

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

## **Volume Five**

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.

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.

This Volume is divided into ministerial portfolios, each containing one or more government agencies.

Each agency’s comment begins with a summary of our **Audit Opinion**. This 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’ and explain why we did this.

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

- ♦ significant findings or outcomes of the audit
- ♦ any major developments impacting on the agency’s role or activities
- ♦ key repeat findings
- ♦ 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.

**Performance Issues** cover key financial and operational statistics we have identified that help understand how well the agency is performing. Wherever possible we include comparisons with similar agencies interstate.

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** summarise whether the agency has complied with selected legislation and other relevant government requirements.

**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** summarise the 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.

The **Agency Response** appears where the head of an agency does not believe that the commentary in our Report adequately reflects the agency’s position or actions taken. The wording of the response is exactly as supplied by the agency head (or is an agreed summary). As we discuss our proposed comments with agency staff during the drafting process, few agencies ask for a formal response to be included.



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 Five of my 2002 Report.

R J Sendt

Sydney  
November 2002

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*This Volume contains commentary on those entities with a 30 June 2002 balance date whose audits were completed in the first part of our audit program. A further Volume will be presented in December covering the balance of our 30 June 2002 audits.*

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## Significant Items

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### Introduction

Public sector agencies are not reporting on their performance in a way that meets legitimate taxpayer expectations. p 1-2

The Government has not addressed recommendations by the Auditor-General and by Treasury to improve public sector accountability. p 1-2

### Compliance with Donations and Bequests Policy

There are deficiencies how some agencies account for conditional donations and bequests, conduct appeals and spend the funds raised. p 5

### Compliance Review of Procurement Practices

All five agencies examined breached procurement requirements. p 9

### Compliance with Government Policy on Use of Training/Conference Facilities

The extensive use of privately owned facilities, including hotel and resort type, implies that some agencies are ignoring Government's policy p 13

### Office of the Children's Guardian

Children and young persons might be at risk as the Children's Guardian cannot exercise all her functions. p 47

### Department of Education and Training

The backlog in school maintenance has been reduced to \$83 million at June 2002. p 55

The selection of a private consortium to design, build and maintain nine schools should be completed in November 2002. p 55-56

Insurance costs have increased by approximately 29 per cent. p 56

The ratio of students to computers (or equivalent) in NSW government schools has improved from 22:1 in 1995 to around 6:1 now. p 56

Expenditure per primary student in NSW government schools was the lowest in Australia in 2000-01. In secondary schools it was the second lowest. p 57

Latest data (for 2000) show that NSW Year 3 and Year 5 students (government and non-government combined) achieved higher ratings than the national average in both literacy and numeracy. p 59

The Department has significantly reduced the extent of salary overpayments to its staff. However recovery of overpayments is still a problem. p 60

The \$121 million deficit and \$104 million reduction in cash balances in 2001-02 were due to a major gap between the Department's expenditure and the level of Consolidated Fund support. p 62

## **Adult Migrant Education Service**

The Service's future depends on its success in winning tenders for Commonwealth Adult Migrant Education Programs. p 67

## **Health**

At 30 June 2002, four Area Health Services were not meeting the Health Department's direction that creditors be paid within 45 days of invoice. p 104

Seventeen of the 18 Health Services met emergency department response times for the highest (T1) and lowest (T5) categories of urgency. Fewer than half met the intermediate categories. p 105

The former Western Suburbs Hospital site has now been vacant for over six years. p 115

Land set aside 10 years ago for the construction of a collocated private hospital on the Royal Prince Alfred Campus remains vacant. The Central Sydney Area Health Service continues to seek a solution. p 115

## **NSW Land and Housing Corporation**

The Corporation is in dispute with a major contractor over housing works. Conciliation proceedings are advanced to resolve the dispute. p 187

It is doubtful that \$18.4 million of rental debts will be collected. p 187

## **Department of Land and Water Conservation**

Complete and accurate information on government owned land in New South Wales is not readily available. p 205

## **NSW Police**

NSW rates of crime against people in 2001 were above the national average in each major category. NSW rates increased in all categories from 2000. p 231

NSW rates of crime against property in 2001 were generally around the national average. p 232

New South Wales had fewer police staff per 100,000 people than the national average in 2000-01. However the proportion of NSW police staff classified as operational was higher than the national average. p 232

In most crime categories, New South Wales has the lowest or second lowest proportion of investigations finalised within 30 days. p 233

The cost of the supplementary policing pilot scheme is not being fully charged to clients, with the difference being funded from the Confiscated Proceeds Account. NSW Police will review the scheme after six months. p 234-235

## **FreightCorp**

The sale of FreightCorp involved a recorded loss of \$201 million after income tax. p 255

**State Rail Authority**

The Airport Link Company went into receivership in November 2000. The receiver operates the stations under an agreement with StateRail. If the agreement is terminated, StateRail might need to compensate the Company.

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The contractor's costs for the Millennium train are significantly over budget. StateRail and the contractor are discussing this and StateRail is assessing the financial implications.

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StateRail's performance for on-time running has improved.

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**Waterways Authority**

The Authority did not recognise a \$19 million liability for its obligation to remediate certain contaminated areas of Homebush Bay. Had the liability been recognised, the Authority's operating profit for the year would have been \$26.4 million, not \$45.4 million.

p 263

**Australian Water Technologies Pty Ltd**

Some \$393,000 of 2000-01 accounts receivable were reversed during the year as management was unsure if the services had been provided.

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**Sydney Water**

Sydney Water has terminated the CIBS customer billing project, citing that the project has not reached acceptable standards, and because of excessive costs and delays. The Treasurer has asked the Audit Office to comprehensively review Sydney Water's handling of the project.

p 279

Sydney Water has still not completed a condition assessment of its system assets. The project is some two years behind schedule, impacting the proper maintenance and renewal of assets.

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IPART's audit of Sydney Water's operating licence found full to high compliance with all licence conditions.

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Sydney Water's return on assets and return on equity are well below the averages for other Australian water suppliers and GTEs generally.

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**New South Wales Insurance Ministerial Corporation**

The Corporation changed its accounting policies to recognise an additional \$519 million of insurance liabilities for the Treasury Managed Fund.

p 307

Investment earnings fell 80.3 per cent.

p 308

**New South Wales Treasury Corporation**

TCorp generally exceeded its performance targets and benchmarks in providing cost effective funding and managing clients' investments. A possible threat to future performance is the reduction in the size of the government bond market in Australia.

p 311



**The Crown Entity**

Previously unrecognised Crown land has now been recognised at \$4.0 billion. p 317

The Crown's net superannuation liabilities increased by \$3,063 million. p 317

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## Introduction

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Taxpayers have the right to expect governments to spend their tax dollars efficiently and effectively. They have the right to expect governments to be accountable.

After becoming Auditor-General, I grew increasingly concerned that the Government and its agencies were not meeting that accountability expectation. Because of this, I decided two years ago that Auditor-General's Reports to Parliament should cover more than simply financial issues.

My reasons then (in Volume Five of my 2000 Report to Parliament) for including commentary on agencies' performance in my Reports remain as valid today:

*'Accurate and timely information on a public sector agency's finances is important for analysing its performance. But financial information is usually not enough, particularly in the General Government Sector where agencies are more concerned with service delivery than profit-making. What is also needed is information on how well those services are designed and delivered.'*

*'Consumers and taxpayers have the right to expect services will be provided efficiently and effectively. They also have the right to information that allows them to judge if that is occurring.'*

*'Because of the monopoly position of many government agencies, it is important that this information includes, wherever possible, comparisons with services provided in other States.'*

My Office also carried out a separate review two years ago looking at a sample of agencies' annual reports. In effect the purpose of the review was to answer the following question: Would an ordinary citizen, reading one of those annual reports, be able to decide if his or her tax dollars were being spent efficiently and effectively?

Our short answer to the question was: No.

The review found that the quality of performance data in the annual reports sampled was generally poor. Most importantly, not a single agency had attempted to rate itself against similar agencies elsewhere.

Others share this concern.

In 1998 Treasury proposed that agencies should be required to include in their annual reports *'[a] comparison of actual performance with past and planned performance as well as the performance of equivalent agencies in other jurisdictions, both locally and overseas (where practicable)'*.

The Government has not acted on this proposal, which was part of a wide-ranging package to update the State's financial management and reporting legislation.

Also in 2000, the NSW Parliament's Public Bodies Review Committee looked at aspects of annual reporting in the public sector. Its findings were equally critical. The Committee's Report raised the question: *'Why isn't performance reporting by agencies really getting any better?'*

Some of the Report's answers to this question were:

*'... undue emphasis on internal processes rather than performance and outcomes. Usually only "good" news was included and no setbacks and problems ...'*

and

*'One of the major obstacles to effective performance reporting has been Treasury's delayed introduction of the new annual reporting regime.'*

Yet two years later, public sector agencies in New South Wales - with very few exceptions - are still reluctant to publish meaningful performance information.

Many do include some statistics in their annual reports comparing their performance over recent years. Hopefully this will show their performance improving over time.

But very few agencies release information benchmarking themselves against their interstate or overseas counterparts. Without this, it is impossible to know how close their performance comes to 'best practice'.

They seem to forget that collectively they spend over \$26 billion of public money each year in this State on public services - \$4,000 per man, woman and child. They seem to feel little obligation to demonstrate they are achieving value for the taxpayer's dollar.

Agencies may argue that benchmarking is flawed because they are different from their interstate counterparts or that data are lacking in comparability.

In most cases, these difficulties can be overcome. If agencies put less effort into refuting comparisons and more into resolving data problems with their interstate counterparts, real progress could be made.

If individual agencies in this State feel no need to be more accountable, then the Government must accept a major part of the responsibility for this situation.

Despite my recommendations of two years ago, there is still no whole-of-government approach to performance reporting in New South Wales. (I was told then that central agencies were developing it.)

Without a whole-of-government approach, agencies do not report their performance in a consistent way. Some report efficiency and effectiveness indicators; some output and outcome indicators. Others show only workload measures. Some show time series; some do not. Some show targets; some do not.

The Government must act now to address this situation if taxpayers' legitimate expectations are to be met.

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# Section One

## Special Reviews

Compliance Review of Donations and Bequests

Compliance Review of Procurement Practices

Compliance Review of the Use of Government Owned Training/Conference Facilities

Other Compliance Reviews

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## Compliance Review of Donations and Bequests

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*The review was conducted to gauge how each agency accounts for donations and bequests received and the level of compliance with its policies and procedures, where they exist. The review was conducted at five universities, seven agencies in the health portfolio and three agencies in the arts portfolio. In value, agencies in the health sector were the major beneficiaries of donations and bequests. For further information on what this review covered, see Background at the end of this commentary.*

### KEY FINDINGS

There were instances among the agencies reviewed where:

- ◆ conditional donations or bequests were:
  - retained by the agency even though the donor's instructions could not or would not be followed
  - treated inconsistently as to whether interest earned should be credited to each donation received
  - held but due to poor record keeping the donor's wishes were not known
- ◆ funding appeals were conducted and the agency:
  - gave incorrect taxation advice regarding the donation
  - failed to spend the funds in line with the promotional material used to attract the donations
- ◆ their policy and procedure manuals did not cover procedures for accounting for donations and bequests.

A number of universities have established fund raising entities to receive and spend donations and bequests. One university maintains that it does not control the entity it established. Hence the entity does not regard the Auditor-General as its auditor and we could not review its handling of donations and bequests.

Agencies receiving bequests do not generally seek a copy of the will to confirm the amount of the bequest.

### RECOMMENDATIONS

Treasury should consider issuing best practice guidelines to all agencies on all aspects of accepting, accounting for and expending donations and bequests.

### DETAILED FINDINGS

We reviewed a sample of transactions in each agency. A summary of what we found follows. Unless the sector is named, the comments relate to all three sectors – health, arts and universities. The agencies concerned have been notified of their specific deficiencies.

#### Conditional Donations

Agencies often receive conditional donations where the donor specifies how the donation is to be spent.

### ***Nature of Conditions***

Sometimes a donation is for a study or research project that the agency cannot or does not wish to undertake. Our view is that under such circumstances, agencies should consult the donor or estate as to other possible uses for the funds. The agency should return the donation or bequest if no other use is agreed upon.

Ten of the agencies in this review do not have this procedure as policy. We found five agencies in the health sector had accepted conditional donations, but at least a year after receipt had not yet used or committed them. One agency told us they were not planning any research in the donor's specified area, but would hold the funds in case they choose to research the relevant area in the future.

### ***Bank Interest***

With the exception of three agencies, conditional donations were each credited with a proportion of the interest generated by the special bank account maintained for such purposes or from the agency's main account.

### ***Unspent Moneys***

Another agency has \$545,000 remaining from donations received for a nursing home that it previously controlled, but which was closed in May 1999. We were told that the agency has approached the Commissioner for Dormant Funds for approval to use the funds for other purposes. If approved, they propose to ask the Minister to redirect the money to other projects.

### ***Record-keeping***

In two agencies there is a need for improved record-keeping. We noted instances where neither can find the donor's directions regarding the use of the funds. In one of these instances the agency's management re-allocated the money to a project of its own choosing. Generally, this agency does not return donations unless the donor specifically directs that this should happen if the research is not possible.

The second agency correctly sets aside conditional grants in its accounting records. However, as they cannot locate the records, the specific wishes of the some donors are unknown.

At the time of the audit, one hospital had unspent conditional donations of \$1.1 million. In line with its policy, it commenced a review of the wishes of the donors of this money, but the review stalled. The hospital should complete the review.

### ***Spending the Donations***

Our review indicated that expenditure of conditional donations and bequests generally accords with the conditions laid down. However, in two of the arts agencies, systems do not exist to account for expenditure against the donation received. Because of this, they were unable to establish whether such donations had been fully spent. The level of activity for conditional donations in both agencies is, however, not high.

In a health agency, expenditure against conditional donations is only updated on an annual basis. This procedure does not allow it to progressively track the extent of expenditure as it occurs.

### ***Use of Funds Raised by Appeals***

To supplement donated funds, about half the agencies we reviewed engage in fund raising activities such as appeals, dinners, art unions and auctions. In some instances, the advertising of these activities states that the money raised will be used for certain purposes.

### ***Health Sector***

In one of the health agencies, this did not happen. The funds were used for various purposes, but not the research promoted. Since this deficiency was highlighted, the agency has adjusted its procedures to ensure its advertising commitments are met.

The internal auditors in one area health service noted that the information in their promotional material regarding the tax deductibility of donations was wrong.

### **Policies and Procedures Manuals**

#### ***Health Sector***

Each of the seven health agencies reviewed from the sector had written policies and procedures for the accounting of donations and bequests received by them. However, one manual had a serious deficiency in that it did not address procedures for accounting for and expending conditional donations.

#### ***University and Arts Sectors***

Only two of the eight agencies had policies and procedures manuals that addressed the accounting procedures for donations and bequests. However, one of these was not kept up to date and did not deal with conditional donations. Agencies should have procedure manuals for this high-risk activity.

### **Establishment of Fund-raising Entities**

#### ***University Sector***

Three of the five universities have established entities to receive and expend amounts donated. The Audit Office audits two of the controlled entities and their financial transactions are consolidated into the financial reports of the two universities.

However, the third university maintains that it does not control the entity. The entity does not submit its financial report is not submitted to the Audit Office for audit. We were not able to review its transactions relating to donations and bequests.

#### ***Health and Arts Sectors***

Seven of these ten agencies use a controlled entity to receive and spend donations and bequests. Each agency consolidates all of the financial transactions of the controlled entity into its financial report. The Audit Office audits each controlled entity.

### **Bequests**

Agencies accept on face value the amount of a bequest received by them. They should confirm the accuracy of the amount received. Agencies can do this by obtaining a full or extract copy of the will from solicitors or administrators.

### **Non-cash Donations**

Each agency should recognise goods and services donated to it at fair value. This is necessary for tax and financial reporting reasons. The use of independent valuers is one way to resolve the question of value.

### ***Health and Arts Sectors***

In the sample of transactions tested, non-cash donations occurred in only two of the agencies reviewed. Both dealt with the question of fair value differently. In a hospital, an auction was used to establish the value. The agency in the arts sector established fair value by averaging the valuations of two independent valuers. Both approaches are satisfactory.

### **BACKGROUND**

Government agencies, particularly those in the arts, education and health areas, often receive donations or bequests from members of the public or from charitable organisations. At any point in time, unspent funds of this nature amount to hundreds of millions of dollars. Hospitals are the major beneficiaries.

Usually, the donations and bequests are in the form of cash. However, sometimes the donation is in the form of goods or services. An example may be a painting given to a gallery, library or museum or a car donated to a hospital for an art union. Such goods and services must be recognised by the agency at fair value. Because there may be some tax benefits to the donor in making a donation or bequest, donors may maintain that donated goods and services are worth more than the fair value. Independent valuers can resolve the matter.

It is also common for a donor to request that the money be used for a specific purpose. This is a conditional donation/bequest. The donor may stipulate that the funds are for a study into a particular medical condition or for a particular research project. Unrestricted donations received are referred to as being unconditional. These allow the agency to determine how the money is to be spent.

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### **RESPONSE FROM TREASURY**

*Treasury will discuss detailed findings referred to in this Report with the Audit Office. Following these discussions, Treasury will remind the appropriate agencies of their responsibilities for administration of donations and bequests.*



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## Compliance Review of Procurement Practices

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*The Public Sector Management (Goods and Services) Regulation 2000 (the Regulation) sets out how a Government department should buy the goods and services it needs.*

*This is our first across-agency compliance review of procurement practices. Rather than reviewing a sample representative of the public sector overall, we concentrated on five large agencies with high levels of procurement. Four of the agencies are departments and must observe the Regulation. The fifth agency is a state owned corporation (SOC), and has its own procurement policies. Some of these policies are based on the requirements of the Regulation.*

*The compliance review was in respect of either the Regulation or the SOC's own policies.*

### KEY FINDINGS

All five agencies breached procurement practices. Some agencies did not:

- ◆ submit procurement plans to the State Contracts Control Board (SCCB)
- ◆ use period contracts
- ◆ follow purchasing delegations.

### RECOMMENDATIONS

- ◆ Chief Executive Officers should be reminded by the SCCB of their responsibilities under the Regulation.
- ◆ The SCCB should consider preparing a brief procurement document which agencies could make available to its officers who are delegated to buy goods and services.

### DETAILED FINDINGS

#### Procurement Plan

The NSW Government Procurement Guidelines, issued in April 2002, require agencies to submit an annual procurement plan to the SCCB. An analysis of all agencies' procurement plans and purchasing patterns is undertaken to identify whole-of-government procurement opportunities. Prior to April, only agencies that spent \$5 million or more each year on goods and services were required to submit a plan.

Only two of the four agencies (the SOC was not required to do this at the time of the review) had prepared and submitted their procurement plan to the SCCB.

#### Procurement Practices

In each of the five agencies, we examined a random sample of vendor payments to establish if each agency was following the Government's procurement policy.

We made the following observations about these transactions.

### ***Period Contracts***

Period contracts exist for a large variety of goods and services, including air travel, temporary staff, motor vehicles, food and furniture. The contracts maximise the purchasing power of the Government. They also allow agencies to purchase goods and services without obtaining quotes or initiating tendering procedures. An agency must register with NSW Supply to be able to use the contracts.

In four of the five agencies, we found instances where the agency had not used an existing contract. This is a breach of Clause 16(3) of the Regulation.

### ***Purchasing Delegations***

The State Contracts Control Board's delegations must be followed when agencies buy goods and services that are not available through a period contract, such as general purchases, consultancies and printing. The delegations set out the conditions and dollar limits for oral and written quotes and for seeking tenders.

Four of the agencies did not always observe the delegation when obtaining printing services. Similarly, on occasions, two agencies engaged consultants without observing that delegation.

Agencies must use the Government Advertising Agency when they need advertising services. We noted an instance in two agencies when this requirement was not followed.

### ***Miscellaneous Issues***

- ◆ We looked at three contracts in one agency with a probable value larger than \$100,000. In two cases, the agency did not submit the details of the proposal to the SCCB. Agencies must do this when preparing an invitation to tender. In one instance, the agency selected tenderers from a pre-qualification list, instead of having an open tender process.
- ◆ One agency regularly has emergency callouts for tradesmen, but has no contract or agreement to cover these circumstances. In one instance, there was no evidence that the officer responsible reported the emergency acquisition to the Departmental Head as the Regulation requires.
- ◆ The records in relation to the process of tendering out the corporate planning work of one agency could not be located. Therefore, we could not determine if the process complied with policy.
- ◆ One agency had a long-term contract for cleaning services, but the contract expired two years ago. In the meantime, the contractor continues to supply the service.

## **BACKGROUND**

The NSW Government injects in excess of \$10.5 billion into the economy each year by purchasing goods and services.

In 1999, the Government issued its Procurement Policy Statement, which aims to achieve service, economic, environmental and social objectives. Using the purchasing power of the Government, it also helps obtain value for money. The policy's seventeen strategies require agencies to take particular actions within implementation deadlines.

The SCCB is the Government's central procurement policy and contracting authority for the provision of common use goods and services for the Public Service and for other public sector agencies. Period contracts are used to achieve this. The SCCB's authority comes from the Regulation.

Agencies must obtain quotes and use tendering procedures when no period contracts exist for the goods or services sought. The rules for obtaining quotes or calling tenders are set out in the General Purchasing Delegation. Similar delegations exist for printing and consultancy services.

The Regulation makes the Department Head responsible for complying with the regulation and any SCCB direction. The Minister for Public Works and Services may grant exemptions from any provisions of the Regulation.

## **RESPONSE FROM STATE CONTRACTS CONTROL BOARD**

*Correspondence has been prepared for issue in October 2002 to all Chief Executive Officers of relevant NSW Government agencies. Attached will be a copy of the recently amended General Purchasing Delegations. The correspondence requests that all staff involved in the procurement process be reminded of their responsibilities under the Public Sector Management (Goods and Services) Regulation 2000, and in particular, the requirement to refer purchases of not-in-contract goods and services to NSW Supply to undertake the procurement process.*

*A significantly enhanced SCCB website has been prepared and will be accessible shortly.*

*The site sets out the role and functions of the SCCB, recent SCCB procurement issues and provides (or has links to), the Public Sector Management (Goods and Services) Regulation 2000, the various delegations issued by the SCCB, and the Code of Practice and Code of Tendering for NSW Government Procurement.*

*The site will also provide contact details for the SCCB Executive Officer, should NSW Government agencies require further information concerning any procurement issue.*

## Compliance Review of the Use of Government Owned Training/Conference Facilities

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*The review was conducted to gauge the level of compliance by agencies with the Premier's Memorandum No 2000-6, 'Use of Government Owned Training/Conference Facilities'. Eleven agencies that conduct in-house training courses or host conferences or seminars were reviewed. For further information on what this review covered, see Background at the end of this commentary.*

### KEY FINDING

The extent of use of privately owned facilities, including hotel and resort type facilities, implies that some Chief Executive Officers (CEOs) and their delegates often ignore the policy. Most delegated officers seem to have a reasonable knowledge of the requirements of the policy.

### RECOMMENDATIONS

The Premier's Department should re-issue the memorandum to agency CEOs.

If agencies document all the costs of the various locations considered and record the reasons why the cheapest facility or why the available government facility was not used, accountability will improve.

### DETAILED FINDINGS

We examined a sample of bookings of non-government facilities in the agencies reviewed. In most cases the relevant documentation did not clearly show the reasons for not using a government facility. We then spoke to the people who made the bookings.

The interviews indicated that the majority have some knowledge of the requirements of the Premier's Memorandum. Some officers put forward the reasons for their decisions only when questioned during the review.

Four of the agencies made significant use of hotels and convention facilities despite government owned facilities existing in or close to the area where the functions were held. Agencies advanced the following reasons for using the non-government facilities:

- ◆ the agency requires a high standard of service
- ◆ these facilities give the best value for money
- ◆ no government facility in the area can cater for attendees
- ◆ no government facilities are available in the area
- ◆ government facilities are not big enough and capable of providing catering and support facilities
- ◆ only the facility used has adequate accommodation and parking
- ◆ residential facilities in government properties are not suitable for participants.

We found many of the reasons to be invalid as government facilities are available in or near most areas. It was also unclear why some events were staged in country locations. The country locations were, invariably, resort-type premises.

## BACKGROUND

Many agencies conduct training courses for their staff. They also run conferences and seminars for the public or for people in particular sectors of industry and commerce that the agencies serve or regulate. These activities require facilities of varying sizes and standards.

While there are many privately operated facilities, there are also government-owned training/conference facilities throughout the State available for hiring by agencies. The Government view is that these facilities need to be fully utilised.

Premier's Memorandum No. 2000-6, 'Use of Government Owned Training/Conference Facilities' asks Ministers to inform CEOs and their delegates that when organising such activities, 'preference must be given to the use of government-owned training/conference facilities in the first instance, where it is economical and feasible to do so'. The Memorandum also requires organisers to take into account the work location of potential participants and guest speakers.

The Premier's Department produced a schedule of government-owned facilities across the State to help organisers in meeting the requirements of the policy. They circulated it to all agencies and it can also be accessed on the Premier's Department website.

CEOs or their delegates must satisfy themselves that all attempts were made by organisers to explore suitable government-owned facilities in regard to any proposed activity before using private sector facilities. Good recordkeeping practice requires that these considerations be recorded on agency files.

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## RESPONSE FROM PUBLIC SECTOR MANAGEMENT OFFICE

*The report findings are accepted.*

*PSMO will discuss the issues arising from this review further with the Audit Office. Following these discussions, a Memorandum will be issued which incorporates recommendations contained in the report, that is:*

- ◆ *agencies should use government-owned training facilities wherever possible*
- ◆ *if a decision is made not to use those facilities, the reason should be noted on file.*

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## Other Compliance Reviews

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Our comments on many individual agencies in this volume refer to our compliance reviews on aspects of the *State Records Act 1998*, the *A New Tax System (Goods and Services) Act 1999* and the *Public Authorities (Financial Arrangements) Act 1987*. We will include a detailed report on each review in Volume Six of the Auditor-General's Report to Parliament next month. This brief summary is to allow readers to understand the background to our comments in this volume.

### State Records Act

The Act deals with how public sector agencies in the State create, manage and protect their records and allow public access. It requires agencies to make and keep full and accurate records and to establish and maintain a records management program.

Each agency must adopt the five standards issued under the Act. Each standard has a number of principles that must be observed. Each principle has one or more minimum requirements that provide a basis for assessing the agency's compliance with the principle.

We reviewed compliance with the *Records Management Program* standard (nine principles) and one of the two principles of the *Recordkeeping in the Electronic Business Environment* standard. The State Records Authority had suggested these to us as key principles for our review.

Agencies had until 1 January 2001 to have all the principles of both standards in place. The timing of our review allowed agencies at least a further year to meet the requirements of those principles.

We excluded universities and Area Health Services from our review as the Records Authority has given them later implementation deadlines.

### Goods and Services Tax (GST)

The GST came into effect on 1 July 2000. It applies to most goods and services consumed in Australia. Along with businesses in the private sector, public sector agencies must be registered for GST purposes.

Agencies must collect GST as part of their sales of goods and services and other taxable supplies and forward it to the Australian Taxation Office. They may also claim input tax credits for the GST included in the price of goods and services they purchase.

For many agencies the GST is the largest and most demanding indirect tax that they have had to deal with. Risks to agencies include not having the systems or staff capable of correctly dealing with the GST. Deficiencies in either could result in overpayment or underpayment of tax and cash flow problems.

Given these risks, we decided to gauge how agencies have addressed them and how well they were complying with the requirements of the legislation.

We looked specifically at the controls in each agency to manage the risks associated with the tax and the processes to account for the tax. We also reviewed how well they prepare their Business Activity Statement each month.

### Public Authorities (Financial Arrangements) Act

Among other provisions, the Act sets out the rules for the types of financial arrangements and investments that agencies can enter into. The Act also sets out the processes to be followed for each type of financial transaction. We looked at whether agencies had followed the requirements of the Act when entering into financial arrangements or investing money during 2001-02.

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## **Section Two**

### **Commentary on Government Agencies**

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**Attorney General**

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**Office of the Director of Public Prosecutions**

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## Office of the Director of Public Prosecutions

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### AUDIT OPINION

The audit of the Office of the Director of Public Prosecutions' financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### CONTROL ISSUES

We identified opportunities for improvement in internal procedures for fixed asset reconciliation and recreation leave accruals. These were minor and were reported to management.

### COMPLIANCE ISSUES

We tested whether the Office complied with:

- ◆ certain aspects of the *State Records Act 1998*
- ◆ Premier's Memorandum No. 2000-6, 'Use of Government Owned Training/Conference Facilities'.

The Office substantially complied with the requirements of the legislation and guidelines. Instances of non-compliance were minor and were reported to management.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	717	403
Salaries and related expenses	50,940	45,713
Other expenses	15,274	14,379
Operating surplus	878	553
Net assets (at 30 June)	2,507	1,629

Salaries and related expenses increased by 11 per cent because additional Crown prosecutors were employed to boost the new pre-trial disclosure system. Also, salaries increased by 2 per cent in July 2001 and a further 3 per cent from January 2002.

Net assets increased significantly due to a fit-out of new office premises.

### OFFICE ACTIVITIES

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

For further information on the Office refer to [www.odpp.nsw.gov.au](http://www.odpp.nsw.gov.au).

## Minister for Ageing

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Home Care Service of New South Wales

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## Home Care Service of New South Wales

### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Tax Exempt Status

In 2000-01, the Australian Taxation Office (ATO) rejected the Service's application for Income Tax Exempt Charitable Status and Gift Deductible Recipient Status. The Service applied to the Administrative Appeals Tribunal in July 2001 for a review of that decision. However, after further advice, the appeal was withdrawn in favor of continuing discussions with the ATO. The Service will have a liability for unpaid Fringe Benefits Tax if these discussions are unsuccessful. The Service provided for this liability in its 30 June 2002 financial report.

#### Assessment of Depreciation Rates – Repeat Finding

The Service has not reviewed annually its depreciation rates for property, plant and equipment. This is a requirement of Australian Accounting Standard AAS 4 'Depreciation'. The Service has fully disclosed the asset category, cost and an explanation of those fully depreciated assets in its 30 June 2002 financial report.

### PERFORMANCE ISSUES

The Service has no client waiting list but prioritises prospective clients and clients requesting or requiring additional service, on the basis of need. On average, the Service provides approximately 1½ hours per week to each client. The assessment of client needs is now separated from the branches' service capacity.

The Service's activities for the current year compared with budget and activities over time is detailed in the table below:

Year ended 30 June	Actual 2001-02	Budget 2001-02	Actual 2000-01	Actual 1999-2000
Total hours of service provided (000's)	4,309	4,294	3,946	3,391
General housework hours (%)	45	45	47	49
Personal care hours (%)	40	37	39	41
Respite care hours (%)	12	15	12	9
Other care hours (%)	3	3	2	1
Total number of households serviced (000's)	57	64	56	50
Average hours per client	76	67	70	68
Average staffing (EFT)	2,982	3,350	3,109	2,689
Source: The Home Care Service of New South Wales (unaudited)				

Total hours of service have increased significantly compared with the two previous years. The Service also used more subcontractors during 2001-02. The Service engages subcontractors when it is unable to recruit appropriate staff or when necessitated by individual client circumstances. The increased use of contractors is reflected in higher contract service fees incurred for the year of \$16.0 million (\$11.4 million in 2000-01). The Service is actively seeking to reduce its reliance on subcontractors.

The decline in average staffing is due to changes in the way average staff numbers are counted.

The Service budgeted for an 8,000 increase in the number of households to be serviced compared with the 2000–01 number on the basis that recruitment for the Department of Veterans' Affairs homecare program would commence from July 2001. However the recruitment actually commenced in the last half of 1999–2000 and actual households serviced in 2001–02 increased by 1,000.

Average hours per client increased in 2001–02 compared with the budget. This increase is due to fewer than anticipated additional clients.

## CONTROL ISSUES

We identified opportunities for improvements to internal controls impacting on the Service's branch operations. Recommendations made to management include:

- ♦ the need to reconcile income from the Department of Veterans Affairs
- ♦ more timely performance of bank reconciliations at branch level for externally funded projects
- ♦ more timely follow-up of long outstanding debtors.

## COMPLIANCE ISSUES

We tested whether the Service complied with certain provisions of the *State Records Act 1998*. The Service substantially complied with the requirements.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
<b>REVENUES</b>		
Government grants and contributions	137,210	127,072
Other	<u>30,216</u>	<u>21,247</u>
<b>TOTAL REVENUES</b>	<b><u>167,426</u></b>	<b><u>148,319</u></b>
<b>EXPENSES</b>		
Employee related	115,200	104,836
Other expenses	<u>59,619</u>	<u>55,520</u>
<b>TOTAL EXPENSES</b>	<b><u>174,819</u></b>	<b><u>160,356</u></b>
<b>DEFICIT FOR THE YEAR</b>	<b><u>7,393</u></b>	<b><u>12,037</u></b>
(Decrease)/increase in asset revaluation reserve	<u>(34)</u>	<u>787</u>
<b>TOTAL CHANGES IN EQUITY</b>	<b><u>(7,427)</u></b>	<b><u>(11,250)</u></b>

The Service's major source of income is the Home and Community Care (HACC) Program, which is jointly funded by the State and Commonwealth Governments under the HACC Agreement. Contributions received under the agreement totalled \$120 million (\$117 million in 2000–01).

Employee related expenses increased primarily due to increased levels of service provision award rates.

**Abridged Statement of Financial Position**

At 30 June	2002 \$'000	2001 \$'000
Current assets	17,899	15,532
Non-current assets	<u>16,482</u>	<u>18,901</u>
<b>TOTAL ASSETS</b>	<b><u>34,381</u></b>	<b><u>34,433</u></b>
Current liabilities	20,367	17,186
Non-current liabilities	<u>12,404</u>	<u>8,210</u>
<b>TOTAL LIABILITIES</b>	<b><u>32,771</u></b>	<b><u>25,396</u></b>
<b>NET ASSETS</b>	<b><u>1,610</u></b>	<b><u>9,037</u></b>

Net assets declined \$7.4 million in the current year primarily due to a \$6.6 million increase in the deferred superannuation liability. This increase also impacted non-current assets by \$2.8 million and increases non-current liabilities by \$3.8 million. The Service was granted a 'superannuation holiday' from making superannuation contributions during 2001–02. The Service has not applied to extend the 'superannuation holiday' to 2002–03.

**SERVICE ACTIVITIES**

The *Home Care Service Act 1988* established the Service as a corporation. The Service provides housekeeping, personal care and a range of ancillary services for individuals and families within their own homes. The Service's operations are conducted through state-wide branches and service outlets.

For further information on the Service refer to [www.homecare.nsw.gov.au](http://www.homecare.nsw.gov.au).

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## Minister for Agriculture

**Agricultural Scientific Collections Trust**

**Belgenny Farm Agricultural Heritage Centre Trust**

**Department of Agriculture**

**Murray Valley Citrus Marketing Board**

**New South Wales Rural Assistance Authority**

**Riverina Citrus**

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## Agricultural Scientific Collections Trust

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### AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Income	299	231
Other expenses	295	225
Operating surplus	4	6
Net assets	12	8

Income and expenses include an estimated notional amount of \$280,000 (\$197,000 in 2000-01) for staff provided free of charge by the Department of Agriculture.

The Trust's two collections, the Plant Pathology Herbarium and the Entomology Section Insect and Mite Collection, have not been valued and the financial report does not recognise the current value of these major assets. The collections have not been recognised due to the irreplaceable nature of a large part of the collections and the difficulty in obtaining a reliable valuation.

### TRUST ACTIVITIES

The Trust, constituted under the *Agricultural Scientific Collections Trust Act 1983*, protects, maintains and improves two scientific collections for the Department of Agriculture. It also increases and disseminates knowledge in certain fields of agricultural science.

The Trust is subject to the control and direction of the Minister for Agriculture.

## Belgenny Farm Agricultural Heritage Centre Trust

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### AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### CONTROL ISSUES

We identified opportunities for improvement in internal controls/procedures. These were minor and have been reported to the Chairman.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	540	540
Expenses	517	500
Operating surplus	23	40
Net assets (at 30 June)	212	189

### TRUST ACTIVITIES

The Trust was constituted under the Belgenny Farm Agricultural Heritage Centre Trust Deed in 1993.

The Trust raises and spends moneys to maintain and develop the Belgenny Farm Agricultural Heritage Centre, located at Camden, as a tourist and heritage education facility.



## Department of Agriculture

### AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### CONTROL ISSUES

We identified opportunities for improvement to the Department's internal controls, and made recommendations to the Director-General. Recommendations included an annual review of depreciation rates and testing the Department's disaster recovery plan.

### COMPLIANCE ISSUES

We tested whether the Department complied with:

- ◆ certain requirements of the *State Records Act 1998* and
- ◆ the requirements of the *A New Tax System (Goods and Services Tax) Act 1999*.

The Department did not comply with many of the requirements of the *State Records Act 1998*. We wrote to the Director-General detailing the deficiencies and he has responded with a detailed action plan to address the identified deficiencies.

The Department complied with all of the GST requirements.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	134,637	131,763
Other expenses	<u>99,097</u>	<u>90,137</u>
<b>TOTAL EXPENSES</b>	<b><u>233,734</u></b>	<b><u>221,900</u></b>
Grants and contributions	33,210	28,811
Other revenue	<u>27,483</u>	<u>24,232</u>
<b>TOTAL REVENUE</b>	<b><u>60,693</u></b>	<b><u>53,043</u></b>
Loss on sale of non-current assets	<u>(142)</u>	<u>(127)</u>
<b>NET COST OF SERVICES</b>	<b><u>173,183</u></b>	<b><u>168,984</u></b>
<b>Add government contributions</b>	<b><u>178,617</u></b>	<b><u>168,347</u></b>
<b>MOVEMENT IN ACCUMULATED FUNDS</b>	<b><u>5,434</u></b>	<b><u>(637)</u></b>

The Department's expenditure includes contributions to national disease and pest eradication programs. Significant contributions in 2001-02 included:

- ◆ Red Imported Fire Ant, \$5.8 million (\$111,000 in 2000-01)
- ◆ Ovine Johne's Disease, \$1.5 million (\$1.3 million) and
- ◆ Black Sigatoka, \$832,000 (nil).

#### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	61,978	56,815
Non-current assets	<u>191,535</u>	<u>190,523</u>
<b>TOTAL ASSETS</b>	<b><u>253,513</u></b>	<b><u>247,338</u></b>
Current liabilities	<u>21,296</u>	<u>20,555</u>
<b>TOTAL LIABILITIES</b>	<b><u>21,296</u></b>	<b><u>20,555</u></b>
<b>NET ASSETS</b>	<b><u>232,217</u></b>	<b><u>226,783</u></b>
Reserves	49,709	49,196
Accumulated funds	<u>182,508</u>	<u>177,587</u>
<b>TOTAL EQUITY</b>	<b><u>232,217</u></b>	<b><u>226,783</u></b>

#### DEPARTMENT ACTIVITIES

The Department is responsible for promoting the efficient sustainable use of agricultural and livestock resources; protecting and enhancing the environment and safeguarding and improving the productivity of the agricultural and livestock industries. The Department assists the rural sector through research, regulatory, advisory and education services. It also administers financial assistance schemes for the rural sector.

For further information on the Department refer to [www.agric.nsw.gov.au](http://www.agric.nsw.gov.au).

## Murray Valley Citrus Marketing Board

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### AUDIT OPINION

The Victorian Auditor-General undertook the audit of the Board's financial report for the year ended 30 June 2001. The audit resulted in the issue of a qualified Independent Audit Report.

The qualification related to uncertainty regarding the Board's prime source of revenue - levies paid by citrus growers. The Board does not have an effective system to identify all production which is the basis for payment of levies. Accordingly the audit of grower levies was limited to amounts entered into accounting records.

### FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2000 \$'000
Income	1,630	1,407
Expenses	1,466	1,337
Operating surplus	164	70
Net Assets	1,295	1,131

The increase in income was mainly due to increased levy income and was partially off-set by increases in expenditure on quality assurance; cost of goods sold and marketing costs.

### BOARD ACTIVITIES

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

For further information on the Board refer to [www.agric.nsw.gov.au](http://www.agric.nsw.gov.au).

## New South Wales Rural Assistance Authority

### AUDIT OPINION

The audit of the Authority's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### CONTROL ISSUES

We identified minor opportunities for improvement in internal controls and reported them to the Chief Executive.

### COMPLIANCE ISSUES

We tested whether the Authority complied with certain requirements of the *State Records Act 1988*, and found that they did not comply with many of the standards. The Chief Executive has been informed.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related and other operating expenses	45,866	3,926
Grants and subsidies	2,347	2,655
Advancing Australian Agriculture program	9,715	7,053
<b>TOTAL EXPENSES</b>	<b>57,928</b>	<b>13,634</b>
<b>TOTAL REVENUE</b>	<b>4,288</b>	<b>5,035</b>
Profit on sale of non-current assets	1	--
<b>NET COST OF SERVICES</b>	<b>53,639</b>	<b>8,599</b>
<b>Add Government Contributions</b>	<b>16,331</b>	<b>13,462</b>
<b>MOVEMENT IN ACCUMULATED FUNDS</b>	<b>(37,308)</b>	<b>4,863</b>

The \$41.3 million increase in expenses resulted from a change in the accounting treatment for loan capital provided by Treasury to the Authority for loans to farmers.

#### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	11,603	14,411
Non-current assets	81,676	70,777
<b>TOTAL ASSETS</b>	<b>93,279</b>	<b>85,188</b>
Current liabilities	17,488	13,039
Non-current liabilities	69,816	28,866
<b>TOTAL LIABILITIES</b>	<b>87,304</b>	<b>41,905</b>
<b>NET ASSETS</b>	<b>5,975</b>	<b>43,283</b>

The major changes in the assets and liabilities of the Authority relate to loans provided to farmers and loan capital provided by the Treasury. A change in accounting treatment accounted for \$41.3 million of the increase in non-current liabilities. Loan repayments of principal by rural clients were \$15.0 million (\$13.7 million in 2000-01), while additional advances made to farmers were \$25.7 million (\$10.9 million). At year-end, Treasury loan capital was \$82.7 million (\$36.3 million).

During the year, the Treasury provided \$25.7 million (\$11.1 million) for low interest concessional loans to primary producers and the Authority repaid \$19.0 million (\$18.8 million) to the Treasury as settlement against loans outstanding.

## **AUTHORITY ACTIVITIES**

The Authority was constituted under the *Rural Assistance Act 1989*. Its principal function is to assist and administer financial assistance schemes for farmers and other eligible borrowers.

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

For further information on the Authority refer to [www.raa.nsw.gov.au](http://www.raa.nsw.gov.au).

## Riverina Citrus

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### AUDIT OPINION

The audit of the Committee's financial report for the year ended 30 April 2002 resulted in a qualified Independent Audit Report.

The qualification related to uncertainty regarding the Committee's prime source of revenue - levies paid by citrus growers. The Committee does not have an effective system to identify all production, which is the basis for payment of levies. Accordingly our audit of grower levies was limited to amounts entered into accounting records.

The previous year's financial report was similarly qualified.

### CONTROL ISSUES

As reported last year, the above qualification would no longer be necessary if the Committee introduced appropriate controls for grower levies. We will meet shortly with Committee personnel to resolve this matter.

### FINANCIAL INFORMATION

Year ended 30 April	2002 \$'000	2001 \$'000
Revenue	699	661
Expenses	486	447
Operating surplus	213	214
Net assets	608	396

### COMMITTEE ACTIVITIES

The Committee was established under the *Marketing of Primary Products Act 1983*. Its purpose is to promote the best interests of the citrus industry in the Murrumbidgee Irrigation Area (MIA) through pest and disease control; improved orchard management; product promotion and market development; and improved relationships among citrus fruit industry participants.

The Committee is funded by levies on producers of all citrus fruit in the MIA.

For further information on the Committee refer to [www.agric.nsw.gov.au](http://www.agric.nsw.gov.au).

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## **Minister for Community Services**

**Community Services Commission**

**Office of the Children's Guardian**

## Community Services Commission

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### AUDIT OPINION

The audit of the Commission's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUE

The Commission is to be abolished and its functions transferred to the NSW Ombudsman's Office. This is expected to happen on 1 December 2002 when the *Community Services Legislation Amendment Act 2002* commences.

Commission staff will also transfer to the Ombudsman's Office, which will assume the Commission's assets and liabilities at the date of transfer.

### PERFORMANCE ISSUES

The Commission received 1,369 complaint-related contacts in 2001–02 (1,822 in 2000–01). Of these, 340 (925) were handled as complaints and 991 (879) were managed with advice and referral. Thirty-six (16) contacts were reviews of people in care and one (two) became the subject of a major inquiry.

The Commission initiated reviews of service provider complaint handling systems and conducted 31 reviews of the complaint handling systems of Post School Option/Adult Training and Learning Activity services and Home Care Service of NSW branches.

The Community Visitors program cost \$673,000 (\$682,000). The Commission conducted 2,996 visits (3,147) during the year.

### COMPLIANCE ISSUES

We tested whether the Commission complied with certain requirements of the *State Records Act 1998*. The Commission substantially complied with these requirements.

### FINANCIAL INFORMATION

Year ended 30 June	2001 \$'000	2001 \$'000
Employee related expenses	3,014	3,047
Net cost of services	4,146	4,030
Government contributions	4,114	4,000
Net assets (at 30 June)	(32)	15

### COMMISSION ACTIVITIES

The *Community Services (Complaints, Reviews and Monitoring) Act 1993* established the Commission, which commenced operation in April 1994.



The Commission monitors services provided to children, young people and people with disabilities, reviews the circumstances of those in residential care, investigates complaints and reports community service issues to the Minister. The Commission provides advice to consumers of community services, training and support to service providers and acts as a mediator in the informal resolution of disputes. The Community Visitors Scheme and the Review Council form part of the Commission's operations.

For further information on the Commission refer to [www.csc.nsw.gov.au](http://www.csc.nsw.gov.au).

## Office of the Children's Guardian

### AUDIT OPINION

The audit of the Office's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUE

Children and young persons might be at risk because legislation supporting the functions of the Children's Guardian, passed by Parliament in 1998 has not been commenced by the Minister. Consequently the Children's Guardian cannot exercise functions relating to:

- ◆ parental responsibility
- ◆ the removal of responsibility for daily care and control from an authorised carer
- ◆ resolve disputes that may arise in the administration of the *Children and Young Persons (Care and Protection) Act 1998* (the Act)
- ◆ the application for review of an order of the Children's Court.

### CONTROL ISSUES

Opportunities for improved internal control were observed during the audit. These were minor and have been identified in a letter to the Children's Guardian.

### COMPLIANCE ISSUES

We tested whether the Office complied with certain provisions of the *State Records Act 1998*. The Office substantially complied with the provisions.

### FINANCIAL INFORMATION

Period ended 30 June	2002 \$'000	2001 \$'000
Employee related expenses	1,210	245
Other expenses	952	536
Revenue	151	5
Net cost of services	2,011	776
Government contributions	2,124	1,492
Surplus from ordinary activities	113	716
Net assets (at 30 June)	829	716

Operating expenses increased in 2001-02 as the Office only started operations part way through the previous year. The Office received funding on the expectation that the legislation to support the functions of Children's Guardian would commence. Operating expenses were significantly under the budget estimate of \$2.6 million due in part to the amended timetable for the proclamation of certain sections of the Act.

### OFFICE ACTIVITIES

The Act established the position of Children's Guardian and its functions. For further information regarding the activities of the Office refer to [www.kidsguardian.nsw.gov.au](http://www.kidsguardian.nsw.gov.au).

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## **Minister for Education and Training**

**Arts Education Foundation Trust**

**Board of Vocational Education and Training**

**Department of Education and Training**

**NSW Adult Migrant English Service**

**Technical and Further Education Commission**

**Vocational Education and Training Accreditation Board**

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## Arts Education Foundation Trust

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### AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Income	7,625	64,805
Expense	9,262	71
Operating surplus/(deficit)	(1,637)	64,734
Net assets at (30 June)	163,187	164,824

The Trust did not receive any donations in 2001-02 (\$59,000 in 2000-01). Income was from interest on funds held. Expenses include grants of \$3,000.

Accumulated funds at 30 June 2002 comprised cash and investments.

The Department of Education and Training provides accounting and administrative services, free of charge, to the Trust.

### TRUST ACTIVITIES

The Trust was established on 7 February 2000 to raise and provide funds for the development and promotion of the creative arts in the NSW public school system.

The Trust is a joint initiative of the NSW Department of Education and Training, the NSW Teachers Federation, the Federation of Parents and Citizens Associations of NSW, and the Federation of School Community Organisations of NSW.

The Minister for Education and Training has appointed a committee of trustees to administer the Trust.

## Board of Vocational Education and Training

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### AUDIT OPINION

The audit of the Board of Vocational Education and Training's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### COMPLIANCE ISSUES

We tested whether the Board complied with certain requirements of the *State Records Act 1998*. The Board substantially complied with these requirements.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Income	1,532	2,960
Salaries and related expenses	414	335
Other expenses	1,362	849
Operating surplus/(deficit)	(244)	1,776
Net assets (at 30 June)	1,532	1,776

Income for 2000-01 was greater because previously unspent grants were accounted for. Income is now recognised on receipt of Commonwealth grants.

Other expenses increased due to additional research projects commissioned by the Board.

### BOARD ACTIVITIES

The Board was constituted under the *Board of Vocational Education and Training Act 1994*.

The Board advises the Minister on training policies and how to allocate vocational education and training resources within New South Wales. It also liaises with the Australian National Training Authority (ANTA) on how to provide and distribute Commonwealth training funds in New South Wales.

The Board is subject to the control and direction of the Minister for Education and Training.

For further information on the Board refer to [www.bvet.nsw.gov.au](http://www.bvet.nsw.gov.au).

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## Department of Education and Training

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### AUDIT OPINION

The audit of the financial report of the Department of Education and Training and its controlled entities for the year ended 30 June 2002 resulted in a qualified Independent Audit Report.

The qualification related to significant transactions and balances of schools not being included in the financial report and some expenditures not being allocated to the individual expenses for which the schools eventually used them. This qualification has appeared in the Independent Audit Report for several years.

### KEY ISSUES

#### Risk Management

The Department does not have an integrated approach to risk management, nor does it have a documented policy. The Department should approach risk management in a more systematic way by implementing an integrated framework that includes a documented policy.

Also, the Department needs to improve risk management disclosures in its annual report. Present disclosures do not make reference to a risk management plan and related strategies, nor are risks identified or analysed. Hence it is not possible for stakeholders, particularly Parliament, to make informed judgements about the risks faced by the Department and their management of these risks.

#### School Building Maintenance

Volume Three of the Auditor-General's 2002 Report to Parliament included the results of an examination of how six key NSW Government agencies plan the maintenance of their assets. In relation to the Department's school buildings we found that although the agency substantially complied with best practice guidelines when developing maintenance plans, the effectiveness of those plans is influenced by significant maintenance backlogs.

Industry standards indicate that maintenance expenditure for buildings should be around 1.5 per cent of replacement cost. Prior to 2002 the Department had spent below that industry standard for some time, 0.75 per cent in 1997-98 to 1.17 per cent in 2000-01.

Maintenance expenditure below what was required, has resulted in a maintenance backlog and additional costs.

