

SOUTH AUSTRALIA

Report

of the

Auditor-General

for the

Year ended 30 June 2003

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REFERENCES TO MATTERS OF SIGNIFICANCE

Issues of importance which are included in this Part of the Report include matters which arose during the course of audit which have been referred to senior agency management, and other matters which are of public interest.

Those matters which are regarded as being more significant are listed below, together with a reference to the appropriate page number. That list is not exhaustive as many other issues are reported in Volumes I, II, III and VI of Part B of this Report.

Reference should also be made to Part A — Audit Overview which also contains comments on specific matters of importance and interest.

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VOLUMES I, II, III and IV

ACCOUNTS OF PUBLIC AUTHORITIES

INTRODUCTION

Part B — Volumes I, II, III and IV of the Report of the Auditor-General contains the Financial Statements of and, comments concerning, the operations of those public sector agencies that I am required by law to audit and that are defined by the *Public Finance and Audit Act 1987* as 'public authorities'. Where appropriate, charts and tables have been used to illustrate selected information.

Consistent with last year, Audit comment and the Financial Statements of agencies, are presented on a ministerial portfolio responsibility basis.

AGENCIES NOT INCLUDED IN THIS REPORT

In preparing this Report every effort is made to ensure that only matters which are relevant, appropriate and timely are included. Subsection 36(2) of the *Public Finance and Audit Act 1987* provides the Auditor-General with a discretionary power to choose which agencies are excluded from this Report.

The following factors are taken into consideration in determining which agencies are to be included in this Report:

- materiality of financial operations
- materiality of any impact on the public finances
- consolidation of the financial operations in the Parent Entity's Financial Statements included in this Report
- timeliness of information
- materiality of issues arising from the audit
- public interest.

A number of the agencies excluded from the Report are required to prepare an Annual Report in accordance with the requirements of the *Public Sector Management Act 1995*. In addition, Treasurer's Instruction 19 requires that each Chief Executive Officer must ensure that the Annual Report, which is required to be submitted to the responsible Minister in accordance with the *Public Sector Management Act 1995* and Regulations, or other legislation, includes the general purpose financial statements in the form in which they were presented to the Auditor-General, together with a copy of the Report of the Auditor-General on the statements.

SUPPLEMENTARY REPORT

There are also agencies whose Financial Statements have not been finalised or the audit has not been completed in time for inclusion in this Report. The Financial Statements for and commentary on the operations of, the following agencies and superannuation schemes will be included in a Supplementary Report to be presented to Parliament later in this financial year.

- Courts Administration Authority
- Police Superannuation Scheme
- Transport and Urban Planning — Department for

AUDIT OF THE AUDITOR-GENERAL'S DEPARTMENT

The *Public Finance and Audit Act 1987* requires that the accounts of the Auditor-General's Department be audited by an auditor appointed by the Governor. The audit for the financial year ended 30 June 2003 was conducted by Grant Thornton, Chartered Accountants, who have issued an unqualified Independent Audit Report.

QUALIFIED AUDIT OPINION REPORTS

The expression of an opinion on an organisation's annual Financial Statements by an independent professional auditor adds credibility to those Statements and ensures that an appropriate level of financial disclosure has been exercised.

For those agencies that I am required to audit, I issue an Independent Audit Report on the Financial Statements in accordance with professional requirements and standards. The opinion expressed in that Report is usually unqualified but, where, in my opinion, circumstances so warrant, a qualified opinion is expressed. In extreme cases it may be necessary to decline to express an opinion.

In all cases where a qualified opinion (or no opinion) is given, full reasons are stated in the Independent Audit Report that is issued.

For the financial year ended 30 June 2003 qualified opinions were expressed on the Financial Statements of the following agencies:

- Administrative and Information Services — Department for
- Education and Children's Services — Department of
- Environment and Heritage — Department for
- National Wine Centre
- South Australian Forestry Corporation
- South Australian Motor Sport Board
- University of South Australia
- Water, Land and Biodiversity Conservation — Department of

CONTROLS OPINION

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* requires the Auditor-General to advise Parliament whether in his opinion the controls exercised by the Treasurer and by public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

In accordance with that requirement a Controls Opinion has been expressed for each agency.

