the Authority and Sydney Fish Market Pty Ltd over approximately three years.

Sale of Bullecourt Place

In August 2001 the Authority entered into a \$13.0 million contract for the sale of Bullecourt Place in Ultimo. This site is proposed to be redeveloped into more than 200 apartments and a mix of commercial and retail space.

Cooks Cove

In August 2001, the Cooks Cove Development Corporation was established to oversee the development of Cooks Cove, near Sydney Airport, into a base for high-tech manufacturing and export. The Authority will manage the Corporation.

Luna Park

During the year the Authority was given the responsibility for the management of the Luna Park Reserve Trust.

FINANCIAL INFORMATION**Abridged Statement of Financial Performance**

Year ended 30 June	Consolidated*	Authority	
	2001 \$'000	2001 \$'000	2000 \$'000
Rental revenue	81,146	69,297	41,755
Commercial sales	38,702	38,702	21,024
Land transfer	15,650	15,650	--
Other	11,266	12,645	4,632
TOTAL REVENUE	146,764	136,294	67,411
Property management expenses	31,690	26,659	14,811
Depreciation and amortisation	20,157	18,154	8,450
Other	64,092	46,067	23,116
TOTAL EXPENSES	115,939	90,880	46,377
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EQUIVALENT EXPENSE	30,825	45,414	21,034
Income tax equivalent	--	--	1,005
NET PROFIT	30,825	45,414	20,029
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	30,825	45,414	20,029
*There are no consolidated figures for 2000 as the Authority did not acquire the Australian Technology Park Precinct Management Ltd until 1 August 2000			

The 66 per cent increase in rental revenue was mainly due to additional properties acquired through the Authority's amalgamation with DHA.

Included in revenue are proceeds from the long-term lease of Darling Island. The Authority is to receive \$52.0 million paid by instalments up to 30 June 2003. In 2000-01, \$8.0 million was received as the instalment for the year with the balance owing of \$39.6 million included in revenue as an accrual, discounted to its present value. The book value of the site was \$9.6 million.

The land transfer revenue of \$15.7 million relates to the value of land given to the Authority by DHA (prior to its dissolution). The land, known as Bullecourt Place, was transferred to facilitate its sale. Subsequent to 30 June 2001, the Authority entered into a sales contract for \$13.0 million.

The movements in expenditure resulted primarily from the merger with DHA.

Abridged Statement of Financial Position

At 30 June	Consolidated*	Authority	
	2001 \$'000	2001 \$'000	2000 \$'000
Current assets	62,782	59,488	34,753
Non-current assets	<u>1,415,241</u>	<u>1,352,858</u>	<u>421,827</u>
TOTAL ASSETS	<u>1,478,023</u>	<u>1,412,346</u>	<u>456,580</u>
Total current liabilities	42,928	40,446	24,244
Total non-current liabilities	<u>54,496</u>	<u>61,484</u>	<u>69,143</u>
TOTAL LIABILITIES	<u>97,424</u>	<u>101,930</u>	<u>93,387</u>
NET ASSETS	<u>1,380,600</u>	<u>1,310,416</u>	<u>363,193</u>
Retained profits	1,322,972	1,310,416	363,193
Asset revaluation reserve	<u>57,628</u>	<u>--</u>	<u>--</u>
TOTAL EQUITY	<u>1,380,600</u>	<u>1,310,416</u>	<u>363,193</u>
*There are no consolidated figures for 2000 as the Authority did not acquire the Australian Technology Park Precinct Management Ltd until 1 August 2000			

Of the Authority's increase in net assets, \$901.8 million was from the transfer of assets and liabilities from DHA.

Included in assets is a receivable of \$39.6 million owing from the deferred sale of Darling Island and \$47.2 million representing the Authority's investment in its subsidiary.

Australian Technology Park Precinct Management Ltd

The company is controlled by the Authority and forms part of its consolidated financial report.

Abridged Statement of Financial Performance

Year ended 30 June	2001 \$'000	2000 \$'000
TOTAL REVENUE	13,738	13,030
TOTAL EXPENDITURE	<u>28,327</u>	<u>11,021</u>
NET PROFIT/(LOSS)	<u>(14,589)</u>	<u>2,009</u>
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	<u>(14,589)</u>	<u>2,009</u>

As part of the company's acquisition, certain assets including plant, equipment, a building and investments were transferred to the previous owners, Australian Technology Park Innovation, which is owned by a consortium of New South Wales based universities. The building was transferred at its written down value for a period of 99 years in return for a peppercorn rental. The remaining assets and investments were transferred at their written down value. This transfer resulted in a \$15.6 million loss to the company.