Maintenance plans in 1997-98 identified a \$132 million backlog in major periodic maintenance. Since then \$120 million has been spent to address this backlog. However, in 2001 the Department estimated the backlog had increased to \$143 million, due to extra work required since 1997-98.

In February 2002 the Government provided supplementary funding that reduced the backlog to \$83.0 million at 30 June 2002.

#### Privately Financed Projects for New Schools

The Department is progressing with its project to privately finance nine NSW government schools in new urban release areas. A number of private sector consortia were short-listed and the selection process has continued into the Invitation to Submit Final Offer phase. It is expected that the selection process will be finalised in November 2002.

The project includes a 25-30 year contract for the design, construction and maintenance of six primary schools, two secondary schools and one special needs school with an estimated capital cost of around \$83.0 million.

This is the first project of its kind undertaken by the Department. Therefore, it is essential that all risks are assessed and managed effectively.

### Insurance Costs

Insurance costs increased significantly in 2001-02.

Insurance Costs	2001-02 \$'000	2000-01 \$'000
Workers Compensation – DET	70,077	56,457
Workers Compensation – Australian Traineeship Scheme	30,558	17,215
Property	40,944	34,891
Public liability	19,438	15,352
Other	1,913	2,376
<b>Total</b>	<b>162,930</b>	<b>126,291</b>

Figures taken from the Department's financial statements.

Increased numbers of claims and an increase in insurance premiums caused the majority of cost increases. Higher numbers of trainees also contributed to the 77.5 per cent increase in workers compensation costs for the Australian Traineeship Scheme.

### Computers in Schools

A key initiative of the Department is to provide sufficient and up-to-date computers and related technology to schools, train teachers and enhance the computer skills of all students. The budget allocation was \$146 million for 2001-02.

The expenditure in this area was as follows:

	2001-02 \$000	2000-01 \$000
Computers in schools leasing	37,564	32,435
Internet and related expenditure	30,205	23,362
Salaries	7,779	6,684
Computer co-ordinator funding to schools	34,761	14,800
Provision of email accounts to students and teachers	13,165	--
Computer software and software licenses	11,095	4,725
Buy-back of computers previously leased	6,000	6,500
Grants to schools	5,851	1,689
Other	2,640	3,322
<b>Total</b>	<b>149,060</b>	<b>93,517</b>

The ratio of students to computers (or equivalent) in New South Wales government schools has improved from 22:1 in 1995 to currently around 6:1. A further improvement is expected in 2002-03 with 25,000 computers being distributed to schools (including 2,500 to non-government schools) at a cost of over \$24.0 million.

## Rationalisation of Schools

The Department continually reviews the way it uses school facilities and whether it can rationalise further. In 2001 three high schools and four public schools were identified for closure by the end of 2002. However that decision was recently reversed in respect of Hunters Hill High and Erskineville Public Schools. No further schools have been identified in 2002 for closure.

In 2001-02 the Department sold 33 school properties for \$35.5 million compared to 39 school properties with net proceeds \$16.5 million in 2000-01. At 30 June 2002, the Department had \$86.6 million (\$94.0 million) surplus sites awaiting sale.

## Revitalisation of Sydney's Inner City School Program

During the year the Treasurer approved a loan of \$82.5 million for the Revitalisation of Sydney's Inner City Schools Program. The Department received \$3.0 million in 2001-02 and expects to get the remainder over the next four years.

Revenue flows from the sale of surplus sites will be used to repay the Treasury loan. The recent decision not to sell Hunters Hill High and Erskineville Public Schools means the Department will have to develop alternative strategies to repay the loan.

## PERFORMANCE ISSUES

	NSW	National	NSW Ranking
<b>Education Institution Unit Costs – Government Schools</b>			
<b>2000-01 (i)</b>			
Primary	<b>\$6,300</b>	\$6,841	8/8
Secondary	<b>\$8,535</b>	\$8,889	7/8
Overall	<b>\$7,198</b>	\$7,633	8/8
<b>Student to Teaching Staff Ratios – Government Schools</b>			
<b>2001 (ii)</b>			
Primary	<b>17.5</b>	16.8	1/8
Secondary	<b>12.5</b>	12.4	2/8
Overall	<b>15.1</b>	14.8	1/8
<b>Full-Time Student Enrolment – Government Schools as a percentage of all schools 2001 (ii)</b>			
Primary	<b>71.8</b>	72.4	5/8
Secondary	<b>64.5</b>	63.7	4/8
Overall	<b>68.7</b>	68.8	6/8
(i) Source: Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA). Reflects average student costs for recurrent expenditure, including components for State office, district and school administration and student conveyance.			
(ii) Source: Australian Bureau of Statistics, Schools 2001 4221.0			
Note: Care should be taken when making comparisons between different jurisdictions as areas of non-comparability continue to exist.			

New South Wales has the lowest primary school student costs and second lowest secondary school student costs for 2000-01.

New South Wales ranks highest for the government primary student-to-teacher ratio and second highest for government secondary students. Overall, the New South Wales government schools ratio is 15.1, compared to 14.8 for New South Wales non-government schools.



DET statistics show the average number of teachers employed in government schools on a full-time equivalent (FTE) basis over the last three years:

Teaching Classification	2002	2001	2000
Permanent and temporary teachers	<b>47,997</b>	44,485	43,334
Long term casual teachers	<b>3,914</b>	6,539	8,782
Short term relief casuals	<b>2,034</b>	<u>2,239</u>	<u>2,316</u>
	<b><u>53,945</u></b>	<u>53,263</u>	<u>54,432</u>
These numbers include permanent full-time and part-time teachers as well as teachers on paid leave.			
Figures are not directly comparable to teaching numbers in other publications calculated on a point in time basis.			

Long term casual teacher reductions are mainly a result of changes to the definition of casual teachers that have moved some into the temporary category.

New South Wales has the sixth highest percentage (68.7 per cent) of students attending government schools. The highest is the Northern Territory at 77.2 per cent and the lowest is the Australian Capital Territory at 62.6 per cent.

NSW Student Numbers	Government		Non-Government	
	2001	2000	2001	2000
Primary	<b>452,626</b>	455,914	<b>177,635</b>	173,046
Secondary	<b>302,620</b>	<u>303,709</u>	<b>166,288</b>	<u>161,647</u>
Total	<b><u>755,246</u></b>	<u>759,623</u>	<b><u>343,923</u></b>	<u>334,693</u>
Source: Australian Bureau of Statistics Schools 2001 4221.0				

The above table shows the continued movement in students from Government to non-government schools.

### National Goals for Schooling for the 21<sup>st</sup> Century

In 2001 the National Performance Measurement and Reporting Taskforce was established to develop a coordinated approach to report on the achievement of the National Goals for Schooling in the 21<sup>st</sup> Century. It brings together the work of four previous taskforces. It is committed to the reporting of high quality data on nationally comparable outcomes. Two key measures are those for Literacy and Numeracy skills. The Department spent \$117 million on the Literacy and Numeracy plan in 2001-02.

The latest nationally comparable data available was for 2000. Numeracy benchmark results were not collated for 1999. The figures quoted below are for all New South Wales schools (government and non-government).

	2000		1999	
	NSW %	National %	NSW %	National %
Percentage of year 3 students achieving the reading benchmark	93.1	92.5	93.7*	89.7*
Percentage of year 5 students achieving the reading benchmark	89.1	87.4	90.3	85.6
Percentage of year 3 students achieving the numeracy benchmark	93.2	92.7	na	na
Percentage of year 5 students achieving the numeracy benchmark	91.1	89.6	na	na
Source: National Report on Schooling in Australia: Preliminary Paper, 2000. Ministerial Council on Education, Employment, Training and Youth Affairs. (MCEETYA)				
*1999 results were first published in the 1999 National Report on Schooling Australia. Since that time a new method of calculating the national benchmark has been introduced. This change affected only the Year 3 Reading results, therefore revised results are reported above.				

While the national average of year 3 students achieving the reading benchmark improved considerably from 1999 to 2000, the result for New South Wales deteriorated slightly. Despite that, in 2000 New South Wales had the third highest score of all States and Territories.

Similarly, the national average of year 5 students achieving the reading benchmark improved considerably from 1999 to 2000 but the result for New South Wales deteriorated. New South Wales is above the national benchmark and it is placed fourth out of the eight States and Territories.

For the numeracy benchmark, in 2000, New South Wales ranked third for years 3 and 5 students.

## CONTROL ISSUES

In addition to control issues raised under 'Key Issues' and 'Compliance Issues', the following control issues were identified during the audit.

### Leave Recording

For several years we have recommended the Department improve its leave recording controls so that leave taken by administrative and teaching staff is recorded against that officers leave balances and leave applications are recorded on a timely basis. Leave taken but not recorded is an additional cost to the Department and delays in recording leave taken can result in salary overpayments that are difficult to recover.

An online leave system due to be implemented in March 2003 will assist in ensuring leave applications are received and recorded on a timely basis. Steps have also been taken to improve leave recording in the period to implementation.

Despite improvements, further work is required to ensure leave applications are received for all leave taken.

## Salary Overpayments and Recovery

Improvements in departmental procedures resulted in significant reductions in the incidence and value of overpayments. Overpayments in 2001-02 totalled \$7.0 million (\$13.7 million in 2000-01) of which permanent teachers represented \$5.6 million (\$10.6 million).

As in previous years, most overpayments were due to late receipt of leave applications. Other overpayments arose because of retrospective advice of changes in hours worked.

Recovery of overpayments has also improved. Unrecovered salary overpayments at 30 June 2002 totalled \$4.2 million (\$4.4 million) of which permanent teachers represented \$3.0 million (\$3.1 million).

Problems still exist with recovery of some large overpayments. Negotiations for repayment are influenced by relevant industry agreements. Under the Teachers Agreement the Department can only compel repayments at a minimum rate of 3 per cent of the employee's fortnightly pay. For administrative staff the figure is 10 per cent of fortnightly pay. While 84 per cent of overpayments made are under \$5,000, for some of the larger debtors (\$15,000 to \$20,000), repayment periods in excess 20 years can result, with repayments not even covering the equivalent interest cost had such been charged.

The worst case encountered involved an employee who was paid for the 1999 and 2000 school years while being on unauthorised absence. This resulted in an overpayment of \$96,700, which is initially being recovered at a negotiated rate of \$25.75 per fortnight over 144 years.

## Other Matters

A number of other matters were noted during the audit in respect of payroll, expenditure, transfer payments and asset accounting. These matters have been discussed with staff of the Department and, where appropriate, have been advised to Department's management.

## COMPLIANCE ISSUES

We tested whether the Department complied with:

- ◆ the Records Management Programs standard and aspects of the Recordkeeping in the Electronic Business Environment standard issued pursuant to the *State Records Act 1998*

The Department substantially complied with the Act. However, we recommended the Department:

- develop record keeping procedures and related responsibilities for schools
- conduct regular skills audits and training analysis for records management staff in accordance with the minimum requirements of the Act
- update its Code of Conduct to include reference to the records management program policy as required by the Standard
- incorporate the records management program into the public office's corporate plan
- implement software for records capture and tracking in schools
- perform regular reviews of compliance with this legislation as intended by the Department's Record Management Program

- ◆ the requirements of the *A New Tax System (Goods and Services Tax) Act 1999*

The Department substantially complied with the legislation. Recommendations have been made to the Department in regard to some incorrect transaction coding, the need for update and increased staff awareness of the GST manual and the need for a policy in respect of non-monetary transactions.

## OTHER ISSUES

### Annual Report

The *Annual Reports (Departments) Act 1985* requires Government agencies to include the financial statements of controlled entities in their annual report unless included in the controlled entity annual report. The Technical and Further Education Commission (TAFE) and the Adult Migrant English Service (AMES), both controlled entities of the Department, have not been included in its annual report nor published in an annual report of their own.

### School Financial Transactions

As reported last year a new school accounting system is required before aggregation of all school transactions and balances can occur and our audit qualification to the financial report is lifted. The Department has indicated that it may be several years before this is resolved.

### Corporate Services Integration Projects

The current level of application integration across the Department is generally low. The Department has recognised the need for integrated systems.

In October 2001, the Department's Corporate Information Applications Steering Committee endorsed a strategic plan for the replacement of the administration and finance components of the current stand alone school based system. The Department has advised the project is expected to extend over a five-year period and will cost an estimated \$167 million.

Replacement and integration of the human resources/payroll systems is also being planned.

Both projects are presently at the 'proposal' stage and cannot be formally adopted until the central agencies approve the business case and provide project funding.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	4,249,184	3,975,484
Other expenses	<u>1,501,107</u>	<u>1,369,538</u>
<b>TOTAL EXPENSES</b>	<b>5,750,291</b>	<b>5,345,022</b>
<b>TOTAL RETAINED REVENUE</b>	<b>104,269</b>	<b>83,255</b>
Gain/(loss) on disposal of non-current assets	(6,611)	(1,859)
<b>NET COST OF SERVICES</b>	<b>5,652,633</b>	<b>5,263,626</b>
<b>Add Government Contributions</b>	<b>5,531,806</b>	<b>5,239,953</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>(120,827)</b>	<b>(23,673)</b>
Total revenues, expenses and valuation adjustments recognised directly in equity	<b>1,524</b>	1,733
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>	<b>(119,303)</b>	<b>(21,940)</b>

The 6.9 per cent increase in Employee Related Expenses resulted from a combination of award increases (3 per cent for teachers and an effective 2.5 per cent for administrative staff), additional teachers appointed and increases in costs of long service leave, superannuation and workers compensation insurance.

The increase in Other Expenses included increases of \$58.4 million in asset maintenance, \$23.0 million in insurance costs and \$28.5 million in school computer and Internet costs.

The \$21.0 million increase in retained revenue includes an \$8.2 million increase in income from overseas students and workers compensation refunds at \$8.8 million, offset by a reduction in investment income of \$5.8 million.

The \$121 million deficit in 2001-02 reflects a divergence in that year between the Department's expenditures and the level of Consolidated Fund support. This appears to have mainly occurred in the area of employee related expenses. The Department and Treasury are discussing the implications for 2002-03 and future years.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	180,457	278,475
Non-current assets	<u>13,069,226</u>	<u>13,044,915</u>
<b>TOTAL ASSETS</b>	<b>13,249,683</b>	<b>13,323,390</b>
Current liabilities	244,883	201,512
Non-current liabilities	<u>54,769</u>	<u>52,544</u>
<b>TOTAL LIABILITIES</b>	<b>299,652</b>	<b>254,056</b>
<b>NET ASSETS</b>	<b>12,950,031</b>	<b>13,069,334</b>
Reserves	2,860,164	2,862,606
Accumulated funds	<u>10,089,867</u>	<u>10,206,728</u>
<b>TOTAL EQUITY</b>	<b>12,950,031</b>	<b>13,069,334</b>

The decrease in current assets of \$98.0 million was mainly due to the cash at bank balance reducing from \$203 million in 2001 to \$98.9 million in 2002. The decrease in cash is consistent with the \$121 million deficit in ordinary activities.

Non-current assets are mainly school land and buildings.

### School Cash and Investment Balances

School cash balances are not recorded within the Department's statement of financial position. Cash balances held by schools at 30 June 2002 were \$279 million (\$269 million in 2001).

### Abridged Program Information for the Economic Entity

Program Description	2002		Net Cost of Services \$'000	2001 Net Cost of Services \$'000
	Revenues* \$'000	Expenses* \$'000		
Pre-school education services in government schools	582	17,572	<b>16,990</b>	15,498
Primary education services in government schools	32,393	2,805,695	<b>2,777,269</b>	2,577,632
Secondary education services in government schools	55,200	2,656,816	<b>2,604,261</b>	2,433,660
Non-government schools assistance	--	5,608	<b>5,608</b>	4,755
TAFE education services	159,640	1,293,583	<b>1,136,463</b>	1,068,285
Grants for education and training services	23,990	211,654	<b>187,664</b>	181,647
AMES	17,261	26,053	<b>8,788</b>	10,974
TAFE Global Pty Ltd	<u>3,148</u>	<u>2,722</u>	<u>(426)</u>	--
Total (all programs)	<u>292,214</u>	<u>7,019,703</u>	<u><b>6,736,617</b></u>	<u>6,292,451</u>

\*Includes gain/(loss) on sale of non-current assets.  
 \* TAFE Global Pty Ltd previously was not consolidated within the economic entity financial statements.

### Audit of Schools

For the school financial year ended 30 November 2001, we audited 37 high schools' and 35 primary schools' financial reports.

Each year the Department distributes detailed guidelines to assist schools in the preparation of their financial report, conducts training courses and provides advice and support to the schools.

We issued unqualified Independent Audit Reports to all 72 schools audited. We also wrote to each school with recommendations for improvements to internal controls and suggestions to improve the standard of the financial report. Overall there has been a continued improvement in the standard of schools' financial reports.

The Department's financial report includes a note stating that income of all schools for the year ended 30 November 2001 totalled \$781 million. This was made up of departmental funding \$488 million, school and community sources \$279 million and interest \$14.0 million.

### Cost of Providing Government School Education

Using departmental statistics of government school enrolments and relevant program costs, some broad trends of cost per student for primary and secondary education over the past three years were:

Year ended 30 June	2002	2001	2000
Actual enrolments (a):			
Primary students	<b>450,893</b>	453,533	456,775
Secondary students	<b>304,787</b>	<u>303,208</u>	<u>305,061</u>
Total	<b>755,680</b>	<u>756,741</u>	<u>761,836</u>
Program costs (b):			
Primary \$m	<b>2,777</b>	2,578	2,531
Secondary \$m	<b>2,604</b>	<u>2,434</u>	<u>2,374</u>
Total \$m	<b>5,381</b>	<u>5,012</u>	<u>4,905</u>
Cost per student:			
Primary \$	<b>6,159</b>	5,684	5,541
Secondary \$	<b>8,544</b>	<u>8,028</u>	<u>7,782</u>
Average \$	<b>7,121</b>	<u>6,623</u>	<u>6,438</u>
(a) Estimated for 2002. Actual enrolment figures were not available at the time of the preparation of this Report. 2001 and 2000 figures are actuals.			
(b) Program costs excluded transfer payments, pre-school education, non-government school, TAFE services costs and grants for education and training services. Program costs used in the calculation of cost per student included non-cash items, leave and superannuation liabilities assumed by the Crown Entity.			

### Cost of Funding Non-Government School Education

In 2001–02, the NSW Government provided funding to 917 non-government schools. Funding is mainly in the form of a per capita allowance, a secondary textbook allowance and an interest subsidy scheme. Schools must be registered in terms of the *Education Act 1990* to be eligible for State funding assistance.

Using departmental statistics of non-government school enrolments and relevant program costs, some broad trends of funding per student over the past three years were:

Year ended 30 June	2002	2001	2000
Average enrolments (a):			
Primary Students	<b>178,826</b>	175,123	170,396
Secondary Students	<b>167,646</b>	<u>163,192</u>	<u>158,682</u>
Total	<b>346,472</b>	<u>338,315</u>	<u>329,078</u>
Program costs (b)			
Primary \$m	<b>211.3</b>	193.1	175.0
Secondary \$m	<b>287.2</b>	<u>265.0</u>	<u>238.5</u>
Total \$m	<b>498.5</b>	<u>458.1</u>	<u>413.5</u>
Funding per student:			
Primary \$	<b>1,182</b>	1,102	1,027
Secondary \$	<b>1,713</b>	1,624	1,503
Average \$	<b>1,439</b>	1,354	1,257
(a) Average enrolments represent those non-government enrolments that qualified and received State recurrent funding. This does not include full fee paying overseas students.			
(b) Program costs used in calculating cost per student included per capita grants, interest rate subsidies, textbook allowances and assistance to families in meeting costs of students attending non-government schools.			

**DEPARTMENT ACTIVITIES**

The Department coordinates the delivery of education and training services in New South Wales from pre-school to tertiary. It is responsible for the provision of school education, vocational education and training and has certain regulatory and service responsibilities to private schools, private providers of education and training and universities.

The economic entity on which the Independent Audit Report is issued incorporates the Department, the Technical and Further Education Commission (TAFE), the NSW Audit Migrant English Service (AMES) and TAFE Global Pty Ltd. Separate comment on TAFE, AMES and TAFE Global Pty Ltd is included elsewhere in this Report.

For further information regarding the activities of the Department refer to [www.det.nsw.edu.au](http://www.det.nsw.edu.au).



## NSW Adult Migrant English Service

### AUDIT OPINION

The audit of the NSW Adult Migrant English Service's (AMES) financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Continuity of Operations

Approximately 80 per cent of AMES' revenue comes from delivering Commonwealth Adult Migrant English Programs in two of five regions in NSW. Its continued involvement with these programs depends on tenders it submitted for the five years commencing in July 2003. The outcome will be known in November 2002.

### COMPLIANCE ISSUES

We tested whether the Service complied with certain requirements of the *State Records Act 1998*. The Service substantially complies with these requirements.

### OTHER ISSUES

#### Displaced Staff

At 30 June 2002 AMES still had four displaced staff resulting from a 1998 change in operations. The salaries and associated on-costs for retaining these staff are estimated at \$291,000 per annum. It is not known when these staff will be placed in permanently funded positions.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Income	19,654	18,909
Salaries and related expenses	11,906	13,712
Other expenses	14,410	14,103
Operating surplus/(deficit)	(6,662)	(8,906)
Net assets	11,088	17,750

The operating deficit was largely due to an \$8.1 million reduction in prepaid superannuation contributions. The reduction is a result of a superannuation contribution exemption for the year and reduced investment returns.

### SERVICE ACTIVITIES

AMES is a controlled entity of the Department of Education and Training. It provides English language learning opportunities for adult migrants and job seekers.

The Commonwealth Government primarily funds AMES.

For further information on the Service refer to [www.ames.edu.au](http://www.ames.edu.au).

## Technical and Further Education Commission

### AUDIT OPINION

The audit of the financial reports of the Technical and Further Education (TAFE) Commission and its controlled entity for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

#### Size and Scope of TAFE Commission in NSW

The Commission is the largest vocational education and training (VET) provider within the Australian VET network. The Commission spends more on VET than any other organisation and provides the highest level of teaching hours to the greatest number of students.

The table below illustrates the trend in enrolments and teaching hours against the net cost of services for the Commission over the last three years.

	Years			% Change
	2001	2000	1999	1999-2001
Total Enrolments	504,496	460,908	455,671	10.7
Annual Student Contact Hours * (ASCH '000)	99,642	92,474	88,982	12.0
Net Cost of Services * (\$'000)	1,019,917	1,081,758	1,084,598	-6.0
ASCH per enrolment	198	201	195	1.5
Net Cost of Services per enrolment (\$)	2,022	2,347	2,380	-15.0
Net Cost of Services per ASCH (\$)	10.2	11.7	12.2	-16.4
* Net Cost of Services is for the financial year ended 30 June whereas Enrolments and Student Hours are for the calendar year.				

For comparison purposes, the 2000 figures for enrolments and annual student contact hours exclude all Olympics related activity.

People aged 15-64 years form the main target population for VET activities.

Over the last three years, enrolments have increased by 48,825 or 10.7 per cent.

Annual student contact hours over the last three years have increased by 12 per cent. The different rates of growth between enrolments and hours can be partly attributed to the Commission's increase in flexible delivery modes that suit the needs of industries, the community and individuals.

#### Performance of the New South Wales VET Services

The performance of VET services across Australia is reported on a state/territory basis. Within each state/territory, VET services are provided by a variety of organisations including public institutions of technical and further education (TAFE), community-based providers, private providers, and some secondary schools. State and Territory TAFE institutes along with other government providers account for the majority of publicly funded VET services in each state/territory. Therefore, when comparing the performance of NSW to other states/territories or to the Australian average, it can be taken as comparing the performance of the TAFE Commission.

The numbers of students and training hours reported for State/Territory TAFE institutes and other government providers remained relatively stable, at 73.7 per cent of all VET students and 81.1 per cent of all training hours in 2001. The remaining 26.3 per cent of students were enrolled with registered adult and community education providers or private providers.

In 2001, over 1.7 million people, Australia wide, undertook publicly funded and/or provided vocational programs, about a third of these in New South Wales.

Over 377 million hours of VET programs were publicly funded or delivered on a fee for service basis by Australia wide public providers in 2001. Again about a third of these hours were delivered in NSW.

Student characteristics for minority groups, reported in the Australian Vocational Education and Training Statistics 2001, for New South Wales were:

- ◆ 29.4 per cent were students in rural or remote areas, compared with 30.9 per cent nationally
- ◆ 18.7 per cent were born overseas, compared with the national average of 16.7 per cent
- ◆ 50.9 per cent were female students, compared with 48.7 per cent nationwide
- ◆ 4.3 per cent were students with a disability, compared to 3.9 per cent nationally
- ◆ 2.9 per cent were Aboriginal/Torres Strait Islanders compared with 3.3 per cent nationally.

### Efficiency

The table below shows the level of efficiency achieved in NSW over the period 1999 to 2001. Efficiency has improved as real government recurrent expenditure per adjusted annual curriculum hour (as seen in the table below) has decreased over time.

	NSW			Australia		
	2001	2000	1999	2001	2000	1999
Government recurrent expenditure (2001 prices) (\$ million)	1,246.0	1,279.7	1,304.2	3,459.7	3,438.9	3,417.8
Adjusted annual curriculum hours '000	98,010	90,721	86,251	278,629	262,304	255,601
Real government recurrent expenditure per adjusted annual curriculum hour, course-mix weighted (2001 prices) (\$)	13.03	14.41	15.45	12.42	13.11	13.37
NSW Ranking	4/8	4/8	4/8			
% annual change	-9.6	-6.7	-4.9	-5.3	-1.9	-5.2
Source: Vol 3 of the Annual National Report 2001 of the Australian Vocational Education and Training System, Tables A6.6-6.9						
Unit costs are reported in terms of total recurrent government expenditure per annual curriculum hours, adjusted to account for course mix differences across jurisdictions. Financial and activity data from States and Territories are reported within an agreed scope and boundary to ensure that unit costs accurately reflect the relative efficiency of government service provisions across jurisdictions.						

Government recurrent expenditure per annual curriculum hour of government funded VET programs in 2001 ranged from \$19.73 in the Northern Territory to \$10.75 in Victoria, with NSW ranking fourth at \$13.03.

### Employer Outcomes

#### *Overall Employer Satisfaction With VET Providers, 2001*

Employer satisfaction is an important indicator of the quality of VET services. The National Centre for Vocational Education Research (NCVER) Ltd 2001 Survey of Employer Views on Vocational Education and Training, contracted by the Australian National Training Authority (ANTA), obtained views on various aspects of VET from employers in different industries nationally.

One section of the survey asked employers to rate their 'overall satisfaction' with VET on a scale of 1 (very dissatisfied) to 10 (very satisfied).

	NSW		Australia		NSW Ranking	
	2001	1999	2001	1999	2001	1999
Employers satisfied with VET services	82%	87%	80%	83%	2/8	1/8
Mean score	7.2	7.3	7.1	7.2	1/8	1/8
Employers who agree that the VET system is providing graduates with skills appropriate to employers' needs	69%	73%	69%	69%	4/8	2/8
Source: 2001: 'Survey of Employer Views on Vocational Education and Training Statistics 2001: At a Glance'; 1999: 'Survey of Employer Views on Vocational Education and Training Statistics 1999: At a Glance'; NSW 1999 Ranking: 'Report on Government Services 2000', Table 3.8.						

### ***Employer General Views on VET***

Employers' survey responses indicated positive views on VET.

For New South Wales, 71 per cent of employers (76 per cent in 1999) agreed that training pays for itself through increased worker productivity. For Australia as a whole, 74 per cent of employers agreed, similar to the previous survey in 1999.

The employers did, however, identify areas such as the adequacy of graduates' literacy and numeracy skills, the assessment process for VET and the amount of work experience or work placement in vocational training, as areas that needed improvement.

### ***Student Survey Results***

Student satisfaction and employment outcomes are another indicator of the quality of VET services provided.

The Statistics 2001 Students Outcomes Survey: National Report, commissioned by ANTA, presents information collected from a national survey of students who undertook VET services during 2000 at a TAFE institute in Australia. The survey collected information about two groups of students: graduates and module completers. Graduates are defined as students who completed their course during 2000 and graduated with a qualification from a course. Module completers are students who successfully completed some training and had left the TAFE system at the time of completing the survey.

### ***Student Satisfaction***

The survey asked graduates and module completers to nominate their main reason for undertaking a VET course. Approximately 78.2 per cent of NSW surveyed graduates (79.9 per cent Australia wide) indicated that they enrolled for vocational reasons (for example, to obtain a job, promotion or to acquire extra skills).

The table below indicates the main reasons for undertaking studies and the proportion of those surveyed who stated that the VET course they undertook helped them achieve their main reason for doing the course.

	Graduates		Module Completers	
	NSW	Australia	NSW	Australia
<b>Reasons for study</b>				
To find a job, promotion or different career	47.0	45.9	32.6	32.7
Job requirement, desire for extra skills or for another course	31.2	34.0	31.8	35.1
Other reasons	21.8	20.1	35.6	32.2
<b>Achieved main reason</b>				
Yes	66.6	66.7	53.6	52.9
No	8.2	8.5	18.5	18.3
Partly	13.3	13.2	18.2	18.2
Do not know or not stated	11.9	11.6	9.7	10.6
Source: 'Australian Vocational Education and Training, Statistics 2001: Student Outcomes Survey, New South Wales State Report', published by National Centre for Vocational Education Research Ltd. for the Australian National Training Authority. For Graduates: data is as per figure 11a and 12a on p 16. For Module Completers: data is as per 11b and 12b on p 29.				

### Employment Outcomes

The pattern of work and study is slightly different for graduates and module completers.

The table below shows that graduates improve their employment outcomes through their training to a greater extent than do module completers.

Employment Outcomes Survey	NSW		Australia		Ranking	
	2001	2000	2001	2000	2001	2000
<b>For Graduates</b>						
Employed	72.1	74.0	73.4	76.0	7/8	7/8
Unemployed	12.2	12.3	11.9	11.2	2/8	1/8
Not in the labour force	15.7	13.7	14.7	12.8	2/8	2/8
Source: 2001: 'Student Outcomes Survey National Report 2001', Table 7; 2000: 'Student Outcomes Survey National Report 2000', Table 7.						
<b>For Module Completers</b>						
Employed	62.1	65.1	67.2	71.0	8/8	8/8
Unemployed	14.5	14.1	13.3	12.1	2/8	2/8
Not in the labour force	23.4	20.8	19.5	16.9	1/8	1/8
Source: 2001: 'Student Outcomes Survey National Report 2001', Table 19; 2000: 'Student Outcomes Survey National Report 2000', Table 19.						

### CONTROL ISSUES

We identified opportunities for improvement in controls. These were minor and have been reported to the Commission.

## OTHER ISSUE

### Asset Revaluation

The Commission will revalue its non-current assets in 2003 in accordance with Treasury requirements that assets be revalued every five years. Given the complexity and size of the Commission's assets, it is essential that the project continue to receive early attention so as to not disrupt financial reporting deadlines.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	Consolidated	Parent	
	2002 \$'000	2002 \$'000	2001 \$'000
Employee related	927,704	926,251	883,813
Other expenses	<u>366,809</u>	<u>365,524</u>	<u>345,614</u>
<b>TOTAL EXPENSES</b>	<b><u>1,294,513</u></b>	<b><u>1,291,775</u></b>	<b><u>1,229,427</u></b>
<b>TOTAL RETAINED REVENUE</b>	<b><u>219,711</u></b>	<b><u>216,957</u></b>	<b><u>210,515</u></b>
Loss on sale of non-current assets	(2,520)	(2,520)	(1,005)
<b>NET COST OF SERVICES</b>	<b><u>1,077,322</u></b>	<b><u>1,077,338</u></b>	<b><u>1,019,917</u></b>
Add Government Contributions through parent	<u>1,052,159</u>	<u>1,052,159</u>	<u>1,027,726</u>
<b>INCREASE/(DECREASE) IN ACCUMULATED FUNDS</b>	<b><u>(25,163)</u></b>	<b><u>(25,179)</u></b>	<b><u>7,809</u></b>

2002 consolidated figures include the Commission and TAFE Global Pty Ltd. This is the first year of consolidation, therefore, no prior year comparison figures are available.

Employee related expenses increased by \$42.4 million, due to a 3 per cent award increase from July 2001 and an increase in teacher numbers.

Other expenses increased by \$19.9 million. This was mainly due to an increase in maintenance expenditure of \$5.6 million, an increase of \$10.6 million in services expenses and a \$6.4 million rise in minor stores, plant and computing. Offsetting this was a \$4.0 million decrease in other expenses due to a one-off computer equipment write-off of \$3.2 million in 2000-01.

### Abridged Statement of Financial Position

At 30 June	Consolidated	Parent	
	2002 \$'000	2002 \$'000	2001 \$'000
Current assets	126,222	124,107	151,076
Non-current assets	<u>1,977,422</u>	<u>1,979,334</u>	<u>1,973,511</u>
<b>TOTAL ASSETS</b>	<b><u>2,103,644</u></b>	<b><u>2,103,441</u></b>	<b><u>2,124,587</u></b>
Current liabilities	94,682	93,982	89,949
Non-current liabilities	--	--	--
<b>TOTAL LIABILITIES</b>	<b><u>94,682</u></b>	<b><u>93,982</u></b>	<b><u>89,949</u></b>
<b>NET ASSETS</b>	<b><u>2,008,962</u></b>	<b><u>2,009,459</u></b>	<b><u>2,034,638</u></b>

The decrease in current assets of \$27.0 million was mainly due to the cash at bank balance reducing from \$124.0 million in 2001 to \$93.2 million in 2002. The decrease in cash is consistent with the deficit in ordinary activities of \$25.2 million, mainly attributable to a large increase in employee related expenses.

Current liabilities increased by \$4.0 million mainly due to a \$1.5 million increase in recreation leave and \$1.3 million increase in accrued salaries and wages. In the previous year, recreation leave entitlements were at lower than normal balances because some employees were paid out their leave upon accepting redundancy offers, while other employees reduced their leave balance by taking more leave than usual during the 2000 Olympic period. This year's leave balances represent a return to a normal pattern of leave by TAFE employees.

### **Voluntary Redundancy Program**

In July 1999 the Commission announced a voluntary redundancy program aimed at approximately 630 staff. This redundancy program was announced shortly after education funding decreases were announced in the 1999-2000 State Budget. In order for the Commission to be able to operate within the decreased level of funding it needed to reduce its costs. One way of achieving these costs savings was to reduce its workforce. Thus, the Commission offered redundancies to both teaching and non-teaching staff.

In the first wave of the voluntary redundancies, a total of \$33.2 million was paid to 741 employees by 30 June 2000. In 2000-01 119 employees were paid a total of \$5.5 million while a further 95 employees accepted \$4.1 million in the 2002 financial year. The average redundancy payment has decreased to \$43,200 in 2001-02 from \$46,200 in 2000-01 and \$44,800 in 1999-2000.

By 30 June 2002, 955 employees had taken up the option of a voluntary redundancy with a total payout of \$42.8 million.

The Commission has advised that this program will no longer be funded through additional budget allocated funds. As a result the program will be wound down with any further redundancies to be funded internally by the Commission.

### **COMMISSION ACTIVITIES**

The Commission, more commonly known as TAFE NSW, was constituted by the *Technical and Further Education Commission Act 1990* as a statutory body corporate.

Its principal objective is to provide technical and further education services which are relevant to the needs of industry, business, students and other client groups, by ensuring that these services recognise the changing nature of the working environment and the need for new skills and re-training.

The Commission provides vocational and pre-vocational education and training services through its 11 institutes and the Open Training and Education Network (OTEN). While the institutes and OTEN observe Commission policies and priorities, they develop their own education and training profiles and manage their own operations.

Since December 1997, the Commission has been a controlled entity of the Department of Education and Training.

The Commission is subject to the control and direction of the Minister for Education and Training.

For further information on the Commission refer to website at [www.tafensw.edu.au](http://www.tafensw.edu.au).

## Vocational Education and Training Accreditation Board

### AUDIT OPINION

The audit of the Vocational Education and Training Accreditation Board's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

The Department of Education and Training has provided the Board with a guarantee of financial support for the past several years. To date the Board has not needed to draw on that support. The Board will need to continue to budget carefully to ensure an ongoing positive net asset situation.

The Department charges the Board for administrative and operational support. The charge is an estimate and does not cover all services provided. The Board and the Department need to develop a method for quantifying these costs so that more accurate financial results of the Board can be reported.

### COMPLIANCE ISSUES

We tested whether the Board complied with certain requirements of the *State Records Act 1998*.

The Board substantially complied with these requirements.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Income	1,897	915
Salaries and related expenses	708	631
Other expenses	476	390
Operating surplus/(deficit)	713	(106)
Net assets (at 30 June)	767	54

Income increased because of increases in fees and changes in their timing.

### BOARD ACTIVITIES

The Board was established in 1991 under the *Vocational Education and Training Accreditation Act 1990*. It accredits courses and registers providers of education and training.

The Board is subject to the control and direction of the Minister for Education and Training.

For further information on the Board refer to [www.vetab.nsw.gov.au](http://www.vetab.nsw.gov.au).



## **Minister for Energy**

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**The Electricity Tariff Equalisation Ministerial Corporation**

## The Electricity Tariff Equalisation Ministerial Corporation

### AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

#### Statement of Financial Performance

	12 Months Ended 30 June 2002 \$'000	6 Months Ended 30 June 2001 \$000
Tariffs to retailers	290,152	104,591
Tariffs to generators	5,000	52,712
Other	<u>447</u>	<u>850</u>
<b>TOTAL EXPENSES</b>	<b><u>295,599</u></b>	<b><u>158,153</u></b>
Tariffs from retailers	332,678	101,863
Tariffs from generators	--	57,712
Other	<u>6,865</u>	<u>1</u>
<b>TOTAL REVENUES</b>	<b><u>339,543</u></b>	<b><u>159,576</u></b>
<b>OPERATING SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b><u>43,944</u></b>	<b><u>1,423</u></b>

Because of increased fluctuations in energy prices, tariffs paid to and from retailers in 2001-02 were higher than the previous year. No payments were required to be made by the generators because there was net revenue from retailers of \$43 million. (See Corporation Activities, below, for details on funding arrangements.)

#### Statement of Financial Position

At 30 June	2002 \$'000	2001 \$000
<b>TOTAL ASSETS</b>	<b>222,351</b>	32,241
<b>TOTAL LIABILITIES</b>	<b><u>176,984</u></b>	<b><u>30,818</u></b>
<b>NET ASSETS</b>	<b><u>45,367</u></b>	<b><u>1,423</u></b>

At 30 June 2002, the Corporation had cash of \$217 million. Amounts payable to retailers and generators were \$177 million.

### CONTROL ISSUES

The Corporation relies on accurate retailers' data. We recommend that it verify this data annually.

## **CORPORATION ACTIVITIES**

The Corporation is a commercial activity of the Crown, managed by the Treasurer. It was created to administer the Electricity Tariff Equalisation Fund. The *Electricity Supply Act 1995* constituted the Corporation and the Fund in January 2001. The financial statements have been consolidated within the Crown Entity.

The Corporation's purpose is to maintain the ability of standard retail electricity suppliers to supply electricity at regulated retail tariffs.

Retailers of electricity pay into the Fund when electricity pool prices are lower than the energy cost component of the regulated price paid by customers. When pool prices are higher than the energy cost component, the Fund pays retailers so they can purchase wholesale electricity and still earn a regulated margin. The NSW Government-owned generators will cover any shortfall, in the Fund, ensuring it is always balanced.

The Independent Pricing and Regulatory Tribunal (IPART) determines the tariff that standard retail customers must pay.

## **Minister for the Environment**

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**Jenolan Caves Reserve Trust**

## Jenolan Caves Reserve Trust

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### AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	5,187	4,021
Expenses	5,109	5,314
Operating surplus/(deficit)	78	(1,293)
Net assets (at 30 June)	22,262	21,871

Revenue increased mainly because of \$875,000 received from NSW Treasury for major sewerage upgrades at Jenolan and Wombeyan and flood mitigation at Abercrombie.

During the year, the cave sites received 243,000 visitors (258,000 in 2000-01). The Christmas bushfire in the Blue Mountains region and the September 11 tragedy in New York impacted substantially on visitor numbers. The Trust's revenue from visitation, however, increased by \$73,000 due to a pricing increase of approximately 10 per cent.

Net assets increased mainly because of a \$313,000 revaluation of Trust lands.

### TRUST ACTIVITIES

The Trust is constituted under the *National Parks and Wildlife Act 1974*.

Its objectives are to conserve the heritage and cultural resources of the Jenolan, Abercrombie and Wombeyan Karst Conservation Reserves for the benefit of all and to promote them as leading visitor destinations in a manner that is environmentally and commercially viable. The Trust controls the Jenolan Caves House, which was subject to a pre-existing 99-year lease.

The Trust is subject to the direction and control of the Minister for the Environment.

For further information on the Trust, refer to [www.jenolancaves.org.au](http://www.jenolancaves.org.au).

## Minister for Forestry

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**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)**

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### **AUDIT OPINION**

The audit of the State Forests of New South Wales financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report. State Forests has satisfactorily addressed last year's qualifications.

### **KEY ISSUES**

#### **Discharge of Debt**

In previous Auditor-General's Reports to Parliament, we reported that State Forests allowed certain customers to accumulate debts and then negotiated repayment plans.

One customer in 2000-01 defaulted on debts of approximately \$1 million. This amount was fully provided for as a 'doubtful debt' in the 2001 financial report. In 2002, State Forests negotiated a reduction to this customer's long-term log supply allocation. The value of the log allocation reduction was independently determined and an equivalent amount was deducted from the customer's debt. State Forests has advised us that the log allocation can be sold to another customer. To date State Forests has not reallocated this log supply and the expected benefits from this arrangement have not been realised.

#### **Wingello State Forest Fire**

During 2001-02, State Forests settled \$3.6 million in claims for NSW Rural Fire Service volunteers who were killed or injured as a result of a bushfire in the Wingello State Forest. The remaining claims cannot be quantified at this time. The plaintiffs filed action against the Rural Fire Service with State Forests being joined as a co-defendant by the plaintiffs.

#### **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.

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. As at the end of the 2002 planting season, State Forests has planted 5,993 hectares (5,550 hectares in 2000-01).

The company has a corresponding obligation to plant or procure an additional 10,000 hectares. State Forests advises that the company had not planted or procured any hectares to date. The contract does not include any staged obligations on the company.

#### **Performance under the 20-year Wood Supply Agreements**

We reviewed State Forests' performance to date under the 20-year wood supply agreements. State Forests did not experience any difficulties in supplying the agreed quotas. Any inability by State Forests to meet supply quotas could result in a potential liability to the other parties.

State Forests management advised us that based on the information available it does not foresee any difficulties in meeting the supply quotas into the foreseeable future. Management also advised that it monitors arrangements to indicate where regulatory clarification, or changes in industry or State Forests management practices may be required to satisfy the forest agreements.

## CONTROL ISSUES

We identified opportunities for improving internal controls. The main areas relate to:

- ◆ deficiencies in State Forests' credit management in that:
  - some customers are exceeding credit limits covered by bank guarantees
  - bank guarantees where required are not being obtained in all instances
  - trade debtors excluding debts under voluntary administration as a proportion of annual sales is significantly higher than the normal credit period of 30 days. It is currently 56 days (58 days in 2000-01)
  - credit assessments are not being performed on an annual basis
  - interest is not being charged on a consistent basis for overdue accounts

State Forests is currently formulating a new credit policy.

- ◆ State Forests' new revenue system (SCION) was implemented in some regions without the ability to generate appropriate management user reports, and as such, appropriate controls could not be performed on a timely basis.

These matters and other less significant issues have been discussed with State Forests' management and have been included in a letter to management.

## COMPLIANCE ISSUES

We tested whether State Forests complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ timing requirements of the *Annual Reports (Statutory Bodies) Act 1984*.

State Forests substantially complied with these requirements. Minor areas of non-compliance have been referred to management.

## 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 55 per cent of developed countries. To date 37.1 per cent of the developed countries have agreed to the Protocol.

Continuing uncertainty over the Protocol has delayed any sale by State Forests of the carbon dioxide sequestered in its plantations. 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).

As an initiative in greenhouse gas reduction, State Forests signed an agreement with the Tokyo Electric Power Company Inc in February 2000, to establish between 10,000 and 40,000 hectares of new forest over the next ten years. To date, over 3,000 hectares have been planted. State Forests is confident that the target area of 10,000 hectares will be achieved.



State Forests advises that negotiations are taking place with other investors to establish and manage carbon sinks.

### Salinity Control

During the year State Forests established around 200 hectares of newly planted forests under the NSW Salinity Strategy. This was part of the 400 hectares State Forests agreed to plant in 2001-02. The remaining area has not been planted due to drought and has been targeted for planting in spring 2003. Under this strategy, State Forests is to receive \$1 million over four years and had received \$500,000 to 30 June 2002.

The NSW Salinity Strategy also funded a project to benchmark Salinity Control and Carbon Sequestration in low rainfall zones. State Forests is to receive \$1 million over four years and to date has received \$500,000. The project is still in an early phase and State Forests do not have results suitable for developing Forest Management Strategy.

The New South Wales Government announced in May 2001 a seven-year plan to plant 33,800 hectares of trees in the dry land salinity zone. It is currently anticipated that State Forests will be a recipient of a significant component of this program to be jointly funded by the State and Federal Governments, to establish and manage plantations for the purpose of mitigating salt effects in salinity affected Western NSW river catchments. This project is still in a very early stage of development.

### Hardwood Plantations

The following table details the total hectares planted over the past four years. Figures include second rotation establishment.

Year ended 30 June	2002	2001	2000	1999
Third party forests managed by State Forests (hectares)	429	590	516	--
Joint venture (hectares)	1,521	2,463	2,920	758
State Forests (hectares)	55	447	1,864	3,171
Total (hectares)	<u>2,005</u>	<u>3,500</u>	<u>5,300</u>	<u>3,929</u>
Government funding	\$6.0m	\$6.0m	\$6.0m	\$18.0m

State Forests has the capacity to establish plantations at the rate of more than 5,000 hectares per annum. For 2001-02 actual hectares planted is well below what has been planted in the past. This is partly due to the ongoing drought, which has caused 900 hectares of plantations to be carried over for planting in 2003.

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 2002, 6,085 hectares had been established which is in line with the target of 6,000 hectares scheduled to be planted by year three.

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

The National Native Title Tribunal determines the existence and extent of native title under the *Commonwealth Native Title Act 1993*. The Tribunal's procedures enable agreements to be reached between parties by mediation before registering an agreement in the Federal Court.

At 17 January 2002 there were 32 active claims potentially affecting State Forests. The hectares involved totalled 899,217.

One claim made in 1996 involved 208,300 hectares. However, a part of this land was transferred to the National Parks and Wildlife Service as part of the Southern Regional Forest Agreement in April 2001 and the number of hectares affected is yet to be determined. In addition for 5 further claims the number of hectares affected are also yet to be determined.

### **Forestry Act 1916 Requirements – Repeat Finding**

State Forests is required under the *Forestry Act 1916* to take all reasonable and practicable steps to maintain minimum areas of State Forests and of exotic conifers.

At 30 June 2002 it held only:

- ◆ 2.8 million of the required 3.25 million hectares of land for State Forests (2.85 million hectares in 2000-01), due to the revocation and transfer of large areas of land under the Forest Agreements
- ◆ 384,000 of the required 600,000 hectares of exotic conifers (337,000 in 2000-01). Of these 211,000 (210,000) is planted and 14,000 (17,000) hectares is available for planting exotic conifers. The remaining 159,000 (110,000) hectares include exclusions, roads and areas not suitable for plantation.

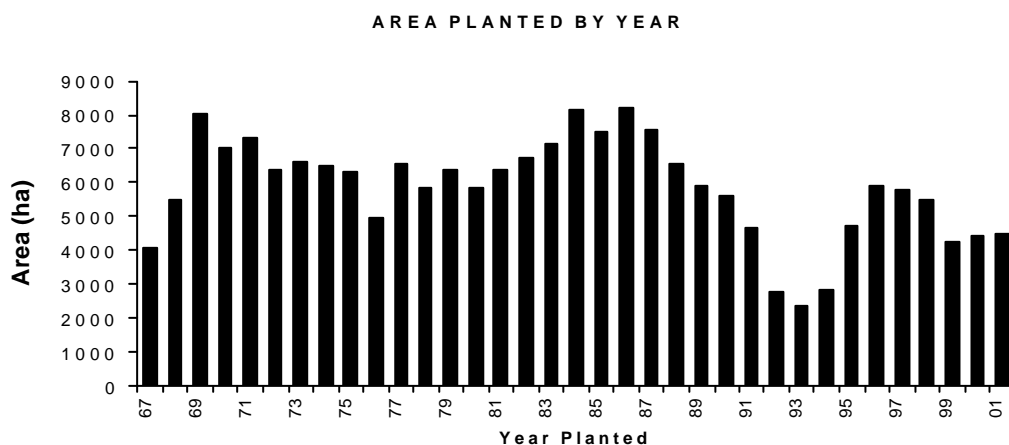
We have reported for a number of years that, if it is not practicable nor reasonable for State Forests to comply with the existing legislative requirements, then the Government should introduce amendments to the legislation.

### **Logging Breaches**

Checks are undertaken by State Forests to monitor compliance with its Codes of Operation and external licence conditions for corrective action by contractors. The number of checks conducted was 3,431 (3,424 in 2000-01). State Forests identified 1,242 (1,538) breaches made by internal and external contractors. Sixty-six per cent of these breaches related to accidental felling of trees into filter strips or other exclusions relating to drainage features. Other breaches include damage to habitat or trees to be retained for future habitat.

The Environment Protection Authority issued four (five in 2000-01) fines for breaches of water regulation.

### **Softwood Plantations**



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. Although planting levels appear irregular, the existing plantation of 205,807 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 7,130 hectares per annum for the next four years of which 1,480 hectares will be established on new areas. In addition, State Forests is establishing further areas of plantations on behalf of external investors. In 2002-03, State Forests has budgeted to establish 2,400 hectares of softwood plantations on behalf of such external investors.

This would increase the size of the softwood plantation estate to around 211,000 hectares plus at least 3,900 hectares (to the end of 2002-03) of softwood plantation established on behalf of external investors, which would be adequate to satisfy an average annual demand for sawlogs of 2.1 million m<sup>3</sup>.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
<b>TOTAL REVENUE</b>	<b><u>202,269</u></b>	<b><u>169,998</u></b>
<b>TOTAL EXPENDITURE</b>	<b><u>178,623</u></b>	<b><u>160,183</u></b>
<b>OPERATING PROFIT BEFORE MARKET VALUE INCREMENT/DECREMENT AND TAX</b>	<b>23,646</b>	9,815
Market value increment/(decrement)	<b>34,257</b>	(78,614)
Income tax benefit/(expense)	<b><u>(15,014)</u></b>	<b><u>24,331</u></b>
<b>OPERATING PROFIT/ (LOSS) AFTER TAX</b>	<b>42,889</b>	(44,468)
Increase in asset revaluation reserve	(3)	562,964
Transfer from Asset Revaluation Reserve	138	--
Increment in net market value of Native Forest as at 1 July 2000*	--	145,267
Dividend	<b><u>(4,717)</u></b>	<b><u>--</u></b>
<b>CHANGES IN EQUITY</b>	<b><u>38,307</u></b>	<b><u>663,763</u></b>
* Relates to initial adoption of AAS 35		

Revenue increased \$32.3 million due to a rise of \$10.0 million in the royalties from the sale of timber and related products and an increase of \$10.4 million in contract harvesting and haulage. A change in the accounting treatment of State Government grants resulted in \$11.7 million received in prior years being recognised as income in 2001-02.