REFERENCES TO MATTERS OF SIGNIFICANCE

Matters which have arisen from the audit of agencies during this financial year are commented on in Volumes I, II, III and IV of Part B of this Report. Those issues that are regarded as either serious in nature or of public interest importance are listed separately under the heading 'References to Matters of Significance' immediately after the Table of Contents in each Volume.

**MINISTER FOR ADMINISTRATIVE SERVICES;
MINISTER FOR ABORIGINAL AFFAIRS AND RECONCILIATION;
MINISTER FOR INDUSTRIAL RELATIONS;
MINISTER FOR RECREATION, SPORT AND RACING**

PORTFOLIO – ADMINISTRATIVE AND INFORMATION SERVICES

INTRODUCTION

This section of this Part of the Report contains the financial statements of, and comments concerning, the operations of those agencies under the direction and control of the following Ministers, namely:

- Minister for Administrative Services
- Minister for Aboriginal Affairs and Reconciliation
- Minister for Industrial Relations
- Minister for Recreation, Sport and Racing

The agencies included herein relating to the portfolio of Administrative and Information Services are:

- Administrative and Information Services — Department for
- State Supply Board
- South Australian Water Corporation

DEPARTMENT FOR ADMINISTRATIVE AND INFORMATION SERVICES

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department for Administrative and Information Services (DAIS) is an Administrative Unit established under the *Public Sector Management Act 1995*.