Abridged Statement of Financial Position

At 30 June	2001 \$'000	2000 \$'000
Current assets	7,818	5,791
Non-current assets	<u>116,545</u>	<u>131,248</u>
TOTAL ASSETS	<u>124,363</u>	<u>137,039</u>
Current liabilities	7,003	7,772
Non-current liabilities	<u>47,175</u>	<u>44,492</u>
TOTAL LIABILITIES	<u>54,178</u>	<u>52,264</u>
NET ASSETS	<u>70,185</u>	<u>84,775</u>
Reserves	57,628	63,809
Retained profits	<u>12,557</u>	<u>20,966</u>
TOTAL EQUITY	<u>70,185</u>	<u>84,775</u>

AUTHORITY ACTIVITIES

The Authority was established under the *Sydney Harbour Foreshore Authority Act 1998*. It:

- ◆ protects and enhances the natural and cultural heritage of the foreshore area
- ◆ coordinates and promotes the development and use of the area through cultural, educational, commercial, tourist, recreational, transport and entertainment facilities and activities.

The management area of the Authority includes Circular Quay and most Sydney Harbour foreshore land between Garden Island in the east and White Bay to the west of Sydney Harbour Bridge and the former railway property at South Eveleigh. The Authority manages land sales and acquisitions, organising and facilitating the development of sites and assets within the Authority's precincts.

The Authority is subject to the control and direction of the Minister for Planning.

For further information on the Authority refer to www.shfa.nsw.gov.au.

Australian Technology Park Precinct Management Ltd

The Authority controls the Australian Technology Park Precinct Management Ltd. The principal activity of the company is managing the commercial operations of the Australian Technology Park located at Eveleigh, including property management and development, convention and exhibition facilities.

For further information on the company refer to www.atp.com.au.

Section IV

Performance Auditing

Reports Tabled in Parliament Since Volume Seven of 2001

Department of Information Technology and Management: Government Property Register

Performance Audits in Progress

Roads and Traffic Authority: Managing Environmental Issues

State Debt Recovery Office: the Collection of Outstanding Fines and Penalties

The Management of Risk in the NSW Public Sector

Department of Agriculture: Management of Animal Disease Emergencies

State Transit Authority: Bus Maintenance

E-government: Supply Chain Management in Health

E-government: Evaluation of Agency Websites

Management of Sick Leave

Department of Land and Water Conservation: Land Clearing in NSW

Outsourcing of Information Technology

State Rail Authority: CityRail Passenger Security

This Section provides a summary of Performance Audit Reports presented to Parliament. The full Reports are available on the Audit Office website at <http://www.audit.nsw.gov.au/reports.htm>.

Section Two

Performance Auditing

Reports Tabled in Parliament Since Volume Seven of 2001

Department of Information Technology and Management: Government Property Register

Performance Audits in Progress

Roads and Traffic Authority: Managing Environmental Issues

State Debt Recovery Office: the Collection of Outstanding Fines and Penalties

The Management of Risk in the NSW Public Sector

Department of Agriculture: Management of Animal Disease Emergencies

State Transit Authority: Bus Maintenance

E-government: Supply Chain Management in Health

E-government: Evaluation of Agency Websites

Management of Sick Leave

Department of Land and Water Conservation: Land Clearing in NSW

Outsourcing of Information Technology

State Rail Authority: CityRail Passenger Security

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Department of Information Technology and Management

Government Property Register

THE AUDIT

The report on this audit was tabled in Parliament on 31 January 2002.

This audit reviewed the extent to which the Government Property Register provides access to accurate, up-to-date and relevant information. The NSW Government holds property worth about \$40 billion, which costs about \$4 billion each year to hold. Good property management requires access to good information.

FINDINGS

There is no comprehensive record of all government property assets in NSW despite the issue being on the agenda for many years (formally, at least since the Curran Commission of Audit in 1988).

Individual agencies need to improve their property records, and the data they provide for government-wide records.

Initiatives underway are promising, however they need to remain a priority to achieve results. Careful coordination also will be required to avoid duplication and waste.

RECOMMENDATIONS

1. The Department of Information Technology and Management give urgent priority to ensuring there is a comprehensive record of all NSW Government property, including Crown land.
2. The Government should determine which agency has the lead role in developing service-wide property management systems.

Actions to be considered include:

- ◆ establish a timetable and clear accountabilities for improving government property information
- ◆ monitor progress and report publicly at regular intervals
- ◆ ensure that duplication (waste) in property management information systems development is avoided.