The major reason for expenditure increasing by \$18.4 million was a rise in superannuation expense of \$12.8 million. The contract harvesting expense also increased \$9.4 million, which is consistent with the increase in contract harvesting revenue noted above.

The \$34.3 million market value increment was due to the increase in net market value of native forest of \$20.3 million, and softwood plantation of \$13.9 million.

The asset revaluation reserve increased in 2001 due to a revaluation of non-current assets. In 2000-01, 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 self-generating and regenerating assets (SGARA).

**Abridged Statement of Financial Position**

At 30 June	2002 \$'000	2001 \$'000
<b>CURRENT ASSETS</b>	<b><u>40,975</u></b>	<b><u>57,963</u></b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	805,717	806,248
Deferred income tax asset	18,629	14,089
Self-generating and regenerating assets:		
softwood plantations	1,074,138	1,037,127
hardwood	56,236	51,124
native forests	<u>362,899</u>	<u>342,555</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b><u>2,317,619</u></b>	<b><u>2,251,143</u></b>
<b>TOTAL ASSETS</b>	<b><u>2,358,594</u></b>	<b><u>2,309,106</u></b>
<b>CURRENT LIABILITIES</b>	<b><u>51,166</u></b>	<b><u>57,144</u></b>
<b>NON-CURRENT LIABILITIES</b>	<b><u>357,848</u></b>	<b><u>340,689</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>409,014</u></b>	<b><u>397,833</u></b>
<b>NET ASSETS</b>	<b><u>1,949,580</u></b>	<b><u>1,911,273</u></b>

Current assets decreased \$17.0 million due mainly to the fall in prepaid contributions to the State Superannuation Scheme.

The reduction in current liabilities was primarily due to the change in the accounting treatment of State Government grants. Last year they were treated as liabilities while in the current year they have been correctly recognised as income.

Non-current liabilities increased due to an increase in deferred income tax of \$20.0 million.

**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
- ◆ supplies 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 2.8 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 206,000 hectares of conifer plantations and approximately 53,000 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](http://www.forest.nsw.gov.au).

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## Minister for Health

### **Health Overview**

#### **Department of Health**

#### **Metropolitan Area Health Services:**

**Central Coast**

**Central Sydney**

**Hunter**

**Illawarra**

**Northern Sydney**

**South Eastern Sydney**

**South Western Sydney**

**Wentworth**

**Western Sydney**

#### **Rural Area Health Services:**

**Far West**

**Greater Murray**

**Macquarie**

**Mid North Coast**

**Mid Western**

**New England**

**Northern Rivers**

**Southern**

#### **Other Health Services:**

**Ambulance Service of New South Wales**

**Corrections Health Service**

**New South Wales Health Foundation**

**The Royal Alexandra Hospital for Children**

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## Health Overview

### THE HEALTH GROUP

This commentary covers the Department of Health and the entities it controls. These entities are:

Metropolitan Area Health Services	Rural Area Health Services	Other Entities
Central Coast Central Sydney Hunter Illawarra Northern Sydney South Eastern Sydney South Western Sydney Wentworth Western Sydney	Far West Greater Murray Macquarie New England Northern Rivers Mid North Coast Mid Western Southern	Ambulance Service of NSW Corrections Health Service Royal Alexandra Hospital for Children

### AUDIT OPINION

The audit of the financial report of the Department and its controlled entities for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report. The audits of the financial reports of each of the controlled entities also resulted in unqualified Independent Audit Reports.

### KEY ISSUES

#### Salary Packaging

The Department advised health entities to adopt salary packaging as one of the strategies to meet the unfunded component of award increases and other service delivery commitments. The 2001-02 cost of the unfunded award increase was estimated at \$21.4 million. At 30 June 2002, 12,323 staff (12 per cent) had agreed to package their salaries.

The tax savings benefit from the packaging is shared between the employee and the Area. The Area's share can be used towards its operating costs, including salary increases.

The Department has advised us that the future unfunded award increases (2 per cent from January 2003 and 3 per cent from July 2003) are being negotiated with central agencies and that health entities have been instructed to await the outcome of these negotiations.

The Ambulance Service is unable to offer similar salary packaging to employees as it is not a Public Benevolent Institution and does not receive equivalent concessions for Fringe Benefits Tax (FBT). The Department of Health has advised that the Australian Tax Office ruling on the FBT status of the Service has been challenged and is currently being appealed to the full Federal Court.

#### Public Patient Liability Cover

The Department's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government agencies.

From 1 January 2002 the cover for medical malpractice was varied so Visiting Medical Officers and Honorary Medical Officers could elect to be covered by the Fund for public patients treated in public hospitals only. The Government, through the Fund, also provided cover for the unreported claims at 31 December 2001.

To ensure medical education continues in NSW, the Department has also provided medical indemnity cover for clinical academics working with public patients in public hospitals.

### **Private Sector Infrastructure Projects**

Health entities do not account for private sector infrastructure projects on a consistent basis. Some recognise the value of the right to receive an asset at the end of the lease period while others do not.

While this inconsistency has not materially impacted financial reports, it is possible that the value will become material in a future period. We understand the Department is currently reviewing this and intends consulting with Treasury regarding the most appropriate treatment.

### **Private Practice Trust Funds**

Private practice monies of \$114.7 million at 30 June 2002 (\$95.1 million at 30 June 2001) are managed by health entities on behalf of doctors. At present these monies are not included as assets. The Department is currently seeking legal advice and is also liaising with the Australian Salaried Medical Officers Federation regarding the control of these monies. In the event that these are deemed to be controlled by the health entities, consolidated net assets would increase accordingly.

### **Intellectual Property**

Some health entities have entered into commercial arrangements regarding intellectual property. The Audit Office has in the past recommended that health entities identify and value this property and the associated risks and benefits.

During the year the Department prepared draft intellectual property guidelines to encourage health research in the NSW public health system and promote better management of intellectual property interests by health entities.

To ensure consistency with overall public sector requirements the Department has sought comments on its draft policy from the Audit Office, the Premier's Department and the Cabinet Office.

## PERFORMANCE ISSUES

	Metropolitan Area Health Services					
	Central Coast		Central Sydney		Hunter	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
<b>Abridged Statement of Financial Performance (year ended 30 June)</b>						
Employee related	178.8	167.4	502.1	490.4	395.3	370.6
Other expenses	<u>121.2</u>	<u>106.1</u>	<u>308.3</u>	<u>287.4</u>	<u>260.6</u>	<u>242.9</u>
Total expenses	300.0	273.5	810.4	777.8	655.9	613.5
Total revenues	<u>48.7</u>	<u>44.8</u>	<u>251.4</u>	<u>239.7</u>	<u>127.5</u>	<u>118.6</u>
Net cost of services	251.3	228.7	559.0	538.1	528.4	494.9
Government contribution	<u>266.8</u>	<u>235.8</u>	<u>634.7</u>	<u>627.6</u>	<u>539.1</u>	<u>493.5</u>
Result for year	15.5	7.1	75.7	89.5	10.7	(1.4)
<b>Abridged Statement of Financial Position (at 30 June)</b>						
Total assets	235.3	175.4	900.9	823.7	691.5	573.5
Total liabilities	<u>45.3</u>	<u>43.9</u>	<u>177.0</u>	<u>175.5</u>	<u>140.4</u>	<u>132.3</u>
Net assets	190.0	131.5	723.9	648.2	551.1	441.2
<b>Performance Indicators</b>						
General creditors > 45 days (\$m) (a)	--	--	--	--	--	--
Total beds	701	686	1,628	1,654	2,000	2,016
Bed occupancy (%)	97.7	98.7	92.4	90.6	88.8	88.5
Non-admitted patient occasions of service (outpatient) (000's)	1,014	839	1,702	1,641	1,301	1,300
Total admissions	68,500	66,511	130,525	130,306	105,955	108,585
Unweighted separations	68,488	66,457	130,460	130,399	105,894	108,728
Case-weighted separations in episode funded hospitals	na	43,960	na	132,421	93,446	91,398
Average length of stay	3.7	3.8	4.3	4.3	6.1	6.2
Staff numbers (EFT)	3,043	2,895	8,296	8,238	6,921	6,675
Critical care triage category (b)						
T1 (%)	100	100	100	100	100	100
T2 (%)	54	34	73	79	77	78
T3 (%)	35	40	41	47	65	67
T4 (%)	42	49	46	52	59	62
T5 (%)	78	80	77	77	92	93
<b>Key:</b> Unless otherwise indicated all data is based on statistics provided by the Department of Health:						
(a)	general creditors are total creditors less amounts owing to Visiting Medical Officers and other Government agencies.					
(b)	<b>T1</b> immediately life threatening – treatment required within 2 minutes - benchmark – 99% <b>T2</b> imminently life threatening – treatment required within 10 minutes - benchmark – 81% <b>T3</b> potentially life threatening – treatment required within 30 minutes - benchmark – 68% <b>T4</b> potentially serious – treatment required within 1 hour- benchmark – 71% <b>T5</b> less urgent – treatment required within 2 hours- benchmark – 75% <b>na</b> not available.					



	Metropolitan Area Health Services					
	Illawarra		Northern Sydney		South Eastern Sydney	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
<b>Abridged Statement of Financial Performance (year ended 30 June)</b>						
Employee related	216.1	203.9	447.1	426.7	579.6	548.8
Other expenses	<u>147.0</u>	<u>144.9</u>	<u>296.5</u>	<u>279.4</u>	<u>527.4</u>	<u>521.2</u>
Total expenses	363.1	348.8	743.6	706.1	1107.0	1070.0
Total revenues	<u>45.7</u>	<u>37.9</u>	<u>176.4</u>	<u>169.9</u>	<u>287.9</u>	<u>264.0</u>
Net cost of services	317.4	310.9	567.2	536.2	819.1	806.0
Government contribution	<u>342.6</u>	<u>312.9</u>	<u>537.2</u>	<u>507.0</u>	<u>815.3</u>	<u>784.5</u>
Result for year	25.2	2.0	(30.0)	(29.2)	(3.8)	(21.5)
<b>Abridged Statement of Financial Position (at 30 June)</b>						
Total assets	282.8	267.8	621.8	637.5	984.5	982.8
Total liabilities	<u>68.7</u>	<u>63.3</u>	<u>164.1</u>	<u>149.9</u>	<u>292.6</u>	<u>287.1</u>
Net assets	214.1	204.5	457.7	487.6	691.9	695.7
<b>Performance Indicators</b>						
General creditors > 45 days (\$m) (a)	--	--	--	--	3.5	13.1
Total beds	750	787	1,819	1,865	2,215	2,243
Bed occupancy (%)	97.8	96.1	90.3	88.5	95.0	92.0
Non-admitted patient occasions of service (outpatient) (000's)	1,171	894	2,070	1,994	3,526	2,742
Total admissions	74,059	71,950	102,853	106,136	169,651	168,218
Unweighted separations	74,102	71,897	102,776	106,131	169,491	168,427
Case-weighted separations in episode funded hospitals	49,645	47,570	na	94,593	na	156,393
Average length of stay	3.8	4.0	5.9	5.8	4.7	4.7
Staff numbers (EFT)	3,552	3,454	7,598	7,536	11,328	11,142
Critical care triage category (b)						
T1%	100	100	100	100	100	100
T2%	79	81	74	69	75	76
T3%	70	77	64	63	51	50
T4%	69	73	67	70	53	56
T5%	87	88	86	88	84	86
<b>Key:</b> unless otherwise indicated all data is based on statistics provided by the Department of Health:						
(a)	general creditors are total creditors less amounts owing to Visiting Medical Officers and other Government agencies.					
(b)	<b>T1</b> Immediately life threatening – treatment required within 2 minutes - benchmark – 99% <b>T2</b> Imminently life threatening – treatment required within 10 minutes - benchmark – 81% <b>T3</b> Potentially life threatening – treatment required within 30 minutes - benchmark – 68% <b>T4</b> Potentially serious – treatment required within 1 hour - benchmark – 71% <b>T5</b> Less urgent – treatment required within 2 hours - benchmark – 75% <b>na</b> not available.					

Metropolitan AHS	Metropolitan Area Health Services					
	South Western Sydney		Wentworth		Western Sydney	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
<b>Abridged Statement of Financial Performance (year ended 30 June)</b>						
Employee related	420.4	392.0	167.7	155.3	500.4	470.2
Other expenses	<u>314.5</u>	<u>281.8</u>	<u>149.2</u>	<u>151.4</u>	<u>367.5</u>	<u>344.4</u>
Total expenses	734.9	673.8	316.9	306.7	867.9	814.6
Total revenues	<u>98.3</u>	<u>91.7</u>	<u>105.8</u>	<u>47.9</u>	<u>165.8</u>	<u>161.7</u>
Net cost of services	636.6	582.1	211.1	258.8	702.1	652.9
Government contribution	<u>643.8</u>	<u>597.7</u>	<u>255.4</u>	<u>261.1</u>	<u>670.6</u>	<u>642.5</u>
Result for year	7.2	15.6	44.3	2.3	(31.5)	(10.4)
<b>Abridged Statement of Financial Position (at 30 June)</b>						
Total assets	720.2	700.2	293.1	246.3	850.3	869.6
Total liabilities	<u>146.8</u>	<u>133.6</u>	<u>87.7</u>	<u>85.3</u>	<u>166.7</u>	<u>154.4</u>
Net assets	573.4	566.6	205.4	161.0	683.6	715.2
<b>Performance Indicators</b>						
General creditors > 45 days (\$m) (a)	--	--	--	--	--	--
Total beds	1,827	1,802	639	687	1,734	1,757
Bed occupancy (%)	90.1	89.4	93.0	93.3	91.8	90.1
Non-admitted patient occasions of service (outpatient) (000's)	2,234	1,832	590	559	2,474	1,786
Total admissions	133,425	133,258	50,845	51,068	131,039	130,196
Unweighted separations	133,362	133,250	50,814	51,058	130,824	130,260
Case-weighted separations in episode funded hospitals	126,936	118,402	na	30,596	125,753	103,570
Average length of stay	4.7	4.6	5.1	5.4	4.6	4.6
Staff numbers (EFT)	7,391	7,095	2,799	2,696	8,924	8,610
Critical care triage category (b)						
T1%	100	100	100	100	100	100
T2%	93	87	74	71	83	63
T3%	57	60	44	36	44	46
T4%	61	64	60	51	46	44
T5%	88	89	90	89	79	75
<b>Key:</b> unless otherwise indicated all data is based on statistics provided by the Department of Health:						
(a)	general creditors are total creditors less amounts owing to Visiting Medical Officers and other Government agencies.					
(b)	<b>T1</b> immediately life threatening – treatment required within 2 minutes - benchmark – 99% <b>T2</b> imminently life threatening – treatment required within 10 minutes - benchmark – 81% <b>T3</b> potentially life threatening – treatment required within 30 minutes - benchmark – 68% <b>T4</b> potentially serious – treatment required within 1 hour- benchmark – 71% <b>T5</b> less urgent – treatment required within 2 hours - benchmark – 75% <b>na</b> not available.					

	Rural Area Health Services					
	Far West		Greater Murray		Macquarie	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
<b>Abridged Statement of Financial Performance (year ended 30 June)</b>						
Employee related	44.3	44.2	159.7	152.1	74.2	73.1
Other expenses	49.7	46.4	140.6	138.4	71.7	64.6
Total expenses	94.0	90.6	300.3	290.5	145.9	137.7
Total revenues	28.4	8.9	53.8	50.7	20.5	18.9
Net cost of services	65.6	81.7	246.5	239.8	125.4	118.8
Government contribution	85.3	80.7	240.7	228.7	129.9	117.0
Result for year	19.7	(1.0)	(5.8)	(11.1)	4.5	(1.8)
<b>Abridged Statement of Financial Position (at 30 June)</b>						
Total assets	81.2	61.6	174.3	177.7	94.8	90.2
Total liabilities	19.0	19.0	58.7	56.2	25.4	25.4
Net assets	62.2	42.6	115.6	121.5	69.4	64.8
<b>Performance Indicators</b>						
General creditors > 45 days (\$m) (a)	--	--	0.3	--	0.2	1.4
Total beds	236	237	1,121	1,121	587	590
Bed occupancy (%)	58.6	62.7	76.2	77.0	72.0	72.3
Non-admitted patient occasions of service (outpatient) (000's)	281	268	794	663	337	323
Total admissions	11,068	12,328	52,354	53,343	27,630	28,224
Unweighted separations	11,059	12,321	52,357	53,400	27,626	28,211
Case-weighted separations in episode funded hospitals	na	5,628	na	26,860	15,669	15,971
Average length of stay	4.7	4.5	6.1	6.0	5.7	5.7
Staff numbers (EFT)	768	799	2,807	2,768	1,476	1,500
Critical care triage category (b)						
T1%	100	100	100	99	99	99
T2%	97	90	85	88	84	92
T3%	84	80	81	84	71	73
T4%	83	76	80	79	70	82
T5%	93	90	84	82	91	94
<b>Key:</b> unless otherwise indicated all data is based on statistics provided by the Department of Health:						
(a)	general creditors are total creditors less amounts owing to Visiting Medical Officers and other Government agencies.					
(b)	<b>T1</b> immediately life threatening – treatment required within 2 minutes - benchmark – 99% <b>T2</b> imminently life threatening – treatment required within 10 minutes - benchmark – 81% <b>T3</b> potentially life threatening – treatment required within 30 minutes - benchmark – 68% <b>T4</b> potentially serious – treatment required within 1 hour – benchmark – 71% <b>T5</b> less urgent – treatment required within 2 hours - benchmark – 75% <b>na</b> not available.					

	Rural Area Health Services					
	Mid North Coast		Mid Western		New England	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
<b>Abridged Statement of Financial Performance (year ended 30 June)</b>						
Employee related	127.6	119.6	143.2	136.1	130.5	122.2
Other expenses	<u>155.4</u>	<u>132.2</u>	<u>100.4</u>	<u>92.3</u>	<u>97.2</u>	<u>87.0</u>
Total expenses	283.0	251.8	243.6	228.4	227.7	209.2
Total revenues	<u>26.9</u>	<u>24.7</u>	<u>40.1</u>	<u>33.7</u>	<u>36.4</u>	<u>45.1</u>
Net cost of services	256.1	227.1	203.5	194.7	191.3	164.1
Government contribution	<u>263.8</u>	<u>275.0</u>	<u>201.7</u>	<u>193.6</u>	<u>200.6</u>	<u>174.5</u>
Result for year	7.7	47.9	(1.8)	(1.1)	9.3	10.4
<b>Abridged Statement of Financial Position (at 30 June)</b>						
Total assets	170.1	158.0	149.6	136.8	146.8	123.6
Total liabilities	<u>47.5</u>	<u>43.1</u>	<u>58.5</u>	<u>56.0</u>	<u>48.7</u>	<u>47.3</u>
Net assets	122.6	114.9	91.1	80.8	98.1	76.3
<b>Performance Indicators</b>						
General creditors > 45 days (\$m) (a)	--	--	1.9	1.0	--	0.1
Total beds	606	594	915	871	763	779
Bed occupancy (%)	82.9	82.2	73.6	78.6	73.6	72.5
Non-admitted patient occasions of service (outpatient) (000's)	846	646	698	615	549	488
Total admissions	53,167	49,003	43,610	43,858	44,768	45,064
Unweighted separations	53,132	49,001	43,526	43,818	44,771	45,048
Case-weighted separations in episode funded hospitals	42,882	40,578	na	na	34,990	26,393
Average length of stay	4.5	4.9	5.8	6.0	4.7	4.7
Staff numbers (EFT)	2,184	2,111	2,591	2,555	2,242	2,228
Critical care triage category (b)						
T1%	100	100	100	99	100	100
T2%	76	78	95	90	74	68
T3%	64	66	87	88	67	67
T4%	63	67	89	89	64	64
T5%	86	88	97	97	86	85
<b>Key:</b> unless otherwise indicated all data is based on statistics provided by the Department of Health:						
(a)	general creditors are total creditors less amounts owing to Visiting Medical Officers and other Government agencies.					
(b)	<b>T1</b> Immediately life threatening – treatment required within 2 minutes - benchmark – 99% <b>T2</b> Imminently life threatening – treatment required within 10 minutes - benchmark – 81% <b>T3</b> Potentially life threatening – treatment required within 30 minutes - benchmark – 68% <b>T4</b> Potentially serious – treatment required within 1 hour – benchmark – 71% <b>T5</b> Less urgent – treatment required within 2 hours - benchmark – 75% <b>na</b> not available.					

	Rural Area Health Services				Other Health Services	
	Northern Rivers		Southern		Ambulance Service of NSW	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
<b>Abridged Statement of Financial Performance (year ended 30 June)</b>						
Employee related	173.0	158.0	104.4	102.2	215.0	203.5
Other expenses	<u>133.5</u>	<u>123.9</u>	<u>123.9</u>	<u>127.4</u>	<u>89.9</u>	<u>85.0</u>
Total expenses	306.5	281.9	228.3	229.6	304.9	288.5
Total revenues	<u>43.1</u>	<u>40.4</u>	<u>26.8</u>	<u>25.6</u>	<u>76.9</u>	<u>65.2</u>
Net cost of services	263.4	241.5	201.5	204.0	228.0	223.3
Government contribution	<u>269.8</u>	<u>244.2</u>	<u>201.8</u>	<u>197.5</u>	<u>203.9</u>	<u>215.0</u>
Result for year	6.4	2.7	0.3	(6.5)	(24.1)	(8.3)
<b>Abridged Statement of Financial Position (at 30 June)</b>						
Total assets	184.5	170.1	106.5	107.5	139.1	160.9
Total liabilities	<u>59.7</u>	<u>51.7</u>	<u>38.0</u>	<u>39.3</u>	<u>76.5</u>	<u>74.2</u>
Net assets	124.8	118.4	68.5	68.2	62.6	86.7
<b>Performance Indicators</b>						
General creditors > 45 days (\$m) (a)	--	--	--	1.0	--	--
Total beds	797	835	795	812	nap	nap
Bed occupancy (%)	83.0	84.2	76.2	74.3	nap	nap
Non-admitted patient occasions of service (outpatient) (000's)	938	820	593	584	nap	nap
Total admissions	63,917	62,723	32,328	32,412	nap	nap
Unweighted separations	63,925	61,723	32,145	32,425	nap	nap
Case-weighted separations in episode funded hospitals	na	36,794	na	5,664	nap	nap
Average length of stay	4.1	4.5	7.0	7.0	nap	nap
Staff numbers (EFT)	2,986	2,843	2,081	2,123	2,983	2,942
Critical care triage category (b)						
T1%	100	100	95	100	nap	nap
T2%	84	89	77	88	nap	nap
T3%	63	65	68	68	nap	nap
T4%	71	71	78	75	nap	nap
T5%	91	88	95	92	nap	nap
<b>Key:</b> unless otherwise indicated all data is based on statistics provided by the Department of Health:						
(a)	general creditors are total creditors less amounts owing to Visiting Medical Officers and other Government agencies.					
(b)	<b>T1</b> immediately life threatening – treatment required within 2 minutes - benchmark – 99% <b>T2</b> imminently life threatening – treatment required within 10 minutes - benchmark – 81% <b>T3</b> potentially life threatening – treatment required within 30 minutes - benchmark – 68% <b>T4</b> potentially serious – treatment required within 1 hour – benchmark – 71% <b>T5</b> less urgent – treatment required within 2 hours - benchmark – 75%					
na	not available.					
nap	not applicable.					

	Other Health Services					
	Corrections Health Service		The Royal Alexandra Hospital for Children		Total (c)	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
<b>Abridged Statement of Financial Performance (year ended 30 June)</b>						
Employee related	34.3	30.0	128.7	123.4	4,742.4	4,489.7
Other expenses	11.9	9.3	63.5	62.8	3,529.9	3,328.8
Total expenses	46.2	39.3	192.2	186.2	8,272.3	7,818.5
Total revenues	1.5	1.1	120.3	128.3	1,782.2	1,618.8
Net cost of services	44.7	38.3	71.9	57.8	6,490.1	6,199.7
Government contribution	43.0	37.5	59.2	57.7	6,605.2	6,284.0
Result for year	(1.7)	(0.8)	(12.7)	(0.1)	115.1	84.3
<b>Abridged Statement of Financial Position (at 30 June)</b>						
Total assets	3.7	3.0	427.7	372.2	7,258.7	6,838.4
Total liabilities	9.9	7.5	45.2	41.3	1,776.4	1,686.3
Net assets	(6.2)	(4.5)	382.5	330.9	5,482.3	5,152.1
<b>Performance Indicators</b>						
General creditors > 45 days (\$m) (a)	--	--	--	0.4	5.9	17.0
Total beds	144	142	239	242	19,516	19,720
Bed occupancy (%)	90.4	90.4	93.8	94.5	87.4	86.7
Non-admitted patient occasions of service (outpatient) (000's)	2,419	1,974	507	508	24,044	20,476
Total admissions	1,487	1,735	26,222	25,497	1,323,403	1,320,415
Unweighted separations	na	na	26,214	25,512	1,320,966	1,318,066
Case-weighted separations in episode funded hospitals	na	na	26,258	27,429	na	na
Average length of stay	32.2	27.1	3.1	3.3	4.9	5.0
Staff numbers (EFT)	475	426	1,956	1,892	82,401	80,528
Critical care triage category (b)						
T1%	na	na	100	100	100	100
T2%	na	na	100	99	78	73
T3%	na	na	46	38	57	58
T4%	na	na	35	41	60	62
T5%	na	na	73	78	86	86
<b>Key:</b> unless otherwise indicated all data is based on statistics provided by the Department of Health:						
(a)	general creditors are total creditors less amounts owing to Visiting Medical Officers and other Government agencies.					
(b)	<b>T1</b> immediately life threatening – treatment required within 2 minutes - benchmark – 99% <b>T2</b> imminently life threatening – treatment required within 10 minutes - benchmark – 81% <b>T3</b> potentially life threatening – treatment required within 30 minutes - benchmark – 68% <b>T4</b> potentially serious – treatment required within 1 hour - benchmark - 71% <b>T5</b> less urgent – treatment required within 2 hours - benchmark – 75%					
(c)	aggregate amounts excluding any eliminations on consolidation.					
na	not available.					

## **Financial Performance**

The Department has identified a number of indicators to monitor the financial performance of health entities, including net cost of services, creditor levels, liquidity and leverage.

### ***Net Cost of Services***

The adjusted net cost of services for 12 of the 20 health entities was higher than the budget approved by the Department. For nine of the 12 entities, the over-runs were 0.5 per cent or less. Wentworth, Greater Murray and South Eastern Sydney Area Health Services exceeded their approved budgets by 1.5 per cent, 0.7 per cent and 0.6 per cent respectively.

The Department advised us that the over-run for Wentworth reflected the increased costs of goods and services and fewer than expected employees accepting the salary packaging option. Greater Murray's over-run was attributed to continuing difficulty in realigning costs to budget. The Department advised that the over-run for South Eastern Sydney was due to additional activity, salary packaging implementation delays, the cost of medical radiation therapists and psychologist awards and a lower than expected insurance rebate.

### ***Creditor Payments***

The Department of Health has directed that Areas should not have any creditors over 45 days.

The total level of creditors greater than 45 days fluctuated during the year. At 30 June 2001 the balance was \$16.9 million (across six entities) rising to \$27.8 million in March 2002 (eight entities) before falling to \$5.8 million at 30 June 2002 (four entities). The balance increased again to \$18.6 million at 31 August 2002 (seven entities).

At 30 June 2002, the average age of outstanding general creditors at 4 of the 20 health entities was more than 45 days from receipt of invoice.

The Department has advised that it is working with Areas and suppliers to minimise or eliminate occurrences of creditors over 45 days.

## **Operational Performance and Activity Levels**

The Department also uses indicators to monitor operational performance and activity levels. These indicators include bed occupancy rates, total admissions, average length of stay, and the time taken to treat emergency department patients.

### ***Bed Occupancy Rate***

The bed occupancy rate is the percentage of available beds which have been occupied over the year and is a measure of the use of the hospital resources by inpatients.

Compared to metropolitan health entities, rural health services continue to operate a number of hospitals that consistently record low occupancy rates. Many of these health services are still assessing their future needs as part of the Department's overall strategy for planning and networking of rural services.

### ***Total Admissions***

Overall, total admissions for 2001-02 were largely consistent with those of the previous year, the increase being less than one per cent.

### *Average Length of Stay*

The State-wide average length of stay was 4.9 days (5.0 days for 2000-01). Rural health services continue to record a higher average length of stay than both the metropolitan and State averages. As we have previously reported, the average length of stay in certain rural health services is impacted by the number of long-stay patients who might otherwise be transferred to nursing homes if available.

### *Emergency Department Patients*

Triage is a mechanism used to assess and treat emergency department patients. Triage ensures that patients are treated in a timely manner according to clinical urgency.

Critical care triage categories T1 to T3 relate to life threatening situations. While only one health entity (Southern Area Health Service) failed to meet the benchmark for the most urgent life threatening category (T1) a significant number of health entities did not meet the benchmark for the other life threatening categories (T2 and T3).

Triage Category	Number of Areas Meeting Triage Benchmarks							
	Metropolitan (nine)		Rural (eight)		Other (one)		Total (eighteen)	
	2002	2001	2002	2001	2002	2001	2002	2000
T1	9	9	7	8	1	1	17	18
T2	2	2	5	6	1	1	8	9
T3	1	1	5	5	--	--	6	6
T4	--	1	5	6	--	--	5	7
T5	9	7	8	8	--	1	17	16

### *Non-admitted Patient Occasions of Service*

Non-admitted patient occasions of service (outpatients) increased by 17.5 per cent from the previous year. The more significant increases occurred within South Eastern Sydney and Western Sydney. The increase has contributed to the higher net cost of outpatient services.

### *Separations*

Separations are episodes of care from admission to discharge, transfer or death. Target separation levels form part of the performance agreement between health entities and the Department and are a one of the factors in determining funding levels. A weighting is applied to recognise the various levels and complexities of separations. The Department advised that, for 2001-02, it was not mandatory for health entities to provide details of case weighted separations in episode-funded hospitals. The absence of this information limits the Department's ability to monitor performance. The Department has recently advised that, from July 2002, all Areas were required to report this data on a monthly basis.



## Interstate Comparisons

The following information compares performance indicators for public acute hospitals and public psychiatric hospitals for New South Wales with other jurisdictions. Each jurisdiction has different complexities, salary structures and accounting mechanisms. The information provided is also based on 2000-01 statistics. The data should be considered in this context.

Year ended 30 June	2001		2000	
	NSW	National	NSW	National
Average available beds per 1,000 population	2.7	2.7	2.8	2.9
Separations per 1,000 population	194.4	203.9	192.7	202.1
Average cost weight per separation	1.06	0.97	1.04	1.03
Non-admitted patient occasions of service (outpatients) (per 1,000 population)	2,622	2,113	1,855	1,758
Average length of stay (including day surgery) (days)	4.6	4.0	4.6	4.2
Staff EFT per 1,000 population	10.45	9.55	9.5	9.2
Source: Australian Institute of Health and Welfare (AIHW) 2002 Australian Hospital Statistics 2000–2001				

The number of beds per 1,000 population was highest in South Australia (3.4) and lowest in Australian Capital Territory (2.2). With 2.7 hospital beds the New South Wales public hospital system equates to the national average.

Both nationally and in New South Wales there tends to be more beds per 1,000 population in rural areas than in metropolitan areas. There also tends to be more hospitals with low occupancy rates in rural health services than in metropolitan health services.

Separations per 1,000 population for New South Wales during 2000-01 were less than the national average. The national comparatives of Government Funded Health Care Services published by the Steering Committee for the Review of Commonwealth/State Service Provision identified that care should be taken when interpreting differences in separation rates. Variations may be caused by the nature of the conditions being treated and differences in clinical practice. Higher/lower rates do not necessarily mean inappropriate care.

With an average cost weight of 1.06, New South Wales uses more resources per separation and is a higher cost service provider than the national average. This in part reflects the higher salary costs in NSW relative to other jurisdictions.

We understand there is no agreed classification system for non-admitted patient occasions of service. This makes it difficult to compare activity levels across jurisdictions and may explain the increasing variance between New South Wales and the national average.

The average length of stay in public acute hospitals and psychiatric hospitals in New South Wales is higher than the national average. In the recent past, the Department has looked at reducing the average length of stay in public acute hospitals and psychiatric hospitals. In part this is being accomplished by increasing the number of day of surgery admissions.

The Steering Committee for the Review of Commonwealth/State Service Provision reported that the collection of data by staffing category is not consistent across jurisdictions. In addition the Committee identified an increase in the outsourcing of some services which may contribute to differences between jurisdictions.

## CONTROL ISSUES

### Stewart House Preventorium

In Volume Seven of our 2001 Report to Parliament, we indicated that the transactions and balances of Stewart House Preventorium, a statutory health corporation, should be recognised within the Department's consolidated financial report and its accounts submitted to the Audit Office. While the continued omission has not materially affected the financial report, its operations should be subject to the same accountability as other health entities. The Department of Health has advised that it has had discussions with both Stewart House and the Department of Education and Training and anticipates that the matter will be resolved in 2002-03.

### Other Control Issues

The audit of the Department and its controlled entities highlighted opportunities for improvement in internal controls. These opportunities have been identified in letters issued to or to be issued to the relevant health entity. The more significant items have been referred to in individual comments within this Volume.

## COMPLIANCE ISSUES

Compliance reviews were undertaken at the Department, Ambulance Service of NSW, Western Sydney Area Health Service, Royal Alexandra Children's Hospital, South Eastern Sydney Area Health Service, Central Sydney Area Health Service, Northern Sydney Area Health Service, Wentworth Area Health Service and Southern Area Health Service. The results of these reviews are contained in individual comments within this Volume.

## FINANCIAL INFORMATION

### Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	4,822,156	4,542,516
Other expenses	<u>3,192,648</u>	<u>2,963,554</u>
<b>TOTAL EXPENSES</b>	<b><u>8,014,804</u></b>	<b><u>7,506,070</u></b>
<b>TOTAL REVENUES</b>	<b><u>1,068,768</u></b>	<b><u>1,012,121</u></b>
Gain/(loss) on disposal of non-current assets	<u>7,295</u>	<u>(6,686)</u>
<b>NET COST OF SERVICES</b>	<b><u>6,938,741</u></b>	<b><u>6,500,635</u></b>
<b>Add: Government Contributions</b>		
Recurrent appropriation	6,234,675	5,939,094
Capital appropriation	434,162	378,367
Acceptance by the Crown Entity of employee entitlements and other liabilities	<u>359,886</u>	<u>334,084</u>
<b>Total Government Contributions</b>	<b><u>7,028,723</u></b>	<b><u>6,651,545</u></b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b><u>89,982</u></b>	<b><u>150,910</u></b>

Employee related expenses represent 60.2 per cent of total expenditure of the Department and its controlled entities. The \$279.6 million increase in employee related expenses is largely due to higher award rates and increased staffing levels.

### Government Contributions

The Consolidated Fund appropriation to the Department of Health increased by \$351.4 million, a rise of 5.6 per cent, to \$6,669 million in 2001–02.

Government contributions included Commonwealth assistance of \$2,368 million (\$2,243 million), the major component being the \$2,082 million paid under the Australian Health Care Agreement.

### Abridged Consolidated Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	714,302	654,594
Non-current assets	<u>6,688,609</u>	<u>6,307,920</u>
<b>TOTAL ASSETS</b>	<b><u>7,402,911</u></b>	<b><u>6,962,514</u></b>
Current liabilities	967,125	946,693
Non-current liabilities	<u>864,270</u>	<u>776,952</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,831,395</u></b>	<b><u>1,723,645</u></b>
<b>NET ASSETS</b>	<b><u>5,571,516</u></b>	<b><u>5,238,869</u></b>
Reserves	1,058,095	808,410
Accumulated funds	<u>4,513,421</u>	<u>4,430,459</u>
<b>TOTAL EQUITY</b>	<b><u>5,571,516</u></b>	<b><u>5,238,869</u></b>

The rise in non-current assets is largely due to purchases and revaluations of property, plant and equipment.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues* \$'000	Expenses* \$'000		Net Cost of Services \$'000
Overnight acute inpatient services	530,635	3,329,089	<b>2,798,454</b>	2,605,041
Outpatient services	69,384	769,309	<b>699,925</b>	656,957
Rehabilitation and extended care services	161,870	832,763	<b>670,893</b>	653,177
Primary and community based services	38,721	686,247	<b>647,526</b>	618,752
Aboriginal health services	3,052	28,759	<b>25,707</b>	23,624
Emergency services	81,525	783,574	<b>702,049</b>	633,469
Same day acute inpatient services	75,517	468,972	<b>393,455</b>	397,256
Mental health services	45,319	589,148	<b>543,829</b>	506,925
Population health services	6,991	205,042	<b>198,051</b>	177,538
Teaching and research	<u>67,097</u>	<u>325,949</u>	<b><u>258,852</u></b>	<u>227,896</u>
Total all programs	<b><u>1,080,111</u></b>	<b><u>8,018,852</u></b>	<b><u>6,938,741</u></b>	<b><u>6,500,635</u></b>
* Includes gain/(loss) on disposal of non-current assets				

## PUBLIC HEALTH SECTOR ACTIVITIES

### Structure

The Department advises the Government on the strategic direction, policy and planning of the State's health system. It also monitors and evaluates health activities.

Area Health Services are Public Health Organisations scheduled under the *Health Services Act 1997* (the Act). The Services are subject to the control and direction of the Minister for Health. They provide health services for the residents of New South Wales.

The Corrections Health Service and the Royal Alexandra Hospital for Children are Statutory Health Corporations scheduled under the Act. These corporations are subject to the control and direction of the Minister for Health.

The Ambulance Service of New South Wales is constituted under the *Ambulance Services Act 1990*. The Service is subject to the control and direction of the Minister for Health.

Other entities are the eleven professional boards. These boards are constituted under various Acts to license and control practitioners of medicine, nursing, dentistry, optical services, pharmacy, podiatry, chiropractic, physiotherapy and psychology. All Boards (apart from Medical, Pharmacy and Dental) are subject to the control and direction of the Minister for Health through the Health Administration Corporation.

The financial results of all Boards (apart from Medical, Pharmacy and Dental) form part of the Department of Health parent entity financial report commented on elsewhere in this Report. The Medical, Pharmacy and Dental Boards will be included in later Reports to Parliament.

While the Department cooperates with the Institute of Psychiatry, the New South Wales Health Foundation and the Health Care Complaints Commission, it does not control these entities.

## Department of Health

### AUDIT OPINION

The audit of Department of Health's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### CONTROL ISSUES

We identified a number of opportunities to improve internal control. The main areas for improvement relate to revenue, receivables, investments, capitalisation procedures and reconciliation of general ledger accounts. These matters are being discussed with Departmental officers and, where appropriate, will be referred to management.

### COMPLIANCE ISSUES

We tested whether the Department complied with certain requirements of the *State Records Act 1998*. While the Department substantially complied with these requirements, some aspects were identified where further action was required. The Department has advised that these matters are being addressed.

We also tested compliance with the Public Sector Management (Goods and Services) Regulation 2000. The Department substantially complied with the requirements, but we identified some instances where tender/quotation and purchasing procedures were not followed.

These matters are being discussed with Departmental officers and, where appropriate, will be referred to management.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	79,573	64,292
Grants and subsidies	6,416,012	6,062,434
Other expenses	273,668	228,288
<b>TOTAL EXPENSES</b>	<b>6,769,253</b>	<b>6,355,014</b>
<b>TOTAL REVENUE</b>	<b>119,801</b>	<b>105,280</b>
Loss on disposal of non-current assets	41	987
<b>NET COST OF SERVICES</b>	<b>6,649,493</b>	<b>6,250,721</b>
<b>Add Government Contributions</b>	<b>6,700,361</b>	<b>6,324,186</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>50,868</b>	<b>73,465</b>

Employee related expenses increased due to higher staff levels, rises in award rates, reclassification of positions, and superannuation adjustments for employees of Concord Repatriation Hospital.

Grants and subsidies increased by \$354 million primarily due to increased funding to controlled entities.

Other expenses increased largely due to insurance costs (including the cost of medical indemnity and legal liability cover) rising from \$87.5 million in 2000-01 to \$130.6 million in 2001-02.

### **Abridged Statement of Financial Position**

<b>At 30 June</b>	<b>2002 \$'000</b>	<b>2001 \$'000</b>
Current assets	<b>88,002</b>	76,562
Non-current assets	<b>178,501</b>	<u>161,942</u>
<b>TOTAL ASSETS</b>	<b>266,503</b>	<u>238,504</u>
Current liabilities	<b>69,147</b>	90,474
Non-current liabilities	<b>53,987</b>	<u>55,529</u>
<b>TOTAL LIABILITIES</b>	<b>123,134</b>	<u>146,003</u>
<b>NET ASSETS</b>	<b>143,369</b>	<u>92,501</u>
Reserves	<b>30,140</b>	30,140
Accumulated funds	<b>113,229</b>	<u>62,361</u>
<b>TOTAL EQUITY</b>	<b>143,369</b>	<u>92,501</u>

Current assets increased largely due to receivables rising by \$17.4 million to \$58.3 million. The main component was amounts owing from the Commonwealth Department of Veterans' Affairs.

The capitalisation of computer system development costs resulted in non-current assets increasing to \$178.5 million.

Current liabilities decreased largely due to reductions in amounts owing to subsidiary health entities and to other states.

### **DEPARTMENT ACTIVITIES**

For further information on the Department of Health refer to [www.health.nsw.gov.au](http://www.health.nsw.gov.au).

## Central Coast Area Health Service

### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Central Coast Area was 3.7 days in 2001-02, down slightly from the previous year. This was the lowest of all Area Health Services.

The bed occupancy rate for the Area was 97.7 per cent. Although slightly down from the previous year it remains amongst the highest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in only two of the five triage categories.

### CONTROL ISSUES

We identified some minor opportunities for the Service to improve internal controls. We have referred these matters to management.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	178,803	167,355
Visiting medical officers	12,672	11,913
Other expenses	108,499	94,201
<b>TOTAL EXPENSES</b>	<b>299,974</b>	<b>273,469</b>
<b>TOTAL REVENUE</b>	<b>48,714</b>	<b>44,425</b>
Loss/(Gain) on disposal of non-current assets	60	(373)
<b>NET COST OF SERVICES</b>	<b>251,320</b>	<b>228,671</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	231,838	215,884
Department of Health capital payments	21,024	7,178
Acceptance by the Crown Entity of superannuation liability	13,980	12,769
<b>Total Government Contributions</b>	<b>266,842</b>	<b>235,831</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>15,522</b>	<b>7,160</b>

Employee related expenses increased because of higher staff levels and rises in salary and wage award rates.

Other expenses increased by \$14.3 million largely because an extra \$7.0 million of goods and services were purchased and depreciation rose \$6.3 million.

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	26,899	24,060
Non-current assets	<u>208,394</u>	<u>151,357</u>
<b>TOTAL ASSETS</b>	<b><u>235,293</u></b>	<b><u>175,417</u></b>
Current liabilities	24,917	25,284
Non-current liabilities	<u>20,349</u>	<u>18,667</u>
<b>TOTAL LIABILITIES</b>	<b><u>45,266</u></b>	<b><u>43,951</u></b>
<b>NET ASSETS</b>	<b><u>190,027</u></b>	<b><u>131,466</u></b>
Reserves	55,730	13,462
Accumulated funds	<u>134,297</u>	<u>118,004</u>
<b>TOTAL EQUITY</b>	<b><u>190,027</u></b>	<b><u>131,466</u></b>

Non-current assets increased by \$57.0 million as a result of a revaluation of land, buildings and infrastructure assets and the continued development of Gosford and Wyong hospitals.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues* \$'000	Expenses \$'000		Net Cost of Services \$'000
Overnight acute inpatient services	26,946	162,849	<b>135,903</b>	125,121
Emergency services	2,055	26,159	<b>24,104</b>	21,918
Primary and community based services	7,284	30,863	<b>23,579</b>	20,372
Other	<u>12,429</u>	<u>80,163</u>	<u><b>67,734</b></u>	<u>61,260</u>
Total all programs	<u>48,714</u>	<u>300,034</u>	<u><b>251,320</b></u>	<u>228,671</u>
* Includes gain on sale of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/ccahs](http://www.health.nsw.gov.au/areas/ccahs).



## Central Sydney Area Health Service

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### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Rozelle Hospital Site

The Rozelle Hospital redevelopment Masterplan proposed that part of the site be sold to meet the cost of redeveloping mental health services at Concord Hospital and restoring the open space at Rozelle as a park.

The redevelopment of the site has now been impacted by the restrictions outlined in the recently introduced *Callan Park (Special Provisions) Bill 2002*. While the Bill allows development for health, aged care, education or community facilities, the extent of the Service's future involvement with the site is unclear.

The Service's financial report recognised its part of the site at \$69.4 million (\$57.7 million in land and \$11.7 million in buildings) at 30 June 2002. This asset may have to be transferred or written out of the books of the Service when the future use of the site is determined.

#### Former Western Suburbs Hospital Site

The former Western Suburbs Hospital site has been vacant for over six years. Tenders for its redevelopment were called during 1998-99. The preferred tenderer subsequently withdrew from the proposed project.

Negotiations are underway with a builder and developer/operator for the construction of a community health centre, dementia specific nursing home, aged care hostel and aged care housing. Construction may commence in 2002-03 if the current proposal proceeds.

#### Development of Private Hospital

The lease governing the development and construction of the Prince Alfred Private Hospital listed it as operational by December 1999. The developer advised the Service in October 1999 that it no longer intended to develop a hospital on the site.

The Service rescinded the initial agreement and lease during 2000. The lessee has made a claim against the Service in respect of rentals paid to date of \$5.0 million, together with damages which the claimant has not quantified. In the meantime, the land set aside for this hospital remains vacant.

The lessee constructed a car park during 1998-99 as part of the original agreement. The New South Wales Supreme Court, in June 2000, granted the Service the right to operate the car park after the Service cancelled the lease.

The future use of the site remains unclear.

## PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Central Sydney Area was 4.3 days in 2001-02, the same as the previous year. This is slightly better than the metropolitan average.

The bed occupancy rate for the Area continued to increase, from 87.4 per cent in 1999-2000 and 90.6 per cent in 2000-01 to 92.4 per cent in 2001-02. At this level the Area's rate is slightly higher than the metropolitan average.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in only two of the five triage categories.

## CONTROL ISSUES

We identified opportunities for the Service to improve internal controls. These matters have been discussed with the Service and where appropriate will be referred to management.

## COMPLIANCE ISSUES

We examined whether the Service complied with its policies and procedures for accounting for donations and bequests.

The Service substantially complied with these requirements. Minor exceptions noted have been advised to the Service.

## FINANCIAL INFORMATION

### Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	502,097	490,410
Visiting medical officers	25,409	23,671
Other expenses	<u>282,026</u>	<u>263,782</u>
<b>TOTAL EXPENSES</b>	<b><u>809,532</u></b>	<b><u>777,863</u></b>
<b>TOTAL REVENUE</b>	<b><u>251,354</u></b>	<b><u>236,906</u></b>
Gain on disposal of non-current assets	<u>897</u>	<u>2,791</u>
<b>NET COST OF SERVICES</b>	<b><u>559,075</u></b>	<b><u>538,166</u></b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	514,976	501,266
Department of Health capital payments	86,165	90,889
Acceptance by the Crown Entity of superannuation liability	<u>33,587</u>	<u>35,444</u>
<b>Total Government Contributions</b>	<b><u>634,728</u></b>	<b><u>627,599</u></b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b><u>75,653</u></b>	<b><u>89,433</u></b>

Employee related expenses increased mainly due to rises in salary and wage award rates.

Other expense increased due predominantly to a \$14.0 million increase in goods and services as a result of higher activity levels.

### Abridged Consolidated Statement of Financial Position

Year ended 30 June	2002 \$'000	2001 \$'000
Current assets	85,162	78,221
Non-current assets	815,721	745,452
<b>TOTAL ASSETS</b>	<b>900,883</b>	<b>823,673</b>
Current liabilities	84,251	88,081
Non-current liabilities	92,757	87,370
<b>TOTAL LIABILITIES</b>	<b>177,008</b>	<b>175,451</b>
<b>NET ASSETS</b>	<b>723,875</b>	<b>648,222</b>
Reserves	147,789	147,789
Accumulated funds	576,086	500,433
<b>TOTAL EQUITY</b>	<b>723,875</b>	<b>648,222</b>

Non-current assets increased largely due to the redevelopment of facilities at the Royal Prince Alfred and Concord Repatriation General hospitals.

### Abridged Program Information

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

Year ended 30 June	2002			2001
	Revenues* \$'000	Expenses \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Overnight acute inpatient services	164,997	383,640	218,643	207,330
Outpatient services	--	125,542	125,542	120,610
Mental health services	19,343	67,476	48,133	46,959
Other	66,117	232,874	166,757	163,267
Total all programs	250,457	809,532	559,075	538,166
* Includes gain on disposal of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.cs.nsw.gov.au](http://www.cs.nsw.gov.au).

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## **Hunter Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Hunter Area was 6.1 days in 2001-02, down slightly from the previous year. This is the highest figure for metropolitan Area Health Services and the second highest in the State.

The bed occupancy rate for the Area continued to increase, from 88.3 per cent in 1999-2000 and 88.6 per cent in 2000-01 to 88.8 per cent in 2001-02. However the Area still has the lowest rate of all metropolitan Area Health Services.

The Service advises that there is a number of units which are either non-acute or mental health units, both of which typically have long-stay patients. This results in Hunter Area having more than the average Health Service for these type of patients. The Service has also advised that because it has a unique mix of both rural and metropolitan settings a comparison with other Metropolitan Area Health Services is not appropriate.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in only two of the five triage categories.

### **CONTROL ISSUES**

We identified opportunities for the Service improve to internal controls. The main areas relate to long service leave entitlements, intellectual property agreement, capitalisation of expenses and general computer controls. We have referred these matters to management.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	395,303	370,629
Visiting medical officers	22,427	21,133
Other expenses	<u>237,720</u>	<u>221,244</u>
<b>TOTAL EXPENSES</b>	<b><u>655,450</u></b>	<b><u>613,006</u></b>
<b>TOTAL REVENUE</b>	<b><u>127,453</u></b>	<b><u>118,616</u></b>
Loss on disposal of non-current assets	<u>410</u>	<u>507</u>
<b>NET COST OF SERVICES</b>	<b><u>528,407</u></b>	<b><u>494,897</u></b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	483,444	454,740
Department of Health capital payments	24,844	8,829
Acceptance by the Crown Entity of superannuation liability	<u>30,835</u>	<u>29,964</u>
<b>Total Government Contributions</b>	<b><u>539,123</u></b>	<b><u>493,533</u></b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b><u>10,716</u></b>	<b><u>(1,364)</u></b>

Employee related expenses increased because of higher staff levels and rises in salary and wage award rates.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	56,411	53,223
Non-current assets	<u>635,097</u>	<u>520,318</u>
<b>TOTAL ASSETS</b>	<b><u>691,508</u></b>	<b><u>573,541</u></b>
Current liabilities	63,680	69,979
Non-current liabilities	<u>76,724</u>	<u>62,326</u>
<b>TOTAL LIABILITIES</b>	<b><u>140,404</u></b>	<b><u>132,305</u></b>
<b>NET ASSETS</b>	<b><u>551,104</u></b>	<b><u>441,236</u></b>
Reserves	159,022	59,870
Accumulated funds	<u>392,082</u>	<u>381,366</u>
<b>TOTAL EQUITY</b>	<b><u>551,104</u></b>	<b><u>441,236</u></b>

Non-current assets increased because of capital additions of \$45.0 million and a net increase in land and buildings of \$99.2 million as a result of a revaluation. These were partly offset by the depreciation charge of \$29.2 million.