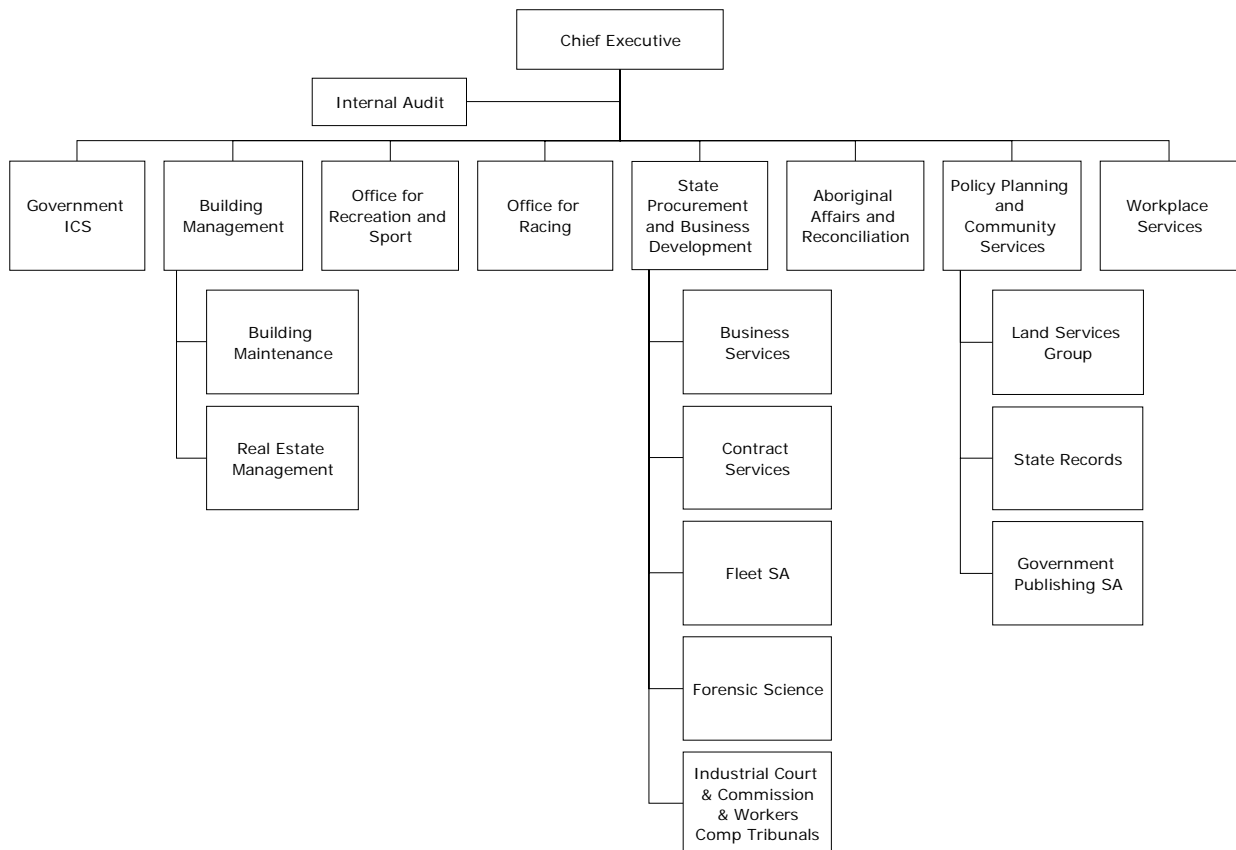
Functions

The Department is the portfolio based agency providing support to the Minister for Administrative Services, the Minister for Industrial Relations, the Minister for Recreation Sport and Racing, the Minister for Aboriginal Affairs and Reconciliation and the Minister for Infrastructure. It has responsibility for a diverse range of government activities including:

- project risk management, building asset management, procurement and contract services;
- capital building works and major projects delivery;
- information technology policy, support and management services;
- internal services to government, for example forensic services and fleet management;
- land valuation, survey and registration;
- workplace registration and regulation and industrial relations services;
- policy and programs in relation to Aboriginal affairs;
- administration and assistance to the recreation, sport and racing industries.

Structure

The structure of the Department is illustrated in the following organisation chart



Note 34 to the Department's Financial Statements provides a summary of the functions, and a breakdown of financial information in relation to the business unit operations of the Department. In addition Note 35 presents information relating to funds and financial transactions administered by the Department.

Audit Committee

The Department has an Audit Committee which was operative during the 2002-03 financial year.

The broad functions of the Audit Committee are to regularly review the adequacy of the accounting, internal auditing, reporting and other financial management systems. The responsibilities extend to monitoring risk management practices, approving and evaluating the internal audit program, reviewing the annual financial statements and communicating with officers of the Auditor-General (External Auditors).

Changes to Functions and Structure

During the year the following changes to the functions of DAIS were effected:

- The responsibility for the Hindmarsh Stadium was transferred to the Department from the Office for Venue Management, effective from 1 July 2002.
- The Information Economy Office was transferred from DAIS to the Department for Further Education, Employment, Science and Technology, effective 1 October 2002.
- The Media Monitoring Unit was transferred to DAIS from the Department of the Premier and Cabinet, with an effective date for reporting purposes of 1 July 2002.

The details of the above transfers, including the financial effect, are outlined in Note 4(c) to the Department's financial statements.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Department for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

In undertaking the audit of the Department recognition was given to the diverse and self contained nature of the activities of a number of the functional areas of the Department. This acknowledged that separate financial accounting systems and processes were often maintained in respect of the major functional areas, particularly at the subsidiary system level.

In this regard the scope of audit in respect of the various functional areas was directed at ensuring financial systems and accounting record keeping processes and controls were at a level that provided assurance as to the integrity of processing of financial transactions and preparation of financial statement information. The reviews of the specific functional areas are, however, not undertaken in isolation of the recognition that the Department is required to operate within an overall financial management and accountability framework through consideration and appropriate application of the Financial Management Framework (FMF).