Performance Audits in Progress

The proposed tabling arrangements for audits in progress are as follows:

Title	Planned Tabling Date
*Roads and Traffic Authority: Managing Environmental Issues	April 2002
*State Debt Recovery Office: the Collection of Outstanding Fines and Penalties	April 2002
*The Management of Risk in the NSW Public Sector	April 2002
*Department of Agriculture: Management of Animal Disease Emergencies	April 2002
*State Transit Authority: Bus Maintenance	May 2002
E-government: Supply Chain Management in Health	June 2002
E-government: Evaluation of Agency Websites	June 2002
Management of Sick Leave	2 nd quarter of 2002
Department of Land and Water Conservation: Land Clearing in NSW	3 rd quarter of 2002
Outsourcing of Information Technology	3 rd quarter of 2002
State Rail Authority: CityRail Passenger Security	4 th quarter of 2002
*These audits have been described in prior volumes of the Auditor-General's Reports to Parliament	

Description of other audits in progress follows:

◆ **E-government: Supply Chain Management in Health**

This audit will examine the impact of electronic procurement on improving supply chain management in the NSW health system, using South East Area Health Service as a case study.

◆ **E-government: Evaluation of Agency Websites**

This audit will examine selected NSW Government websites from the perspective of the user. This will involve using the sites in the same way that a user would, following links and noting and assessing content, features and ease of use.

◆ **Management of Sick Leave**

This audit is examining how well sick leave is managed in selected agencies.

◆ **Department of Land and Water Conservation: Land Clearing in NSW**

This audit will examine the management of the regulation of land clearing of native vegetation in NSW by the Department of Land and Water Conservation.

◆ **Outsourcing of Information Technology**

The audit is examining the results of outsourcing of IT by selected agencies. It is planned to develop a specific *Better Practice Guide* on IT outsourcing.

♦ **CityRail Passenger Security – Stage 1**

This audit will examine the efficiency and effectiveness of State Rail's initiatives for improving passenger security on CityRail stations.

♦ **CityRail Passenger Security – Stage 2**

This audit will examine the efficiency and effectiveness of State Rail's initiatives for improving passenger security on CityRail trains.

For up-to-date information on audits in progress, refer to www.audit.nsw.gov.au.

Appendices

1. **Audit and Audit Related Services Requested by the Treasurer**
 2. **Budget Dependent Agencies – Summary of Debtors
(at 30 June 2000) Revised Figures**
-

Appendix 1 – Audit and Audit Related Services Requested by the Treasurer

The Treasurer requested the Auditor-General to undertake a number of audit and audit related services, using the new s27B(3)(c) of the *Public Finance and Audit Act 1983*. These services are:

- ◆ examining or auditing:
 - data returns on salaries and wages required for Worker's Compensation Insurance renewals
 - data returns or reports to acquit grants provided by the Commonwealth Government and other donors to NSW government agencies
 - audit reports required by s24 of the *Charitable Fundraising Act 1991* to NSW government agencies that conduct fundraising appeals
 - data returns or reports required under Commonwealth/State Agreements
 - data returns or reports to acquit Disaster Relief Payments from the Commonwealth
 - contract summaries prepared under the 'Working with Government Policy' (November 2001)
 - special purpose and trust funds for controlled entities of the Department of Health
 - financial data returns or reports by universities to the Department of Education, Science and Training as required by Commonwealth funding arrangements and/or agreements
 - the report on the cost of the Olympic and Paralympic Games (Olympic Coordination Authority)
 - income from parking stations (Roads and Traffic Authority and Council of the City of Sydney)
 - transactions and balances relating to an agreement between the Public Trustee and the IOOF SA Ltd for funeral bonds
 - data returns supplied by Pacific Power to Queensland Building Services Authority (Pacific Power International)
 - the financial report of the Nippon Fellowship Fund in accordance with an agreement between Macquarie University and the Nippon Foundation
 - financial statements of receipts and payments relating to the 3x3 fuel excise surcharge for road improvement
 - Commonwealth monies expended on the National Firearms program
 - Council of the City of Sydney financial reports
- ◆ providing letters of comfort to interested parties of Treasury Corporation regarding Euro Medium Note Program.

Appendix 2 – Budget Dependent Agencies – Summary of Debtors (at 30 June 2000) Revised Figures

Figures included in Appendix 2 of Volume Six of the Auditor-General's Report to Parliament 2000 have been revised.

The figure for Department of Land and Water Conservation of \$10,186,000 only covered trade debtors and not other debtors, mainly water sales. The correct figure is \$69,839,000, not aged.

The figure of \$84,000 for the Rural Assistance Authority did not include loans to farmers. The correct figure should be \$83,911,000, again not aged.

On this basis, totals for 30 June 2000 should read: Not aged, \$319,565,000; Total, \$832,802,000

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