### Abridged Program Information

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

Year ended 30 June	2002		2001
	Revenues \$'000	Expenses* \$'000	Net Cost of Services \$'000
Overnight acute inpatient services	60,462	280,163	219,701
Outpatient services	5,554	67,244	61,690
Mental health services	7,894	62,210	54,316
Other	<u>53,543</u>	<u>246,243</u>	<u>192,700</u>
Total all programs	<u>127,453</u>	<u>655,860</u>	<u>528,407</u>
* Includes loss on disposal of non-current assets			

### SERVICE ACTIVITIES

For further information on the Service refer to [www.hunter.health.nsw.gov.au](http://www.hunter.health.nsw.gov.au).

## Illawarra Area Health Service

### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Illawarra Area was 3.8 days in 2001-02, down slightly on the previous year. This was the second lowest of all Area Health Services.

Illawarra had the highest bed occupancy rate during 2001-02. This rate increased from 91.8 per cent in 1999-2000 and 96.1 per cent in 2000-01 to 97.8 per cent in 2001-02.

In 2000-01 the Service exceeded the Department's benchmarks for timeliness in treating all categories of emergency patients. The Service did not meet the Department's benchmarks in three of the five triage categories in 2001-02.

### CONTROL ISSUES

We identified some opportunities for the Area to improve internal control. The main areas for improvement relate to billing systems, cash and review of capital projects. We have referred these matters to management.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	216,150	203,860
Visiting medical officers	18,498	16,719
Other expenses	127,969	125,265
<b>TOTAL EXPENSES</b>	<b>362,617</b>	<b>345,844</b>
<b>TOTAL REVENUE</b>	<b>45,729</b>	<b>37,863</b>
Loss on disposal of non-current assets	537	2,910
<b>NET COST OF SERVICES</b>	<b>317,425</b>	<b>310,891</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	288,620	274,151
Department of Health capital payments	39,675	24,877
Acceptance by the Crown Entity of superannuation liability	14,355	13,878
<b>Total Government Contributions</b>	<b>342,650</b>	<b>312,906</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>25,225</b>	<b>2,015</b>

Employee related expenses increased because of higher staff levels and rises in award rates.

Revenue grew because of higher patient fees (an increasing number of private patients utilising their private health insurance) and \$3.8 million received in grants towards the Mental Health Integration program.

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	15,524	15,250
Non-current assets	<u>267,297</u>	<u>252,539</u>
<b>TOTAL ASSETS</b>	<b><u>282,821</u></b>	<b><u>267,789</u></b>
Current liabilities	37,094	32,345
Non-current liabilities	<u>31,621</u>	<u>30,998</u>
<b>TOTAL LIABILITIES</b>	<b><u>68,715</u></b>	<b><u>63,343</u></b>
<b>NET ASSETS</b>	<b><u>214,106</u></b>	<b><u>204,446</u></b>
Reserves	64,375	79,940
Accumulated funds	<u>149,731</u>	<u>124,506</u>
<b>TOTAL EQUITY</b>	<b><u>214,106</u></b>	<b><u>204,446</u></b>

Non-current assets moved largely because of the redevelopment of the Wollongong and Shoalhaven hospitals.

### Abridged Program Information

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

Year ended 30 June	2002		2001	
	Revenues \$'000	Expenses* \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Overnight acute inpatient services	22,705	137,456	114,751	136,904
Rehabilitation and extended care services	6,825	50,811	43,986	34,753
Primary and community based services	729	37,994	37,265	34,078
Other	<u>15,470</u>	<u>136,893</u>	<u>121,423</u>	<u>105,156</u>
Total all programs	<u>45,729</u>	<u>363,154</u>	<u>317,425</u>	<u>310,891</u>
* Includes loss on disposal of non-current assets				

The Service attributed the variation in the net cost of services among programs to an improved cost allocation process.

### SERVICE ACTIVITIES

For further information on the Service refer to [www.iahs.nsw.gov.au](http://www.iahs.nsw.gov.au).



## Northern Sydney Area Health Service

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### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Northern Sydney Area was 5.9 days in 2001-02, up slightly on the previous year. This is the second highest for metropolitan Area Health Services and the third highest in the State. The Area advises the length of stay is high due to the many complex services such as the severe burns service and the spinal unit at the Royal North Shore Hospital and services provided by the Royal Rehabilitation Centre.

The bed occupancy rate for the Area continued to increase, from 88.1 per cent in 1999-2000 and 88.5 per cent in 2000-01 to 90.3 per cent in 2001-02. However at this level the Area remains below the metropolitan average.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 in only two of the five triage categories. This result was down on the previous year when benchmarks in four of the five categories were achieved.

### CONTROL ISSUES

We identified opportunities for the Service to improve internal controls. The main areas relate to annual leave entitlements, payroll clearing account and re-location of fixed assets. We have referred these matters to management for attention.

### COMPLIANCE ISSUES

We examined whether the Service complied with its policies and procedures for accounting for donations and bequests.

The Service substantially complied with these requirements. Minor exceptions have been included in a letter to the Service.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	447,132	426,692
Visiting medical officers	21,294	19,280
Other expenses	275,206	258,950
<b>TOTAL EXPENSES</b>	<b>743,632</b>	<b>704,922</b>
<b>TOTAL REVENUE</b>	<b>175,578</b>	<b>169,878</b>
(Gain)/Loss on disposal of non-current assets	(826)	1,193
<b>NET COST OF SERVICES</b>	<b>567,228</b>	<b>536,237</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	492,521	468,559
Department of Health capital pay ments	8,618	3,835
Acceptance by the Crown Entity of superannuation liability	36,102	34,615
<b>Total Government Contributions</b>	<b>537,241</b>	<b>507,009</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>(29,987)</b>	<b>(29,228)</b>

Employee related expenses increased primarily due to rises in salary and wage award rates.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	66,902	66,950
Non-current assets	554,892	570,586
<b>TOTAL ASSETS</b>	<b>621,794</b>	<b>637,536</b>
Current liabilities	90,918	82,653
Non-current liabilities	73,217	67,237
<b>TOTAL LIABILITIES</b>	<b>164,135</b>	<b>149,890</b>
<b>NET ASSETS</b>	<b>457,659</b>	<b>487,646</b>
Reserves	54,307	54,307
Accumulated funds	403,352	433,339
<b>TOTAL EQUITY</b>	<b>457,659</b>	<b>487,646</b>

Non-current assets decreased largely due to the current year's depreciation charge.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues* \$'000	Expenses* \$'000		Net Cost of Services \$'000
Overnight acute inpatient services	102,407	356,742	<b>254,335</b>	253,057
Mental health services	2,999	78,205	<b>75,206</b>	71,791
Rehabilitation and extended care services	11,823	72,933	<b>61,110</b>	56,977
Other	<u>59,175</u>	<u>235,752</u>	<b>176,577</b>	<u>154,412</u>
Total all programs	<u>176,404</u>	<u>743,632</u>	<b>567,228</b>	<u>536,237</u>
* Includes gain/(loss) on disposal of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.nsh.nsw.gov.au](http://www.nsh.nsw.gov.au).

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## **South Eastern Sydney Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **KEY ISSUES**

#### **Prince Henry and South Sydney Hospital Sites**

In 1999-2000 the Department of Health lent the Service \$17.0 million to assist it in meeting its obligations. This loan is to be repaid from the sale proceeds of the Prince Henry Hospital site. Landcom has a proposal to acquire the site and, in June 2001, paid the Department a \$17.0 million deposit. The Service remains liable to repay the \$17 million to Landcom if the sale does not proceed.

The South Sydney Hospital site was sold in June 2002 for \$14.9 million to South Sydney Council. The Service recognised a profit of \$3.9 million from the sale.

Sales of assets such as the Prince Henry and South Sydney Hospital sites are a key component of the Service's debt reduction strategy.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the South Eastern Sydney Area was 4.7 days in 2001-02, the same as for the previous year and around the average for metropolitan Area Health Services.

The bed occupancy rate for the Area was 95.0 per cent, an increase over the previous year and amongst the highest in the State.

The Department of Health has directed that Areas should not have creditors over 45 days. At 30 June 2002 the Service had \$3.5 million of general creditors unpaid more than 45 days after invoicing (\$13.1 million at 30 June 2001). The Department has advised that it is working with Areas and suppliers to minimise or eliminate occurrences of creditors over 45 days.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in only two of the five triage categories. The Service has explained that the delays in meeting benchmark times are due to increasing attendances and resulting occupancy levels. The Service has further said that the delays occur after patients have been assessed by the triage nurse and no adverse outcomes have been caused by delays in treatment.

### **CONTROL ISSUES**

We identified a number of opportunities to improve internal control. The main areas for improvement relate to patient debtors, fixed assets, grants and donations, special purpose and trust funds, fund raising activities, payroll, employee leave entitlements and inventory. These matters are being discussed with Service officers and, where appropriate, will be referred to management.

## COMPLIANCE ISSUES

We examined whether the Service complied with its policies and procedures in respect of accounting for donations and bequests. The results of the review were satisfactory.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
<b>EXPENSES</b>		
Employee related	579,606	548,817
Visiting medical officers	25,899	22,825
Other expenses	501,463	497,454
<b>TOTAL EXPENSES</b>	<b>1,106,968</b>	<b>1,069,096</b>
<b>TOTAL REVENUE</b>	<b>283,233</b>	<b>264,041</b>
Gain/(Loss) on disposal of non-current assets	4,663	(935)
<b>NET COST OF SERVICES</b>	<b>819,072</b>	<b>805,990</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	707,249	684,827
Department of Health capital payments	67,581	58,388
Asset Sale Proceeds Transferred to NSW Health Department	(5,000)	--
Acceptance by the Crown Entity of superannuation liability	45,459	41,251
<b>Total Government Contributions</b>	<b>815,289</b>	<b>784,466</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>(3,783)</b>	<b>(21,524)</b>

Employee related expenses increased because of higher staff levels and rises in award rates. The increase in revenue was largely due to higher income from patient fees (including additional private patients) and patient flows from other health services.

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	107,894	95,988
Non-current assets	876,592	886,823
<b>TOTAL ASSETS</b>	<b>984,486</b>	<b>982,811</b>
Current liabilities	160,258	172,178
Non-current liabilities	132,321	114,943
<b>TOTAL LIABILITIES</b>	<b>292,579</b>	<b>287,121</b>
<b>NET ASSETS</b>	<b>691,907</b>	<b>695,690</b>
Reserves	91,570	82,191
Accumulated funds	600,337	613,499
<b>TOTAL EQUITY</b>	<b>691,907</b>	<b>695,690</b>

Non-current assets decreased due to the combined effect of depreciation charges and property disposals.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001 Net Cost of Services \$'000
	Revenues* \$'000	Expenses* \$'000		
Overnight acute inpatient services	187,266	495,860	<b>308,594</b>	317,437
Outpatient services	18,584	165,569	<b>146,985</b>	145,673
Rehabilitation and extended care services	14,128	94,742	<b>80,614</b>	79,336
Other	<u>67,989</u>	<u>350,868</u>	<b><u>282,879</u></b>	<u>263,544</u>
Total all programs	<u>287,967</u>	<u>1,107,039</u>	<b><u>819,072</u></b>	<u>805,990</u>
*Includes gain/loss on sale of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/sesahs](http://www.health.nsw.gov.au/areas/sesahs).

## South Western Sydney Area Health Service

### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the South Western Sydney Area was 4.7 days in 2001-02, around the average for metropolitan Area Health Services.

The bed occupancy rate for the Area continued to increase, from 88.0 per cent in 1999-2000 and 89.4 per cent in 2000-01 to 90.1 per cent in 2001-02. This is still slightly below the average for metropolitan Area Health Services.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in only three of the five triage categories.

### CONTROL ISSUES

We identified opportunities for the Service to improve internal controls. The main areas relate to payroll, general ledger reconciliations, and long outstanding purchase orders. We have referred these matters to management.

### FINANCIAL INFORMATION

#### Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	420,390	392,058
Visiting medical officers	29,674	27,361
Other expenses	284,323	254,425
<b>TOTAL EXPENSES</b>	<b>734,387</b>	<b>673,844</b>
<b>TOTAL REVENUE</b>	<b>98,339</b>	<b>91,435</b>
Loss/(gain) on disposal of non-current assets	532	(344)
<b>NET COST OF SERVICES</b>	<b>636,580</b>	<b>582,065</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	566,815	540,523
Department of Health capital payments	51,628	32,258
Acceptance by the Crown Entity of superannuation liability	25,317	24,865
<b>Total Government Contributions</b>	<b>643,760</b>	<b>597,646</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>7,180</b>	<b>15,581</b>

Employee related expenses increased because of higher staff levels and rises in salary and wage award rates.

**Abridged Consolidated Statement of Financial Position**

<b>At 30 June</b>	<b>2002 \$'000</b>	<b>2001 \$'000</b>
Current assets	<b>45,444</b>	47,875
Non-current assets	<b>674,783</b>	652,329
<b>TOTAL ASSETS</b>	<b>720,227</b>	700,204
Current liabilities	<b>81,024</b>	88,362
Non-current liabilities	<b>65,770</b>	45,207
<b>TOTAL LIABILITIES</b>	<b>146,794</b>	133,569
<b>NET ASSETS</b>	<b>573,433</b>	566,635
Reserves	<b>120,093</b>	120,474
Accumulated funds	<b>453,340</b>	446,161
<b>TOTAL EQUITY</b>	<b>573,433</b>	566,635

Non-current assets increased because \$57.3 million was spent on the construction and fit out of the Macarthur Network site. These increases were offset by the current year's depreciation of \$35.2 million.

**Abridged Program Information**

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

<b>Year ended 30 June</b>	<b>2002</b>		<b>Net Cost of Services \$'000</b>	<b>2001 Net Cost of Services \$'000</b>
	<b>Revenues \$'000</b>	<b>Expenses* \$'000</b>		
Overnight acute in-patient services	68,118	342,809	<b>274,691</b>	252,656
Primary and community based services	2,544	75,660	<b>73,116</b>	65,441
Rehabilitation and extended care services	8,322	71,460	<b>63,138</b>	63,108
Other	<u>19,355</u>	<u>244,990</u>	<b>225,635</b>	<u>200,860</u>
Total all programs	<u>98,339</u>	<u>734,919</u>	<b>636,580</b>	<u>582,065</u>
* Includes loss on disposal of non-current assets				

**SERVICE ACTIVITIES**

For further information on the Service refer to [www.swsahs.nsw.gov.au](http://www.swsahs.nsw.gov.au).



## Wentworth Area Health Service

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### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

The financial report for the year ended 30 June 2002 presented to the Audit Office was incomplete and proper working papers were not available for all items within the report at the time of its receipt.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the Health Overview section earlier in this Volume.)

The average length of stay in hospitals in the Wentworth Area was 5.1 days in 2001-02, down from 5.4 days in the previous year. The average for metropolitan areas was 4.8 days.

The bed occupancy rate for the Area increased from 89.8 per cent in 1999-2000 to 93.3 per cent in 2000-01. The rate declined slightly to 93.0 per cent in 2001-02.

The Service met or exceeded the Department's benchmarks for timeliness in treating only two of the five categories of emergency patients in 2001-02. However the Service's performance in the other three categories was significantly better than in 2000-01.

### CONTROL ISSUES

We identified opportunities for improvements in controls over cash relating to bank reconciliations, fixed assets and payroll reconciliation. We wrote to the Service advising of these and other minor areas for improvement.

### COMPLIANCE ISSUES

We examined whether the Service complied with its policies and procedures in respect of accounting for donations and bequests.

We noted that Service holds funds of \$545,000 for the Queen Victoria Nursing Home, which closed in May 1999. The Service has put a proposal to the NSW Attorney-General that these funds be utilised for purposes supporting the provision of health services to aged people in the Blue Mountains Local Government Area.

**Abridged Statement of Financial Performance**

<b>Year ended 30 June</b>	<b>2002 \$'000</b>	<b>2001 \$'000</b>
Employee related	<b>167,689</b>	155,319
Visiting medical officers	<b>7,178</b>	6,731
Other expenses	<b>141,924</b>	140,640
<b>TOTAL EXPENSES</b>	<b><u>316,791</u></b>	<u>302,690</u>
<b>TOTAL REVENUE</b>	<b><u>46,050</u></b>	<u>47,871</u>
Loss on disposal of non-current assets	<b><u>70</u></b>	<u>3,996</u>
<b>NET COST OF SERVICES</b>	<b><u>270,811</u></b>	<u>258,815</u>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	<b>238,513</b>	233,994
Department of Health capital payments	<b>4,506</b>	15,530
Acceptance by the Crown Entity of superannuation liability	<b><u>12,379</u></b>	<u>11,569</u>
<b>Total Government Contributions</b>	<b><u>255,398</u></b>	<u>261,093</u>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b><u>15,413</u></b>	<u>2,278</u>

Employee related expenses increased largely due to an increase in staff numbers and salary and wages award rates.

**Abridged Statement of Financial Position**

<b>At 30 June</b>	<b>2002 \$'000</b>	<b>2001 \$'000</b>
Current assets	<b>12,519</b>	20,626
Non-current assets	<b><u>280,565</u></b>	<u>225,672</u>
<b>TOTAL ASSETS</b>	<b><u>293,084</u></b>	<u>246,298</u>
Current liabilities	<b>34,105</b>	32,872
Non-current liabilities	<b><u>53,615</u></b>	<u>52,389</u>
<b>TOTAL LIABILITIES</b>	<b><u>87,720</u></b>	<u>85,261</u>
<b>NET ASSETS</b>	<b><u>205,364</u></b>	<u>161,037</u>
Reserves	<b>62,670</b>	2,930
Accumulated funds	<b><u>142,694</u></b>	<u>158,107</u>
<b>TOTAL EQUITY</b>	<b><u>205,364</u></b>	<u>161,037</u>

The Service's land and buildings were revalued on 1 July 2001. The valuation increase of \$59.7 million was recognised in the asset revaluation reserve.

The Service's liabilities include a finance lease of \$33.4 million at 30 June 2002. This lease financed construction of the Hawkesbury District Hospital. The lease is repayable over 14 years.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues* \$'000	Expenses* \$'000		Net Cost of Services \$'000
Overnight acute inpatient services	30,209	151,896	<b>121,687</b>	121,601
Rehabilitation and extended care services	3,796	35,337	<b>31,541</b>	31,694
Primary and community based services	1,341	33,759	<b>32,418</b>	28,933
Other	<u>10,704</u>	<u>95,869</u>	<b><u>85,165</u></b>	<u>76,587</u>
Total all programs	<u>46,050</u>	<u>316,861</u>	<b><u>270,811</u></b>	<u>258,815</u>
*Includes loss on disposal of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/wahs](http://www.health.nsw.gov.au/areas/wahs).

## **Western Sydney Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Western Sydney Area was 4.6 days in 2001-02, the same as the previous year. This is around the average for metropolitan Area Health Services.

The bed occupancy rate for the Area continued to increase, from 89.5 per cent in 1999-2000 and 90.1 per cent in 2000-01 to 91.8 per cent in 2001-02. This is slightly below the average for metropolitan Area Health Services.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories in 2001-02. This was an improvement over the previous year when benchmarks in only two categories were met.

### **CONTROL ISSUES**

We identified opportunities for the Service to improve internal controls. The main areas relate to employee entitlements, payroll and general computer controls. We have referred these matters to management.

### **COMPLIANCE ISSUES**

We examined whether the Service complied with best practice for audit committees. The Service substantially complied.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	500,360	470,174
Visiting medical officers	19,801	17,304
Other expenses	<u>347,143</u>	<u>325,105</u>
<b>TOTAL EXPENSES</b>	<b><u>867,304</u></b>	<b><u>812,583</u></b>
<b>TOTAL REVENUE</b>	<b><u>165,724</u></b>	<b><u>161,671</u></b>
Loss on disposal of non-current assets	<u>540</u>	<u>2,035</u>
<b>NET COST OF SERVICES</b>	<b><u>702,120</u></b>	<b><u>652,947</u></b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	625,119	595,944
Department of Health capital payments	7,087	9,489
Acceptance by the Crown Entity of superannuation liability	<u>38,358</u>	<u>37,097</u>
<b>Total Government Contributions</b>	<b><u>670,564</u></b>	<b><u>642,530</u></b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b><u>(31,556)</u></b>	<b><u>(10,417)</u></b>

Employee related expenses increased because of higher staff levels and rises in salary and wage award rates.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	106,066	88,501
Non-current assets	<u>744,279</u>	<u>781,130</u>
<b>TOTAL ASSETS</b>	<b><u>850,345</u></b>	<b><u>869,631</u></b>
Current liabilities	83,833	80,759
Non-current liabilities	<u>82,861</u>	<u>73,665</u>
<b>TOTAL LIABILITIES</b>	<b><u>166,694</u></b>	<b><u>154,424</u></b>
<b>NET ASSETS</b>	<b><u>683,651</u></b>	<b><u>715,207</u></b>
Reserves	108,047	108,047
Accumulated funds	<u>575,604</u>	<u>607,160</u>
<b>TOTAL EQUITY</b>	<b><u>683,651</u></b>	<b><u>715,207</u></b>

Current assets rose primarily because of a \$9.7 million increase in cash due to timing differences in salaries and wages, and creditor payments.

Non-current assets decreased largely due to the depreciation charges for the year.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues \$'000	Expenses* \$'000		Net Cost of Services \$'000
Overnight acute inpatient services	97,505	358,563	<b>261,058</b>	257,607
Mental health services	4,118	71,308	<b>67,190</b>	72,474
Primary community based services	4,180	68,903	<b>64,723</b>	57,998
Other	<u>59,921</u>	<u>369,070</u>	<b><u>309,149</u></b>	<u>264,868</u>
Total all programs	<u>165,724</u>	<u>867,844</u>	<b><u>702,120</u></b>	<u>652,947</u>
* Includes loss on disposal of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.wsahs.nsw.gov.au](http://www.wsahs.nsw.gov.au).

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## **Far West Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the Health Overview section earlier in this Volume.)

The average length of stay in hospitals in the Far West Area was 4.7 days in 2001-02, up slightly on the previous year. While average lengths of stay are generally higher in rural areas, Far West was at the lower end of the range of all rural Area Health Services.

The bed occupancy rate for the Area continued to decline, from 65.9 per cent in 1999-2000 and 62.7 per cent in 2000-01 to 58.6 per cent in 2001-02. As with most Rural Area Health Services, the Area uses beds less intensively than in metropolitan areas. The current redevelopment of some of the Area's low-occupancy hospitals into Multi-Purpose Service facilities should enable more efficient use of resources.

The Service exceeded the Department's benchmarks for timeliness in treating all categories of emergency patients in 2001-02, with its performance in all five categories better than the previous year.

### **CONTROL ISSUES**

We identified opportunities for the Area to improve internal control. The main issue related to the Area not having a formal agreement governing an arrangement between it and the University of Sydney for a teaching facility at 'Coorindah Court'. This matter was first raised with management in December 2000. An agreement was subsequently signed on 29 October 2002.

### **COMPLIANCE ISSUES**

We noted that the main administration building may not comply with legislation governing health and safety due to the presence of asbestos and restricted fire access.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	44,305	44,160
Visiting medical officers	5,293	4,216
Other expenses	44,420	41,856
<b>TOTAL EXPENSES</b>	<b>94,018</b>	<b>90,232</b>
<b>TOTAL REVENUE</b>	<b>10,799</b>	<b>8,881</b>
Gain/(Loss) on disposal of non-current assets	82	( 344)
<b>NET COST OF SERVICES FOR YEAR</b>	<b>83,137</b>	<b>81,695</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	76,365	73,413
Department of Health capital payments	5403	4,000
Acceptance by the Crown Entity of superannuation liability	3,484	3,267
<b>Total Government Contributions</b>	<b>85,252</b>	<b>80,680</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>2,115</b>	<b>(1,015)</b>

Revenue increased by \$1.9 million largely because of \$1.2 million in extra grants for community services projects.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	6,382	4,025
Non-current assets	74,802	57,555
<b>TOTAL ASSETS</b>	<b>81,184</b>	<b>61,580</b>
Current liabilities	12,354	12,550
Non-current liabilities	6,626	6,429
<b>TOTAL LIABILITIES</b>	<b>18,980</b>	<b>18,979</b>
<b>NET ASSETS</b>	<b>62,204</b>	<b>42,601</b>
Reserves	18,417	929
Accumulated funds	43,787	41,672
<b>TOTAL EQUITY</b>	<b>62,204</b>	<b>42,601</b>

Equity increased by \$19.6 million largely because of a \$17.5 million rise in the asset revaluation reserve following a property revaluation.



### Abridged Program Information

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

Year ended 30 June	2002			2001
	Revenues*	Expenses	Net Cost of Services	Net Cost of Services
	\$'000	\$'000	\$'000	\$'000
Overnight acute in-patient services	2,446	32,845	<b>30,399</b>	31,333
Emergency Services	1,170	11,379	<b>10,209</b>	10,980
Rehabilitation and extended care services	2,031	12,596	<b>10,565</b>	10,095
Other	<u>5,234</u>	<u>37,198</u>	<u><b>31,964</b></u>	<u>29,287</u>
Total all programs	<u>10,881</u>	<u>94,018</u>	<u><b>83,137</b></u>	<u>81,695</u>
*Includes gain on disposal of non current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.fwahs.health.nsw.gov.au](http://www.fwahs.health.nsw.gov.au).

## Greater Murray Area Health Service

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### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

The Service entered into leasing arrangements for certain plant and equipment (with a cost value of approximately \$1.5 million) in 1998-99 and accounts for these leases as operating leases. As it has previously reported and acknowledged, the Service should treat these arrangements as finance leases. While this does not materially affect its financial report, the leases do not have the necessary approvals required by the *Public Authorities (Financial Arrangements) Act 1987*.

The Treasurer's Directions require asset revaluations every 5 years. In accordance with these requirements the Service should have revalued its land and buildings in 2001-02. Because it did not, the Service failed to comply with the *Public Finance and Audit Act 1983*. It is understood the Service will revalue its land and buildings in 2002-03.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Greater Murray Area was 6.1 days in 2001-02, up slightly on the previous year. While average lengths of stay are generally higher in rural areas, Greater Murray was the second highest of all rural Area Health Services.

The bed occupancy rate for the Area continued to decline, from 79.2 per cent in 1999-2000 and 77.0 per cent in 2000-01 to 76.2 per cent in 2001-02. At this level, the Area is typical of most rural Area Health Services, with beds used less intensively than in metropolitan Areas. The current redevelopment of some the Area's low-occupancy hospitals into Multi-Purpose Service facilities should enable more efficient use of resources.

The Department of Health has directed that Areas should not have creditors over 45 days. At 30 June 2002, the Service had \$268,000 of general creditors unpaid more than 45 days after invoicing. The Department has advised that it is working with Areas and suppliers to minimise or eliminate occurrences of creditors over 45 days.

The Service exceeded the Department's benchmarks for timeliness in treating all categories of emergency patients in 2001-02, although its performance in three of the five triage categories was down on the previous year.

### CONTROL ISSUES

We identified some opportunities for the Area to improve internal control. The main areas are the absence of detailed asset records regarding the composition of the asset revaluation reserve, plant and equipment registers (including physical verification), disclosure of Board members interests, debtors' reconciliations and authorisation of payments. We have referred these matters to management.

The Service should also improve the system for calculating long service leave provisions. Management recognises they cannot reliably calculate long service leave through the current computerised payroll system because of a series of issues concerning the accuracy of salary records. We have written to management about this for the past four years.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	159,701	152,146
Visiting medical officers	21,618	20,136
Other expenses	118,906	118,264
<b>TOTAL EXPENSES</b>	<b>300,225</b>	<b>290,546</b>
<b>TOTAL REVENUE</b>	<b>53,723</b>	<b>50,748</b>
Gain/(loss) on disposal of non-current assets	(33)	13
<b>NET COST OF SERVICES</b>	<b>246,535</b>	<b>239,785</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	220,598	215,093
Department of Health capital payments	7,279	1,402
Acceptance by the Crown Entity of Superannuation liability	12,862	12,213
<b>Total Government Contributions</b>	<b>240,739</b>	<b>228,708</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>(5,796)</b>	<b>(11,077)</b>

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	9,652	11,603
Non-current assets	164,680	166,058
<b>TOTAL ASSETS</b>	<b>174,332</b>	<b>177,661</b>
Current liabilities	33,753	32,882
Non-current liabilities	24,919	23,323
<b>TOTAL LIABILITIES</b>	<b>58,672</b>	<b>56,205</b>
<b>NET ASSETS</b>	<b>115,660</b>	<b>121,456</b>
Reserves	5,629	5,629
Accumulated funds	110,031	115,827
<b>TOTAL EQUITY</b>	<b>115,660</b>	<b>121,456</b>

### Abridged Program Information

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

Year ended 30 June	2002		2001
	Revenues* \$'000	Expenses* \$'000	Net Cost of Services \$'000
Overnight acute inpatient services	22,245	114,125	91,880
Rehabilitation and extended care services	26,332	85,737	59,405
Emergency services	1,147	40,076	38,929
Other	<u>3,999</u>	<u>60,320</u>	<u>56,321</u>
Total all programs	<u>53,723</u>	<u>300,258</u>	<u>246,535</u>
* Includes gain/(loss) on disposal of non-current assets			

The Service attributed the variation in the net cost of services among programs to an improved cost allocation process.

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/gmahs](http://www.health.nsw.gov.au/areas/gmahs).

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## **Macquarie Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Macquarie Area was 5.7 days in 2001-02, the same as the previous year. This is higher than the average for rural Area Health Services (5.3 days).

The bed occupancy rate for the Area was 72.0 per cent a slight decrease from the previous year's 72.3 per cent. As with most rural Area Health Services, the Area uses beds less intensively than in metropolitan areas. The current redevelopment of some the Area's low-occupancy hospitals into Multi-Purpose Service facilities should enable more efficient use of resources.

The Department of Health has directed that Areas should not have creditors over 45 days. At 30 June 2002, the Service had \$189,000 of general creditors unpaid more than 45 days after invoicing (\$1.4 million at 30 June 2001). The Department has advised that it is working with Areas and suppliers to minimise or eliminate occurrences of creditors over 45 days.

The Service substantially met the Department's benchmarks for timeliness in treating all categories of emergency patients in 2001-02, although its performance in four of the five triage categories was down on the previous year.

### **CONTROL ISSUES**

The audit did not identify any significant matters. We are discussing details about control issues and other matters with Service officers. Where appropriate, we will refer them to management.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	74,194	73,131
Visiting medical officers	12,103	11,320
Other expenses	59,639	53,328
<b>TOTAL EXPENSES</b>	<b>145,936</b>	<b>137,779</b>
<b>TOTAL REVENUE</b>	<b>20,518</b>	<b>18,779</b>
Gain on disposal of non-current assets	54	151
<b>NET COST OF SERVICES</b>	<b>125,364</b>	<b>118,849</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	111,136	107,546
Department of Health capital payments	13,122	3,798
Acceptance by the Crown Entity of superannuation liability	5,609	5,674
<b>Total Government Contribution</b>	<b>129,867</b>	<b>117,018</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>4,503</b>	<b>(1,831)</b>

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	9,363	9,209
Non-current assets	85,421	81,021
<b>TOTAL ASSETS</b>	<b>94,784</b>	<b>90,230</b>
Current liabilities	15,227	15,375
Non-current liabilities	10,191	9,992
<b>TOTAL LIABILITIES</b>	<b>25,418</b>	<b>25,367</b>
<b>NET ASSETS</b>	<b>69,366</b>	<b>64,863</b>
Reserves	238	238
Accumulated funds	69,128	64,625
<b>TOTAL EQUITY</b>	<b>69,366</b>	<b>64,863</b>

## Abridged Program Information

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

Year ended 30 June	2002		2001	
	Revenues* \$'000	Expenses \$'000	Net Cost of Services \$'000	Net Cost Of Services \$'000
Overnight acute inpatient services	12,103	68,126	56,023	54,929
Rehabilitation and extended care services	3,812	20,050	16,238	16,552
Primary and community based services	597	12,408	11,811	12,549
Other	4,060	45,352	41,292	34,819
Total all programs	20,572	145,936	125,364	118,849
* Includes gain on disposal of non-current assets				

## **SERVICE ACTIVITIES**

For further information on the Service refer to [www.health.nsw.gov.au/areas/mahs](http://www.health.nsw.gov.au/areas/mahs).

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## **Mid North Coast Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Mid North Coast Area was 4.5 days in 2001-02, down from 4.9 days in the previous year. While average lengths of stay are generally higher in rural areas, Mid North Coast was the second lowest of all rural Area Health Services.

The bed occupancy rate for the Area continued to increase, from 80.2 per cent in 1999-2000 and 82.2 per cent in 2000-01 to 82.9 per cent in 2001-02. While lower than metropolitan areas, Mid North Coast has the second highest bed occupancy rate of all rural areas.

The Service recorded an increase of 4,164 in admissions, (a rise of 8.5 per cent). This increase was higher than any other health service and has been attributed to additional elective surgery, emergency cases and medical and renal separations.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in only two of the five triage categories. The Service explained that it experienced an 8.9 per cent increase in emergency department attendances and a 19.5 per cent rise in emergency department admissions.

### **CONTROL ISSUES**

We identified some opportunities for the Area to improve internal control. The main areas for improvement are asset reconciliations, inventory, calculation of long service liabilities, incorrect recognition of non-reciprocal grants as liabilities rather than revenue, lease commitments and calculation of amounts payable to visiting medical officers. We have referred these matters to management.



## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	127,585	119,588
Visiting medical officers	16,098	14,288
Other expenses	138,667	117,934
<b>TOTAL EXPENSES</b>	<b>282,350</b>	<b>251,810</b>
<b>TOTAL REVENUE</b>	<b>26,869</b>	<b>24,639</b>
Gain/(loss) on disposal on non-current assets	(615)	41
<b>NET COST OF SERVICES</b>	<b>256,096</b>	<b>227,130</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	234,743	212,398
Department of Health capital payments	19,914	53,208
Asset sale proceeds transferred to the Department of Health	(542)	--
Acceptance by the Crown Entity of superannuation liability	9,714	9,404
<b>Total Government Contributions</b>	<b>263,829</b>	<b>275,010</b>
<b>RESULT FOR THE YEAR FORM ORDINARY ACTIVITIES</b>	<b>7,733</b>	<b>47,880</b>

Employee related expenses increased because of higher staff levels and rises in award rates. The rise in other expenses was due to a combination of factors including higher costs of inter area patient flows and increased maintenance costs.

## Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	7,913	7,546
Non-current assets	162,198	150,422
<b>TOTAL ASSETS</b>	<b>170,111</b>	<b>157,968</b>
Current liabilities	28,740	25,602
Non-current liabilities	18,771	17,499
<b>TOTAL LIABILITIES</b>	<b>47,511</b>	<b>43,101</b>
<b>NET ASSETS</b>	<b>122,600</b>	<b>114,867</b>
Reserves	118	118
Accumulated funds	122,482	114,749
<b>TOTAL EQUITY</b>	<b>122,600</b>	<b>114,867</b>

Non-current assets increased because of construction costs on the new Coffs Harbour Hospital and the Taree Mental Health Building.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues \$'000	Expenses* \$'000		Net Cost of Services \$'000
Overnight acute inpatient services	13,472	136,772	<b>123,300</b>	109,865
Emergency services	1,226	28,283	<b>27,057</b>	27,846
Primary and community based services	3,439	35,446	<b>32,007</b>	24,927
Other	<u>8,732</u>	<u>82,464</u>	<b>73,732</b>	<u>64,492</u>
Total all programs	<u>26,869</u>	<u>282,965</u>	<b>256,096</b>	<u>227,130</u>
* Includes loss on disposal of non-current assets				

The Service attributed the variation in the net cost of services among programs to the effects of cost escalations and additional recurrent funding to enhance services.

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/mncahs](http://www.health.nsw.gov.au/areas/mncahs).

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## **Mid Western Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Mid Western Area was 5.8 days in 2001-02, down slightly on the previous year. This is higher than the average for Rural Area Health Services (5.3 days).

The bed occupancy rate for the Area increased from 77.1 per cent in 1999-2000 to 78.6 per cent in 2000-01 before falling to 73.6 per cent in 2001-02. As with most Rural Area Health Services, the Area uses beds less intensively than in metropolitan areas. The current redevelopment of some of the Area's low-occupancy hospitals into multi-purpose service facilities should enable more efficient use of resources.

The Department of Health has directed that Areas should not have creditors over 45 days. At 30 June 2002, the Service had \$1.9 million of general creditors unpaid more than 45 days after invoicing (\$1.0 million at 30 June 2001). The Department has advised that it is working with Areas and suppliers to minimise or eliminate occurrences of creditors over 45 days.

The Service met or exceeded the Department's benchmarks for timeliness in treating all categories of emergency patients in 2001-02 and 2000-01.

### **CONTROL ISSUES**

We identified opportunities for the Service to improve internal controls. The main areas relate to reconciling general ledger accounts to sub ledgers on a timely basis, detailed review of reconciliations and regular follow-up of reconciling items. We have referred these matters to management.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	143,228	136,072
Visiting Medical Officers	16,837	16,092
Other expenses	83,091	75,628
<b>TOTAL EXPENSES</b>	<b>243,156</b>	<b>227,792</b>
<b>TOTAL REVENUE</b>	<b>40,058</b>	<b>33,693</b>
Loss on disposal of non-current assets	422	632
<b>NET COST OF SERVICES</b>	<b>203,520</b>	<b>194,731</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	183,219	178,043
Department of Health capital payments	7,244	4,685
Acceptance by the Crown Entity of superannuation liability	11,210	10,914
<b>Total Government Contributions</b>	<b>201,673</b>	<b>193,642</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>(1,847)</b>	<b>(1,089)</b>

Employee related expenses increased because of higher staff levels and rises in salary and wage award rates.

Patient fee revenue rose 23 per cent compared to the prior year due largely to increased funding provided by the Commonwealth Government for multi-purpose sites and increased Department of Veterans' Affairs revenue.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	12,515	10,540
Non-current assets	137,074	126,313
<b>TOTAL ASSETS</b>	<b>149,589</b>	<b>136,853</b>
Current liabilities	32,260	32,304
Non-current liabilities	26,265	23,751
<b>TOTAL LIABILITIES</b>	<b>58,525</b>	<b>56,055</b>
<b>NET ASSETS</b>	<b>91,064</b>	<b>80,798</b>
Reserves	13,016	903
Accumulated funds	78,048	79,895
<b>TOTAL EQUITY</b>	<b>91,064</b>	<b>80,798</b>

Non-current assets increased because of a revaluation of land and buildings.

### Abridged Program Information

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

Year ended 30 June	2002		2001
	Revenues \$'000	Expenses* \$'000	Net Cost of Services \$'000
Overnight acute inpatient services	18,911	105,927	87,016
Rehabilitation and extend care services	8,218	35,940	27,722
Mental health services	1,878	26,286	24,408
Other	<u>11,051</u>	<u>75,425</u>	<u>64,374</u>
Total all programs	<u>40,058</u>	<u>243,578</u>	<u>203,520</u>
* Includes loss on disposal of non-current assets			

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/mwahs](http://www.health.nsw.gov.au/areas/mwahs).

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## **New England Area Health Service**

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### **AUDIT OPINION**

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the New England Area was 4.7 days in 2001-02 the same as the previous year. While average lengths of stay are generally higher in rural areas, New England was amongst the lowest of all rural Area Health Services.

The bed occupancy rate for the Area fell from 75.0 in 1999-2000 to 72.5 in 2000-01 before increasing to 73.6 in 2001-02. As with most rural Area Health Services, the Area uses beds less intensively than metropolitan areas. The current redevelopment of some the Area's low-occupancy hospitals into Multi-Purpose Service facilities should enable more efficient use of resources.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in only two of the five triage categories. The Service advised us that these results will improve with additional emergency beds becoming available in December 2002, more positions being filled with regular staff and less reliance on locums and two additional nursing positions.

### **CONTROL ISSUES**

We identified some minor opportunities for the Service to improve in internal control. We have referred these matters to management.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	130,526	122,205
Visiting medical officers	17,299	16,817
Other expenses	79,620	70,214
<b>TOTAL EXPENSES</b>	<b>227,445</b>	<b>209,236</b>
<b>TOTAL REVENUE</b>	<b>36,324</b>	<b>45,185</b>
Loss on disposal of non-current assets	204	20
<b>NET COST OF SERVICES</b>	<b>191,325</b>	<b>164,071</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	173,785	161,743
Department of Health capital payments	16,017	2,409
Acceptance by the Crown Entity of superannuation liability	10,821	10,369
<b>Total Government Contributions</b>	<b>200,623</b>	<b>174,521</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>9,298</b>	<b>10,450</b>

Employee related expenses increased because of higher staff levels and rises in salary and wage award rates.

Total revenues decreased by \$8.9 million primarily because of an \$11.9 million depreciation adjustment in 2000-01 that was recorded as revenue.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	17,621	17,332
Non-current assets	129,196	106,293
<b>TOTAL ASSETS</b>	<b>146,817</b>	<b>123,625</b>
Current liabilities	26,161	27,489
Non-current liabilities	22,557	19,777
<b>TOTAL LIABILITIES</b>	<b>48,718</b>	<b>47,266</b>
<b>NET ASSETS</b>	<b>98,099</b>	<b>76,359</b>
Reserves	29,317	16,875
Accumulated funds	68,782	59,484
<b>TOTAL EQUITY</b>	<b>98,099</b>	<b>76,359</b>

The increase in non-current assets reflected increased capital expenditure of \$15.0 million and the land and buildings revaluation increment of \$12.4 million.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001 Net Cost of Services \$'000
	Revenues \$'000	Expenses* \$'000		
Overnight acute inpatient services	23,003	106,213	<b>83,210</b>	71,714
Rehabilitation and extended care services	5,922	29,265	<b>23,343</b>	20,221
Primary and community based services	820	22,532	<b>21,712</b>	18,519
Other	<u>6,579</u>	<u>69,639</u>	<b><u>63,060</u></b>	<u>53,617</u>
Total all programs	<u>36,324</u>	<u>227,649</u>	<b><u>191,325</u></b>	<u>164,071</u>
* Includes loss on disposal of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/neahs](http://www.health.nsw.gov.au/areas/neahs).



## Northern Rivers Area Health Service

### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Northern Rivers Area was 4.1 days in 2001-02, down from 4.5 days in the previous year. While average lengths of stay are generally higher in rural areas, Northern Rivers was the lowest of all the rural areas and more in line with metropolitan areas.

The bed occupancy rate for the Area continued to decline, from 84.8 per cent in 1999-2000 and 84.2 per cent in 2000-01 to 83.0 per cent in 2001-02. While lower than metropolitan areas, Northern Rivers has the highest bed occupancy rate of all rural areas. The current redevelopment of some the Area's low-occupancy hospitals into Multi-Purpose Service facilities should enable more efficient use of resources.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in 2001-02 and 2000-01 in four of the five triage categories.

### CONTROL ISSUES

We identified opportunities for the Area to improve internal control. The main areas for improvement relate to payment of creditors, debtors and receipting procedures, payroll, payments to Visiting Medical Officers and inventory. We have referred these matters to management.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	173,001	158,026
Visiting medical officers	24,356	21,225
Other expenses	109,181	102,703
<b>TOTAL EXPENSES</b>	<b>306,538</b>	<b>281,954</b>
<b>TOTAL REVENUE</b>	<b>43,028</b>	<b>40,307</b>
Gain on disposal of non-current assets	58	95
<b>NET COST OF SERVICES</b>	<b>263,452</b>	<b>241,552</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	236,939	217,697
Department of Health capital payments	19,189	13,875
Acceptance by the Crown Entity of superannuation liability	13,718	12,667
<b>Total Government Contributions</b>	<b>269,846</b>	<b>244,239</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>6,394</b>	<b>2,687</b>

Employee related expenses (and employee entitlements) increased because of higher staff levels and rises in award rates. The Area has advised us that the increase in staff levels is consistent with growth funding.

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	12,890	9,312
Non-current assets	<u>171,625</u>	<u>160,791</u>
<b>TOTAL ASSETS</b>	<b><u>184,515</u></b>	<b><u>170,103</u></b>
Current liabilities	34,249	30,010
Non-current liabilities	<u>25,497</u>	<u>21,718</u>
<b>TOTAL LIABILITIES</b>	<b><u>59,746</u></b>	<b><u>51,728</u></b>
<b>NET ASSETS</b>	<b><u>124,769</u></b>	<b><u>118,375</u></b>
Reserves	2,035	2,035
Accumulated funds	<u>122,734</u>	<u>116,340</u>
<b>TOTAL EQUITY</b>	<b><u>124,769</u></b>	<b><u>118,375</u></b>

Non-current assets increased mainly due to \$15.2 million spent on Stage 3 of the Tweed Heads Hospital project, due to be completed in April 2003.

### Abridged Program Information

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

Year ended 30 June	2002		2001	
	Revenues* \$'000	Expenses \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Overnight acute inpatient services	33,542	164,490	<b>130,948</b>	122,294
Same day acute inpatient services	3,227	21,939	<b>18,712</b>	24,650
Emergency services	166	26,550	<b>26,384</b>	24,433
Other	<u>6,151</u>	<u>93,559</u>	<u><b>87,408</b></u>	<u>70,175</u>
Total all programs	<u>43,086</u>	<u>306,538</u>	<u><b>263,452</b></u>	<u>241,552</u>
* Includes gain on disposal of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service refer to [www.health.nsw.gov.au/areas/nrahs](http://www.health.nsw.gov.au/areas/nrahs).

## Southern Area Health Service

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### AUDIT OPINION

The audit of the financial report of the Service for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in hospitals in the Southern Area was seven days in 2001-02, the same as in the previous year. While average lengths of stay are generally higher in rural areas, Southern was the highest of all rural Area Health Services. The Service has advised us that the high average at Southern Area is mainly due to the impact of non-acute sites, including Multi-Purpose Service facilities, mental health and rehabilitation services. The average length of stay at Southern Area's 9 acute sites is 3.5 days.

The bed occupancy rate for the Area continued to increase, from 73.7 per cent in 1999-2000 and 74.3 per cent in 2000-01 to 76.2 per cent in 2001-02. As with most Rural Area Health Services, the Area uses beds less intensively than in metropolitan areas. The current redevelopment of some of the Area's low-occupancy hospitals into Multi-Purpose Service facilities should enable more efficient use of resources.

The Service exceeded or met the Department's benchmarks for timeliness in treating three of the five categories of emergency patients in 2001-02. As noted in the 'Department of Health: Consolidated' section of this Report, the Service treated only 95 per cent of its T1 (urgent life threatening condition) patients within two minutes. The Department's benchmark is 99 per cent.

### CONTROL ISSUES

#### Outstanding Creditor – Repeat Finding

Auditor-General's Reports to Parliament in recent years have included comment on the Service's continuing efforts to clear an amount owing to one visiting medical officer. The Service has been unable to pay the outstanding balance, as the visiting medical officer has not submitted claims for services provided in previous years. In an effort to contain the debt, the Service has negotiated a different basis of payment. This has contained the debt at \$1.1 million.

Because of cash liquidity pressures, the Service may not be able to settle the account in one year.

#### Other Control Issues

We identified some other opportunities for the Service to improve internal control. These were minor and have been referred to the Service.

### COMPLIANCE ISSUES

We tested whether the Service complied with its policies and procedures for accounting for donations and bequests. The Service substantially complied.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	104,402	102,227
Visiting medical officers	17,581	15,603
Other expenses	106,170	111,823
<b>TOTAL EXPENSES</b>	<b>228,153</b>	<b>229,653</b>
<b>TOTAL REVENUE</b>	<b>26,756</b>	<b>25,630</b>
Loss on disposal of non current assets	84	35
<b>NET COST OF SERVICES</b>	<b>201,481</b>	<b>204,058</b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	190,570	186,953
Department of Health capital payments	2,941	2,300
Acceptance by the Crown Entity of superannuation liability	8,272	8,265
<b>Total Government Contributions</b>	<b>201,783</b>	<b>197,518</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>302</b>	<b>6,540</b>

The decrease in other expenses largely related to the costs of Southern Area patients treated in the Australian Capital Territory. The fall reflected both fewer numbers treated and a change in the way costs were measured.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	6,207	4,870
Non-current assets	100,327	102,663
<b>TOTAL ASSETS</b>	<b>106,534</b>	<b>107,533</b>
Current liabilities	21,862	23,784
Non-current liabilities	16,176	15,555
<b>TOTAL LIABILITIES</b>	<b>38,038</b>	<b>39,339</b>
<b>NET ASSETS</b>	<b>68,496</b>	<b>68,194</b>
Reserves	12,833	12,833
Accumulated funds	55,663	55,361
<b>TOTAL EQUITY</b>	<b>68,496</b>	<b>68,194</b>

Accounts payable were \$7.6 million at 30 June 2002 (\$10.3 million in 2001). The Service advised that, at year-end, there were no debts with an age exceeding 45 days.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001 Net Cost of Services \$'000
	Revenues \$'000	Expenses* \$'000		
Overnight acute inpatient services	14,768	117,427	<b>102,659</b>	105,626
Rehabilitation and extended care services	7,272	28,700	<b>21,428</b>	25,585
Mental health services	872	23,677	<b>22,805</b>	22,058
Other	<u>3,844</u>	<u>58,433</u>	<b>54,589</b>	50,789
Total all programs	<u>26,756</u>	<u>228,237</u>	<b>201,481</b>	<u>204,058</u>
* Includes loss on disposal of non-current assets				

### SERVICE ACTIVITIES

For further information on the Service, refer to [www.health.nsw.gov.au/areas/sahs](http://www.health.nsw.gov.au/areas/sahs).

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## Ambulance Service of New South Wales

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### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Sale and Lease Back Arrangement

On 28 June 2002 the Service entered into a sale and lease back arrangement for eleven ambulance stations. The Department of Health holds the \$19.0 million proceeds.

#### Rozelle Hospital Site

The Service recognises part of the Rozelle Hospital site as an asset with a carrying value of \$4.4 million (\$2.3 million in land and \$2.1 million in buildings).

Prior to the recent introduction of the *Callan Park (Special Provisions) Bill 2002* the Service was looking at relocating from the Rozelle site. The redevelopment of the site has been impacted by the Bill and the Service is now reconsidering its accommodation options.

Further detail on the Rozelle Hospital Site appears in the Central Sydney Area Health Service comment.

### PERFORMANCE ISSUES

(Comparative performance data on all Health Services appears in the 'Health Overview' section earlier in this Volume.)

The Service considers the numbers of road response and incidents to be its primary measures of activity. It advised us of a 5.6 per cent increase in responses (813,616 in 2000-01 to 858,827 in 2001-02) and a 4.4 per cent increase in incidents (708,941 in 2000-01 to 739,831 in 2001-02).

The Patient Health Care Record system indicates that 675,464 patients were assessed, treated or transported by the Service during 2001-02 (715,697 in 2000-01). The Service attributes the reduced total number of cases to refinements in data definitions.

The Service identified a time stamping anomaly within the Computer Aided Dispatch System. It rectified the problem and adjusted the 2000-01 data, significantly changing some categories.

Year ended 30 June	Metropolitan		Rural		State-wide	
	2002	2001	2002	2001	2002	2001
<b>Activation Time</b>						
Average (mins)	<b>1.43</b>	1.67	<b>1.64</b>	2.53	<b>1.53</b>	2.03
% = 3 mins	<b>91.6</b>	86.7	<b>89.8</b>	86.6	<b>90.7</b>	86.9
<b>Response Time</b>						
Average (mins)	<b>10.48</b>	11.66	<b>12.64</b>	13.08	<b>11.49</b>	12.27
% = 5 mins	<b>8.2</b>	6.1	<b>10.5</b>	9.9	<b>9.3</b>	7.7
% = 10 mins	<b>55.9</b>	46.9	<b>49.9</b>	48.6	<b>53.1</b>	47.6
% = 15 mins	<b>85.6</b>	79.5	<b>74.8</b>	73.9	<b>80.6</b>	77.1
% = 20 mins	<b>94.8</b>	91.4	<b>86.1</b>	85.5	<b>90.7</b>	88.9
<b>Time on Scene</b>						
Average (mins)	<b>16.34</b>	16.71	<b>15.99</b>	17.98	<b>16.17</b>	17.30
% = 20 mins	<b>75.0</b>	74.2	<b>77.2</b>	77.4	<b>76.1</b>	75.7
% = 30 mins	<b>91.5</b>	90.9	<b>91.7</b>	91.5	<b>91.6</b>	91.2
<b>Case Cycle Time</b>						
Average (mins)	<b>105.11</b>	108.49	<b>123.26</b>	122.46	<b>114.20</b>	115.16
% = 60 mins	<b>29.7</b>	30.3	<b>37.3</b>	36.9	<b>33.5</b>	33.5
Activation time: time from the call receipt to when an ambulance is despatched.						
Response time: time from the call receipt to when an ambulance arrives on the scene.						
Time on scene: length of time an ambulance is at the incident.						
Cycle time: time from when an ambulance is despatched to when the case has been closed.						
Source: Ambulance Service of New South Wales.						

Reported response times improved significantly throughout 2002 because of the Service's operational and work force initiatives. The Service's initiatives followed our performance audit report 'Readiness to Respond' released in March 2001.

## CONTROL ISSUES

The audit did not identify any significant matters. We are discussing details about control issues and other matters with Service officers. Where appropriate, we will refer them to management.

## COMPLIANCE ISSUES

We reviewed the Service's compliance with the requirements of the *Public Authorities (Financial Arrangements) Act 1987* and Regulation 2000. As the Service's financial report disclosed, it recognised some leasing arrangements as operating leases rather than finance leases. It appears that the Service substantially carries all the risks and benefits associated with the ownership of the leased assets. While the impact on the financial report is not considered material, the leases do not have the necessary approvals required by the *Public Authorities (Financial Arrangements) Act 1987*.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	214,971	203,505
Other expenses	<u>89,919</u>	<u>85,028</u>
<b>TOTAL EXPENSES</b>	<b><u>304,890</u></b>	<b><u>288,533</u></b>
<b>TOTAL REVENUE</b>	<b><u>66,436</u></b>	<b><u>65,219</u></b>
Gain on disposal of non-current assets	<u>10,506</u>	<u>27</u>
<b>NET COST OF SERVICES FOR YEAR</b>	<b><u>227,948</u></b>	<b><u>223,287</u></b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	198,059	190,322
Department of Health capital payments	9,206	9,490
Asset sale proceeds transferred to the Department of Health	(19,005)	--
Acceptance by the Crown Entity of superannuation liability	<u>15,622</u>	<u>15,136</u>
<b>Total Government Contributions</b>	<b><u>203,882</u></b>	<b><u>214,948</u></b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b><u>(24,066)</u></b>	<b><u>(8,339)</u></b>

The growth in employee related expense was mainly due to increased salary and wage rises and higher overtime levels.

Other expenses increased largely due to increased leasing charges associated with the transition from a fully owned fleet.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	10,975	14,980
Non-current assets	<u>128,168</u>	<u>145,953</u>
<b>TOTAL ASSETS</b>	<b><u>139,143</u></b>	<b><u>160,933</u></b>
Current liabilities	37,063	39,104
Non-current liabilities	<u>39,429</u>	<u>35,112</u>
<b>TOTAL LIABILITIES</b>	<b><u>76,492</u></b>	<b><u>74,216</u></b>
<b>NET ASSETS</b>	<b><u>62,651</u></b>	<b><u>86,717</u></b>
Reserves	6,920	6,920
Accumulated funds	<u>55,731</u>	<u>79,797</u>
<b>TOTAL EQUITY</b>	<b><u>62,651</u></b>	<b><u>86,717</u></b>



**Program Information**

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

Year ended 30 June	2002		2001	
	Revenues* \$'000	Expenses \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Emergency services	76,875	300,631	223,756	219,876
Teaching and research	67	3,979	3,912	3,411
Other	--	280	280	--
Total all programs	<u>76,942</u>	<u>304,890</u>	<u>227,948</u>	<u>223,287</u>
* Includes gain on disposal of non-current assets				

**SERVICE ACTIVITIES**

For further information on the Service, refer to [www.asnsw.health.nsw.gov.au](http://www.asnsw.health.nsw.gov.au).

## Corrections Health Service

### AUDIT OPINION

The audit of the Service's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

(Comparative performance data on all health entities appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay for Corrections Health Service inpatients is 32.2 days (27.1 in 2000-01) compared to an average across the health service of 4.9 days (5.0 in 2000-01). The majority of Corrections Health Service's inpatients are treated for mental illness, which requires longer admissions and patients may be delayed awaiting transfer to other public health facilities.

Outpatient services increased from 2.0 million in 2000-01 to 2.4 million in 2001-02 as a result of the increase in the prison population and additional services being provided. The high number of outpatient services reflects the generally poor health status of inmates.

### CONTROL ISSUES

We identified some minor opportunities for the Service to improve internal control. These were included in a letter to the Service.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	34,276	30,020
Other expenses	11,887	9,281
<b>TOTAL EXPENSES</b>	<b>46,163</b>	<b>39,301</b>
<b>TOTAL REVENUE</b>	<b>1,529</b>	<b>1,079</b>
Loss on disposal of non-current assets	(71)	(40)
<b>NET COST OF SERVICES</b>	<b>44,705</b>	<b>38,262</b>
<b>Government Contributions</b>		
Department of Health – recurrent payments	39,249	34,419
Department of Health – capital payments	1,966	1,560
Acceptance by the Crown Entity of superannuation liability	1,820	1,560
<b>Total Government Contributions</b>	<b>43,035</b>	<b>37,539</b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>(1,670)</b>	<b>(723)</b>

Employee related expenses increased because of higher staff levels and rises in award rates. Staff numbers increased from 426 to 512 as additional services are being provided in Police cells and courts. The prison population has also increased resulting in a greater demand for services.

**Abridged Statement of Financial Position**

<b>At 30 June</b>	<b>2002 \$'000</b>	<b>2001 \$'000</b>
Current assets	<b>2,393</b>	1,958
Non-current assets	<b>1,330</b>	<u>1,055</u>
<b>TOTAL ASSETS</b>	<b><u>3,723</u></b>	<b><u>3,013</u></b>
Current liabilities	<b>5,247</b>	4,697
Non-current liabilities	<b>4,655</b>	<u>2,825</u>
<b>TOTAL LIABILITIES</b>	<b><u>9,902</u></b>	<b><u>7,522</u></b>
<b>NET LIABILITIES</b>	<b>(6,179)</b>	<b>4,509</b>
Accumulated deficiency	<b>(6,179)</b>	(4,509)
<b>TOTAL EQUITY</b>	<b><u>(6,179)</u></b>	<b><u>(4,509)</u></b>

The Service had a deficiency in assets at 30 June 2002 of \$6.2 million (\$4.5 million in 2001). The Department of Health has indicated continuing financial support to the Service. This will enable the Service to pay its debts.

**Abridged Program Information**

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

<b>Year ended 30 June</b>	<b>2002</b>			<b>2001</b>
	<b>Revenues \$'000</b>	<b>Expenses* \$'000</b>	<b>Net Cost of Services \$'000</b>	<b>Net Cost of Services \$'000</b>
Outpatient services	936	24,971	<b>24,035</b>	20,714
Mental health services	313	16,068	<b>15,755</b>	13,261
Overnight acute inpatient services	72	2,289	<b>2,217</b>	2,046
Population health services	208	2,392	<b>2,184</b>	1,778
Aboriginal health services	--	<u>514</u>	<b><u>514</u></b>	<u>463</u>
Total all programs	<u>1,529</u>	<u>46,234</u>	<b><u>44,705</u></b>	<u>38,262</u>

\* Includes loss on disposal of non-current assets.

**SERVICE ACTIVITIES**

For further information on the Service, refer to [www.chs.health.nsw.gov.au](http://www.chs.health.nsw.gov.au).

## New South Wales Health Foundation

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### AUDIT OPINION

The audit of the Foundation's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	99	140
Expenses	214	274
Deficit for the year from ordinary activities	115	134
Net assets (at 30 June)	17,200	17,315

### FOUNDATION ACTIVITIES

The Foundation is managed by the Minister for Health who may accept any bequest and may provide financial and other support for any purpose connected with the provision of health services. Through the *Walker Trusts (Amendment) Act 1983*, the Foundation was assigned ownership and a custodial role over the Thomas Walker Convalescent Hospital.

The Foundation is established under the provisions of the *Health Administration Act 1982*.

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## **The Royal Alexandra Hospital for Children**

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### **AUDIT OPINION**

The audit of the Hospital's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### **PERFORMANCE ISSUES**

(Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume.)

The average length of stay in the hospitals was 3.1 days in 2001-02, down slightly from the previous year.

The bed occupancy rate for the hospital increased from 91.8 per cent in 1999-2000 to 94.5 per cent in 2000-01 before falling slightly to 93.8 per cent in 2001-02.

The hospital met or exceeded the Department's benchmarks for timeliness in treating the two most urgent categories of emergency patients in 2001-02 and 2000-01. The Department's benchmarks for the remaining three triage categories were not achieved during 2001-02.

### **CONTROL ISSUES**

We identified opportunities for the Hospital to improve internal controls. The main areas relate to employee entitlements, inventory and general computer controls. We have referred these matters to management.

### **COMPLIANCE ISSUES**

We examined whether the Hospital complied with its policies and procedures for accounting for donations and bequests. The Hospital substantially complied with the requirements.

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	131,469	123,380
Visiting medical officers	3,978	3,889
Other expenses	<u>63,484</u>	<u>58,541</u>
<b>TOTAL EXPENSES</b>	<b><u>198,931</u></b>	<b><u>185,810</u></b>
<b>TOTAL REVENUE</b>	<b><u>128,859</u></b>	<b><u>128,340</u></b>
Loss on disposal of non-current assets	<u>511</u>	<u>365</u>
<b>NET COST OF SERVICES</b>	<b><u>70,583</u></b>	<b><u>57,835</u></b>
<b>Add Government Contributions</b>		
Department of Health recurrent payments	45,885	48,755
Department of Health capital payments	4,053	274
Acceptance by the Crown Entity of superannuation liability	<u>9,246</u>	<u>8,649</u>
<b>Total Government Contributions</b>	<b><u>59,184</u></b>	<b><u>57,678</u></b>
<b>RESULT FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b><u>(11,399)</u></b>	<b><u>(157)</u></b>

Employee related expenses increased because of higher staff levels and rises in salary and wage award rates.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	37,052	41,155
Non-current assets	<u>390,609</u>	<u>331,057</u>
<b>TOTAL ASSETS</b>	<b><u>427,661</u></b>	<b><u>372,212</u></b>
Current liabilities	22,535	25,081
Non-current liabilities	<u>22,699</u>	<u>16,170</u>
<b>TOTAL LIABILITIES</b>	<b><u>45,234</u></b>	<b><u>41,251</u></b>
<b>NET ASSETS</b>	<b><u>382,427</u></b>	<b><u>330,961</u></b>
Reserves	123,286	60,421
Accumulated funds	<u>259,141</u>	<u>270,540</u>
<b>TOTAL EQUITY</b>	<b><u>382,427</u></b>	<b><u>330,961</u></b>

Non-current assets increased because of a revaluation of land and buildings.

### Abridged Program Information

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

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues \$'000	Expenses* \$'000		Net Cost of Services \$'000
Overnight acute inpatient services	95,083	99,050	<b>3,967</b>	8,574
Outpatient services	7,329	42,309	<b>34,980</b>	28,674
Teaching and research	17,548	22,334	<b>4,786</b>	(236)
Other	<u>8,899</u>	<u>35,749</u>	<b><u>26,850</u></b>	<u>20,823</u>
Total all programs	<u>128,859</u>	<u>199,442</u>	<b><u>70,583</u></b>	<u>57,835</u>
* Includes loss on disposal of non-current assets				

### HOSPITAL ACTIVITIES

For further information on the Hospital refer to [www.nch.edu.au](http://www.nch.edu.au).

## **Minister for Housing**

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**New South Wales Land and Housing Corporation**  
**(Department of Housing)**



## **New South Wales Land and Housing Corporation (Department of Housing)**

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### **AUDIT OPINION**

The audit of the Corporation's financial report for the year ended 30 June 2002 resulted in a qualified independent audit report. The qualification occurred because the Corporation did not consolidate the financial reports of the FANMAC Trusts into its own financial report as required by AAS24 'Consolidated Financial Reports'. The Treasurer instructed the Corporation not to consolidate the FANMAC Trusts, but in our opinion the Corporation should have done so as it has the capacity to control them.

### **KEY ISSUES**

#### **Capitalisation of Accelerated Improvement Program Expenses**

The Accelerated Improvement Programs (AIP) are specific one-off projects to bring the condition of the bulk of the Corporation's housing portfolio up to an appropriate state. These projects are necessary because of the level of backlog maintenance that has accumulated in previous years for properties that are over 15 years old. The Corporation has incurred and capitalised \$95 million of 'AIP' expenses in 2001-02 (\$91 million in 2000-01). From evidence provided by the Corporation, and our testing conducted during the audit, including inspections of properties subject to AIP, the capitalisation of these amounts is materially supported. With the reduction in the size of the backlog and program priorities now moving to properties in lesser need of repair, we have encouraged the Corporation to examine all future projects within the program to ensure that remaining works continue to satisfy the capitalisation criteria.

#### **Depreciation of the Housing Portfolio**

In 2002, the Corporation surveyed all its dwellings and found that 1,722, approximately 1.5 per cent, were in very poor condition. The useful life of these properties was reduced from 50 to 10 years, and resulted in an increase in depreciation of \$7.4 million. The Corporation did not consider it necessary to reassess the useful life of the remaining dwellings. The Corporation is revaluing its property portfolio in 2002-03. As part of this process, it will again consider whether useful lives of dwellings need to be adjusted.

#### **Works Delays**

Delays were experienced in completing works to the housing portfolio. This was mainly due to a dispute with a major contractor. The contractor took legal action against the Corporation. Conciliation proceedings between the parties are well advanced to resolve the dispute. As a result of the delays, current liabilities have increased by 23.7 per cent from \$198.6 million to \$245.8 million, primarily because of accrued capital expenditure, which increased from \$51.6 million to \$95.2 million.

#### **Rental Debtors**

There is continuing doubt about the collectability of a large percentage of the Corporation's rental debtors. Total rental debtors at 30 June 2002 were \$28.4 million (\$22.5 million in 2001). The corresponding provision for doubtful debts at 30 June 2002 was \$18.4 million (\$12.6 million), being 64.8 per cent (56.1 per cent) of the total rental debts. The total includes rental charges and client related repairs charges. The Corporation's total rental revenue after subsidy for 2001-02 was \$474.6 million (\$444.5 million).

The Corporation's total of rental debtors has increased from \$20.5 million at 30 June 1999, to \$28.4 million at 30 June 2002. The "repairs" component has also increased significantly in this period. There has been a corresponding increase in the provision for doubtful debts over the period.

In 2002-03, the Corporation will introduce new initiatives which should facilitate more effective management of rental debtors. This will require new tenants to enter into fixed term lease agreements from mid 2002-03. In instances where tenants commit a major breach of the lease conditions, leases will not be renewed. In addition, the corporation is exploring the introduction of rental bonds.

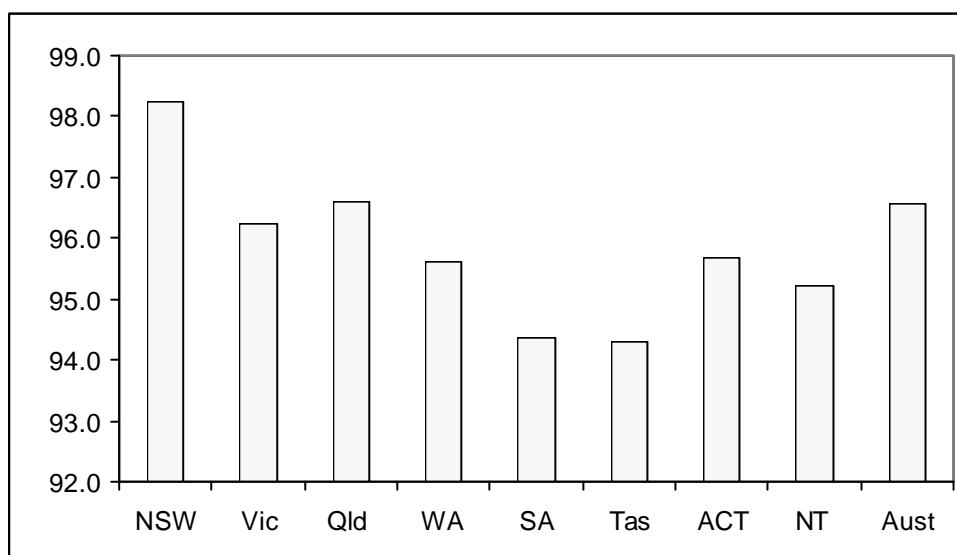
## PERFORMANCE ISSUES

The following information and associated tables were extracted from the *Report on Government Services 2002*, produced by the Productivity Commission. The latest information available is for 2000-01.

### Public Housing Stock Occupancy Rates – Efficiency

At 30 June 2001 NSW had the highest public housing occupancy rate at 98.2 per cent and South Australia the lowest at 94.4 per cent. The national average occupancy rate was 96.6 per cent.

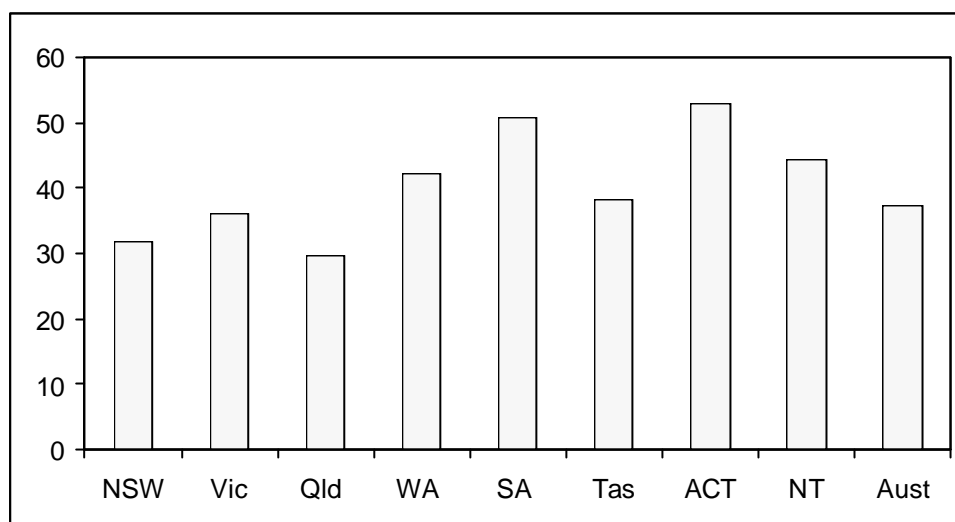
**Public Housing Stocks\* Occupancy Rates, 30 June 2001**



### Average Turnaround Times – Efficiency

Turnaround time indicates the speed with which jurisdictions rent housing stock after it has been vacated or acquired.

As can be seen from the following table, New South Wales had the second lowest turnaround time of 32 days in 2000-01, higher only than Queensland.

**Average Turnaround Times (Days), 2000-01****Rent Charged as a Proportion of Market Rent – Effectiveness (Affordability)**

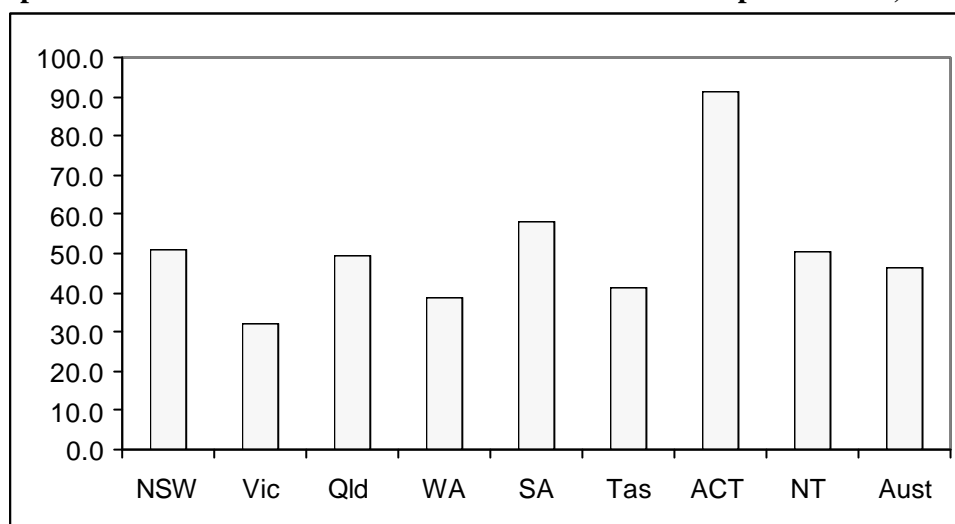
At 57.3 per cent, New South Wales had the lowest level of rent charged in 2000-01 as a proportion of the market rate for each dwelling. This indicates that the level of public subsidy is highest in New South Wales.

**Rent Charged as a Proportion of Market Rent, 30 June 2001**

### Proportion of New Tenancies to Households with Special Needs– Effectiveness (Access)

Across jurisdictions, the proportion of new tenancies allocated to “special needs” households in 2000-01 was 46.5 per cent. New South Wales was slightly higher than the average at 51.5 per cent. Differences between ‘special needs’ categories across jurisdictions mean this indicator needs to be interpreted with caution. In NSW, special needs categories cover indigenous Australians, asylum seekers, refugees, sponsored migrants, applicants with a disability in the household, youth aged 16-24 years, elderly (80 and over) and applicants at risk due to domestic violence.

**Proportion of New Tenancies Allocated to Households with Special Needs, 2000-01**



### CONTROL ISSUES

We identified areas the Corporation needs to address. These are:

- ◆ deficiencies in the reconciliation of asset transfers with the Aboriginal Housing Office
- ◆ a lack of proper physical security over advance account cheques that lead to fraudulent misappropriation of cheques
- ◆ Business Continuity Plans for the Corporation and its trading arm, Resitech having not been tested
- ◆ no process for periodically reviewing user access rights to the Integrated Housing System or the SAP system.

These will be included in a letter to management, to be issued shortly.

### COMPLIANCE ISSUES

This year we tested whether the Corporation complied with:

- ◆ certain requirements of the *State Records Act 1988*
- ◆ aspects of the Public Sector Management (Goods and Services) Regulation 2000 relating to procurement.

The Corporation substantially complied with the *State Records Act 1988* requirements. However we advised the Corporation of some of issues concerning procurement processes.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Rents	1,100,538	1,002,440
Less – rental subsidies	<u>625,955</u>	<u>557,934</u>
	474,583	444,506
Consolidated Fund recurrent allocation	195,667	148,130
Other income	<u>93,641</u>	<u>69,402</u>
<b>TOTAL INCOME</b>	<b><u>763,891</u></b>	<b><u>662,038</u></b>
Property and residential tenancy	352,863	326,725
Employee related expenses	192,080	149,084
Depreciation	205,984	185,590
Assets demolished and written off	19,885	43,284
Other expenses	<u>212,868</u>	<u>202,954</u>
<b>TOTAL EXPENDITURE</b>	<b><u>983,680</u></b>	<b><u>907,637</u></b>
<b>OPERATING DEFICIENCY BEFORE CAPITAL CONTRIBUTION</b>	<b>(219,789)</b>	<b>(245,599)</b>
<b>Capital Contributions</b>	<b><u>371,782</u></b>	<b><u>284,768</u></b>
<b>OPERATING SURPLUS AFTER CAPITAL CONTRIBUTIONS</b>	<b><u>151,993</u></b>	<b><u>39,169</u></b>
Revenues, expenses and valuation adjustments recognised directly in equity	<u>2,261</u>	<u>44,229</u>
<b>TOTAL CHANGES IN EQUITY</b>	<b><u>154,254</u></b>	<b><u>83,398</u></b>

The operating surplus after capital contributions increased by \$112.8 million from the previous year. This was mainly due to maintenance backlog funding of \$105 million received in advance in 2001-02.

### *Rental Income*

Rental income net of subsidies was \$474.6 million, an increase of \$30.1 million from 2000-01.

The Corporation conducts regular rent reviews to determine the levels of market rental. Since April 2000, new tenants eligible for rental subsidies have been required to pay 25.0 per cent of their assessed household income, in rent. The rental rate for existing tenants as at April 2000 is being increased by 1 per cent per year. This group of tenants is currently required to pay 23.0 per cent of their assessed household income and is expected to reach the maximum rental rate of 25.0 per cent in 2004.

Households ineligible for rental subsidies are charged market rent. Rental subsidies are the difference between market rents and the rent to be paid based on occupants' or households' incomes. At \$626.0 million, subsidies were \$68.0 million higher than in the previous year. The increase was in line with the rise in market rents for the Corporation's residential housing.

### *Recurrent Allocation and Capital Contributions*

Commonwealth and State Government allocations/contributions for 2001-02 were \$557.2 million (\$432.6 million in 2000-01).

The following table shows the source of funding over the last two years:

Year ended 30 June	2001-02 \$'000	2000-01 \$'000
<b>Commonwealth Grants</b>		
Housing Assistance Act:		
CSHA - General assistance (base funding)	247,219	240,708
CSHA - Community housing	21,589	21,640
CSHA - Crisis accommodation	13,328	13,410
Grants - Interest assistance	<u>2,692</u>	<u>3,843</u>
	<b>284,828</b>	<b>279,601</b>
<b>State Grants</b>		
Consolidated Fund:		
State matching	129,191	122,264
Other State funding	<u>143,174</u>	<u>30,781</u>
	<b>272,365</b>	<b>153,045</b>
<b>TOTAL FUNDS</b>	<b>557,193</b>	<b>432,646</b>

#### *Consolidated Fund Recurrent Allocation*

The major housing programs and/or initiatives which the \$195.7 million (\$148.1 million) Consolidated Fund recurrent allocation was used for: lease payments \$41.5 million (\$36.1 million); planned maintenance works \$32.0 million (\$29.8 million); rent start and rental assistance subsidies, \$30.6 million (\$26.6 million); interest on Commonwealth loans \$21.3 million (\$21.3 million); and GST compensation \$22.8 million (\$20.6 million).

#### *Consolidated Fund Capital Allocation*

The Consolidated Fund capital allocation of \$361.5 million (\$284.5 million) was used for the construction and upgrade of public housing, \$282.1 million (\$181.6 million) and to support community housing and crisis accommodation programs, \$79.4 million (\$102.9 million). The general housing program included \$105 million advance maintenance backlog funding.

#### **Abridged Statement of Financial Position**

At 30 June	2002 \$'000	2001 \$'000
Current assets	315,180	99,317
Non-current assets	<u>17,933,132</u>	<u>17,873,896</u>
<b>TOTAL ASSETS</b>	<b>18,248,312</b>	<b>17,973,213</b>
Current liabilities	245,761	198,602
Non-current liabilities	<u>1,329,115</u>	<u>1,327,814</u>
<b>TOTAL LIABILITIES</b>	<b>1,574,876</b>	<b>1,526,416</b>
<b>NET ASSETS</b>	<b>16,673,436</b>	<b>16,446,797</b>
Retained earnings	8,414,353	8,132,831
Asset revaluation reserve	<u>8,259,083</u>	<u>8,313,966</u>
<b>TOTAL EQUITY</b>	<b>16,673,436</b>	<b>16,446,797</b>

#### *Current Assets*

Current assets have increased by \$215.8 million mainly due to additional funding obtained during the year of \$105 million for backlog maintenance and \$25 million for working capital.

### Properties

The Corporation's records showed 141,568 (133,092 in 2000-01) properties under management at 30 June 2002. Properties owned or controlled by the Corporation are valued at \$17,529.7 million (\$17,446.5 million).

Corporation statistics disclose that 1,083 dwellings (1,323) were completed or purchased during the year and 580 (832) were under construction at 30 June 2002. Dwellings under construction exclude those where contracts to build had not been signed at 30 June 2002 and those to be transferred to other authorities on completion. Dwellings completed/purchased during the past two years comprised:

New Supply of Owned Properties	Number of Dwellings 2001-02	Number of Dwellings 2000-01
<b>Type of Housing</b>		
General housing	237	342
Pensioner housing	239	343
Other housing programs	4	--
Office of community housing programs	603	638
Total	<u>1,083</u>	<u>1,323</u>

In addition, the Corporation also head-leased 990 (651 in 2000-01) new properties from the private rental market to house applicants for public housing.

### CORPORATION ACTIVITIES

The Corporation assumed the statutory functions of the then Housing Commission and Land Commission in 1986 following enactment of the *Housing Act 1985*. This Act has recently been repealed by the *Housing Act 2001*. The Corporation's role is to provide quality rental housing solutions for those whose needs cannot be met by the private market.

The Minister for Housing has the power to direct and control the Director-General in all respects of the Corporation's operations.

For further information on the Corporation refer to [www.housing.nsw.gov.au](http://www.housing.nsw.gov.au).

### RENTAL HOUSING ASSISTANCE FUND

The Rental Housing Assistance Fund was established by trust deed in October 1993. The trust supports the State's rental housing programs. Support from the trust is provided as an indemnity to the private sector participant. The indemnity covers both losses to the participant's investment and an obligation to meet the shortfall between the required market rent and the rent collected from tenants. This latter obligation is known as a subsidy payment. As part of the agreement, the Corporation made a one-off payment of \$20.0 million to establish the trust. Total capital contribution from the Corporation amounted to \$24.8 million at 30 June 2002.

The audit of the financial report of the trust for the year ended 30 June 2002 resulted in the issue of an unqualified Independent Audit Report.

**Key Financial Information**

Year ended 30 June	2002 \$'000	2001 \$'000
Revenues	47	126
Expenses	3,245	2,883
Operating deficit	(3,198)	(2,757)
Net Assets (at 30 June)	470	368

The trust reported an operating deficit of \$3.2 million for the year (\$2.9 million in 2000-01). Income of the trust came primarily from interest from investments amounting to \$48,000 (\$126,000). Expenditure of \$3.2 million (\$2.9 million) mainly comprised rental subsidy payments.

At 30 June 2002, the Corporation reported its investment in the trust as an asset under non-current investments. The value of that investment was equal to the trust's net assets, \$470,000 (\$368,000).

Given the financial position of the Fund at year-end, the Corporation has advised that it will continue to provide funding as required by the trust deed so that the Fund can meet its subsidy commitments. The Corporation in 2002 provided a capital contribution to the Fund totalling \$3.3 million (\$1.5 million).



## **Minister for Industrial Relations**

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**Sporting Injuries Committee**

## Sporting Injuries Committee

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### AUDIT OPINION AUDIT OPINION

The audit of the financial report of the Committee for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	860	1,315
Expenses	(1,290)	(1,226)
Operating surplus/(deficit)	(430)	89
Net assets (at 30 June)	1,409	1,839

The Sporting Injuries Fund operates on a contributory basis, with premiums (from approved sporting organisations) assessed on the risk category of the sport. The Supplementary Sporting Injuries Fund recoups from NSW Treasury all benefits paid out of the Supplementary Fund. Benefits under these two funds range up to \$171,000 for injuries and \$70,680 for death.

Revenue decreased due to a:

- ◆ reduction of \$184,000 (84 per cent) in Treasury recoups following lower expenses for the Supplementary Sporting Injuries Fund
- ◆ 93 per cent fall in investment earnings from \$280,000 to \$20,000. Investments were held in various managed funds with returns ranging from 3.7 per cent down to -11.2 per cent.

Claims paid increased from \$303,000 in 2000-01 to \$483,000 in 2001-02.

The outstanding claims liability remained steady at \$2.4 million.

### COMMITTEE ACTIVITIES

The Committee operates two funds. The Sporting Injuries Fund makes payments for death and certain injuries suffered by registered players and officials taking part in the activities of approved sporting organisations. The Supplementary Sporting Injuries Fund covers school children who sustain specific permanent injuries, or are fatally injured when engaging in school sporting activities. The Fund also covers individuals who are injured while participating in Department of Sport and Recreation activities.

The Committee was established under the *Sporting Injuries Insurance Act 1978* and is subject to the direction and control of the Minister for Industrial Relations.

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## **Minister for Land and Water Conservation**

**Chipping Norton Lakes Authority**

**Dams Safety Committee**

**Department of Land and Water Conservation**

**Fish River Water Supply**

**Hunter Water Corporation**

**Lake Illawarra Authority**

**Upper Parramatta River Catchment Trust**

**Wentworth Park Sporting Complex Trust**

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## Chipping Norton Lake Authority

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### AUDIT OPINION

The audit of the Authority's financial report for the year ended 30 June 2002 resulted in the issue of an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	724	391
Expenses	6,905	5,039
(Deficit)/surplus from ordinary activities	(6,181)	(4,648)
Net assets (at 30 June)	2,977	9,158

The increase of \$333,000 in revenue was primarily due to contributions and royalties (nil in 2000-01).

Expenses included development costs of \$6.7 million written off following the transfer of completed works to the Crown. There was a corresponding decrease in net assets.

### AUTHORITY ACTIVITIES

The *Chipping Norton Lake Authority Act 1977* constitutes the Minister for Land and Water Conservation as a corporation sole with the name Chipping Norton Lake Authority.

The Authority's principal function is to transform a section of the Georges River near Chipping Norton from an environment devastated by poorly managed sand and soil extraction into an attractive regional recreational resource with improved ecological values. Rehabilitated land areas are transferred to the Crown for public recreational and environmental protection purposes.

## Dams Safety Committee

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### AUDIT OPINION

The audit of the Committee's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	622	617
Expenses	643	656
Operating deficit	(21)	(39)
Net assets (at 30 June)	11	32

Net assets have decreased by \$21,000 in 2001-02 due to expenditure continuing to exceed revenue. The Committee should continue to monitor its financial position to avoid a negative net assets situation.

### OTHER ISSUES

The Committee's 2002 Annual Report states that two significant tailings dam safety incidents occurred during the year. Dam failure was averted by the Committee's surveillance and early detection of problems.

Construction of safety improvements were completed on the Warragamba, Ben Chifley and Emigrant Creek dams during the year. Safety improvements continued on the Hume and Grahamstown dams.

The Committee continues to work closely with the Department of Land and Water Conservation on risk assessment of its dams, particularly Keepit, Bethungra and Wellington dams. As a result of community consultation, Wellington dam was demolished in August 2002.

### COMMITTEE ACTIVITIES

The Committee was established by the *Dams Safety Act 1978*. Its prime function is to ensure the safety of 294 prescribed dams, involving the major dams in New South Wales. This involves investigating the design, maintenance and operation of dams, as well as maintaining surveillance over them. The Committee also regulates mining and other activities in the vicinity of these dams. The surveillance has contributed to the upgrading of 39 deficient dams in New South Wales since 1978.

The Committee's eight part-time members are appointed by the Minister for Land and Water Conservation and are subject to the control and direction of the Minister.

For further information on the Committee refer to [www.damsafety.nsw.gov.au](http://www.damsafety.nsw.gov.au).

## Department of Land and Water Conservation

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### AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Valuation of Crown Land in the New South Wales

In 2000, the Department began to identify, record and value all parcels of Crown lands in New South Wales. This exercise was completed during the year and has valued previously unrecognised Crown land at \$4.0 billion. Recognition of vacant Crown land has been treated as revenue in the Crown Entity's financial report and disclosed as a note in the Department's financial report.

#### Crown Land Information

Our audit of the Crown land valuation has indicated that complete and accurate information relating to Crown land in New South Wales is not readily available. A number of agencies have land databases, but key information for audit purposes such as total areas of freehold land, Commonwealth owned land, Crown land, etc was not available. We also observed that there are about 169,000 parcels of land in New South Wales that have no ownership identified in any of the databases.

### CONTROL ISSUES

#### Human Resources Module

The Department integrated its new Human Resources module with its existing suite of financial accounting modules in October 2001. We identified a number of errors and weaknesses in this module due to the lack of a controlled implementation environment. Many months after its implementation, there are still many computer and process problems to be fixed.

### OTHER ISSUES

We identified other opportunities for improvement in the internal control environment and accounting and record keeping of Crown Entity transactions. Recommendations have been made to the management of the Department.

### COMPLIANCE ISSUES

We tested whether the Department complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ procurement requirements of the *Public Sector Management (Goods and Services) Regulation 2000*.

The Department substantially complied with these requirements.

## OTHER ISSUES

### Native Vegetation Management

The Department reported in its annual report that it processed 557 applications to clear 128,981 hectares in 2001-02 and approved 455 applications with conditions to clear an area of 78,276 hectares. It also received 262 (153 in 2000-01) allegations about native vegetation compliance matters.

The compliance outcome in 2001-02 included:

- ◆ prosecutions commenced for six
- ◆ stop work orders issued for six
- ◆ warning letters issued for 55
- ◆ remedial agreements reached for 15
- ◆ remedial notices issued for 13
- ◆ no actions required on 136.

We reported in August 2002 on the Department's management of land clearing under the *Native Vegetation Conservation Act 1997*. Key findings included:

- ◆ the Act requires a native vegetation conservation strategy to be developed. The strategy has still not been announced
- ◆ a whole of government approach to the protection of native vegetation in NSW has not been developed
- ◆ there are currently no objectives or targets to measure progress in conserving native vegetation and the Department does not have an adequate information system and operational capacity to efficiently and effectively regulate native vegetation.

The Department paid \$2.3 million (\$1.9 million in 2000-01) to landholders to protect native vegetation. The total area protected is 80,500 hectares at 30 June 2002 (78,700 hectares at 30 June 2001) since inception of the scheme in 1998.

### State Land Assets Program

Crown land comprises approximately half of all land in New South Wales. The key developments for the Department under this program were:

- ◆ the development of an e-business service option called Landirect. This will allow the 250,000 customers to deal and receive information through the internet
- ◆ three indigenous land use agreements were entered into by the Minister at Cape Byron, Twofold Bay and Wellington
- ◆ the *Western Lands Amendment Act 2002* was passed allowing for improved economic and environmental outcomes for the Western Division.

### Water Management Act 2000

The *Water Management Act 2000* replaced the *Water Act 1912* with effect from 1 January 2001. Key implementation issues addressed during the year:

- ◆ Thirty-six draft water-sharing plans were submitted to the Minister and placed on public exhibition. Water-sharing plans allocate water for the environment and establish the rules for sharing water between competing water users. At 30 June 2002, no plans had been gazetted. Once gazetted plans have legal effect for ten years.

- ◆ 10,000 water licences were converted and reissued. The remaining 120,000 were still being processed.

### **Sources and End Uses of Bulk Water**

State Water, a commercial business unit of the Department reported the following:

- ◆ total water available from dams, inflows, rainfall and downstream tributaries was 8,054 gicalitres
- ◆ 4,539 gicalitres were supplied to customers
- ◆ evaporation and transmission losses totalled 1,673 gicalitres and
- ◆ 1,842 gicalitres were released to the environment.

### **Country Towns Water Supply and Sewerage Program**

The Department completed 21 country town projects in 2001-02, improving water supply and sewerage schemes to over 200,000 people. However three projects were delayed for engineering reasons. Major projects completed during the year were Chifley Dam augmentation, Mittagong Regional Sewerage Project and Corowa Dam.

### **Soil Services**

Soil Services is a commercial business unit of the Department providing soil conservation services. Approximately 19,500 hectares of land were treated during the year with conservation earthworks including broadacre banks, dams and sediment detention structures. This is 11 per cent more than the previous year.

### **Salinity in New South Wales**

The State Government signed a Bilateral Agreement with the Commonwealth providing for investment of \$396.0 million under the National Action Plan for Salinity and Water Quality. Under this agreement the State will commit \$198.0 million, including \$52.0 million it has already allocated under the NSW Salinity Strategy, launched in August 2000.

The Strategy proposes to minimise salinity in seven regions, the Balonne-Maranoa, the Border Rivers Catchment, Lachlan-Murrumbidgee Catchments, Lower Murray Catchment, Macquarie Catchment, Murray Catchment and the Namoi-Gwydir Catchment.

Key achievements during the year were:

- ◆ establishment of 20 properties as working examples (target projects)
- ◆ development of the salinity investment business plan to outline the best overall mix of salinity management options at the least cost to society
- ◆ six salt action teams were trained.



## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	185,819	171,462
Other operating expenses	91,606	96,540
Grants and subsidies	195,367	138,784
Other expenses	85,437	241,695
<b>TOTAL EXPENSES</b>	<b>558,229</b>	<b>648,481</b>
Sale of goods and services	91,835	87,786
Other revenue	26,671	30,722
<b>TOTAL REVENUE</b>	<b>118,506</b>	<b>118,508</b>
Loss on disposal of non-current assets	(406)	(390)
<b>NET COST OF SERVICES</b>	<b>440,129</b>	<b>530,363</b>
<b>Government Contributions</b>	<b>462,541</b>	<b>366,884</b>
<b>SURPLUS/DEFICIT FOR YEAR</b>	<b>22,412</b>	<b>(163,479)</b>

Employee related expenses increased by \$14.4 million due to:

- ♦ a \$2.9 million increase in recreation leave expenses. This was due mainly to adjustments in leave entitlements following a review conducted before the payroll conversion to the new SAP Human Resources system
- ♦ full-time equivalent staff numbers increasing by 177 to 2,529 at 30 June 2002
- ♦ redundancy expenses increasing from \$965,000 to \$1.4 million
- ♦ a three per cent across the board salary rise for employees.

Other operating expenses declined by \$4.9 million due largely to control over expenditures.

Grants and subsidies expense increased by \$56.6 million. The increase was due largely to an additional \$20.0 million for the Country Towns Water Supply and Sewerage Program and \$23.6 million for a redevelopment grant to Newcastle International Sportsground Trust.

Other expenses for 2000-01 included a \$160.8 million devaluation of water infrastructure systems. No such revaluation occurred this year.

The \$4.0 million increase in sales of goods and services was largely due to a \$3.9 million increase in water income.

Other revenue decreased by \$4.1 million mainly due to decreased federal contributions for various projects including Natural Heritage Trust programs, Natural Resource Management Strategy and Coast Care.

**Abridged Statement of Financial Position**

At 30 June	2002 \$'000	2001 \$'000
Current assets	146,910	93,328
Non-current assets	<u>2,151,370</u>	<u>2,154,138</u>
<b>TOTAL ASSETS</b>	<b><u>2,298,280</u></b>	<b><u>2,247,466</u></b>
Current liabilities	114,853	79,318
Non-current liabilities	<u>22,281</u>	<u>29,414</u>
<b>TOTAL LIABILITIES</b>	<b><u>137,134</u></b>	<b><u>108,732</u></b>
<b>NET ASSETS</b>	<b><u>2,161,146</u></b>	<b><u>2,138,734</u></b>

The increase of \$53.6 million in current assets relates mainly to \$46.5 million held on behalf of local governments for future works under the Country Towns Water Supply and Sewerage Program.

Current liabilities increased by \$35.5 million mainly due to funds received for future works, as noted above, for the Country Towns Water Supply and Sewerage Program. Employee entitlements liability also increased by \$4.3 million after the Department's review.

Non-current liabilities decreased by \$7.1 million. This was mainly due to the Department repaying a \$1.0 million loan to Treasury relating to Wollongong Sportsground Trust and writing off of a Treasury funded loan of \$5.5 million to the Luna Park Reserve Trust. Treasury also wrote off its loan to the Department.

**Abridged Program Statement**

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

Program Description	2002		2001	
	Revenues \$'000	Expenses* \$'000	Net Cost of Services \$'000	Net Cost of Services \$'000
Rivers and Groundwater	77,036	263,225	186,189	284,480
Land and Vegetation	19,841	82,556	62,715	70,170
Catchment, Coastal and Floodplain Communities	14,595	150,861	136,266	150,836
State Land Assets	<u>7,034</u>	<u>61,993</u>	<u>54,959</u>	<u>24,877</u>
Total all programs	<u>118,506</u>	<u>558,635</u>	<u>440,129</u>	<u>530,363</u>
* Includes loss on sale of non-current assets				

**DEPARTMENT ACTIVITIES**

The Department is responsible for the integrated management of the State's land, soil and water resources, principally under the *Crown Lands Act 1989*, *Soil Conservation Act 1938*, *Water Administration Act 1987*, *Native Vegetation Conservation Act 1997* and the *Water Management Act 2000*.

The land development operations of the Department is a commercial activity of the Crown and is commented on separately in this Report. These operations mainly develop and sell land for commercial and residential purposes in country New South Wales.

For further information on the Department, refer to [www.dlwc.nsw.gov.au](http://www.dlwc.nsw.gov.au).

## Fish River Water Supply

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### AUDIT OPINION

The audit of the Supply's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Water revenue	5,782	5,597
Other revenue	826	1,361
Expenses	5,808	5,840
Operating surplus	800	1,118
Net assets (at 30 June)	77,091	79,977

Revenue increased marginally in 2001-02 due to a five per cent increase in water prices, countered by a decrease in volume from 13,800 megalitres to 13,300 megalitres.

Other revenue decreased by \$535,000 mainly due to lower interest income from investments with NSW Treasury Corporation.

The Supply paid NSW Treasury an income tax equivalent of \$487,000 in 2001-02 (\$264,000 in 2000-01) and a cash distribution of \$610,000 (\$5.0 million) during the year.

### SUPPLY ACTIVITIES

The Fish River Water Supply is a NSW Government trading enterprise. From 1 July 2001 the Supply was controlled and administered by the Minister of Land and Water Conservation under the *Water Management Act 2000*. Previously the Supply was controlled and administered by the Director-General of the Department of Land and Water Conservation under the *Fish River Water Supply Administration Act 1945*.

The Supply's main function is to provide consumers with a reliable bulk water supply. Its consumers comprise Delta Electricity, Sydney Water Corporation Ltd, Greater Lithgow City Council, Oberon Shire Council and over 300 small consumers.

The Department of Land and Water Conservation, on behalf of the Minister is responsible for strategic direction of the Supply including water pricing, asset management, financial planning and capital works. The Minister has contracted the day-to-day operation of the Supply to the Department of Public Works and Services.

## Hunter Water Corporation

### AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Water Assets

The carrying value of the Corporation's water assets may not reflect their actual values. In 1996 the Corporation revalued all its assets. Since then, the Corporation has revalued its assets in accordance with NSW Treasury guidelines, ie approximately 20 per cent of the total assets are expertly revalued each year on a rolling five year basis. In between revaluations, the carrying value of the assets is increased by the CPI. During the year, expert valuation of one class of water assets was found to be significantly lower than the CPI adjusted value. Although the nature of the class of asset partly explains the anomaly, the difference creates considerable uncertainty regarding the appropriateness of using the CPI to index the value of these assets.

### PERFORMANCE ISSUES

#### Financial Performance Indicators (Group)

	2001-02 \$m	2000-01 \$m	1999-2000 \$m	1998-99 \$m	1997-98 \$m
Total assets	<b>2,094</b>	2,020	1,968	2,078	2,048
Total revenue	<b>126</b>	124	123	125	130
Expenditure	<b>95</b>	92	90	88	91
Profit before tax	<b>26</b>	36	50	47	56
Dividends	<b>30</b>	28	45	39	36
Return on assets (%)	<b>2.3</b>	2.2	2.8	2.6	3.1
Return on equity (%)	<b>0.4</b>	1.3	1.9	1.4	2.6
Current ratio	<b>1.62:1</b>	1.04:1	1.08:1	1.16:1	1.51:1
Notes: Total revenue is net of superannuation liability movements and developer contributions and relates to operating revenue. The small increase reflects the IPART pricing path determination which, in effect, limits price increases each year to 2 per cent less than inflation. Population growth has also contributed to the increase. Total expenditure is net of superannuation expense and externally funded asset write-downs.					

Profit, return on assets and return on equity have all declined over the past five years. Dividend payments have decreased over the past two years.

The increase in the current ratio in 2001-02 reflects the short term impact of an additional \$50 million in borrowings obtained during the year. While temporarily increasing cash levels at 30 June 2002, these borrowings are to fund planned capital works during 2002-03. A current ratio of 2:1 is generally considered to be satisfactory.

The table below is extracted from information in the Productivity Commission's Report *Financial Performance of Government Trading Enterprises 1996-97 to 2000-01*. The latest information available, for 2000-01, shows that Hunter Water's return on assets and return on equity are significantly below those of the Sydney Water Corporation and other Water GTEs in Australia. Hunter Water's debt to equity ratio is significantly lower than the others. It should be noted, however, that inconsistencies in measurement bases may exist between the different agencies.

Performance Measure	2000-01		
	Hunter Water	Sydney Water	Australian Water GTEs
Return on assets (%)	2.2	3.2	5.0
Return on equity (%)	1.3	1.5	3.4
Debt to equity (%)	4.5	18.1	21.9

### IPART Operational Audit

The Independent Pricing and Regulatory Tribunal (IPART) reported on its operational audit of the Corporation in November 2001. The audit assessed the Corporation's performance against the standards in its operating licence such as water quality, service interruptions, water pressure and waste water treatment. IPART found:

- ◆ the Corporation fully complied with licence requirements in respect of quality of drinking water
- ◆ 4 per cent of customers had service interruptions, under the 8 per cent standard
- ◆ low water pressure affected 2.5 per cent of customers, under the 4 per cent standard
- ◆ Hunter Water complied with all licence requirements related to waste water treatment.

The audit also noted that the Corporation was meeting the standard for security against drought, in that water restrictions will not be imposed any more than once every 10 years. However, the report recommended a review of the standard, in that it considers it to be deficient as it only addresses how often water restrictions are imposed, and does not address demand management strategies.

The Corporation advises that these issues have been addressed in its new operating licence issued by IPART in July 2002. Additionally, it has issued an integrated Water Resource Management Plan which is currently on public display, to be finalised by March 2003.

### CONTROL ISSUES

We wrote to the Corporation's management about the following matters that we noted during our audit:

- ◆ a high number of outstanding purchase orders, which increases the risk of late payment and may suggest inefficient handling of invoices
- ◆ lack of controls over access to accounts payable system, with unauthorised users able to authorise and modify payment files
- ◆ no review of payroll exception reports.

Management has advised that it has implemented procedures to rectify these matters.

### COMPLIANCE ISSUES

We examined whether the Corporation complied with certain requirements of the *State Records Act 1988*. We found that it did not comply in a number of areas, and we informed the Corporation.

## FINANCIAL INFORMATION

## Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Tariff charges	117,337	115,386
Other revenue	<u>25,187</u>	<u>21,250</u>
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>	<b><u>142,524</u></b>	<b><u>136,636</u></b>
Operational costs	54,974	52,897
Depreciation	26,847	27,278
Other expenses	<u>34,448</u>	<u>20,042</u>
<b>TOTAL EXPENDITURE FROM ORDINARY ACTIVITIES</b>	<b><u>116,269</u></b>	<b><u>100,217</u></b>
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX</b>	<b>26,255</b>	<b>36,417</b>
Income tax equivalent	<u>(19,382)</u>	<u>(12,677)</u>
<b>PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX</b>	<b>6,873</b>	<b>23,742</b>
<b>Total adjustments recognised directly in equity</b>	<b>31,328</b>	<b>59,096</b>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>	<b><u>38,201</u></b>	<b><u>82,838</u></b>

The increase in other expenses is due to a \$10.2 million increase in superannuation, up from \$3.2 million in 2000–01.

## Abridged Statement of Financial Position

Year ended 30 June	2002 \$'000	2001 \$'000
Current assets	87,639	57,870
Non-current asset	<u>2,006,691</u>	<u>1,961,809</u>
<b>TOTAL ASSETS</b>	<b><u>2,094,330</u></b>	<b><u>2,019,679</u></b>
Current liabilities	57,822	49,686
Non-current liabilities	<u>179,567</u>	<u>120,142</u>
<b>TOTAL LIABILITIES</b>	<b><u>237,389</u></b>	<b><u>169,829</u></b>
<b>NET ASSETS</b>	<b><u>1,856,941</u></b>	<b><u>1,846,850</u></b>

Current assets increased mainly because the Corporation's short-term deposits held in T Corp's Hour-Glass Cash Facility increased from \$24.1 million in 2000-01 to \$59.0 million.

Non-current liabilities increased mainly because interest-bearing loans increased from \$84.0 million in 2000–01 to \$131 million.

The Corporation received \$15.8 million in physical assets from developers during the year. Based on their estimated future cash inflows, the Corporation assesses these assets at a zero fair value and writes them off in the same year.

The Corporation also receives cash contributions from developers (\$8.1 million in 2001-02) which it uses to fund the construction of assets. The Corporation then writes down the assets based on their future cash inflows. In 2001-02 the Corporation wrote down those assets by \$7.7 million.

## CORPORATION ACTIVITIES

The Corporation is a Statutory State Owned Corporation that operates within the Hunter Region. It collects, conserves, preserves and distributes water, provides sewerage facilities, and constructs, controls and maintains certain stormwater channels.

The Corporation's charter is to be commercially successful as a company while delivering water, wastewater and associated services.

The Corporation's economic entity comprises Hunter Water Corporation and Hunter Water Australia Pty Limited. It operates under the *State Owned Corporations Act 1989*.

For further information on the Corporation refer to [www.hunterwater.com.au](http://www.hunterwater.com.au).

## CONTROLLED ENTITY - HUNTER WATER AUSTRALIA PTY LIMITED

### Financial Information

The audit of the company's financial statements for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	11,475	9,492
Expenses	11,118	9,267
Income tax equivalent (benefit)/expense	<u>421</u>	<u>(217)</u>
Profit from ordinary activities	<u>(64)</u>	<u>442</u>
Net assets (at 30 June)	3,869	4,134

### Establishment and Objectives

In 1998 the Corporation incorporated Hunter Water Australia Pty Limited, a wholly owned subsidiary. This entity comprises a number of business units including engineering consulting, water treatment consulting, survey and laboratories.

The principal activity of the Company is to provide specialist support and operations services in the fields of water and wastewater. For further information on the Company refer to [www.hwa.com.au](http://www.hwa.com.au).

## Lake Illawarra Authority

### AUDIT OPINION

The audit of the Authority's financial report for the year ended 31 March 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 31 March	2002 \$'000	2001 \$'000
Contributions income	1,470	5,431
Land received free of charge	--	2,000
Other income	340	318
Project expenses	1,932	5,484
Other expenses	1,052	354
Operating surplus/(deficit)	(1,174)	1,911
Net assets (at 31 March)	3,724	4,898

The Authority's project costs are shared by the NSW Government (50 per cent), Wollongong City Council (34 per cent) and Shellharbour City Council (16 per cent) share. Where a council is solely responsible for a project it shares the costs equally with the Government.

The decrease of \$4.0 million in contributions and \$3.6 million in project expenses was due to fewer projects.

Applications for native title, under the *Native Title Act 1983*, have been made over some land and waters in and around Lake Illawarra. These claims remain unresolved.

### AUTHORITY ACTIVITIES

The Authority is subject to the control and direction of the Minister. The Authority consists of ten part-time members.

Most land vested in the Authority for development work was Crown land. Once development work is complete, the Authority may return the land to Crown land status, or to a council if the land was previously held by it.

The Authority was constituted as a corporation by the *Lake Illawarra Authority Act 1987*. Its objective is to improve the environment of Lake Illawarra and transform it into an attractive recreational and tourist resource by repairing the environmental damage that has occurred over decades of development of the catchment.

For further information on the Authority refer to [www.lia.nsw.gov.au](http://www.lia.nsw.gov.au).



## Upper Parramatta River Catchment Trust

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### AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	2,677	2,836
Expenses	2,598	3,463
Operating surplus/(deficit)	79	(627)
Net assets (at 30 June)	11,247	11,167

The Trust received \$2.3 million (\$2.2 million in 2000-01) for river management service charges levied on nearly 80,000 properties in the catchment. Sydney Water Corporation collects this on behalf of the Trust for a fee of \$78,000 (\$78,000). Revenue decreased by approximately \$159,000 due to a decrease in contributions and investment income.

Expenses decreased by \$865,000 primarily due to a reduction in construction expenses following the completion of the Sierra Place flood-retarding basin in 2001.

With the exception of major works undertaken at Darling Mills Creek, the Trust's policy is to expense capital works because these are handed over to local government councils on completion.

### TRUST ACTIVITIES

The Catchment area includes parts of the cities of Blacktown, Parramatta and Holroyd and Baulkham Hills Shire Council.

To speed the construction of mitigation works and measures, the Trust encourages flood mitigation and drainage activities by the four local councils by co-ordinating, providing technical advice and funding half the costs of approved projects.

The Trust is subject to the control and direction of the Minister for Land and Water Conservation.

The Trust operates under the *Water Management Act 2000* effective from January 2001 (previously under the *Water Supply Authorities Act 1987*). The Trust's principal objectives are to mitigate the impacts of flooding, and control trunk drainage discharge and water quality for the Parramatta River Catchment upstream of the tidal limit.

For further information on the Trust refer to [www.uprct.nsw.gov.au](http://www.uprct.nsw.gov.au).

## Wentworth Park Sporting Complex Trust

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### AUDIT OPINION

The audit of the Trust's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUE

#### Unresolved Loan Repayment – Repeat Finding

As reported in 2001, the Trust owes \$6.5 million, through the Greyhound Racing Authority (NSW), to the Greyhound Industry Development Fund. The money was provided to the former Racecourse Development Fund for the construction of the main grandstand at the track.

The Authority has not determined repayment terms for the loan. This situation has prevailed since the Authority received the asset from the Racecourse Development Fund in 1998.

It is important that a decision be taken to enable the Trustees to effectively manage the business affairs of the Trust. Any decision taken will have potential impact on the financial viability of the Trust.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	553	429
Expenses	967	865
Operating deficit	(414)	(436)
Net assets (at 30 June)	13,438	11,187

The movement in net assets was mainly the result of the Trust revaluing the grandstand. This resulted in an increase in value of \$2.7 million.

### TRUST ACTIVITIES

The Trust is established under the *Crown Lands Act 1989*. Its main function is to establish and maintain the Wentworth Park Sporting Complex. The Act provides the Minister for Land and Water Conservation with the power to direct or control the Trust.

The Trustees are empowered to grant leases, subject to Ministerial approval, and licences for use of Wentworth Park for prescribed purposes. The Trust has granted licences to the NSW National Coursing Association (NCA) and Greyhound Breeders Owners and Trainers Association (GBOTA) to conduct greyhound race meetings, qualifying heats and trials and other approved events within certain areas of the Complex.

For further information on the Trust refer to [www.wentworthparksport.com.au](http://www.wentworthparksport.com.au).

## **Minister for Mineral Resources**

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**Department of Mineral Resources**

## Department of Mineral Resources

### AUDIT OPINION

The audit of the Department's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### CONTROL ISSUES

We identified opportunities for improvement in internal control. These were minor and will be discussed further with Department staff and, where appropriate, included in a management letter.

### COMPLIANCE ISSUES

We tested whether the Department complied with:

- ◆ certain requirements of the *State Records Act 1998*. The Department substantially complied with the requirements. The matter noted was minor and has been reported to the Department
- ◆ the requirements of the *A New Tax System (Goods and Services Tax) Act 1999*. The Department complied with these requirements.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Retained revenues	3,510	5,419
Government contributions	49,743	45,539
Salaries and related expenses	32,756	30,110
Other expenses	19,641	17,735
Operating surplus	856	3,113
Net assets	23,778	22,907
Administered Revenue on behalf of the Consolidated Entity	229,573	222,690

Administered Revenue in 2001-02 included \$10 million in coal concessions for the transfer of exploration rights and data research at Mount Arthur North previously owned by Pacific Power. Mineral royalties fell by \$3.4 million to \$216.2 million.

**Abridged Program Statement**

Program Description	2002		Net Cost of Services \$'000	2001
	Revenues \$'000	Expenses* \$'000		Net Cost of Services \$'000
Resource assessment	908	18,036	<b>17,128</b>	14,724
Resource allocation	596	7,854	<b>7,258</b>	8,065
Resource management	1,958	25,232	<b>23,274</b>	18,784
Resource policy and executive support	<u>48</u>	<u>1,275</u>	<b>1,227</b>	<u>853</u>
Total all programs	<u>3,510</u>	<u>52,397</u>	<b>48,887</b>	<u>42,426</u>
* Includes loss on sale of non-current assets.				

**DEPARTMENT ACTIVITIES**

The Department principally encourages the exploration, assessment, development and value-added processing of the mineral resources of New South Wales, balancing economic development with social and environmental needs. It also regulates exploration and mining operations to ensure safe, responsible, effective and efficient mineral production in the State.

For further information on the Department refer to [www.minerals.nsw.gov.au](http://www.minerals.nsw.gov.au).

## **Minister for Police**

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**Ministry for Police**

**NSW Police**

**Police Integrity Commission**

## Ministry for Police

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### AUDIT OPINION

The audit of the Ministry's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### COMPLIANCE ISSUES

We tested whether the Ministry complied with certain provisions of the *State Records Act 1998*. The Ministry substantially complied with the provisions.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related expenses	3,216	3,041
Net cost of services	4,498	4,255
Government contributions	4,468	4,254
Net assets (at 30 June)	(298)	(268)

### MINISTRY ACTIVITIES

The Ministry provides independent advice to the Minister for Police and coordinates the formulation and implementation of policy and the allocation of resources affecting the Minister's portfolio. The Ministry also has certain functions relating to the Office of the Inspector of the Police Integrity Commission.

## NSW Police

### AUDIT OPINION

The audit of the NSW Police financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

Crime reduction is a long-term project.

Risk factors for crime include unemployment levels, education standards and quality of housing. NSW Police does not directly manage these risk factors, but it does participate in multi-agency committees dealing with these matters.

Generally NSW trails the national average crime benchmarks. NSW Police has commenced actions to improve its performance by refocusing its resources.

### Crimes Against People

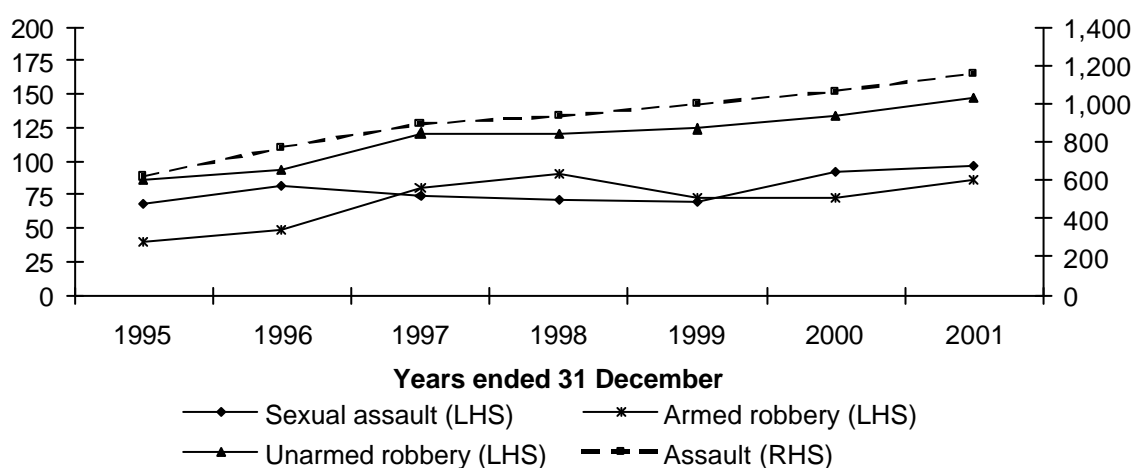
In 2001, reported crimes rates against people in NSW were well above the national average.

Crime	NSW Rate per 100,000 Population	National Rate per 100,000 Population	NSW Ranking 2001	NSW Ranking 2000
Assault	1,155.2	782.9	2/8	2/8
Sexual assault	96.0	86.4	4/8	4/8
Armed robbery	86.0	57.0	1/8	1/8
Unarmed robbery	147.3	80.0	1/8	1/8
Other	14.4	11.2	1/8	1/8
Total	<u>1,498.9</u>	<u>1,017.5</u>	1/8	2/8

Source: Australian Bureau of Statistics 2002, *Recorded Crime Australia 2001*, Cat. no. 4510.0.  
Australian Bureau of Statistics 2001, *Recorded Crime Australia 2000*, Cat. no. 4510.0.

The graph below shows the trends in crimes against people over time. Assault and unarmed robbery continue to rise. Sexual assault increased in 2001 but more slowly than the previous year. Armed robbery increased after a period of relative stability.

Crimes Against People (per 100,000 population)



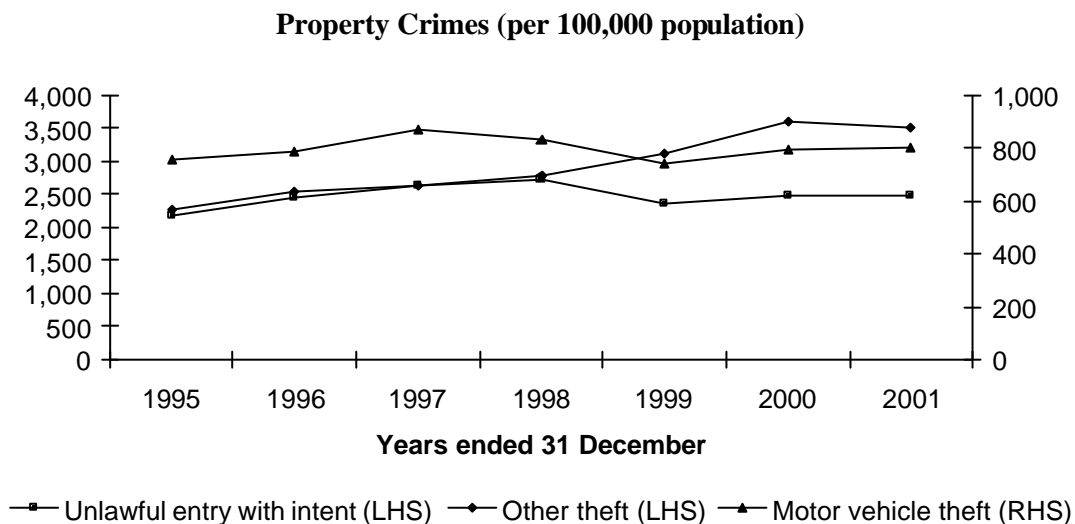


## Property Crimes

Data on the more frequent property crimes in New South Wales compared with the national average are shown in the following table:

Crime	NSW Rate per 100,000 Population	National Rate per 100,000 Population	NSW Ranking 2001	NSW Ranking 2000
Unlawful entry with intent	2,480.6	2,246.9	3/8	4/8
Motor vehicle theft	800.3	722.0	3/8	3/8
Other theft	<u>3,514.3</u>	<u>3,607.5</u>	4/8	5/8
Total	<u>6,795.2</u>	<u>6,576.4</u>	4/8	4/8
Source: Australian Bureau of Statistics 2002, <i>Recorded Crime Australia 2001</i> , Cat. no. 4510.0. Australian Bureau of Statistics 2001, <i>Recorded Crime Australia 2000</i> , Cat. no. 4510.0				

New South Wales reported property crimes declined slightly in 2001 in all categories except motor vehicle theft.



## Level and Allocation of Police Resources

A police service with more operational officers per 100,000 population is better placed to combat crime, other factors being equal.

The Productivity Commission's *Report on Government Services 2002* showed there were 266 police staff (sworn and civilian) per 100,000 population in New South Wales in 2000–01, up from 260 in 1999–2000. This compared with a 2000–01 national average of 277 (271). New South Wales has an average of 82.4 per cent police staff classified as operational. This is higher than the national average of 80.6 per cent.

NSW Police has eight fewer officers per 100,000 population than the national average at 30 June 2001. NSW Police advised that actual police numbers at 30 June 2002 were 13,716 (13,614 in 2001). Since year-end 637 students were attested as police officers.

State and Territory statistics for 2000–01 showed steady recurrent expenditure allocation (in percentage terms) to the 'Community Safety and Support' area of policing for half of the jurisdictions. This area covers crime prevention, response to emergencies and other calls for help, and emergency and events management. NSW showed no change in the 2000–01 proportion of net cost of services of this program at 63.2 per cent, maintaining its margin over the national average of 56.0 per cent.

The Report indicates real recurrent expenditure, less revenue from own sources, for police services in New South Wales in 2000–01 was \$235 per capita (\$227 in 1999–2000), higher than the national average of \$225 per capita (\$230 in 1999–2000).

### Crime Investigations

NSW Police spends approximately 20 per cent of its net cost of services on its criminal investigation program. Police effectiveness in this area is measured as the proportion of investigations:

- ◆ finalised within 30 days of the offence becoming known
- ◆ with an alleged offender proceeded against in 30 days.

For the first measure, NSW ranks below the national average in all categories but assault. An improvement in finalising unlawful entry with intent to take property contrasted with a deterioration in the outcomes of most other categories.

The NSW performance in the second measure showed little movement in 2001 compared with the prior year.

Crime	Proportion (%) of Investigations Finalised in 30 Days				Proportion (%) of Investigations with an Alleged Offender Proceeded Against within 30 Days of Being Finalised			
	NSW	National Average	NSW Ranking 2001	NSW Ranking 2000	NSW	National Average	NSW Ranking 2001	NSW Ranking 2000
Assault	62	57	Eq3/8	2/8	83	77	4/8	3/8
Sexual assault	31	36	8/8	6/8	52	52	6/8	5/8
Armed robbery	17	22	7/8	7/8	81	86	8/8	8/8
Unarmed robbery	17	19	7/8	6/8	69	71	7/8	7/8
Unlawful entry with intent:								
involving taking property	6	6	7/8	5/7*	70	82	8/8	7/7*
property not taken	6	9	7/8	5/7*	73	81	8/8	7/7*
Motor vehicle theft	7	10	7/8	5/8	79	77	4/8	5/8
Other theft	10	12	8/8	6/8	86	84	4/8	4/8
Key: * National average and ranking excludes statistics for South Australia. Split data not available								
Source: Australian Bureau of Statistics 2002, <i>Recorded Crime Australia 2001</i> , Cat. no. 4510.0 (Companion Data)								
Australian Bureau of Statistics 2001, <i>Recorded Crime Australia 2000</i> , Cat. no. 4510.0 (Companion Data)								

### CONTROL ISSUES

We identified opportunities for NSW Police to improve its internal controls. These have been detailed in a letter to NSW Police.

## COMPLIANCE ISSUES

We tested whether NSW Police complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ Premier's Memorandum No. 2000-6 concerning use of external training facilities
- ◆ better practice for Audit Committees.

NSW Police substantially complied with the *State Records Act 1998* and the use of external training facilities. NSW Police has implemented changes to the conduct of Audit Committee meetings to comply with better practices.

## OTHER ISSUES

### *Bail Act 1978*

Recent amendments to the *Bail Act 1978*, effective 1 July 2002, are expected to reduce crime.

NSW Police informed us that they are changing certain internal practices and systems to complement the amended *Bail Act 1978*. These include changes to the warrant process, police bail determinations, breach of bail and review of bail determinations by the courts.

The amendments to the Act will also impact the Attorney General's Department and the Department of Corrective Services.

The amendments are expected to increase the number of persons applying to the Court for bail, with a subsequent impact on the time available to the Court to hear other matters. The amendments are not expected to impact upon the number of applications to the Supreme Court to overturn bail decisions.

The amendments are expected to increase the number of people held on remand at any one time. The Department of Corrective Services estimates this increase to be 800 over the next two years. The Department will receive additional funding of \$17.3 million in 2002–03 to meet the cost of accommodating these people.

The purpose of amending the *Bail Act 1978* is to reduce the impact of recidivist offenders on the community. We understand that it will be approximately 12 months before data is available to reach a view on the outcomes of this initiative.

### **Supplementary Policing**

NSW Police has adopted a user pay model for its supplementary policing venture where a client requests additional policing services in a location and contributes to the cost of providing those additional policing services. The additional services are provided by police officers who volunteer to perform additional duties outside their normal rostered hours, and who are paid at a rate of time and a half for their work.

NSW Police does not charge all costs to its customers. NSW Police estimates supplementary policing to cost approximately \$81.00 per hour. It is charging users of the service \$41.00 per hour. The difference is being funded from the Confiscated Proceeds Account.

Until the supplementary policing pilot scheme is assessed, NSW Police will be unsure if the 'confiscated proceeds' money has been well spent. The balance of the Confiscated Proceeds Account at 30 June 2002 was \$9.7 million. This fund can be used for crime prevention programs, programs supporting safer communities and other amounts in aid of law enforcement.

If the pilot scheme is successful, then NSW Police should consider:

- ◆ moving to full cost recovery
- ◆ its capacity to meet contractual demands
- ◆ the contract selection criteria.

NSW Police has established criteria to review the outcomes of the pilot scheme. The pilot will be conducted over a period of approximately six months at five locations. NSW Police accepts employment risks, invoices for services performed and collects revenue. Police officers engaged in the pilot will wear their uniforms.

### **Section 181D of the Police Service Act 1990 – Suspensions and Dismissals**

In 2001–02 the Police Commissioner issued fewer performance warning notices to Officers and dismissed fewer Officers than the previous year.

NSW Police completed 95 cases during 2001–02 (118 in 2000–01) under section 181D of the *Police Service Act 1990*. These included 25 (40) cases where performance warning notices were issued; 14 (21) where officers resigned; 12 (8) where officers were medically discharged; 9 (17) where officers were removed; and 35 (15) cases were referred to the Employee Management Branch.

There were 67 (80) cases outstanding at 30 June 2002.

Section 181D of the *Police Service Act 1990* allows the Commissioner to take action against officers, if the Commissioner has no confidence in their suitability. This action includes the removal of a police officer from NSW Police.

### **Alcohol and Drug Testing**

Positive alcohol readings for police officers were lower in the previous year even though there were over two thousand more tests.

Random alcohol tests on officers numbered 8,560 (6,408). Targeted alcohol tests on officers numbered 20 (11) during 2001–02. Eight (11) Officers recorded positive results. These officers were offered, and accepted, rehabilitation.

In the same period, NSW Police conducted 24 (18) targeted drug tests, with 5 (2) returning a positive result. Random drug testing for the period 1 September 2001 to 30 June 2002 numbered 416. There were no positive results. Random drug testing of police officers commenced on 1 September 2001.

### **Court Cases and Costs Against NSW Police**

The number of cases and amount of costs against NSW Police significantly increased in 2001–02.

Contingent liabilities from legal claims lodged against NSW Police and pending decision by the courts increased to \$95.5 million as at 30 June 2002 (\$62.2 million in 2001). The number of cases totalled 441 (258). The Crown Solicitor was able to provide an estimate of damages for 300 (189) cases.

From information supplied by NSW Police, as at 30 June 2002 a total of 204 cases (104) were outstanding against NSW Police for wrongful arrest, assault and malicious prosecution; 152 (71) cases were outstanding for hurt on duty claims by serving and former police officers; and 85 (83) cases were outstanding for negligence.

## Overtime

The overtime cost incurred during 2001–02 was \$32.1 million (\$41.1 million in 2000–01). The number of employees and overtime cost is detailed in the following table in percentage bands of overtime paid as a percentage of normal pay:

Overtime paid as a percentage of normal pay during 2001-02	Number of Employment Records	Overtime Paid \$000
80% – 89%	1	36,538
70% – 79%	6	211,247
60% – 69%	8	231,805
50% – 59%	18	484,421
40% – 49%	22	431,798
30% – 39%	76	1,147,266
20% – 29%	208	2,443,398
10% – 19%	1,372	9,567,635
>0% – 9%	11,124	17,514,494
0%	<u>10,443</u>	<u>--</u>
Total	<u>23,278</u>	<u>32,068,602</u>

Source: Police Service of NSW (unaudited)

## Traffic Revenue Statistics

Fines and penalties collected by the Infringement Processing Bureau declined by \$8.4 million to \$133 million in 2001–02. The number of infringement notices recorded during the past four years was:

Infringement Notice	2001–02	2000–01	1999–2000	1998–99
Parking	291,864	466,105	528,605	604,010
Traffic	554,844	541,652	588,893	583,360
Red light camera	54,731	63,159	102,141	78,347
Speed/digital cameras	<u>431,881</u>	<u>460,067</u>	<u>233,653</u>	<u>271,582</u>
	<u>1,333,320</u>	<u>1,530,983</u>	<u>1,453,292</u>	<u>1,537,299</u>

Source: Police Service of NSW (unaudited)

The number of parking infringement notices declined during 2001–02 compared with prior years due to local councils beginning to assume responsibility for issuing parking tickets. The number of parking control officers employed by NSW Police declined during this transition period. The decline in employment numbers also contributed the decline in number of parking infringement notices issued.

The outcomes in relation to infringement notices recorded during the last five years were:

	Notices Recorded	Paid Direct	Action Referred to Other Entities	Not Proceeded With	Not Finalised at 30 June
1997–98	1,589,066	1,081,423	359,358	102,108	219,682
1998–99	1,537,299	1,059,201	355,811	136,768	205,201
1999–2000	1,453,292	952,134	353,413	97,446	255,500
2000–01	1,530,983	1,120,859	393,557	76,112	195,955
2001–02	1,333,320	958,731	347,249	48,826	174,469

Source: Police Service of NSW (unaudited)

The overall payment ratio remained fairly steady at 71.9 per cent in 2001–02 compared with 73.2 per cent in the previous year. The number of infringement notices not proceeded with has fallen significantly over the last few years due to stricter enforcement of guidelines.

### Traffic Infringement Revenue not Collected

NSW Police did not collect the following potential revenue:

Year Ended 30 June	2002 \$'000	2001 \$'000
Infringement notices not actioned	2,061	2,414
Infringement notices waived	3,778	5,053
Infringement notices quashed	<u>1,217</u>	<u>2,470</u>
	<u>7,056</u>	<u>9,937</u>
Source: Police Service of NSW		

NSW Police raise and process the infringements and payments while other agencies, such as the State Debt Recovery Office and the courts have responsibility for pursuing unpaid infringement notices under the provisions of the *Fines Act 1996*.

Potential revenue not collected in 2001–02 decreased relative to infringement notices issued compared with the prior year.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related	1,245,086	1,251,782
Other expenses	<u>352,204</u>	<u>386,026</u>
<b>TOTAL EXPENSES</b>	<b><u>1,597,290</u></b>	<b><u>1,637,808</u></b>
<b>TOTAL REVENUE</b>	<b><u>55,016</u></b>	<b><u>90,942</u></b>
Gain/(Loss) on sale of non-current assets	<u>(3,194)</u>	<u>4,213</u>
<b>NET COST OF SERVICES</b>	<b><u>1,545,468</u></b>	<b><u>1,542,653</u></b>
<b>Add Government Contributions</b>	<b><u>1,532,883</u></b>	<b><u>1,527,690</u></b>
<b>(DEFICIT) FOR THE YEAR</b>	<b><u>(12,585)</u></b>	<b><u>(14,963)</u></b>

Revenue declined by \$35.9 million, mainly because the Service received a SOCOG contribution of \$38.1 million for Olympics security in 2000-01.

**Abridged Statement of Financial Position**

At 30 June	2002 \$'000	2001 \$'000
Current assets	39,891	39,950
Non-current assets	<u>766,005</u>	<u>734,715</u>
<b>TOTAL ASSETS</b>	<b><u>805,896</u></b>	<b><u>774,665</u></b>
Current liabilities	197,271	168,110
Non-current liabilities	<u>8,409</u>	<u>8,790</u>
<b>TOTAL LIABILITIES</b>	<b><u>205,680</u></b>	<b><u>176,900</u></b>
<b>NET ASSETS</b>	<b><u>600,216</u></b>	<b><u>597,765</u></b>

Non-current assets increased by \$31.3 million due to revaluing land and buildings (\$14.9 million), asset additions (\$77.0 million) offset by disposals (\$6.2 million) and depreciation expense (\$54.5 million).

Current liabilities increased by \$29.1 million primarily due to an increase in employee entitlements of \$18.3 million and \$6.9 million received in respect of the part sale of the Sydney Police Centre.

**Program Information**

NSW Police allocates revenue and expenditure to specific programs based on an analysis of roster duties conducted during the year. The table below details the net cost of services on each program.

Year ended 30 June	2002		Net Cost of Services \$'000	2001
	Revenues* \$'000	Expenses* \$'000		Net Cost of Services \$'000
Community support	24,471	964,316	939,845	974,648
Criminal investigation	6,797	319,683	312,886	340,309
Traffic	22,102	151,849	129,747	104,591
Judicial support	<u>1,646</u>	<u>164,636</u>	<u>162,990</u>	<u>123,105</u>
	<u>55,016</u>	<u>1,600,484</u>	<u>1,545,468</u>	<u>1,542,653</u>
* Includes gain/(losses) on sale of assets				

**SERVICE ACTIVITIES**

The primary objective of NSW Police is to work with the community to establish a safer environment by reducing violence, crime and fear.

In terms of the *Police Service Act 1990*, the Commissioner is given responsibility for the effective, efficient and economical management of the functions and activities of NSW Police. In exercising these functions, however, the Commissioner is subject to the direction of the Minister for Police.

For further information on NSW Police refer to [www.police.nsw.gov.au](http://www.police.nsw.gov.au).

## Police Integrity Commission

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### AUDIT OPINION

The audit of the Commission's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### CONTROL ISSUES

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

### COMPLIANCE ISSUES

We tested whether the Commission complied with certain requirements of the *State Records Act 1998*. The Commission substantially complied with these requirements. Some minor matters were reported to the Commission.

### KEY FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related expenses	8,993	8,885
Other expenses	8,390	7,767
Retained revenue	1,838	1,195
Government contributions	16,407	15,073
Operating surplus/(deficit)	862	(384)
Net assets (as 30 June)	6,073	5,211

Retained revenue includes \$1.8 million (\$798,000) in grants from Premier's Department for developing and implementing the Police Oversight Data Store (PODS) project. The PODS project is due for completion in November 2002. PODS will provide the Police Service, Ombudsman and the Commission with covert access to merged data for analysis.

### COMMISSION ACTIVITIES

The Commission was established in July 1996 under the *Police Integrity Commission Act 1996*. The principal functions are to prevent, detect and investigate serious police misconduct.

For further information on the Commission refer to [www.pic.nsw.gov.au](http://www.pic.nsw.gov.au).



## **Minister for Sport and Recreation**

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**Sydney Cricket and Sports Ground Trust**

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## Sydney Cricket and Sports Ground Trust

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### AUDIT OPINION

The audit of the Trust's financial report for the year ended 28 February 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Naming Rights

In March 2002, the Trust entered into a five-year agreement with Aussie Home Loans to secure the naming rights to the Sydney Football Stadium now known as Aussie Stadium.

#### Grandstand Hotel

The Trust has decided that the proposal to develop a hotel at the Sydney Cricket Ground to service the Moore Park area would not be further considered. Costs of approximately \$140,000 were written off during the year. The Trust is considering a proposal to build a serviced apartment block and grandstand that would increase the ground capacity at the Sydney Cricket Ground.

#### Sydney Swans Football Facility

In May 2001, construction of stage 1 of the Swans Football Facility commenced and reached practical completion in February 2002. Stage 2 will include an additional level to accommodate the remaining Swans administration.

#### Gold Membership Seating Allocation – Stadium Australia

As mentioned in previous Reports to Parliament, Trust Gold Members had access rights to attend premium football events at Stadium Australia under an agreement with the NSW Government and Stadium Australia. The Trust and the Gold Members found the original seating allocations unsatisfactory. Legal action to obtain improved seating arrangements commenced in 2000 has not been resolved.

#### Memorandum of Understanding

The Trust signed a Memorandum of Understanding with a private sector corporation for the purpose of entering into a joint venture for the future management and operation of Telstra Stadium, the Sydney Cricket Ground and Aussie Stadium. The establishment of the joint venture is subject to State Government approval.

### CONTROL ISSUES

We advised the Trust of opportunities to improve internal control procedures. These included approval to expense projects, capitalisation policy and update of fixed asset register.

## COMPLIANCE ISSUES

We tested whether the Trust complied with:

- ♦ the requirements of *Public Authorities (Financial Arrangements) Act 1987* and Regulation 2000. We found that the Trust has satisfactorily complied with the requirements.
- ♦ certain requirements of the *State Records Act 1998*. We found that the Trust has not fully complied with the requirements. It has now engaged a consultant to address the outstanding issues.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 28 February	2002 \$'000	2001 \$'000
Event related	10,777	10,226
General	<u>22,079</u>	<u>21,707</u>
<b>TOTAL INCOME</b>	<b><u>32,856</u></b>	<b><u>31,933</u></b>
Event related	8,270	6,598
General	<u>22,255</u>	<u>22,700</u>
<b>TOTAL EXPENDITURE</b>	<b><u>30,525</u></b>	<b><u>29,298</u></b>
<b>OPERATING SURPLUS</b>	<b>2,331</b>	<b>2,635</b>

### Abridged Statement of Financial Position

At 28 February	2002 \$'000	2001 \$'000
Current assets	9,442	7,488
Non-current assets	<u>193,452</u>	<u>172,966</u>
<b>TOTAL ASSETS</b>	<b><u>202,894</u></b>	<b><u>180,454</u></b>
Current liabilities	19,406	20,749
Non-current liabilities	<u>24,459</u>	<u>19,531</u>
<b>TOTAL LIABILITIES</b>	<b><u>43,865</u></b>	<b><u>40,280</u></b>
<b>NET ASSETS</b>	<b><u>159,029</u></b>	<b><u>140,174</u></b>
<b>EQUITY</b>		
Retained earnings	96,183	93,852
Asset revaluation reserve	<u>62,846</u>	<u>46,322</u>
<b>TOTAL EQUITY</b>	<b><u>159,029</u></b>	<b><u>140,174</u></b>

Buildings and improvements were revalued upwards by \$16.5 million with the increase reflected in non-current assets and the asset revaluation reserve.

New seats were installed in the Noble and Bradman Stands at a cost of \$1.0 million. This increased the members reserve capacity by about 500 seats.

Work in progress significantly increased to \$4.9 million, mainly due to the construction of the Swans football facility.

## **TRUST ACTIVITIES**

The *Sydney Cricket and Sports Ground Act 1978* established the Trust as a corporation. The Trust is responsible for the care, control and management of the Sydney Cricket Ground and the adjacent Aussie Stadium. The Trust is also authorised to manage or carry out work in relation to sporting facilities at other locations.

The Trust is subject to the control and direction of the Minister for Sport and Recreation.

For further information on the Trust refer to [www.scgt.nsw.gov.au](http://www.scgt.nsw.gov.au).

## Minister for Tourism

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**Somersby Park Pty Limited**

## Somersby Park Pty Limited

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### AUDIT OPINION

The audit of the company's financial statements for the period 1 July 2001 to 15 March 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUE

In accordance with the Directors' resolution, the company was liquidated in March 2002 and deregistered.

### FINANCIAL INFORMATION

Period ended	15 March 2002 \$'000	30 June 2001 \$'000
Revenue	1,661	11
Expenses	19	61
Operating surplus/(deficit)	1,642	(50)
Net assets/(liabilities)	--	(1,642)

The revenue for the period included \$1.6 million representing loans forgiven by the shareholders, the New South Wales Government (\$1.5 million) and Westpac Banking Corporation (\$141,000).

### COMPANY ACTIVITIES

The Company (formerly Old Sydney Town Pty Limited) was incorporated in 1969. In 1976 the New South Wales Government (through the Minister for Tourism) acquired 75 per cent in the Company. Westpac Banking Corporation held the remaining 25 per cent.

The principal activity of the Company between 1976 and 1987 was conducting the business of the Old Sydney Town site. The Old Sydney Town site and its adjoining properties were sold on 7 February 2000.

## **Minister for Transport**

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**Freight Rail Corporation**

**State Rail Authority of New South Wales**

**Waterways Authority**

## Freight Rail Corporation (trading as FreightCorp)

In Volume Three of the Auditor-General's Report to Parliament tabled in May, we included comment on the draft financial report of FreightCorp. We indicated that the audit of FreightCorp's financial report was incomplete and that the figures quoted in the commentary were not necessarily final.

Shown below are replaced segments of the report where the final audited figures had changed from those previously reported.

### AUDIT OPINION

The audit of the financial reports of FreightCorp and its controlled entity for the period ended 22 February 2002 resulted in unqualified Independent Audit Reports.

### Privatisation of FreightCorp

The comments below show the effects of the privatisation on the financial report of FreightCorp. They do not reflect the net benefit arising from the sale, comments on which will be included in a future Volume.

The *Freight Rail Corporation (Sale) Act 2001* enabled the privatisation of FreightCorp. The privatisation was completed on 21 February 2002 and resulted in the disposal of FreightCorp's assets and liabilities as follows:

- ◆ sale of the majority of FreightCorp's net assets to the National Rail Consortium (SSL) Pty Ltd (NRCSSL) at a book loss of \$66.0 million
- ◆ sale of certain assets to Sydney Ports Corporation (SPC) at a book loss of \$10.2 million
- ◆ vesting of certain assets to the State Rail Authority (SRA) for no consideration
- ◆ transfer to the Crown of \$337.8 million in net liabilities.

### Sale of Net Assets to NRCSSL

FreightCorp and the National Rail Corporation were sold, in a joint sale arrangement, to NRCSSL, a joint venture between Toll Holdings Limited and Lang Corporation Limited.

The sale of FreightCorp's net assets to NRCSSL resulted in a book loss of \$66.0 million.

The book values of assets sold and liabilities assumed by NRCSSL and the related sales proceeds are shown below:

	FreightCorp's Book Value \$'000	Consideration by NRCSSL \$'000	Loss on Sale \$'000
Current assets	107,284		
Non-current assets	<u>407,578</u>		
Assets sold to NRCSSL	514,862		
Locomotives leased to NRCSSL	<u>268,559</u>		
Assets sold/leased to NRCSSL	783,421	760,626	22,795
Liabilities assumed by NRCSSL	<u>109,701</u>	<u>152,900</u>	<u>43,199</u>
<b>Net Assets</b>	<b><u>673,720</u></b>	<b><u>607,726</u></b>	<b><u>65,994</u></b>

The \$760.6 million consideration for assets sold to NRCSSL includes \$244.0 million for the prepayment of locomotive lease rentals. The net proceeds from sale, \$607.7 million, were transferred to NSW Treasury.

*Freight Rail Corporation*



**Sale of Assets to SPC**

The sale of the Enfield DELEC site to the SPC resulted in a book loss of \$10.2 million:

	\$'000
Site book value	21,673
Sale proceeds	<u>11,500</u>
<b>Loss on sale</b>	<b>10,173</b>

The sale proceeds of \$11.5 million were transferred to NSW Treasury.

**Transfer of Certain Assets to the SRA**

In addition to the assets sold to NRCSSL and SPC, other assets were transferred to the SRA for no consideration. The book values of these assets prior to transfer were:

	\$'000
Enfield marshalling yard	43,202
Port Kembla one spot facility	<u>3,039</u>
<b>Total</b>	<b>46,241</b>

The SRA valued these assets at \$7.9 million. In accordance with accepted accounting practice, FreightCorp was required to revalue these assets to equate to the fair value recognised by SRA. Accordingly FreightCorp recognised a \$38.4 million decrease in the value of these assets, \$35.6 million in the Statement of Financial Performance and \$2.8 million in the Asset Revaluation Reserve.

**Transfer of Other Assets and Liabilities to the Crown**

Net liabilities of \$337.8 million were excluded from the sale process and were transferred to the Crown.

	\$'000
<b>Assets</b>	
Cash and investments	64,699
Receivables	<u>824</u>
	65,523
<b>Liabilities</b>	
Borrowings	310,813
Payables	4,388
Provisions	<u>88,122</u>
	<u>403,323</u>
<b>Net liability transferred</b>	<b><u>337,800</u></b>

## FINANCIAL INFORMATION

## Abridged Statement of Financial Performance

	Period ended 22 February 2002		Year ended 30 June 2001	
	Consolidated \$'000	FreightCorp \$'000	Consolidated \$'000	FreightCorp \$'000
<b>REVENUE</b>	<b><u>301,854</u></b>	<b><u>300,615</u></b>	<b><u>609,282</u></b>	<b><u>607,937</u></b>
<b>PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND INCOME TAX</b>	<b>27,406</b>	<b>27,406</b>	114,652	114,652
Borrowing costs	<b>14,670</b>	<b>14,670</b>	27,136	27,136
Depreciation	<b><u>28,555</u></b>	<b><u>28,555</u></b>	<b><u>49,583</u></b>	<b><u>49,583</u></b>
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>(15,819)</b>	<b>(15,819)</b>	37,933	37,933
Income tax equivalent	<b><u>27,217</u></b>	<b><u>27,217</u></b>	<b><u>6,456</u></b>	<b><u>6,456</u></b>
<b>PROFIT/(LOSS) AFTER INCOME TAX</b>	<b>11,398</b>	<b>11,398</b>	44,389	44,389
Extraordinary Loss after Income Tax Expense	<b><u>(201,012)</u></b>	<b><u>(201,012)</u></b>	<b><u>--</u></b>	<b><u>--</u></b>
<b>NET PROFIT/(LOSS)</b>	<b>(189,614)</b>	<b>(189,614)</b>	44,389	44,389
Retained earnings at beginning of reporting period	<b>92,823</b>	<b>92,823</b>	103,966	103,966
Transfer from Asset Revaluation Reserve	<b><u>29,367</u></b>	<b><u>29,367</u></b>	<b><u>--</u></b>	<b><u>--</u></b>
<b>TOTAL AVAILABLE FOR APPROPRIATION</b>	<b>(67,424)</b>	<b>(67,424)</b>	148,355	148,355
Dividend paid	<b>--</b>	<b>--</b>	55,532	55,532
Transfer to the Crown	<b><u>(67,424)</u></b>	<b><u>(67,424)</u></b>	<b><u>--</u></b>	<b><u>--</u></b>
<b>RETAINED EARNINGS AT END OF REPORTING PERIOD</b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>92,823</u></b>	<b><u>92,823</u></b>

The \$201 million extraordinary loss after income tax expense comprised the following:

	Book Loss on Sale or Transfer \$'000	Income Tax Expense (Benefit) \$'000	Extraordinary Loss After Income Tax \$'000
Sale of net assets to NRCSSL	65,994	96,426	162,420
Sale of assets to SPC	10,173	(849)	9,324
Transfer of assets to SRA	<b><u>35,566</u></b>	<b><u>(6,288)</u></b>	<b><u>29,268</u></b>
<b>Total</b>	<b><u>111,723</u></b>	<b><u>89,289</u></b>	<b><u>201,012</u></b>

**Abridged Statement of Financial Position**

	At 22 February 2002		At 30 June 2001	
	Consolidated \$'000	FreightCorp \$'000	Consolidated \$'000	FreightCorp \$'000
Current assets	--	--	185,792	185,792
Non-current assets	--	--	<u>767,579</u>	<u>767,579</u>
<b>TOTAL ASSETS</b>	<u>--</u>	<u>--</u>	<u>953,371</u>	<u>953,371</u>
Current liabilities	--	--	128,043	128,043
Non-current liabilities	--	--	<u>344,002</u>	<u>344,002</u>
<b>TOTAL LIABILITIES</b>	<u>--</u>	<u>--</u>	<u>472,045</u>	<u>472,045</u>
<b>NET ASSETS</b>	<u>--</u>	<u>--</u>	<u>481,326</u>	<u>481,326</u>
Contributed equity	--	--	356,339	356,339
Reserves	--	--	32,164	32,164
Retained earnings	--	--	<u>92,823</u>	<u>92,823</u>
<b>TOTAL EQUITY</b>	<u>--</u>	<u>--</u>	<u>481,326</u>	<u>481,326</u>

All FreightCorp's assets and liabilities were either sold or transferred prior to it converting to a Corporation Sole on 22 February 2002.

**RESPONSE BY TREASURY**

*In relation to the book loss of \$66.0 million, Treasury notes that this reflects recorded asset values at the time of the sale which did not take into account certain pre-sale transactions. In particular, CSO funding to FreightCorp for the haulage of specific goods was replaced by expanded CSO payments to Rail Infrastructure Corporation for the benefit of all rail users. The net effect of these new arrangements should have been to significantly reduce the book value of FreightCorp's assets at a future balance date.*

*In relation to the sale of the Enfield DELEC site to the Sydney Ports Corporation resulting in a book loss of \$10.2 million, Treasury notes that the sale price was negotiated by the businesses after independent valuations were obtained by Sydney Ports and FreightCorp.*

*In relation to the liabilities for provisions transferred to the State, these in the main, represent dividends and income tax equivalent payments which were fully reflected in additional sale proceeds received by the State.*

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## State Rail Authority of New South Wales

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### AUDIT OPINION

The audit of the State Rail Authority's (StateRail) financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Failure of Airport Link Company (ALC)

We reported last year that ALC, a private sector company that operated the four airport line stations, went into receivership in November 2000. The airport rail line received considerably less patronage and revenue than expected. The receiver continues to operate these stations under an agreement between StateRail and ALC. If this agreement is terminated, StateRail might need to compensate ALC. StateRail and the receiver are negotiating to resolve this situation.

#### Right to Acquire Airport Line Stations

In 2030 StateRail can exercise its right to acquire the four airport line stations. StateRail has recorded the value of this right for the first time in its 2001-02 financial report at \$1.1 million. This value will increase each year, as the exercisable date gets closer.

#### Millennium Train

In October 1998, StateRail contracted with EDI Rail to design, construct and maintain the Millennium train. On 30 June 2002 StateRail bought the first four carriage set and put it into service on the CityRail network. There are a further 77 carriages in the first tranche of the Millennium train, and StateRail is finalising an efficient means of acquisition.

EDI Rail's costs for the Millennium train are significantly over budget. StateRail and EDI Rail are discussing this, and StateRail is assessing the financial implications.

We have also started a performance audit into the economy, efficiency and effectiveness of the Millennium train project. We will report the findings to Parliament next year.

#### Control of StateRail

From 1 January 2001, the *Transport Administration Amendment (Rail Management) Act 2000* subjected StateRail to Ministerial control. This Act also gave the Co-ordinator General of Rail (CGR) the power to issue directions to StateRail to manage and co-ordinate its functions and implement structural reforms. The CGR did not issue any directions to StateRail during 2001-02.

#### Conflict of Interest Resolved

Last year, the former CGR and four of his senior officers also held executive positions in StateRail, creating a conflict of interest. This conflict has been resolved with the CGR role now being assigned to the Director General of the Department of Transport, and the four senior officers working only for StateRail.

#### Provision for Insurance

StateRail has found it difficult to measure its public liability insurance claims and has not recognised any provision in its financial report. StateRail has told us they will measure the provision (up to \$9 million) next year and record it in the 2002-03 financial report.

## **Rail Infrastructure Corporation**

Last year, we reported that the East Hills Line Amplification project (\$70.0 million) concluded without a signed agreement between StateRail and Rail Infrastructure Corporation (RIC). Agreements are now in place between the two entities to cover all future project works and services.

StateRail and RIC still dispute the amounts owing on many items at year-end, although less so than in prior years.

### **Overtime**

Overtime costs in 2001-02 were about \$71 million or 14 per cent of total payroll costs. These costs were \$5.2 million below the 2000-01 costs which included \$6.5 million of Olympic's overtime.

Overtime hours worked per employee decreased by 7.3 per cent to 227 hours (245 hours in 2000-01) and total overtime hours recorded decreased by about 137,000 hours over the previous year.

StateRail is reducing excessive overtime by reviewing rostered overtime, improving monitoring, reducing vacant shifts and addressing excessive overtime earners.

### **Excess Leave Balances**

#### ***Annual Leave***

Currently StateRail shift workers are entitled to accrue up to 50 days annual leave and non-shift workers up to 40 days. The total amount of employees' annual leave in excess of 50 days decreased by 4.7 per cent to 42,464 days (44,535 days). The improvement reflects the success of management's strategies to reduce high levels of annual leave held by employees. During the year StateRail encouraged employees to clear excess annual leave or receive a cash payout. StateRail paid out a total of 6,617 days.

StateRail will pay out all annual leave over the level permitted by the policy and not cleared by 31 December 2002. All employees will then be within the permitted limits and StateRail can begin a regular cycle of payouts.

#### ***Leave in Lieu of Public Holidays Worked***

StateRail employees are paid penalty rates for working on public holidays. Employees can also take another day's leave in lieu of the holiday or, if they take it within 12 months, may add the day to their annual leave.

Under current arrangements employees have one year to clear a maximum of eight days accumulated public holidays from the previous year. StateRail will commence paying out any days not cleared in the next year.

The overall 'excess' leave position has improved during 2001-02 with a decrease of 6,086 days from the previous year. Excess days were mainly reduced by two cash payments to employees during the year with a total of 9,920 days paid out.

## **PERFORMANCE ISSUES**

StateRail's charter is to provide reliable and safe railway passenger services in an efficient, effective and financially responsible manner. It receives about \$1.9 billion of revenue annually and controls about \$5.4 billion in assets in order to deliver its services. StateRail uses performance indicators to measure if it achieves its desired outcomes. Some of StateRail's key indicators are discussed below.

## Reliable Passenger Services

### *On-time Running*

Area	Measurement	2001-02 %	2000-01 %	Target %
CityRail – suburban	Within three minutes of timetable	91.9	89.7	92.0
CityRail – intercity	Within five minutes of timetable	91.7	91.0	92.0
CountyLink	Within ten minutes of timetable	80.4	69.3	90.0

Overall StateRail's performance for on-time running improved in 2001-02, with CityRail's performance on target. CountryLink's performance is well below target.

The Queensland, Victorian and Western Australian rail services all run between 96 and 98 per cent on-time. However these systems operate considerably smaller networks and loads and the Victorian system measures on-time running to 5 minutes.

### *Peak Service Provision*

In 2001-02 StateRail provided 99.5 per cent of scheduled peak services, exceeding its target of 99 per cent.

### *Average Daily Stops Skipped*

When disruptions occur, trains may skip stops at scheduled stations to minimise further delays and support on-time running. In 2001-02, the daily average of 27 was well within the limit of 40 stops skipped. Stops skipped included cancelled services.

## Safe Passenger Services

### *Rail Incidents*

	2001-02	2000-01	1999-00	1998-99
Incidents per million journeys	2.1	2.9	3.1	3.5

Incidents include rail collisions, derailments, falls and fires. This indicator measures the overall effectiveness of rail safety initiatives and shows StateRail has improved over recent years.

### *Signals Passed at Danger (SPADs)*

A SPAD occurs when a train passes a red signal or stopboard without authority. StateRail records and investigates all incidents taking into account weather conditions, location and the driver's record. In 2001-02, 86 SPADs occurred compared to 82 in the prior year. Nearly all of these SPADs are of a low severity meaning they did not represent a risk of collision or accident.

### *Rail Problems*

The rail networks in NSW are owned and maintained by RIC. State Rail records rail problems as they affect their performance, particularly on-time running.

Rail problems include rails buckling, broken rails or joints and vertical split rail heads. Recorded problems increased from 125 in 2000-01 to 147 in 2001-02. Almost half of the problems in 2001-02 occurred in May and June. The increase apparently shows RIC can now better detect problems such as vertical split rail heads.

### ***Passenger Falls in Gap between Train and Platform***

StateRail records when a passenger falls in the gap between the train and the station platform. In recent years, StateRail has undertaken a program to modify platforms to reduce the gap and to enhance passenger awareness. This program has been effective in reducing the number of falls (raw data) from 105 in 2000-01 to 73 in 2001-02 from over 275 million passengers.

### **Customer Satisfaction**

	2001-02	2000-01	1999-2000	1998-99	1997-98
CityRail Index	78	na	na	78	75
CountryLink Index	na	83	78	na	na

StateRail surveys passengers of either CityRail or CountryLink every year. Similar indexes published by Western Australian Railways showed 86 to 92 per cent over the same period, while indexes for TransAdelaide were 75 to 81 per cent.

## **CONTROL ISSUES**

### **CountryLink Revenue System**

The CountryLink revenue system still has internal control deficiencies, and our audit work could not rely on these controls. We wrote to StateRail management about these deficiencies last year with some matters being raised the previous year. We understand management has implemented manual 'work around' solutions as an interim measure while they determine the strategy on the TravelLink software.

### **Other**

We also identified opportunities to improve controls within the payroll function and fixed assets.

## **COMPLIANCE ISSUES**

We tested whether StateRail complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ requirements of *Public Authorities (Financial Arrangements) Act 1987* and Regulation 2000.

StateRail complied with these requirements.

## **PUBLIC REPORTING**

StateRail could improve its annual reporting to allow stakeholders to better understand its performance, by:

- ◆ reporting against targets and similar activities elsewhere
- ◆ better explanations of significant variances
- ◆ clarifying the outcomes and outputs of StateRail
- ◆ further discussing significant challenges to StateRail both internally/externally.

StateRail has indicated that it will improve the content of its annual report. It can make some changes in the 2001-02 annual report, but will need more time to gather information for other changes.

## PERFORMANCE MEASUREMENT

StateRail can improve its use of performance measures. At each organisational level it could:

- ◆ develop a uniform suite of relevant indicators and interpret their meaning and results
- ◆ set targets to direct StateRail towards its strategic objectives
- ◆ develop appropriate systems and procedures to ensure information is accurate and complete.

StateRail has advised that it will examine the opportunities to better use performance measures.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Passenger revenue	518,882	534,373
Social program funding	634,083	593,116
Other Government contributions	563,315	596,961
Other revenue	161,291	163,885
<b>TOTAL REVENUE</b>	<b>1,877,571</b>	<b>1,888,335</b>
<b>SURPLUS FROM ORDINARY ACTIVITIES BEFORE BORROWING COSTS AND DEPRECIATION</b>	<b>177,713</b>	<b>185,628</b>
Borrowing costs	14,415	16,847
Depreciation	161,450	154,726
<b>NET SURPLUS</b>	<b>1,848</b>	<b>14,055</b>
Accumulated funds at the beginning of the year	1,275,833	1,152,813
Other equity adjustments	7,487	17,300
Transfers from reserves	28,818	91,665
<b>ACCUMULATED FUNDS AT END OF FINANCIAL YEAR</b>	<b>1,313,986</b>	<b>1,275,833</b>

Total passenger revenue decreased by 2.9 per cent to \$519 million. CityRail passenger revenue decreased by 4.3 per cent to \$463 million due to a decline of 8.7 per cent in the number of passenger journeys to 276 million (303 million in 2000-01) being partly offset by an increase of 3.3 per cent in fare price. CountryLink passenger revenue increased by 10.3 per cent to about \$56 million.

Social program payments from the Government increased by \$40.9 million to \$634 million due mainly to additional funding for the shortfall in fare revenue. These payments comprised:

	2001-02 \$'000	2000-01 \$'000
CityRail	561,677	515,100
CountryLink	72,406	78,000
	<b>634,083</b>	<b>593,100</b>
Provided by StateRail		

The payments reimburse StateRail for revenue foregone from concession fares and for revenue shortfalls from certain train services operated at the request of Government. The social program payment subsidy was \$2.03 (\$1.70) for each CityRail passenger and \$32.91 (\$37.14) for each CountryLink passenger.



Other Government contributions received during the year decreased to \$563 million, largely because there was less funding required for employee redundancies. These contributions include capital grants and operating subsidies, particularly for major periodic maintenance.

The equity adjustment in 2001-02 is the transfer of assets from FreightCorp before it was privatised. The Government funds StateRail workers compensation liability which arose before 1 July 1996. In previous years any change in funding was treated as an equity adjustment. Following a determination by NSW Treasury in 2001-02, the increase of \$12.5 million has been included in the operating surplus.

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	330,885	273,997
Non-current assets	<u>5,080,910</u>	<u>5,087,663</u>
<b>TOTAL ASSETS</b>	<b><u>5,411,795</u></b>	<b><u>5,361,660</u></b>
Current liabilities	415,696	417,202
Non-current liabilities	<u>907,657</u>	<u>865,531</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,323,353</u></b>	<b><u>1,282,733</u></b>
<b>NET ASSETS</b>	<b><u>4,088,442</u></b>	<b><u>4,078,927</u></b>
Reserves	2,774,456	2,803,094
Accumulated funds	<u>1,313,986</u>	<u>1,275,833</u>
<b>TOTAL EQUITY</b>	<b><u>4,088,442</u></b>	<b><u>4,078,927</u></b>

Current assets increased by about \$57 million because StateRail received cash from the Consolidated Fund for future Parramatta Rail Link purchases.

Receivables of \$184 million (\$206 million) included workers' compensation funding receivable from Treasury of \$132 million (\$141 million) to fund all workers' compensation claims prior to 1 July 1996 and trade and other debtors of \$43.0 million (\$55.1 million).

Non-current liabilities include deferred revenue of \$41.2 million (\$46.2 million), which represents unamortised gains on the sale and leaseback of rollingstock. In prior years this deferred revenue was classified under equity.

### STATERAIL ACTIVITIES

StateRail operates passenger rail services under the provisions of the *Transport Administration Act 1988*.

StateRail provides passenger rail transport through CityRail and CountryLink and rural feeder coach services. It owns and operates trains and stations. StateRail trains run on the NSW rail network, which is owned and maintained by the Rail Infrastructure Corporation.

For more information on the Authority refer to [www.staterail.nsw.gov.au](http://www.staterail.nsw.gov.au).

## Waterways Authority

### AUDIT OPINION

The audit of the financial report of the Authority for the year ended 30 June 2002 resulted in a qualified Independent Audit Report.

The qualification was required because the Authority had not recognised a \$19 million liability for its obligation to remediate certain contaminated areas of Homebush Bay.

The Independent Audit Report for the year ended 30 June 2001 was similarly qualified.

### KEY ISSUE

In December 2001, the Authority engaged Thiess Environmental Services to remediate contaminated areas at Homebush Bay. Thiess is expected to lodge an Environment Impact Statement with PlanningNSW by the end of 2002 and complete the project in 2006.

### COMPLIANCE ISSUES

We tested whether the Authority complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ the requirements of the *A New Tax System (Goods and Services Tax) Act 1999*.

The Authority complied with these requirements.

### FINANCIAL INFORMATION

#### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Boating revenue	32,935	30,702
Rentals	37,373	37,483
Grants and Subsidies	27,747	--
Other	23,652	47,337
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>	<b>121,707</b>	<b>115,522</b>
Employee related expenses	26,141	29,277
Service contractors	16,586	15,865
Revaluation decrement	--	36,443
Other expenditure	33,606	36,098
<b>TOTAL EXPENSES FROM ORDINARY ACTIVITIES</b>	<b>76,333</b>	<b>117,683</b>
<b>NET SURPLUS/DEFICIENCY</b>	<b>45,374</b>	<b>(2,161)</b>
<b>REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY</b>		
Net increase in asset revaluation reserve	5,848	66,457
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH GOVERNMENT AS OWNERS</b>	<b>51,222</b>	<b>64,296</b>

Boating Revenue included boat registrations, \$12.5 million, drivers licences, \$12.2 million and mooring fees \$6.0 million.

The Authority received \$34.3 million (\$27.1 million in cash and \$7.2 million in assets) from the developer of Darling Harbour (King Street Wharf) as part consideration for granting 99-year site leases.

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	65,098	42,676
Non-current assets	<u>469,022</u>	<u>472,429</u>
<b>TOTAL ASSETS</b>	<b><u>534,120</u></b>	<b><u>515,105</u></b>
Current liabilities	53,474	44,676
Non-current liabilities	<u>35,820</u>	<u>38,075</u>
<b>TOTAL LIABILITIES</b>	<b><u>89,294</u></b>	<b><u>82,751</u></b>
<b>NET ASSETS</b>	<b><u>444,826</u></b>	<b><u>432,354</u></b>
<b>EQUITY</b>		
Retained profits	372,521	365,897
Asset revaluation reserve	<u>72,305</u>	<u>66,457</u>
<b>TOTAL EQUITY</b>	<b><u>444,826</u></b>	<b><u>432,354</u></b>

The Authority made a distribution of \$38.8 million (\$21.5 million in 2000-01) to the NSW Government. The distribution included a provision of \$9.0 million to be paid in 2002-03.

### AUTHORITY ACTIVITIES

The Authority is responsible for marine safety and environmental protection of NSW waterways. It also ensures the appropriate development and usage of wetlands and associated maritime assets.

The *Ports Corporatisation and Waterways Management Act 1995* established the Authority in July 1995.

For further information on the Authority, refer to [www.waterways.nsw.gov.au](http://www.waterways.nsw.gov.au).

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## **Minister for Urban Affairs and Planning**

**Landcom**

**Ministerial Development Corporation**

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## Landcom

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### AUDIT OPINION

The audit of Landcom's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Change in Landcom's Status

Landcom became a state owned corporation under the *State Owned Corporations Act 1989* on 1 January 2002. Previously, Landcom had not existed under its own legislation. Landcom was a business name used by the New South Wales Land and Housing Corporation.

On 1 January 2002 the corporation:

- ◆ issued share capital of \$2 to the Treasurer and the Special Minister of State
- ◆ received assets and liabilities from the former Landcom entity and the Ministerial Development Corporation
- ◆ gained staff (with their entitlements) from the Department of Planning.

### PERFORMANCE ISSUES

#### Triple Bottom Line

Landcom committed itself to being the leader in quality urban developments that are socially, environmentally and economically sustainable. To measure progress towards sustainability, Landcom, in consultation with other stakeholders, is developing relevant performance indicators to be reported through the Triple Bottom Line (TBL) program. TBL reporting has the potential to improve transparency, accountability and performance management. Increased disclosure will allow better understanding between Landcom and its stakeholders.

Landcom will publish annually its performance in its Triple Bottom Line Report, beginning in 2002-03. Landcom's TBL program has common financial indicators. Other qualitative and quantitative indicators include:

- ◆ effectiveness of community consultation
- ◆ community facilities
- ◆ reuse of construction materials
- ◆ energy efficient design (residential and commercial design)
- ◆ native vegetation management
- ◆ conservation of heritage items
- ◆ number and nature of legislation non-compliances
- ◆ employment generated by Landcom.

### CONTROL ISSUES

We identified opportunities for improvement in internal control. They have been discussed with the corporation and where appropriate included in a letter to management.

## COMPLIANCE ISSUES

We tested whether Landcom complied with certain requirements of the *State Records Act 1998*. Landcom complied with these requirements.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Land sales	214,503	152,923
Cost of sales	(104,995)	(69,351)
<b>GROSS PROFIT</b>	<b>109,508</b>	<b>83,572</b>
Other revenue	18,071	15,287
Other expenses	(47,319)	(42,922)
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE TAX</b>	<b>80,260</b>	<b>55,937</b>
Income tax equivalent	(24,078)	(19,018)
<b>NET PROFIT</b>	<b>56,182</b>	<b>36,919</b>

Landcom remains involved in complex projects including Green Square Town Centre, the Riverstone Release Area, Interciti at Wolli Creek, the Rouse Hill Regional Centre, the Prince Henry redevelopment and the Macarthur Regional Centre.

Sales rose by \$61.5 million with 1,362 properties sold (979 in 2000-01) including 33 properties from the Ministerial Development Corporation. There was a small decline in the gross margin due to a change in the location mix of sales.

Other revenue includes profits from joint ventures of \$9.2 million (\$4.7 million), interest from investments \$4.4 million (\$6.5 million) and management fees \$2.6 million (\$3.2 million).

Other expenses increased by \$4.4 million due to write-offs of costs for discontinued projects.

### Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	330,360	225,038
Non-current assets	297,868	278,054
<b>TOTAL ASSETS</b>	<b>628,228</b>	<b>503,092</b>
Current liabilities	227,461	132,722
Non-current liabilities	118,791	189,435
<b>TOTAL LIABILITIES</b>	<b>346,252</b>	<b>322,157</b>
<b>NET ASSETS</b>	<b>281,976</b>	<b>180,935</b>
Contributed equity	275,847	259,510
Retained profits/(accumulated losses)	6,129	(78,813)
Reserve	—	238
<b>TOTAL EQUITY</b>	<b>281,976</b>	<b>180,935</b>

Total assets include land \$417 million (\$360 million), receivables \$38.7 million (\$27.8 million) and investments in joint ventures \$34.2 million (\$32.6 million).

Receivables include a \$27.5 million (\$17.0 million) prepayment to NSW Health for the Prince Henry Hospital site at Little Bay. Landcom was to buy the site for \$40 million by 30 June 2002 but council approval delayed the sale.

Provision for future works on properties sold or for sale was \$15.3 million (\$13.7 million). This is included in the current liabilities. The development industry uses this provision for work done after they sell a property or offer it for sale. We are satisfied with Landcom's framework for determining and monitoring this provision.

Total liabilities increased due to a proposed dividend of about \$24 million.

## LANDCOM ACTIVITIES

Landcom develops and sells residential, commercial and industrial properties. As part of urban management, it develops land for residential purposes and redevelops inner city land for medium/high density housing. It also provides for the development of shopping centres, aged care and commercial facilities with its residential developments.

Landcom leads in urban design, environmental sustainability and community creation.

Some of Landcom's present projects include:

- ◆ Green Square Town Centre project valued at \$2 billion
- ◆ Interciti at Wolli Creek project
- ◆ Shellharbour City Centre project
- ◆ Newbury project to build 1,800 houses
- ◆ Prince Henry project at Little Bay to provide an aged care facility
- ◆ Victoria Park project Zetland to develop sites to accommodate up to 2,500 apartments.

The principal objectives of Landcom are to:

- ◆ be a successful business, and
  - operate at least as efficiently as any comparable business and
  - maximise the net worth of the State's investment in it
- ◆ exhibit a sense of responsibility to the interests of the community in which it operates
- ◆ protect the environment by complying with the principles of ecologically sustainable development under section 6(2) of the *Protection of the Environment Administration Act 1991*
- ◆ approach regional development and decentralisation responsibly
- ◆ undertake, or assist the Government in undertaking, strategic or complex urban development projects
- ◆ assist the Government achieve its urban management objectives
- ◆ responsibly develop residential, commercial and industrial land.

For further information on Landcom refer to [www.landcom.nsw.gov.au](http://www.landcom.nsw.gov.au).

## JOINT VENTURES

Landcom had a 50 per cent interest in eight joint ventures.

In 2001-02, Landcom contributed \$10.4 million (\$9.1 million) and received distributions of \$17.8 million (\$2.7 million) from the eight joint ventures.

### Abridged Statements of Financial Performance

Name of Joint Venture Project	2001-02					2000-01
	Sales	Cost of Sales	Gross Profit	Other Revenue/ (Expense)	Net Profit/ (Loss)	Net Profit/ (Loss)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Kings Bay (Five Dock)	15,843	14,928	915	51	966	3,439
Oatlands	12,466	9,936	2,530	12	2,542	3,744
Blacksmiths	--	--	--	(17)	(17)	1,028
East Fairfield	32,803	24,368	8,435	54	8,489	604
West Pennant Hills	7,915	4,857	3,058	(192)	2,866	(49)
Quakers Hill	15,244	10,836	4,408	(849)	3,559	(136)
Jannali	--	--	--	(55)	(55)	(81)
Zetland	--	--	--	(10)	(10)	(14)
<b>Total</b>	<b>84,271</b>	<b>64,925</b>	<b>19,346</b>	<b>(1,006)</b>	<b>18,340</b>	<b>8,535</b>
<b>Landcom's share of net profits</b>					<b>9,171</b>	<b>4,706</b>

### Abridged Statements of Financial Position

Name of Joint Venture Project	2002			2001
	Assets \$'000	Liabilities \$'000	Net Assets \$'000	Net Assets \$'000
Kings Bay (Five Dock)	20,871	1,984	18,887	17,921
Oatlands	7,570	510	7,060	4,518
Blacksmiths	22	--	22	39
East Fairfield	9,782	2,047	7,735	17,746
West Pennant Hills	2,535	520	2,015	6,261
Quakers Hill	6,350	1,064	5,286	7,427
Jannali	10,212	1,469	8,743	2,800
Zetland	19,745	1,459	18,286	7,226
<b>Total</b>	<b>77,087</b>	<b>9,053</b>	<b>68,034</b>	<b>63,938</b>
<b>Landcom's share in Joint Ventures' equity</b>			<b>34,203</b>	<b>32,600</b>



## Ministerial Development Corporation

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### AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUE

Under the *Landcom Corporation Act 2001*, the Corporation transferred all its assets and liabilities to Landcom on 31 December 2001. The Corporation has not traded since then but has not been dissolved.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Sales	5,707	11,695
Cost of sales	(941)	(2,955)
Gross profit	4,766	8,740
Other revenue	983	2,355
Other expenses	(795)	(1,576)
Profit from ordinary activities	4,954	9,519
Net assets (at 30 June)	--	72,226

The Corporation sold 10 lots of land (21 in 2000-01) at prices ranging from \$5,000 to \$1.6 million. Gross margin increased significantly as some lots had been held since 1974.

Other expenses decreased by \$781,000 mainly due to reduced sales activities.

### CORPORATION ACTIVITIES

The Corporation was established in 1992 under the *Growth Centres (Development Corporations) Act 1974* following the closure of the Macarthur and Bathurst-Orange Development Corporations.

Landcom was responsible for the management, development and disposal of the Corporation's major industrial and other sites across New South Wales up to 31 December 2001.

## **Minister for Western Sydney**

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**Australian Water Technologies**

**Sydney Water Corporation**

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## Australian Water Technologies Pty Ltd

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### AUDIT OPINION

The audit of the consolidated financial report of Australian Water Technologies Pty Ltd (AWT) and its controlled entities for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Reintegration of AWT Businesses

In March 2001, the Directors of AWT and its parent, Sydney Water Corporation agreed to reintegrate the majority of AWT's businesses into Sydney Water. These businesses provided engineering, construction, environmental, and other services to Sydney Water and some outside entities. The reintegration was part of Sydney Water's restructuring to improve efficiency and effectiveness of processes and functions within the Sydney Water Group. AWT now focuses on marketing Sydney Water's expertise in water and water related services in Australia and overseas.

Over 2,000 staff previously employed by AWT were transferred to Sydney Water, leaving some 10 permanent staff in AWT's New Zealand branch only.

Sydney Water management was satisfied that the reintegration went smoothly, however:

- ◆ overall budgets for AWT to manage its business were not produced until late 2001. Budgeting for the next three years consisted of trading budgets, but not cash flow budgets. In the absence of a detailed marketing plan and cash flow budgets, we were unable to form a view that AWT could pay its way in the future. Sydney Water issued a letter of support to AWT for 2002-03 for this purpose
- ◆ AWT was unable to properly monitor costs being charged to it by Sydney Water as no budgets were established with Sydney Water for individual projects. This is currently being addressed
- ◆ the method for establishing the charges between Sydney Water and AWT was not finalised until late 2001. It was then not applied consistently across all projects. This resulted in some errors in invoices to third parties, and impacted on cost recovery between Sydney Water and AWT
- ◆ with integration, there was a need to move to one financial system, FMIS. AWT's revenue recognition, debtors balances and reconciliations were affected by this change.

#### Debtors

AWT reversed some \$393,000 of 2000-01 accounts receivable because of invoices that were disputed by various customers. In effect, the new AWT management was unable to confirm whether these services had been provided prior to reintegration.

### CONTROL ISSUES

As well as the matters reported under Key Issues, we noted that accounts receivable totalling \$638,000 were written off in May 2002, but were not formally signed off by management until 29 July 2002. We are advised by management that they were orally approved at the time.

## COMPLIANCE ISSUES

We tested whether AWT complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ its own procurement practices

AWT substantially complied with these.

## FINANCIAL INFORMATION

### Abridged Consolidated Statement of Financial Performance

Year Ended 30 June	2002 \$'000	2001 \$'000
Total revenue	29,875	303,340
Total expenses	<u>25,173</u>	<u>294,479</u>
<b>PROFIT BEFORE TAX</b>	4,702	8,861
Tax	<u>2,534</u>	<u>5,591</u>
<b>PROFIT AFTER TAX</b>	<u>2,168</u>	<u>3,270</u>

Revenues and expenses decreased because of the AWT reintegration, and the transfer of most of its employees to Sydney Water. AWT's revenue in 2000-01 was predominantly related to work performed for Sydney Water. The 2001-02 revenue is derived wholly from outside sources, some 60 per cent being from Sydney Catchment Authority.

Interest income from investments held in the name of Sydney Water on behalf of AWT for the year was \$2.1 million, representing 45 per cent of profit before tax. This high amount of interest was earned mainly during the period in which a capital restructure of AWT was being undertaken.

In 2002-03, AWT will reimburse Sydney Water \$673,000 in respect of redundancy costs of former employees. This amount was recorded as a liability at 30 June 2002.

### Abridged Consolidated Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Current assets	13,563	136,158
Non-current assets	<u>451</u>	<u>29,881</u>
<b>TOTAL ASSETS</b>	<u>14,014</u>	<u>166,039</u>
Current liabilities	10,136	56,470
Non-current liabilities	<u>145</u>	<u>43,191</u>
<b>TOTAL LIABILITIES</b>	<u>10,281</u>	<u>99,661</u>
<b>NET ASSETS</b>	<u>3,733</u>	<u>66,378</u>

Before integration, a capital structure review by Sydney Water estimated that AWT required a daily cash balance of \$3.0 million to operate. We found that AWT held an average of \$5.0 million during the year. The capital structure of AWT will be reviewed by Sydney Water as part of its business planning.

## AWT's SUBSIDIARIES

AWT International Pty Ltd (AWTI) is AWT's wholly owned subsidiary. Another subsidiary, Water Ecoscience Pty Ltd (WES) was sold in July 2001 (refer Volume Seven of the 2001 Auditor-General's Report to Parliament). AWTI's subsidiaries at the end of the year were AWT Philippines Inc (AWT Philippines) and AWT International (Thailand) Limited (AWTI Thailand).

AWT Philippines is a company registered in the Philippines and was inactive in 2001-02.

The audit of the consolidated financial report of AWTI for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

We did not issue Independent Audit Reports for AWT Philippines or AWTI Thailand. There was uncertainty as to whether legal requirements of foreign jurisdictions conflicted with NSW legislation, thereby preventing the overseas directors of the two companies from signing the financial statements. We will follow this matter up during 2002-03.

The Board of AWTI resolved during the year that the company should be de-registered and that all of its operations, assets and liabilities would be transferred to AWT. The de-registration has now been approved by the Boards of AWT and Sydney Water, but still requires approval by Sydney Water's voting shareholders. The date of de-registration is currently not known.

## Key Figures

	AWTI		AWT Philippines		AWTI Thailand	WES
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Total revenues	674	175	12	57	--	8,712
Profit/(loss) before tax	3	100	(1)	52	(1)	(633)
Total assets	1,615	1,563	301	324	174	4,609
Total liabilities	607	557	--	--	1	2,816
Dividend declared	--	250	--	--	--	--

The contribution of AWT and its subsidiaries to the Group result is:

	2002		2001	
	AWT %	Subsidiaries %	AWT %	Subsidiaries %
Total revenues	97.4	2.6	97.3	2.7
Profit before tax	92.4	7.6	101.1	(1.1)
Total assets	92.0	8.0	97.4	2.6
Total liabilities	99.6	0.4	96.6	3.4

## AWT ACTIVITIES

AWT provides engineering and environmental services to the water industry.

For further information on AWT, refer to [www.sydneywater.com.au](http://www.sydneywater.com.au).

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## Sydney Water Corporation

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### AUDIT OPINION

The audit of the consolidated financial report of Sydney Water Corporation (Sydney Water) and its controlled entities for the year ended 30 June 2002 resulted in a qualified Independent Audit Report. The qualifications related to:

- ◆ assets and liabilities from the Build-Own-Operate (BOO) schemes not being recognised in Sydney Water's statement of financial position
- ◆ uncertainty about the accuracy of the carrying value and depreciation expense for system assets, and related taxation amounts.

The financial report for 2000-01 was similarly qualified.

### KEY ISSUES

#### Customer Information Billing System (CIBS)

In Volume Seven of the 2001 Auditor-General's Report to Parliament, we drew attention to delays and cost increases in the CIBS project. We also reported our further concerns with the project to the Board of Sydney Water in September 2002.

Sydney Water's Board terminated the CIBS project on 31 October 2002. The Board became concerned that the project was not reaching acceptable standards, and that there were excessive costs and delays. The Board has resolved to explore options to recover any loss or damage it has sustained. The Treasurer has asked the Audit Office to comprehensively review how Sydney Water has dealt with this project, and we are considering the scope of the review.

Sydney Water originally expected the CIBS project to be operational by February 2002, at a cost of \$38 million. Before the decision to stop the project, the budget had increased to \$60 million, with a further revision pending. Sydney Water advised in September 2002 that the increase in the budget was due to some scope changes and some underestimation of the time required for system, user acceptance and system integration testing. There was also some capitalisation of interest expense and internal staffing costs not originally budgeted.

Phase 3 of CIBS, the customer billing module, was delayed to April 2003. Phases 1 and 2, which include a customer database tool, and an automated online system for processing land development applications, are in operation.

CIBS was to replace the 'ACCESS' billing system and the Dolfin developer contributions system. Although we have previously reported weaknesses in the internal controls in these systems, Sydney Water did not seek to address them because of the pending introduction of CIBS. With the decision to halt CIBS, Sydney Water now intends to implement control procedures to address the weaknesses.

#### Reintegration of AWT Businesses

In March 2001, the Directors of Australian Water Technologies Pty Ltd (AWT) and Sydney Water agreed to reintegrate the majority of AWT's businesses into Sydney Water. Those businesses provide engineering, environmental and other services to Sydney Water. Over 2,000 AWT staff were transferred to Sydney Water. Although Sydney Water management was satisfied with the integration process, we noted some problems. These are detailed under the comment for AWT, elsewhere in this report.

In all, Sydney Water received \$81.8 million in cash from AWT from the reintegration: \$16.9 million for taking on AWT's net liabilities; \$20.3 million as a return of share capital; and a dividend of \$44.6 million. These payments were received in January 2002. Sydney Water advised us that this was due to a rigorous due diligence process.

### **Asset Valuations**

We have some concern about Sydney Water's ability to fund the replacement of its system assets in the future given current pricing structures. Sydney Water prices are regulated and stakeholders increasingly expect high water quality and environmental care.

The 2002 asset valuations highlight this concern. System assets were revalued upwards by \$4.5 billion to an estimated written down replacement cost of \$16.0 billion. However, when Sydney Water applied the recoverable amount test to those assets, as required by Accounting Standards, their value had to be decreased by \$4.2 billion. The recoverable amount of the assets is the discounted estimate of future net cash inflows generated by the assets.

### **Fixed Assets Register**

In 2002 Sydney Water used spreadsheets to record and control its assets, increasing the risk of errors. Prompted by our enquiries, Sydney Water found errors including one of \$35.2 million for additions to Rouse Hill assets. Sydney Water corrected this error.

Sydney Water used spreadsheets because of problems with the fixed assets module after it upgraded its financial system. It could not resolve these problems during the year and did not process any transactions in the fixed assets register. Sydney Water has advised us that it has now rectified the problems, and has processed transactions for 2001-02.

### **System Assets Valuation Project**

Sydney Water has still not completed a condition based assessment of its system assets.

It is important Sydney Water complete the project to more accurately determine its assets' carrying value and depreciation charges (see Audit Opinion), and to more effectively maintain and renew assets. The project is some two years behind schedule, now aiming to conclude in 2003-04. Sydney Water advises that the project has been considerably 'ramped up' over the past 18 months, and has been combined with the development of asset management/area plans.

### **Repeat Audit Findings**

- ◆ Sydney Water is not capitalising work-in-progress on a timely basis. We have recommended improvements including the monitoring of results by divisional executives. Sydney Water has undertaken to improve the level of management scrutiny of work-in-progress.
- ◆ The quality of plant and equipment stocktakes is inconsistent. Sydney Water is implementing new procedures to improve the quality and timing of stocktakes.

### **PERFORMANCE ISSUES**

Sydney Water is striving to become a world-class service provider and measures its performance against targets it has set. We can also compare its performance against a number of independent indicators.

To improve, it has introduced the Australian Business Excellence Framework. Standards Australia facilitated the 'Guided Self Assessment', which is the first step in the framework, and identified 52 improvement projects. General Managers completed half the projects during the year.

## Operational Performance Indicators

Sydney Water has a balanced score card approach to monitoring and reporting performance. Sydney Water's results against some of its internal key performance indicators are:

Year ended 30 June	2002		2001	
	Result	Target	Result	Target
Number of complaints	50,056	48,000	47,280	48,000
EPA satisfaction index	6.8	6.0	3.7	10.0
Operating cost/property (\$)	334	334	340	348
Average daily per capita water consumption (litres/person/day)	412	na*	427	na*
Water main breaks and leaks per 100 km (per month)	3.1	3.4	3.3	3.4
Sewer chokes and collapses per 100 km (per month)	5.6	5.0	5.9	6.0
*na – the target to be reached by Sydney Water by 2005 is 364.				

With the exception of the number of complaints, all the above measures improved in 2001-02, including the EPA satisfaction index. Most targets are now being achieved.

## IPART Operational Audit

The Independent Pricing and Regulatory Tribunal (IPART) reported on its operational audit of Sydney Water in March 2002. The audit assessed Sydney Water's performance against the standards in its operating licence.

IPART reported that Sydney Water demonstrated full to high compliance with all its operating licence requirements. The auditor also commented on areas for improvement, including Sydney Water's demand management performance. The period of review was from 1 January 2000 to 30 June 2001.

## Benchmarking Against the Australian Water Industry

The Water Services Association of Australia (WSAA) reports on the performance of the Australian urban water industry each year. It compares performance on customers, service performance, infrastructure, economic and financial performance across Australian water retailers and wholesalers. The table below shows Sydney Water's performance against the WSAA average on some of the key indicators:

Year ended 30 June	2001		2000	
	Sydney Water	WSAA Average	Sydney Water	WSAA Average
Average bill based on 200kl consumption (\$)	566.0	509.0	547.9	470.7
Volume of water consumed (kl) per residential property	255.3	266.3	244.0	255.0
Operating cost per property (\$)*	434.6	322.2	479.9	333.8
Water quality complaints per 1,000 properties	3.2	6.2	4.8	4.9
Water interruption frequency per 1,000 properties –				
Planned	64.9	92.2	53.4	98.7
Unplanned	102.9	188.4	104.5	195.2
Sewer interruption frequency per 1,000 properties –				
Unplanned	10.7	8.3	8.89	7.5
Water main breaks and leaks per 100km	37.2	31.7	40.9	29.6
Sewer breaks and chokes per 100km	70.2	44.4	62.7	41.7
Sewer overflow to the environment – incidents per 100km	70.2	34.7	na	na
Wastewater biosolids reuse (% reused/recycled)	99.0	73.5	97.0	77.5
*Calculated using different parameters to the table under 'Operational Performance Indicators' above. na – not available				



It should be noted that comparison of different businesses is a complex exercise because of different cost drivers and, according to Sydney Water, problematic WSAA data. Sydney Water also advises that WSAA has undertaken a program to rationalise, audit and review the presentation of its performance report.

Sydney Water's operating costs per property, despite recent improvements, are well above average. So too is the number of sewer overflows to the environment. Sydney Water has a program to clean and renew sewer mains and upgrade sewer pumping stations, to deal with this. Planned and unplanned water interruptions continue to be significantly better than the average.

Sydney Water has achieved its internal target of reducing operating costs per property by 23 per cent between 1998-99 and 2001-02. This target was based on controllable operating costs per property, and excluded certain non-operational costs such as depreciation and borrowing costs, superannuation costs, and water filtration plant tariffs.

### ***Benchmarking against OFWAT Indicators***

The Office of Water in the UK (OFWAT) publishes an annual report covering UK water businesses. Latest figures available are for 1999-2000. The table shows that Sydney Water's performance against OFWAT averages is significantly below average in some areas but significantly better in others.

<b>OFWAT Worldwide Water Comparison 1999-2000</b>	<b>Sydney Water</b>	<b>OFWAT</b>
Received telephone calls not answered within 30 seconds (%)	<b>30</b>	<b>9</b>
Average household consumption (litres/capita/day)	<b>248</b>	<b>149</b>
Main bursts per 1000km*	<b>423</b>	<b>210</b>
Sewer collapses per 1000km	<b>47</b>	<b>18</b>
Water operating cost per property (£)	<b>101</b>	<b>66</b>
Wastewater operating cost per property (£)	<b>97</b>	<b>50</b>
Water system distribution losses (litres/property/day)	<b>122</b>	<b>143</b>
Properties subject to sewer flooding (per 100,000 properties)	<b>8</b>	<b>32</b>
Bills not raised on meter reading (% metered properties)	<b>--</b>	<b>0.3</b>
Return on capital (%)	<b>2.1</b>	<b>1.3</b>
*Calculated using different parameters to the tables above.		

A straight out comparison of Sydney Water's figures compared to the OFWAT averages is quite difficult. Impacting on such comparisons are factors such as operating conditions, regulatory regimes, climate, geography, demography, etc as well as different definitions and assumptions.

### **Financial Performance Indicators**

Sydney Water's performance against the financial targets agreed with its shareholders in its Statement of Corporate Intent (SCI) are as follows:

<b>Year ended 30 June</b>	<b>2002</b>		<b>2001</b>	
	<b>Result</b>	<b>SCI</b>	<b>Result</b>	<b>SCI</b>
Consolidated operating profit (before capital contributions and income tax) (\$m)	<b>153.3*</b>	<b>199.0</b>	148.9*	162.0
Return on net operating assets (%)	<b>2.3</b>	<b>2.8</b>	2.4	2.6
Interest cover	<b>2.1</b>	<b>2.3</b>	2.0	2.0
Debt to equity (%)	<b>19.1</b>	<b>20.0</b>	18.0	20.0
Return on paid up capital (%)	<b>4.8</b>	<b>6.2</b>	4.5	5.0
Dividend to shareholders (\$m)	<b>110.0</b>	<b>60.0</b>	53.4	44.0
Capital expenditure (\$m)	<b>556.2</b>	<b>510.0</b>	432.1	425.3
*Includes superannuation expense of \$101.0 million in 2001-02 and \$56.2 million in 2000-01.				

Sydney Water still needs to improve in some areas, particularly return on paid up capital. Superannuation expense increased significantly in 2001-02, impacting on the financial indicators.

The Productivity Commission's *Financial Performance of Government Trading Enterprises 1996-97 to 2000-01* provides comparable information on the financial performance of government trading enterprises (GTEs). The following table compares Sydney Water to the Australian Water Industry and to other GTEs:

Performance Measure	Sydney Water		All States	
	2000-01	1996-97	Water 2000-01	GTEs 2000-01
Return on assets (%)	3.2	3.2	5.0	9.4
Return on equity (%)	1.5	1.3	3.4	8.9
Debt to equity (%)	18.1	16.0	21.9	54.7

Sydney Water's return on assets and return on equity are significantly below the average for other water businesses and GTEs generally. However, the raw figures need to be assessed in light of differences within the water industry and with other GTEs. These include the regulatory environment, asset valuation methodologies, etc.

To meet existing and future operating standards, Sydney Water will spend over \$2 billion in the next four years on its capital program, which is funded predominantly from internally-generated sources. Sydney Water has a current capital structure of \$3.1 billion paid up capital and borrowings of over \$2.0 billion.

The Productivity Commission report found that, on average, debt levels for monitored water agencies have declined. However Sydney Water is going against this trend by increasing its borrowings. Sydney Water was the subject of an independent cash review in early 1998, and has advised us that a further independent review of its capital structure, in conjunction with NSW Treasury, is in progress.

The following table shows how Sydney Water intends funding its future capital program.

Year ended 30 June	New Borrowings \$m	State Budget \$m	Internal Funding \$m	Total \$m
2003 – SCI	190	4	318	512
2004 – SCI	110	8	350	468
2005 – SCI	130	--	353	483

Capital expenditure in 2001-02 was \$556.2 million, which exceeded the SCI target of \$510.4 million.

Standard and Poor's has given Sydney Water a credit rating for local currency of AAA. This rating considers Sydney Water's relationship with the NSW Government. The following table shows the decline in Sydney Water's stand-alone rating, ie the rating without the NSW Government guarantee of its debt.

Date	Rating
October 1991	AAA
September 1995	AA+
March 1997	AA+
June 1998	AA
April 1999	A+
Current (April 2002)	A+

The government guarantee levy for the AAA rating was \$7.5 million in 2001-02. This represents the amount Sydney Water paid to Treasury to avail itself of the State's AAA rating.

## CONTROL ISSUES

Besides the control deficiencies we commented on earlier in this report, we recommended improvements to procedures and internal controls in other areas to Sydney Water.

## COMPLIANCE ISSUES

We tested whether the Corporation complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ better practice for Audit Committees
- ◆ its own procurement practices.

The Corporation substantially complied.

## OTHER ISSUES

### Voluntary Redundancies and Executive Employment Contracts

Sydney Water's new redundancy process for contract staff (Senior Managers) was implemented in March 2002. It aims to eliminate the deficiencies we noted in Volume Seven of the Auditor-General's 2001 Report.

### Northside Storage Tunnel

In 2002-03 we will review this project in detail. We will look at the tender process and the efficiency and effectiveness of Sydney Water's 'Alliance' approach to project management.

### Golf Courses

Last year Sydney Water negotiated a new lease over Sydney Water land with the Lakes Golf Club. Leases are being negotiated for the Eastlakes and Bonnie Doon Golf Clubs. The Portfolio Minister directed Sydney Water on how to deal with the negotiations and set a framework for renewal terms. We will monitor the outcome and whether Sydney Water seeks a reimbursement from the Government.

### Land Disposal

Sydney Water expects to sell land and buildings with a carrying amount of \$59.0 million between 2003 and 2005. Its Head Office is also expected to be sold in the next few years.

### Stormwater

The Environment Protection Authority has reviewed stormwater management funding for the NSW Cabinet. It proposed that Sydney Water could become, in effect, a central collection agency for stormwater funds, and disburse those funds to Councils on a needs basis. We will monitor the outcome of the Cabinet paper and any impact on Sydney Water.

### Vivendi

Vivendi Water Australia has assured Sydney Water's Board that recent changes to its international parent's financial situation will not impact its contractual obligations to deliver filtered water. Vivendi operates one of the smaller water filtration plants.

### Rouse Hill Recycled Water Cross-connections

In 2001-02 two instances of cross-connections between the potable and non-potable water supply occurred at Rouse Hill.

These cross-connections have been fixed. Sydney Water advised us that defective work by a contract plumber caused the problems. NSW Health advised Sydney Water that the incidents did not pose a significant public health risk, as there is extensive treatment and disinfection of the non-potable water supply. Sydney Water has been inspecting whether any other cross-connections exist, and is continuing to monitor all new connections.

### Priority Sewerage Program

Sydney Water is likely to continue to fund part of the cost of the Priority Sewerage Program, as customer take up rates are slower than anticipated. In implementing this program for the Government, Sydney Water acknowledges that it is an uncommercial operation. We recommend Sydney Water continue to assess the costs of the program and consider asking the Government to reimburse the net costs of the program.

The table below shows the program's approximate construction costs and take up rates by customers over the last five years.

Priority Sewerage Schemes	Total	Picton, Tahmoor, Thirlmere	Hazelbrook, Wentworth Falls, Katoomba, Leura	Bundeena, Maianbar	Gerringong, Gerroa
Cost of construction (\$m)	176.1	49.1	35.1	32.2	59.7
Percentage of properties connected	na	74.1	35.7	39.7	na
Social program funding (\$m)	19.2	7.9	1.6	3.6	6.1
na – Gerringong and Gerroa not completed until August 2002					

Sydney Water has advised that it obtains a return on these priority sewerage areas through a mixture of social program funding and pricing. The Government contributes \$3,000 per lot as a social program, whilst the remaining capital and operating costs, under IPART's methodology, are passed through into general prices paid by all customers.

## FINANCIAL INFORMATION

## Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Service charges	584,088	565,743
Usage charges	584,848	576,202
Other	368,295	311,838
<b>TOTAL REVENUE</b>	<b>1,537,231</b>	<b>1,453,783</b>
Employee related	342,204	349,666
Bulk water	122,775	119,853
Water treatment	90,833	90,904
Contractors	113,578	117,774
Borrowing costs	140,721	149,013
Depreciation and amortisation	173,976	182,248
Written down value of disposed assets	54,335	38,832
Materials, plant and equipment expenses	43,363	42,112
Environment Protection Authority licence fees	24,578	27,809
Other	96,320	52,061
<b>TOTAL EXPENSES</b>	<b>1,202,683</b>	<b>1,170,272</b>
<b>PROFIT BEFORE TAX</b>	<b>334,548</b>	<b>283,511</b>
Tax	151,460	120,293
<b>PROFIT AFTER TAX</b>	<b>183,088</b>	<b>163,218</b>

In 2001-02, 38 officers on redeployment duties cost Sydney Water \$2.4 million. Within employee related expenses, Sydney Water's superannuation expenses increased by \$44.8 million during the year. This was due to an increase in the actuarially calculated gross liability and a significant decline in investment earnings of the superannuation funds. This increase was offset by a reduction in wages and salaries due to the voluntary redundancy program.

## Abridged Consolidated Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
<b>TOTAL CURRENT ASSETS</b>	<b>251,677</b>	<b>234,208</b>
Investments and receivables	59,044	82,398
Property, plant and equipment	13,899,399	13,103,748
Tax asset	41,298	50,636
<b>TOTAL NON-CURRENT ASSETS</b>	<b>13,999,741</b>	<b>13,236,782</b>
<b>TOTAL ASSETS</b>	<b>14,251,418</b>	<b>13,470,990</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>491,668</b>	<b>393,721</b>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>2,421,416</b>	<b>2,147,419</b>
<b>TOTAL LIABILITIES</b>	<b>2,913,084</b>	<b>2,541,140</b>
<b>NET ASSETS</b>	<b>11,338,334</b>	<b>10,929,850</b>
<b>EQUITY</b>		
Share capital	3,108,354	3,108,354
Reserves	7,472,709	7,148,308
Retained profits	757,182	673,188
Outside Equity Interests	89	--
<b>TOTAL EQUITY</b>	<b>11,338,334</b>	<b>10,929,850</b>

Liabilities include \$1.8 million that a court ruled Sydney Water must pay to a private sector company to compensate for easement rights over its property. The original compensation to the company was determined to be \$8,000. Sydney Water is reviewing its processes in light of this judgement.

## SYDNEY WATER'S SUBSIDIARIES

Sydney Water's subsidiaries during the year were the Special Environmental Levy Unit Trust (Trust), Australian Water Technologies Pty Ltd (AWT), Water EcoScience Pty Ltd (sold on 31 July 2001), AWT International Pty Ltd (AWTI), AWT International (Thailand) Limited (AWTI Thailand - established 10 May 2002), and AWT Philippines, Inc.

Audits of the financial reports of the Trust, AWT and AWTI for the year ended 30 June 2002 resulted in unqualified Independent Audit Reports. Audit Reports for AWTI Thailand and AWT Philippines, Inc were not issued due to some uncertainty with relevant overseas law (refer to comment on AWT Group elsewhere in this report).

The contribution to the Sydney Water Group result was:

Year ended 30 June	2002		2001	
	Sydney Water %	Subsidiaries %	Sydney Water %	Subsidiaries %
Total revenues*	99.4	0.6	98.4	1.6
Profit before tax*	98.6	1.4	99.0	1.0
Total assets	100.0	--	99.7	0.3
Total liabilities	99.9	0.1	100.2	(0.2)
*excluding intra group dividends				

The Trust distributes all its capital and income to Sydney Water. At 30 June 2002, the Trust had \$6.3 million in net assets. The funds are only spent on special environmental projects and are likely to be exhausted within two years.

## SYDNEY WATER ACTIVITIES

Sydney Water's principal objectives are to protect public health, to protect the environment and to be a successful business.

For further information on Sydney Water refer to [www.sydneywater.com.au](http://www.sydneywater.com.au).

**Commission for Children and Young People**

**Cowra Japanese Garden Maintenance Foundation Limited**

**Cowra Japanese Garden Trust**

**Independent Commission Against Corruption**

**Ombudsman's Office**

**Parliamentary Counsel's Office**

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## Commission for Children and Young People

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### AUDIT OPINION

The audit of the Commission's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

The Commission has largely achieved the plan identified in the 2001–02 Budget Estimates. The plan included:

- ◆ releasing in October 2002 the report from the inquiry into 'Children who have no-one to turn to'
- ◆ commencing a two-year research project into the deaths of infants and children from sleep incidents
- ◆ developing a resource kit to explain the impact of the *Crimes Amendment (Child Protection–Physical Mistreatment) Act 2001*. The kit will be distributed as part of the planned community and professional education activities. The campaign will coincide with the commencement of the *Crimes Amendment (Child Protection–Physical Mistreatment) Act 2001* on 5 December 2002
- ◆ the implementation of employment screening for relevant apprehended violence orders. This cannot occur until the *Commission for Children and Young People Act 1998* is amended. The Commission is seeking an amendment to the Act.

The results of screening preferred applicants for paid child-related employment, foster carers, ministers of religion and members of religious organisations are employer specific. The Commission and its approved agencies screened more than 238,000 people (223,000 in 2000–01). The large number of screenings reflects labour movement within the industries required to undertake screening under the legislation.

The Act requires employers to check the background of such applicants before they start employment.

### CONTROL ISSUES

We identified opportunities for improvements in internal control. These were minor and have been included in a letter to management.

### COMPLIANCE ISSUES

We tested whether the Commission complied with certain requirements of the *State Records Act 1998*. The Commission substantially complied with the requirements.



## FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related expenses	2,443	2,063
Other expenses	2,916	2,792
Revenue	62	217
Net cost of services	5,297	4,638
Government contributions	5,460	4,686
Surplus from ordinary activities	163	48
Net assets (at 30 June)	788	625

Employee related expenses increased mainly due to higher staff numbers and award increases.

## COMMISSION ACTIVITIES

The *Commission for Children and Young People Act 1998* establishes the Commission for Children and Young People. It aims to involve children and young people in decisions that affect them and to promote their interests and well-being. The Commission undertakes inquiries, conduct research and public education, and provide information and advice to assist children and their families.

For further information on the Commission refer to [www.kids.nsw.gov.au](http://www.kids.nsw.gov.au).

## **Cowra Japanese Garden Maintenance Foundation Limited**

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### **AUDIT OPINION**

The audit of the Foundation's financial report for the year ended 31 March 2002 resulted in an unqualified Independent Audit Report.

### **FOUNDATION ACTIVITIES**

The Foundation is a company limited by guarantee and acts as trustee for the Cowra Japanese Garden Trust.

The Foundation has never traded in its own right, however it is liable in its capacity as trustee for all debts incurred on behalf of the Trust. In discharging this liability, the trust deed provides for a right of indemnity against the assets of the Trust. Since the formation of the Trust, there have always been sufficient assets to discharge any liability.

## **Cowra Japanese Garden Trust**

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### **AUDIT OPINION**

The audit of the Trust's financial report for the year ended 31 March 2002 resulted in an unqualified Independent Audit Report.

### **FINANCIAL INFORMATION**

<b>Year ended 31 March</b>	<b>2002 \$'000</b>	<b>2001 \$'000</b>
Revenue	24	69
Expenses	20	33
Operating surplus	4	33
Net assets (at 31 March)	593	589

### **TRUST ACTIVITIES**

The Trust administers a \$470,000 endowment provided by the Tokyo Metropolitan Government in 1989 to maintain, repair and develop the Cowra Japanese Garden and Cultural Centre.

The Centre is located on a five-hectare site near Cowra. The Garden and Cultural Centre symbolises the close relationship of the people of Cowra with those of Japan.

## Independent Commission Against Corruption

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### AUDIT OPINION

The audit of the Commission's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### KEY ISSUES

#### Overdrawn Bank Balance

The Commission's bank balance was overdrawn on three occasions during the year without the Treasurer's approval. This non-compliance was a breach of the *Public Authorities (Financial Arrangements) Act 1987*.

#### Performance Indicators

The Commission is formulating a set of performance indicators. It is anticipated that it will report on these performance indicators from 2003-04.

### COMPLIANCE ISSUES

We tested whether the Commission complied with certain requirements of the *State Records Act 1998* and found that the Commission substantially complied.

### OTHER ISSUES

The staff turnover rate increased to 34 per cent from 14 per cent in 2000-01.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related expenses	11,171	9,830
Other expenses	7,730	5,643
Grants from NSW Treasury for voluntary redundancy payments	1,170	--
Revenue	100	57
Net cost of services	17,631	15,416
Government contributions	16,693	15,006
(Deficit) from ordinary activities	(938)	(410)
Net assets/(Deficiency) (at 30 June)	(733)	205

Employee related expenses increased by 14 per cent due to voluntary redundancy payments of \$1.17 million and a three per cent salary increase from January 2002.

Other expenses increased by \$1.1 million due to relocation of the office premises.

## COMMISSION ACTIVITIES

The Commission, established by the *Independent Commission Against Corruption Act 1988*, is responsible for promoting integrity in public administration throughout New South Wales by exposing and minimising corruption.

The Commission has advised that it received 1,505 complaints during the year (1,509 in 2000-01). Of these 360 were investigations (296) and 1,145 (1,213) were either referred to other agencies or assessed as requiring no further action.

For further information regarding the Commission refer to [www.icac.nsw.gov.au](http://www.icac.nsw.gov.au).

## Ombudsman's Office

### AUDIT OPINION

The audit of the Office's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### PERFORMANCE ISSUES

	Complaints 2001-02		Complaints 2000-01	
	Received	Determined*	Received	Determined*
Police	3,804	4,501	5,022	4,904
Child protection	1,528	1,374	1,435	1,487
General	<u>2,960</u>	<u>3,163</u>	<u>3,363</u>	<u>3,343</u>
Total	8,292	9,038	9,820	9,734
* Includes complaints received in previous years Source: Ombudsman's Office				

The Office also dealt with 26,449 oral complaints and enquiries (26,564 in 2000-01).

### COMPLIANCE ISSUES

We examined whether the Office complied with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ requirements of the *New Tax System (Goods and Services Tax) 1999*.

The Office substantially complied with these requirements. Some minor matters were reported to the Ombudsman.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related expenses	8,817	7,302
Other expenses	2,548	2,342
Revenue	899	929
Net cost of services	10,466	8,715
Government contributions	10,885	9,286
Net assets (at 30 June)	1,583	1,164

The net cost of services increased as the Ombudsman's responsibilities now include:

- ◆ overlooking the investigation of child abuse allegations
- ◆ monitoring the Police Service's use of new powers
- ◆ implementation of recommendations of the Royal Commission in the New South Police Service.

Included in revenue are grants of \$743,000 from the Premier's Department for the Police Complaints Case Management Project (\$760,000 in 2000-01).

## **OFFICE ACTIVITIES**

The Office was established by the *Ombudsman Act 1974*. The Ombudsman deals with complaints about NSW public sector administration (including local government) and certain private organisations such as schools and childcare centres in relation to child protection.

For further information on the Office refer to [www.nswombudsman.nsw.gov.au](http://www.nswombudsman.nsw.gov.au).

## Parliamentary Counsel's Office

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### AUDIT OPINION

The audit of the Office's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### COMPLIANCE ISSUES

We tested whether the Office complied with:

- ◆ the Records Management Programs standard and
- ◆ aspects of the Record keeping in the Electronic Business Environment standard issued under the *State Records Act 1998*.

The Office substantially complied with all aspects of the standard.

### OTHER ISSUES

The Office launched the [www.legislation.nsw.gov.au](http://www.legislation.nsw.gov.au) website in June 2002. The site contains up-to-date NSW legislation. The new website is part of the Legislative Drafting and Database System (LDDS) project which involves developing new information technology systems for legislative drafting and publishing. The Office expects to complete the LDDS project in 2003.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Employee related expenses	4,710	4,275
Other expenses	1,016	912
Revenue	209	267
Net cost of services	5,516	4,920
Government contributions	6,065	5,412
Surplus/(deficit) from ordinary activities	549	492
Net assets (at 30 June)	1,267	718

### OFFICE ACTIVITIES

The Office provides:

- ◆ a legislative drafting service for Government and non-Government Members of Parliament
- ◆ advice, research and assistance to the Government concerning new laws and legislative policy
- ◆ a legislative publishing service to the Government, the Parliament and the public, including a NSW legislation database and website
- ◆ a legislation information service to the Government and public.

For further information regarding the Office's activities refer to [www.pco.nsw.gov.au](http://www.pco.nsw.gov.au).

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**Treasurer**

**Crown Lands Homesites Program**

**Land Development Working Account**

**New South Wales Insurance Ministerial Corporation**

**New South Wales Treasury Corporation**

**The Crown Entity**

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## Crown Lands Homesites Program

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### AUDIT OPINION

The audit of the Program's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Land sales	19,925	23,058
Cost of land sales	(6,538)	(10,059)
Gross profit	13,387	12,999
Other revenue	608	419
Other expenses	(1,794)	(4,073)
Profit from ordinary activities	12,201	9,345
Distribution paid to the Crown	563	13,376
Net assets (at 30 June)	17,738	15,395

The Program sold 126 lots during the year (169 in 2000-01) with an average selling price of \$158,000 (\$136,000). There was a significant increase in the gross margin in 2001-02 due to a change in the location mix of properties sold. There was a greater number sold in the Port Stephens region in 2001-02 whereas in 2001 the properties sold were mainly on the Central Coast.

Other expenses declined by \$2.3 million due to a reduction in the write-offs of costs for projects discontinued. Advertising expenses and management fees paid to Landcom also decreased because of reduced sales.

The much lower distribution paid to the Crown was due to the timing of payments. An amount of \$9.3 million was paid after 30 June 2002.

### PROGRAM ACTIVITIES

The Crown Lands Homesites Program is a commercial activity of the Crown. Its principal objective is to develop and sell vacant Crown land. Landcom acts as agent for the Crown in administering the program.

## Land Development Working Account

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### AUDIT OPINION

The audit of the Account's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report.

### FINANCIAL INFORMATION

Year ended 30 June	2002 \$'000	2001 \$'000
Revenue	23,711	7,223
Commission on surplus sites sales	180	320
Cost of sales	20,484	5,863
Gross profit	3,407	1,680
Other expenses	1,837	693
Surplus from ordinary activities	1,570	987
Net assets (at 30 June)	4,394	3,824

The increases in revenue and cost of sales were due to the completion and release of several key projects coupled with the recent boom in the property market.

Sales of developed land amounted to \$5.5 million (\$1.8 million in 2000-01). The gross margin on cost increased to 34 per cent (28 per cent). The increase is mainly due to the recent boom in the property market in areas such as Nowra, Griffith and Crescent Head.

The gross margin on sale of undeveloped land (sold prior to development of infrastructure, roadways, sewerage etc) decreased to 11 per cent (18 per cent). This was mainly due to the sale of a number of lots below acquisition values from the Crown. This was because of location, zoning and market conditions.

The increase in other expenses of \$1.1 million was due mainly to a write-off of development costs on completed projects.

During the year distributions to New South Wales Treasury totalled \$800,000 (\$500,000 in 2000-01).

Land inventory of \$6.6 million, most of which was subject to the provisions of the Commonwealth *Native Title Act 1993* and/or the *Aboriginal Land Rights Act 1983*, was returned to the Crown Entity during the year. This inventory will not be marketable within a reasonable period of time. There were no compensation payments under these Acts during 2001-02.

### ACCOUNT'S ACTIVITIES

The Land Development Working Account records the commercial activities of the Crown Entity that are conducted by the Department of Land and Water Conservation. These commercial activities mainly comprise the development and sale of land for commercial and residential purposes in country New South Wales.

In accordance with Treasury policy, these activities are reported separately from the Department's operational activities.

## **New South Wales Insurance Ministerial Corporation**

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### **AUDIT OPINION**

The audit of the Corporation's financial report for the year ended 30 June 2002 resulted in an unqualified Independent Audit Report. A separate unqualified Independent Audit Report for the Treasury Managed Fund (TMF), the Corporation's main insurance fund, was also issued.

### **KEY ISSUES**

#### **Recognition of Liabilities**

The financial statements given to us for audit included no allowance for public liability claims incurred but not reported (IBNRs). While Treasury was aware that IBNRs of \$519 million existed, its policy was not to regard them as liabilities. We advised Treasury that it should review its policy, based on a recently released Abstract by the Urgent Issues Group of the Australian Accounting Standards Board. Treasury revised its policy in August 2002 with effect from 2001-02 and recognised the additional liabilities.

Treasury's decision to recognise the IBNRs impacted the Government's objective of fully funding TMF liabilities by 30 June 2002. Despite a Treasury grant of \$800 million in the year for that purpose, the TMF had net liabilities of \$401 million at 30 June 2002. When the Treasury changed its accounting policy, the Treasurer approved a further grant of \$519 million for the TMF.

TMF assets at 30 June 2002 included \$202 million owed by the Treasury. To achieve full funding the Treasury should pay this amount to the TMF for inclusion in the Fund's investment portfolio.

A further development in claim recognition policies is the new Australian Prudential Regulatory Authority's (APRA) measurement standard. The new standard for the measurement of insurance and similar liabilities by registered general insurers became effective on 1 July 2002. The standard establishes a set of principles for the consistent measurement and reporting of general insurance liabilities.

Public sector insurance and compensation schemes do not come under APRA's supervision and therefore are not required to apply the new standard. There are no common measurement guidelines for these public sector schemes. Voluntary adoption of the APRA standard for these schemes would improve public sector accountability by ensuring liabilities are measured consistently.

For Treasury's response refer to the end of this section.

#### **New Arrangements for TMF**

Following our recommendation in September 2001, the Treasury is reviewing insurance arrangements for agencies not currently included in the TMF. A Treasury survey showed that a number of these agencies would be interested in joining the TMF. The Treasury plans to implement any new arrangements in 2002-03.

### **FINANCIAL INFORMATION**

The financial results and positions of the insurance funds that comprise the Corporation – the TMF, the Transport Accidents Compensation Fund and the Governmental Workers Compensation Account – are aggregated for reporting purposes.

## Abridged Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Premium revenue	666,568	565,671
Outwards reinsurance expense	<u>(24,293)</u>	<u>(25,274)</u>
	<u>642,285</u>	<u>540,397</u>
Claims expense	(1,247,423)	(778,003)
Reinsurance and other recoveries revenue	<u>28,637</u>	<u>20,206</u>
Net claims incurred	<u>(1,218,786)</u>	<u>(757,797)</u>
Other underwriting expenses	<u>(18,747)</u>	<u>(17,972)</u>
<b>UNDERWRITING RESULT</b>	<u>(595,248)</u>	<u>(235,372)</u>
Grants from NSW Government	880,779	11,186
Investment revenue	33,500	169,876
Other revenue	1	4
General administration expenses	<u>(3,183)</u>	<u>(3,297)</u>
	<u>911,097</u>	<u>177,769</u>
<b>SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES</b>	<b>315,849</b>	<b>(57,603)</b>

Investment earnings fell by 80.3 per cent, reflecting the average earning rate of 1.58 per cent to 8.05 per cent in 2000-01. The poor return was not uncommon in the funds management industry as shown in the following comparison with industry benchmarks.

	2002 Actual Return % pa	2002 Benchmark % pa	2001 Actual Return % pa
TMF	1.53	-0.11	8.13
Government Workers Compensation Fund	4.58	4.66	6.04
Transport Accidents Compensation Fund	4.62	4.66	6.05
<b>Total for Corporation</b>	<b>1.58</b>	<b>-0.05</b>	<b>8.05</b>

The return reflects the risks of investing and shows the importance of having a diversified investment portfolio.

## Abridged Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Investments	2,673,226	1,929,671
Other	<u>692,380</u>	<u>591,376</u>
<b>TOTAL ASSETS</b>	<u>3,365,606</u>	<u>2,521,047</u>
Outstanding claims	3,632,503	2,741,566
Other	<u>133,774</u>	<u>148,427</u>
<b>TOTAL LIABILITIES</b>	<u>3,766,277</u>	<u>2,889,993</u>
<b>NET LIABILITIES</b>	<u>(400,671)</u>	<u>(368,946)</u>
Contributed capital	94,000	73,000
Accumulated deficit	<u>(494,671)</u>	<u>(441,946)</u>
<b>TOTAL EQUITY</b>	<u>(400,671)</u>	<u>(368,946)</u>

Claims liabilities increased by \$891 million or 32.5 percent mainly due to first time recognition for IBNRs for public liability insurance, \$519 million. Another factor was an increase in the estimated cost to finalise claims due to: an increase in Police claim numbers following a correction for under reporting; a large spike in claim numbers reported prior to commencement of the *Health Care Liability Act 2001*; and a change in claim cost estimating procedures.

The \$519 million included \$150 million for claims from procedures performed by visiting medical officers (VMOs) on public patients in NSW public hospitals prior to 31 December 2001. TMF assumed these liabilities after the collapse of medical liability insurer, United Medical Protection. Following Government concerns at the rising cost of doctors' medical insurance, the TMF's coverage was expanded to allow VMOs to insure against medical negligence from 1 January 2002.

## CORPORATION ACTIVITIES

The Corporation is constituted under section 24 of the *Government Insurance Office (Privatisation) Act 1991*. It administers the assets and outstanding claims liabilities of insurance funds formerly managed by the Government Insurance Office.

GIO General Limited manages the insurance funds on behalf of the Corporation.

The Corporation's insurance funds include:

### ◆ Treasury Managed Fund

The TMF is a self-insurance scheme, comprising all General Government Sector budget dependent agencies, public hospitals and some General Government Sector non-budget dependent agencies. The coverage provides protection from loss to personnel, property and legal liability under workers' compensation, motor vehicle, property, legal liability and miscellaneous. The premium-based structure incorporates hindsight adjustments to workers' compensation and motor vehicle premiums.

### ◆ Transport Accidents Compensation Fund

This Fund pays the costs of motor transport accident claims under the common law system, which operated until 30 June 1987, and the succeeding TransCover system, which operated until 30 June 1989.

### ◆ Governmental Workers Compensation Account

The account pays workers' compensation claims incurred before 1 July 1989. Since that date, workers' compensation claims are covered through the TMF.

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## RESPONSE BY TREASURY

*While the financial statements submitted for audit included no allowance for public liability claims incurred but not reported (IBNRs), the recognition of the public liability claims on a claims made basis was in accordance with a long established Treasury accounting policy. The pronouncement of the Urgent Issues Group of the Australian Accounting Standards Board (UIG) referred to in your Report related particularly to the recognition of claims by Medical Defence Organisations and did not have direct application to self insurers, such as the Treasury Managed Fund (TMF).*

*Following receipt of the Audit Office's advice that IBNRs should be recognised, Treasury reviewed the pronouncements of the UIG (which were only made in late June) and likely consequential changes to Australian Accounting Standards. It was on the basis of this research that the Treasury decided to change the IMC claim recognition policy, with effect from the 2001-02 reporting period.*

*Had this decision not been taken subsequent to 30 June 2002 the liabilities of the TMF would have been fully covered by assets as a consequence of the \$800 million grant made to the Fund during the financial year. At the same time as approval was given to the change in accounting policies to recognise IBNRs, an additional grant of \$519 million was approved to offset the additional liabilities recognised in the financial statements.*

*The reference in your Report to funds owed to the TMF by the Treasury could be misleading. Assets include \$202 million that are in the nature of accounts receivable from the Consolidated Fund. Part of the amount, \$111 million, relates to outstanding claims for liabilities in respect of events or injuries that occurred prior to the introduction of the TMF. The balance relates to transactions classified in 1989-90 and 1990-91 as loans repayable by the Consolidated Fund.*

*The accounting treatment which classifies these transactions as assets is in accordance with longstanding accounting policy, as reflected in the current audited statements. However, I am happy to review the funding of these receivables in the future.*

*In regard to the APRA standard referred to in your Report, I will further examine its application to the TMF. However, it should be acknowledged that the APRA standard has been prepared for the private general insurance industry whose credit status and cash flow certainty is markedly different to the NSW Government.*

## New South Wales Treasury Corporation

### AUDIT OPINION

Unqualified Independent Audit Reports were issued for:

- ◆ New South Wales Treasury Corporation (TCorp) – full consolidated financial report and concise consolidated financial report; and
- ◆ TCorp Nominees Pty Limited financial report.

### PERFORMANCE ISSUES

TCorp generally exceeded its performance targets and benchmarks in providing cost effective funding and managing clients' investments. A possible threat to future performance is the general reduction in the size of the government bond market in Australia.

#### Cost Effective Funding for the Public Sector

TCorp reported achieving savings of \$16.5 million (\$14.3 million in 2000-01) against agreed benchmarks in its management of the Crown and Government business enterprise debt portfolios. These savings were achieved on managed debt portfolios totalling \$14,939 million at 30 June 2002. Benchmarks for assessing TCorp's performance are based upon recommendations by the Treasury Function Advisory Committee in its 1989 publication, "Guidelines for Liability Management for Statutory Authorities".

The State's credit rating influences TCorp's ability to obtain cost effective funding. The financial health of TCorp also influences the State's credit rating. The ratings agency Standard and Poor's reaffirmed this rating at AAA stable.

#### Management of Client Investments

##### *Hour-Glass Investment Facilities*

- ◆ returns on shorter-term cash investments exceeded returns on the longer-term growth investments
- ◆ returns on shorter-term cash investments equated to industry benchmarks while the longer-term growth funds outperformed benchmarks
- ◆ TCorp reported overall investment income of \$49.5 million in excess of benchmark returns was achieved across the facilities and no losses occurred during the year from major corporate failures overseas and in Australia
- ◆ funds invested at 30 June 2002 were \$3,068 million (\$2,874 million at 30 June 2001).

Hour-Glass Facility Trusts	2002		2001	2000
	Actual Return % pa	Benchmark % pa	Actual Return % pa	Actual Return % pa
Cash facility	4.61	4.66	6.01	5.52
Cash plus facility	4.67	4.66	5.93	5.50
Bond market facility	5.54	5.61	6.73	6.00
Medium term growth facility	2.73	1.13	8.08	8.26
Long term growth facility	-2.33	-4.56	8.98	11.96
Source: NSW Treasury Corporation				

### Tailored Investment Portfolios

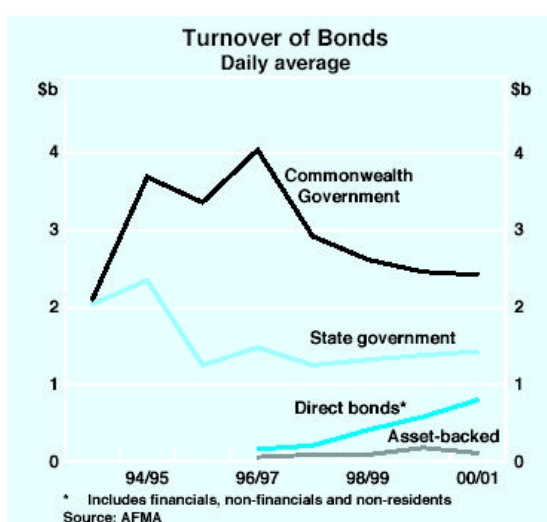
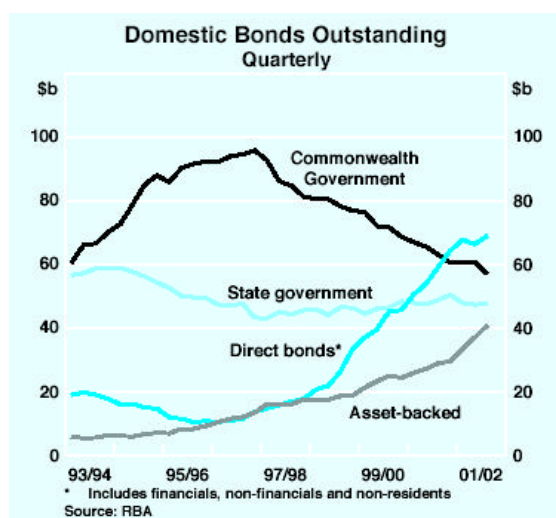
TCorp reported:

- ◆ returns out performed benchmarks for those portfolios managed on an active mandate
- ◆ no losses occurred during the year from major corporate failures overseas and in Australia
- ◆ funds invested at 30 June 2002 were \$4,434 million (\$2,158 million at 30 June 2001).

### Reducing Government Bond Market

The reduction in size of the Australian government bond market may threaten TCorp's future performance. A large market helps to maintain liquidity in the buying and selling of government bonds. A liquid market enables TCorp to minimise borrowing costs, which in turn minimises the total public sector's borrowing costs.

These graphs illustrate the downward trend in Government debt and liquidity of government bonds:



Source: Australian Financial Management, Reserve Bank of Australia Bulletin, June 2002.

Governments have repaid debt using funds from budget surpluses and proceeds from government asset sales. There is debate whether the Commonwealth Government should maintain a minimum level of bonds to ensure a liquid market. A Commonwealth Treasury discussion paper on this issue was released in October 2002.

### COMPLIANCE ISSUES

As part of our audit we tested TCorp's compliance with:

- ◆ certain requirements of the *State Records Act 1998*
- ◆ best practice guides on the operation of audit committees.

The result of these reviews was generally satisfactory. We advised TCorp of some minor instances of non-compliance with the *State Records Act 1998*. TCorp has taken action to address the issues raised.



## FINANCIAL INFORMATION

The consolidated financial statements comprise those of TCorp and its controlled entity - TCorp Nominees Pty Limited.

### Abridged Consolidated Statement of Financial Performance

Year ended 30 June	2002 \$'000	2001 \$'000
Interest revenue	1,554,340	1,993,773
Interest expense	<u>(1,523,581)</u>	<u>(1,948,653)</u>
Net interest margin from ordinary activities	30,759	45,120
Other revenue from ordinary activities	<u>12,212</u>	<u>10,501</u>
<b>Revenue from ordinary activities</b>	<b><u>42,971</u></b>	<b><u>55,621</u></b>
Staff costs	(9,317)	(8,309)
Other costs	<u>(9,880)</u>	<u>(9,265)</u>
<b>Operating expenses from ordinary activities</b>	<b><u>(19,197)</u></b>	<b><u>(17,574)</u></b>
<b>Profit from ordinary activities before income tax equivalent expense</b>	<b>23,774</b>	<b>38,047</b>
Income tax equivalent expense	<u>(6,181)</u>	<u>(11,414)</u>
<b>Net profit</b>	<b><u>17,593</u></b>	<b><u>26,633</u></b>

Crown Entity debt repayments contributed to reductions in net interest income and interest expense in 2001-02. The net margin from ordinary activities in 2000-01 benefited from \$13.3 million in annuity revenue that did not occur in 2001-02.

### Abridged Consolidated Statement of Financial Position

At 30 June	2002 \$'000	2001 \$'000
Cash and liquid assets	407,318	105,987
Securities held	2,767,492	2,181,350
Derivative financial instruments receivable	137,378	296,469
Loans to clients	22,297,003	23,350,990
Other assets	<u>23,879</u>	<u>17,284</u>
<b>TOTAL ASSETS</b>	<b><u>25,633,070</u></b>	<b><u>25,952,080</u></b>
Due to financial institutions	2,569,268	709,830
Client deposits	888,391	780,619
Borrowings	21,937,300	24,125,239
Derivative financial instruments payable	177,510	224,985
Other liabilities and provisions	<u>30,521</u>	<u>81,320</u>
<b>TOTAL LIABILITIES</b>	<b><u>25,602,990</u></b>	<b><u>25,921,993</u></b>
<b>NET ASSETS</b>	<b><u>30,080</u></b>	<b><u>30,087</u></b>
<b>EQUITY</b>	<b><u>30,080</u></b>	<b><u>30,087</u></b>

Repayments by the Crown Entity reduced loans to clients, which accounts for 87 per cent of total assets. The Government's Budget surplus enabled the Crown Entity to continue reducing its liability to TCorp from \$10,367 million to \$9,223 million. This followed a \$3,866 million reduction in the previous year.

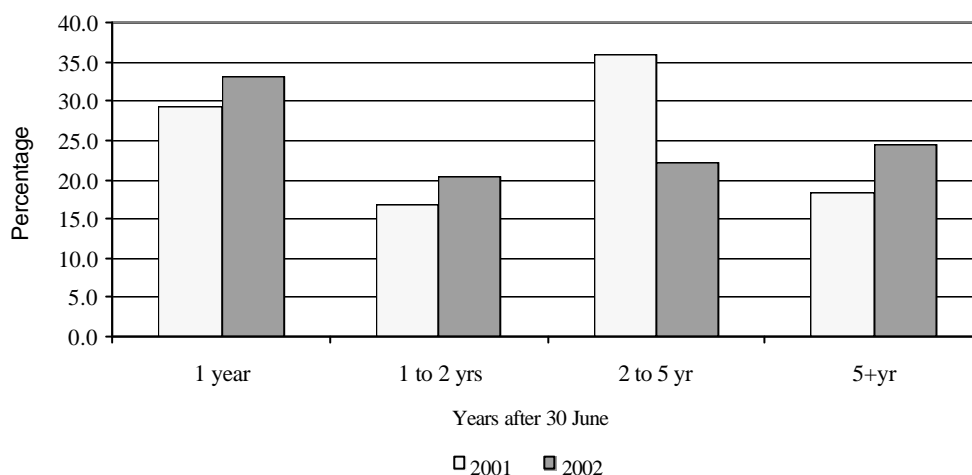
TCorp maintains equity at \$30 million with any excess paid to the Crown Entity. A dividend of \$17.6 million was payable for 2001-02 (\$26.6 million 2000-01).

## Maturity Profile

TCorp repaid its 1 December 2001 benchmark borrowings and issued a new benchmark of 1 May 2012. At 30 June 2002 there was \$1,392 million outstanding for this benchmark. A significant part of this issue was raised overseas, particularly in Japan.

This issue also assisted TCorp to lengthen its debt position shown in the graph below. This repositioning was to accommodate the desired maturity profile of a number of clients and TCorp's view of future interest rate movements.

**Projected Payment Cash Flows for TCorp Debt**



## Derivative Financial Instruments

TCorp does not use derivative financial instruments for speculative purposes. It uses these instruments to manage risks from its borrowing and investing activities. These transactions comply with established Board policies, which stipulate instrument risk limits.

## Credit Risk

TCorp prudentially manages its financial assets by ensuring its counterparties have acceptable credit ratings. The New South Wales Government fully guarantees the large majority of TCorp's financial assets being loans to State Government agencies.

## SUBSIDIARY COMPANY

TCorp Nominees Pty Limited makes loans funded by borrowings from TCorp. The terms of the lending transactions and the borrowings are identical, resulting in no profit or loss for the year. No new loans were made during the year.

The significant transaction for the year was the repayment of FreightCorp loans, \$238 million, from the privatisation of FreightCorp. The loans were taken over by the Crown Entity directly through TCorp.

Total assets and liabilities decreased by \$266 million to \$17.3 million. Revenues and expenses were \$13.5 million in 2001-02 (\$21.8 million in 2000-01).

## TCORP ACTIVITIES

TCorp provides specialised financial services to the New South Wales public sector. These services include acting as a central borrowing authority and the provision of corporate treasury, corporate finance, and debt and asset management services.

TCorp is constituted under the *Treasury Corporation Act 1983* and is subject to the control and direction of the Treasurer. Its Chief Executive manages the affairs of TCorp in accordance with policies and directions of the Board. TCorp may borrow, invest and undertake financial management transactions in accordance with the *Public Authorities (Financial Arrangements) Act 1987*.

For further information on TCorp refer to [www.tcorp.nsw.gov.au](http://www.tcorp.nsw.gov.au).

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## The Crown Entity

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The Crown Entity reports on those service-wide assets and liabilities that are the overall responsibility of Government, rather than individual government departments or statutory authorities. The financial report of the entity includes all Consolidated Fund revenue and all Consolidated Fund payments it makes to agencies.

### AUDIT OPINION

The audit of the Crown Entity's financial report for the year ended 30 June 2002 resulted in a qualified Independent Audit Report. The financial report was qualified because we could not obtain information and explanations that would allow us to form an opinion on the value of the investment in Snowy Hydro Limited.

### KEY ISSUES

#### Recognition of Crown Land

During 2001-02 the Department of Land and Water Conservation with the Valuer General and New South Wales Treasury identified and valued previously unrecognised Crown land. The land was valued at \$4,000 million.

This resulted in a gain of \$4,000 million being recognised in the Crown Entity's Statement of Financial Performance. Australian Accounting Standards required this accounting treatment.

#### Increase in Liabilities of Defined Benefit Superannuation Schemes

The Crown's net superannuation liabilities increased during 2001-02 by \$3,063 million to \$11,251 million. The increase was partly due to a loss of 7.3 per cent on the assets of the superannuation funds.

Entitlements accrued by employees during the year, less payments made from the fund, also increased the liability.

During 2001-02 the Crown Entity made no employer contributions to the schemes. In future years it is proposed that Crown employer contributions will be made into a non-superannuation investment fund called the General Government Liability Management Fund rather than into the Pooled Fund. The Crown will transfer lump sums at its discretion.

The *General Government Liability Management Fund Act 2002* established the Fund. Money in the Fund can be paid out only for superannuation purposes unless the Fund's balances exceed the net liabilities of the superannuation fund.

#### Sale of Freight Rail Corporation

Following the sale of Freight Rail Corporation, the following assets and liabilities were transferred to the Crown Entity:

- ◆ sale proceeds of \$619.2 million
- ◆ cash balances of \$56 million
- ◆ debt of \$308 million
- ◆ accounts payable of \$86 million
- ◆ receivables of \$677,000.

The Crown Entity's financial report included expenses of \$60.0 million from the sale of Freight Rail Corporation. These were:

- ◆ \$49 million paid to employees in accordance with the sale agreement
- ◆ \$11.0 million for sale expenses including payments to advisers.

### Capital Restructure of the Electricity Industry

In 2001-02 the Government further restructured the electricity sector balance sheets:

- ◆ the Crown Entity assumed debt of \$150 million from Eraring Energy
- ◆ Integral Energy paid \$150 million to the Crown Finance Entity. This payment represented a re-gearing of Integral Energy and was treated as a return of capital by Integral Energy. Integral Energy increased its debt to fund the capital repatriation.

### Investment in Snowy Hydro Limited

The Crown Entity recognised \$468.7 million as revenue in 2001-02, being its investment in Snowy Hydro Limited following the corporatisation of the former Snowy Mountains Hydro Electricity Authority (SMHEA). Prior to the corporatisation the New South Wales share of revenues and expenses associated with the operation of the SMHEA were accounted for by Pacific Power.

The SMHEA was corporatised to become Snowy Hydro Limited by the *Snowy Hydro Corporatisation Act 1997*, with concurrent legislation in Victoria and the Commonwealth. The New South Wales, Victorian and Commonwealth public sectors hold 100 per cent of the equity in Snowy Hydro Limited. Despite this, the company is not required to be audited by an auditor-general.

At the time we completed our audit of the Crown Entity financial report, the auditors of Snowy Hydro Limited were unable to provide assurance as to the value of its assets and liabilities.

## FINANCIAL INFORMATION

### Abridged Statement of Financial Performance

Year ended 30 June	2002 \$000	2001 \$000
Employee related	3,925,683	3,267,918
Other expenses	3,286,981	3,662,943
Recurrent appropriations	23,692,942	22,413,735
Capital appropriations	<u>2,273,480</u>	<u>2,016,282</u>
<b>TOTAL EXPENSES</b>	<b><u>33,179,086</u></b>	<b><u>31,360,878</u></b>
<b>TOTAL REVENUES</b>	<b><u>36,442,194</u></b>	<b><u>29,646,757</u></b>
<b>Gain on disposal of non-current assets</b>	<b>26,161</b>	<b>26,806</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b><u>3,289,269</u></b>	<b><u>(1,687,315)</u></b>

In addition to the revenues and expenses discussed under key issues:

- ◆ other expenses in 2000-01 included a \$600 million provision to meet insurance claims after the collapse of HIH Insurance group.
- ◆ revenues rose as a result of a \$1,912 million increase in Commonwealth grants, including \$874 million for GST revenue and \$570 million budget assistance revenue as part of the GST arrangements.

**Abridged Statement of Financial Position**

At 30 June	2002 \$000	2001 \$000
Current assets	3,566,369	2,417,480
Non-current assets	10,678,767	5,458,770
<b>TOTAL ASSETS</b>	<b>14,245,136</b>	<b>7,876,250</b>
Current liabilities	4,550,906	4,171,566
Non-current liabilities	25,931,206	23,329,318
<b>TOTAL LIABILITIES</b>	<b>30,482,112</b>	<b>27,500,884</b>
<b>NET LIABILITIES</b>	<b>(16,236,976)</b>	<b>(19,624,634)</b>
Reserves	682,705	515,875
Accumulated funds	(16,919,681)	(20,140,509)
<b>TOTAL EQUITY</b>	<b>(16,236,976)</b>	<b>(19,624,634)</b>

**Assets**

Total assets increased by \$6,369 million, mainly because:

- ◆ the value of Crown land increased by \$4,000 million
- ◆ the value of leasehold Crown land increased by \$174 million
- ◆ cash on hand increased by \$609 million
- ◆ the investment in Snowy Hydro Limited was recognised at \$469 million
- ◆ investments in bonds increased by \$705 million.

**Liabilities**

Total liabilities increased by \$2,981 million. This was mainly because of the \$3,063 million increase in the unfunded superannuation liability.

**CROWN ENTITY ACTIVITIES**

The Crown Entity conducts both core government and commercial activities.

Core government activities include:

- ◆ **Consolidated Fund** – activities include collecting State taxes, Commonwealth grants, financial distributions from non-budget dependent agencies, and paying recurrent and capital appropriations to budget dependent agencies.
- ◆ **Crown Transactions Entity** (renamed the Crown Finance Entity from 1 July 2002) – administers the Service-wide programs funded from the Consolidated Fund. The main activities are:
  - servicing the Crown Entity's debt portfolio
  - providing asset/liability management
  - administering superannuation and long service leave liabilities for budget dependent agencies
  - providing grants to public sector bodies
  - administering the Crown Property Portfolio. The Portfolio has a separate financial report which we will report on in December.

Commercial activities comprise:

- ◆ **Crown Lands Home Sites Program** - a commercial activity that develops and sells Crown land for home sites in urban areas. The Program has a separate financial report and is reported on elsewhere in this Volume.
- ◆ **Land Development Working Account** - a commercial activity, that develops and sells Crown land for residential purposes in country areas and for commercial purposes on a state-wide basis. The Account has a separate financial report and is reported on elsewhere in this Volume.
- ◆ **Insurance Ministerial Corporation** - a commercial activity created to accept the assets, liabilities, rights and obligations of government insurance operations which are currently managed by the GIO. A separate financial report is prepared and audited for this entity and a review of its operations for 2001-02 is included elsewhere in this Volume.
- ◆ **Electricity Tariff Equalisation Ministerial Corporation** – a commercial activity created to administer the Electricity Tariff Equalisation Fund. The Fund's objective is to manage the purchase cost risk for small retail customers in New South Wales. A review of the operations of the Electricity Tariff Equalisation Ministerial Corporation is included elsewhere in this Volume.

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## Section Three

### Performance Auditing

#### Reports Tabled in Parliament Since Volume Two of 2002

State Transit Authority, Department of Transport: Bus Maintenance and Bus Contracts

Managing Risk in the NSW Public Sector

E-government: User-friendliness of Websites

NSW Police; Department of Corrective Services: Managing Sick Leave

Department of Land and Water Conservation: Regulating the Clearing of Native Vegetation

E-government: Electronic Procurement of Hospital Supplies

Outsourcing Information Technology in the NSW Public Sector

#### Performance Audits in Progress

Grants Administration

State Rail Authority: CityRail Passenger Security

Hospital Waste Management

Controlling Ovine Johne's Disease

Managing Teacher Performance

Northside Tunnel

Unlicensed Drivers/Unregistered Vehicles

Millennium Train

Management of River Water Quality

Public Access to Public Hospitals

Police Call Centres

RTA Electronic Service Delivery

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

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## **State Transit Authority Department of Transport *Bus Maintenance and Bus Contracts***

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### **THE AUDIT**

This audit examined how well the State Transit Authority (State Transit) maintains the government bus fleet.

The audit also examined how the Department of Transport oversees State Transit's operations and contracts for providing passenger bus services in NSW.

The report was tabled in Parliament on 29 May 2002.

### **FINDINGS - STATE TRANSIT**

State Transit has developed maintenance standards that meet its obligations as a bus operator and are consistent with vehicle manufacturers' standards and best practice.

However, State Transit's bus maintenance practices do not always conform to their own standards. This has contributed to defects being missed, buses repeatedly failing in service and significant increases in the backlog of repairs.

The audit also found:

- ◆ a 65 per cent increase in repairs that have not been completed by garages and significant delays in rectification
- ◆ an increase in the number of buses breaking down in service with total breakdowns estimated to cost State Transit over \$5 million each year
- ◆ a doubling of defects identified during maintenance audits
- ◆ of 847 buses inspected as part of State Transit's maintenance audit program, 405 buses were stopped and not returned to service as they failed to meet State Transit's safety or reliability standards.

State Transit is the largest bus operator in NSW with a fleet of 1,899 buses valued at around \$230 million. Most routine maintenance and repairs are completed by garage staff employed by State Transit.

### **FINDINGS - DEPARTMENT OF TRANSPORT**

Bus operators can only provide passenger bus services in NSW under contract with the Department of Transport.

Despite several attempts, the Department has not implemented a performance assessment regime for commercial bus contracts. This needs urgent attention and was proposed as part of the 1997 amendments to the *Passenger Transport Act*.

There is also a need for further legislative amendment to enable a more contestable regime that delivers value for money and provides incentives for operators to optimise service levels.

## NSW Public Sector

### *Managing Risk*

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#### THE AUDIT

This performance audit examined how well agencies manage risk. The audit surveyed 26 agencies about the way they manage risk.

The report was tabled in Parliament on 19 June 2002.

#### FINDINGS

While the agencies reviewed are aware of the need to manage risk, their risk management falls short of better practice. Many agencies do not consider their risk management to be adequate.

The survey suggests that some agencies, mainly those in the Public Trading Enterprise Sector manage risk in a systematic way and in accordance with the principles of better practice standards.

Others, mainly departments not subject to commercial imperatives do not manage risk beyond the traditional response of insuring against the more common types of risk. Thus there is a danger that risk may not be managed adequately, especially in the General Government Sector.

We consider that:

- ◆ there is clearly a role for greater consistency in the way risk management is considered and applied
- ◆ agencies need to take a broader view of risk which goes beyond insurance
- ◆ agencies need to recognise that being risk averse can deprive them of opportunities to improve efficiency and effectiveness
- ◆ there is a role for Treasury to oversight risk management practices in agencies and encourage the adoption of better practice where necessary.

#### RECOMMENDATIONS

The report contains a number of recommendations designed to:

- ◆ improve government agencies risk management practice
- ◆ better public reporting on risks faced by agencies and the management of those risks.

## **e-government**

### ***User-friendliness of Websites***

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#### **THE AUDIT**

This audit used experts in communication and website design from the University of Technology Sydney (UTS) to assess the 'user-friendliness' of nine NSW Government websites.

Websites are an important part of Electronic Service Delivery (ESD), a major priority in the NSW Government's e-government strategy. ESD is about delivering better, faster, more accurate, up-to-date and cheaper services to the community through the use of electronic technologies, mostly through websites.

Citizens and business will only be encouraged to use websites if they are easy to access; information on them is current, accurate and reliable; and they are easy to navigate. The potential benefits of ESD will not be realised if government websites are not 'user-friendly'.

The report was tabled in Parliament on 26 June 2002.

#### **FINDINGS**

The content of the websites evaluated in this audit was generally relevant and suitable, but their user-friendliness varied greatly. The audit's criteria were intended to represent minimum standards only, not best practice. So the extent to which any general deficiencies were apparent in this sample should be examined for Government websites generally.

Users would find that some offered a pleasant and productive experience. Using others would be onerous and frustrating. Some users would not be able to access features on some sites. All sites, even the best, had aspects warranting better attention to users' needs. The failure of some sites to provide important information about privacy, security and legal matters was of particular concern.

There was little use of the web to foster two-way communication between the public and agencies on issues of concern or as part of the policy process. And it seems that consultation with users on site design is not always sufficiently undertaken. A website is more likely to be user-friendly if design is based on thorough consultation with users.

#### **RECOMMENDATIONS**

The Department of Information Technology and Management (DITM) and the CEOs e-Government Committee should further promote better practice in developing and designing Government websites.

Particular emphasis should be placed on:

- ◆ thorough consultation with users and potential users
- ◆ assisting agencies to assess the 'user-friendliness' of their websites
- ◆ effectively communicating to users important legal information about privacy, copyright/conditions of site use and security.

## NSW Police Department of Corrective Services *Managing Sick Leave*

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### THE AUDIT

This audit examined how the NSW Police and the Department of Corrective Services (DCS) manage sick leave. Policing and correctional work involve factors linked to higher levels of sick leave such as stress, exposure to assault and disease, working with difficult people and shift work.

Effective management can reduce the amount of sick leave taken. As well as reflecting better employee health, reduced sick leave can improve productivity leading to better services to the public and better value for the taxpayer's dollar.

This report was tabled in Parliament on 23 July 2002.

### FINDINGS

The NSW Police and DCS have introduced several initiatives to promote the health, safety and welfare of their personnel. There are additional steps that could be taken to improve the management of sick leave.

Both agencies devolved the management of sick leave to the local level although DCS has retained more central role in monitoring the impact of sick leave than the NSW Police. The Audit Office considers that Executives should retain the means to oversee matters for which they are responsible. Accountability cannot be delegated.

The agencies' *Sick Leave Policies* do not address Executive responsibility to manage systemic issues affecting sick leave. They do address supervisors' and employee's responsibilities.

The agencies' information systems do not adequately assist managers to manage sick leave at either the corporate or local level. The agencies have partially filled this gap by producing information manually and are currently working to overcome the difficulties encountered with their information systems.

A broader issue is that agencies are implementing complex human resource software without the necessary expertise. The Audit Office considers that there is a need for some forum or facility for agencies to exchange views and experiences relating to implementing large and complex IT projects.

### RECOMMENDATIONS

The report contains several recommendations designed to improve the way sick leave is managed.

## Department of Land and Water Conservation

### *Regulating the Clearing of Native Vegetation*

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#### THE AUDIT

This audit focussed on how well Department of Land and Water Conservation regulates land clearing of native vegetation in New South Wales. The report was tabled in Parliament on 20 August 2002.

#### FINDINGS

Native vegetation is a complex and difficult area to regulate. There is an inherent tension between economic development and conservation.

The complexity is increased by the number of government agencies and community based committees involved. The *Native Vegetation Conservation Act 1997* (NVC Act) has governed the clearing of native vegetation in NSW since 1 January 1998. Accountability for achieving the objectives of the Act has not been assigned to any one body.

The NVC Act requires a native vegetation conservation strategy to be developed. Some four and a half years after the Act was introduced, the strategy has still not been announced.

These complexities and the lack of accountability have contributed to a whole-of-government approach to the protection of native vegetation in NSW not being developed.

There are currently no objectives or targets to measure progress in conserving native vegetation. Only one, of a possible twenty-two regional management plans, has been approved since the Act commenced.

There is a lack of comprehensive information about the status of, and changes to, native vegetation across rural NSW.

In these circumstances the regulatory task of the Department is more difficult.

The Department does not have an adequate information system and operational capacity to efficiently and effectively regulate native vegetation in NSW.

#### RECOMMENDATIONS

In particular, the Department needs to:

- ◆ improve its information base on native vegetation in NSW
- ◆ more clearly define the resources it needs to meet its legal responsibilities in regulating land clearing
- ◆ target those areas of highest risk in terms of the conservation of native vegetation and the protection of threatened species
- ◆ consider self regulation for areas that are assessed as low risk by using an enforceable Code of Practice and arrangements for external audit.

## **e-government**

### ***Electronic Procurement of Hospital Supplies***

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#### **THE AUDIT**

NSW Health spends more than \$1.5 billion annually on goods and services, almost a quarter of the Government's total expenditure on goods and services in 2000-01.

The report was tabled in Parliament on 25 September 2002. The audit examined how well the NSW public health system manages the electronic procurement of hospital supplies. Electronic procurement is a key NSW Government initiative - it uses Internet and related technologies to connect buyers and sellers and offers potential for significant savings.

#### **KEY FINDINGS**

NSW Health has developed an ambitious supply chain reform strategy and plans.

The NSW public health system is making only limited progress towards achieving the economies in purchasing that its size and market dominance could deliver. While millions of dollars in savings are potentially available, much needs to be done. Factors contributing to this situation include:

- ◆ limited current capability to integrate IT systems, share data and track products across the hospital system
- ◆ a lack of valid, timely and relevant information on most aspects of procurement
- ◆ the public health system is unable to measure procurement costs and benefits
- ◆ Area Health Services (AHSs) have notably different levels of readiness to use electronic procurement
- ◆ some of the important reform initiatives are languishing, such as a product catalogue, and integrated materials management system
- ◆ serious shortcomings in how Health-specific State Contracts are developed, implemented and managed
- ◆ accountability mechanisms are not driving performance effectively
- ◆ AHSs' market dominance is being hampered by current health-wide arrangements for implementing reforms
- ◆ reform strategies need to reflect better some of the practical realities and impediments involved with implementation, and to gain better local level commitment
- ◆ there is a need for additional incentives for suppliers and AHSs to drive economies in supply chain management
- ◆ AHSs need to be assisted and encouraged to leverage better the opportunities for using economies of scale
- ◆ AHSs have a history of late payment of creditors and are losing large sums of money by not taking advantage of offers of early settlement discounts.



Also procurement arrangements at AHS level

- ◆ are relatively unsophisticated, largely paper based and manual
- ◆ have significant ad-hoc purchasing, especially of non-stock items
- ◆ lack rationalisation of products, suppliers, orders and invoices
- ◆ have minimal electronic communication between buyers and sellers information systems
- ◆ lack accurate information on total procurement cost
- ◆ lack an inventory management system for non-stock items
- ◆ lack a single coding system to identify and track products
- ◆ lack a catalogue to source products and suppliers.

These findings relate only to e-procurement. They do not apply to the delivery of clinical outcomes and should not be interpreted to reflect on the quality of patient care.

## **RECOMMENDATIONS**

The report contains a number of recommendations designed to improve the use of e-procurement in managing hospital supplies in the NSW public health system.

## NSW Public Sector

### *Outsourcing Information Technology*

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#### THE AUDIT

The report reviewed how five public sector agencies have outsourced their information technology functions. The report was tabled in Parliament on 23 October 2002.

#### FINDINGS

The agencies reviewed have managed the planning of outsourcing in a competent way.

There is no objective evidence to demonstrate that the agencies have achieved their goals in outsourcing IT. Most had identified the current and expected costs and risks of outsourcing. But they were not able to demonstrate that the actual costs of outsourcing matched the expected costs.

Costs of outsourced IT for three agencies have fallen over the last three years, and are unchanged for one. Few agencies appear to have negotiated pricing structures with service providers that reflect a trend towards lower costs in some IT components.

No agency had developed performance measures that show whether IT outsourcing has improved the efficiency or effectiveness of its IT operations or service quality. One agency has since developed a 'Balanced Scorecard' approach to performance measurement.

Each agency has acted independently in developing its approach to outsourced applications and in negotiations with service providers.

Some agencies emphasised the need for an independent approach to ensure that they can tailor IT applications to their specific needs.

A 'whole of government' approach to outsourcing is likely to achieve better financial outcomes for the public sector by combining the buying power and negotiating ability of agencies. Better practice is also likely through sharing agency experience.

#### RECOMMENDATIONS

Key recommendations of the report follow.

NSW Government agencies should:

- ◆ develop independent measures of efficiency, effectiveness and value for money of IT projects
- ◆ ensure that accountability and standards for performance are clearly expressed, especially where an agency uses multiple service providers.

The Government should:

- ◆ negotiate with service providers, wherever possible, for a 'whole of government' approach to ensure that the combined purchasing power of agencies is realised
- ◆ share experience and information to improve outsourcing practice.

## Performance Audits in Progress

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

Title	Planned Tabling Date
Government Grants	December 2002
*State Rail Authority: CityRail Passenger Security	1 <sup>st</sup> quarter of 2003
Hospital Waste Management	1 <sup>st</sup> quarter of 2003
Controlling Ovine Johne's Disease	1 <sup>st</sup> quarter of 2003
Managing Teacher Performance	1 <sup>st</sup> quarter of 2003
Northside Tunnel	1 <sup>st</sup> quarter of 2003
Unlicensed Drivers/Unregistered Vehicles	2 <sup>nd</sup> quarter of 2003
Millennium Train	2 <sup>nd</sup> quarter of 2003
Management of River Water Quality	2 <sup>nd</sup> quarter of 2003
Public Access to Public Hospitals	2 <sup>nd</sup> quarter of 2003
Police Call Centres	2 <sup>nd</sup> quarter of 2003
RTA Electronic Service Delivery	2 <sup>nd</sup> quarter of 2003
*This audit has been described in prior volumes of the Auditor-General's Reports to Parliament.	

### GOVERNMENT GRANTS

The audit will examine the management and administration of grants, and the extent to which accountability, transparency and effectiveness are incorporated, and monitored, as part of the process.

### HOSPITAL WASTE MANAGEMENT

The audit will examine the effectiveness and efficiency of waste management by hospitals.

### CONTROLLING OVINE JOHNE'S DISEASE

The audit will examine NSW Agriculture's management of the Ovine Johne's Disease (OJD) program. OJD is a sheep wasting disease and is prevalent in south-eastern NSW. It affects about 10 per cent of sheep flocks. The NSW sheep industry has a gross annual production of \$1.2 billion.

### MANAGING TEACHER PERFORMANCE

This audit will examine the efficiency and effectiveness of the Department of Education and Training's approach to assessing, monitoring and improving teacher performance.

Teacher performance and development is central to the quality of education and to raising standards and achievements in every school.

### **NORTHSIDE TUNNEL**

The objectives of the audit are to review the efficiency and effectiveness of the way Sydney Water managed the Northside Storage Tunnel Project, and identify good practice in the monitoring, management, review and evaluation of project alliances.

### **UNLICENSED DRIVERS/UNREGISTERED VEHICLES**

The audit will examine how well the government manages unlicensed drivers and unregistered vehicles. The role of NSW Police and the Roads and Traffic Authority will be the focus of the audit.

### **MILLENNIUM TRAIN**

The Millennium Train Project represents the acquisition of a major long-term asset with considerable financial and performance implications for the State's passenger rail services. The audit will examine the economy, efficiency and effectiveness of the management of the project.

### **MANAGEMENT OF RIVER WATER QUALITY**

The audit will examine whether the Government is efficiently and effectively protecting the quality of NSW river water from human-related impacts. The audit will particularly examine whether the Government has established adequate environmental objectives for water quality in rivers, policy and strategies to guide local plans and actions, monitoring, performance reporting and compliance management.

### **PUBLIC ACCESS TO PUBLIC HOSPITALS**

The audit will examine the issues that impact on patient access to treatment in public hospitals for non-emergency medical conditions. In doing so it will assess the accuracy and reliability of hospital waiting lists.

### **POLICE CALL CENTRES**

Call centres are used by both the public and private sectors to facilitate the provision of consistent and timely advice to customers. A series of audits of Government call centres will be conducted over the next two years.

The first audit will examine the Police Assistance Line to determine the efficiency and effectiveness of the response to calls from the public.

### **RTA ELECTRONIC SERVICE DELIVERY**

Electronic Service Delivery (ESD) has been a key priority for implementing e-government in NSW. Providing services to customers and the community in an electronic format presents many challenges. The services must be the ones people want. And services must remain accessible to everyone. The process which customers go through must be efficient, but also secure and reliable. This audit will examine these aspects of ESD through a case study of a major customer service agency, the Roads and Traffic Authority.

For up-to-date information on audits in progress, refer to [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au).

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