In this context specific audit attention to each functional area that was subject to review involved consideration of the:

- diverse nature and risks of those areas;
- integrity of the stand alone and subsidiary financial systems;

- materiality of the financial operations of that area with respect to the Department's overall operations and associated implications in regard to financial statement reporting on the Department's operations;
- requirements of the Financial Management Framework.

In more specific terms the scope of the audit included a review of the following areas of financial activity:

- Revenue collection, accounts payable, and personnel/payroll functions
- Maintenance of the general ledger and associated reconciliations and subsidiary systems
- Asset and liability identification, valuation and management
- Tendering and contract management processes
- Procurement and distribution operations
- Residential and commercial property management
- Motor vehicle fleet management
- Management of whole-of-government contracts, including maintenance and information technology
- Management and financial reporting
- Operations of Aboriginal Affairs and Reconciliation
- Operations of the Offices for Recreation and Sport and the Office for Racing.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Department and the related responses are considered in Audit Findings and Comments together with an update on issues reported on last year.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

The following is an extract from the 2002-03 Independent Audit Report, which details the qualification to the Department's financial report.

Qualification

Light Motor Vehicles

Note 2.11 to the Financial Statements sets out the accounting policy with respect to the sale and leaseback of motor vehicles previously owned by the Department. In my opinion the approach adopted by the Department is not consistent with the principles of Australian Accounting Standard AASB 1008 'Leases', and in the absence of a superior standard does not appropriately reflect the value of the underlying assets and liability of the transaction. Financial statement balances affected are:

Assets

Motor Vehicles under finance lease.

Liabilities

Current borrowings – Finance lease on motor vehicles.

Non-current borrowings – Finance lease on motor vehicles.

Other Current liabilities – Deferred profit on sale and leaseback of motor vehicles.

In my opinion, had the standard been properly adopted assets would increase by \$102 million and liabilities would increase by \$99 million.

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department for Administrative and Information Services as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for matters outlined under 'Significant Matters Raised with Agencies' is sufficient to provide reasonable assurance that the financial transactions of the Department have been conducted properly and in accordance with law.

Risk Management

As mentioned in last year's Report the external audit activity of DAIS has not been executed in isolation of the review of DAIS adherence with the requirements of the FMF. Prior year reports conveyed a number of issues regarding the status of implementation of elements of the FMF within DAIS. During 2002-03, Audit has focussed attention on the status regarding the implementation and operation of risk management practices.

The implementation of the FMF from 1 July 1998 meant that a structured risk management practice is now formalised as an integral part of an overall effective agency management and control process.

In relation to DAIS, developments have proceeded over several years that align with certain requirements for risk management practice under the FMF. These developments have included; the formulation of a Risk Management Policy; appointment of a Principal Adviser Risk Management and Audit Services; the completion of a Risk Management Scoping Study; and the conduct of a Department wide review of strategic risk exposures.

As part of the annual strategic planning cycle, individual business units are required to undertake a risk analysis. The main output from this analysis is a list of the main risks to be addressed in each respective business unit's strategic plan and the establishment of strategies to manage these risks.

Last year's Report discussed the importance of the development of an overall Departmental risk management plan and process that clearly identifies the risk management strategies established and provides for an effective reporting and monitoring framework. I made comment last year that notwithstanding a Department wide review of strategic risk exposures, the Department had not documented an organisation wide risk management plan. Audit reiterated that documentation reflecting an overarching risk management plan is a critical element in the establishment of a risk management process. More specifically, the consolidation of existing documentation and reporting processes into an overall organisational risk management document required attention during 2002-03.

Audit follow up of progress in 2002-03 indicated that in June 2003 DAIS senior management approved that Internal Audit undertake a project to develop the Department's risk management framework and plan. Further, this review is in the initial stages at the time of preparation of this Report.

Significant Matters Raised with Agencies

Payroll - CHRIS

In November 2002 DAIS changed to a new payroll system, the Complete Human Resources Information system (CHRIS).

Business Cycle Controls

Audit review of the controls and operations of CHRIS revealed significant control deficiencies within the fundamental elements of the payroll business cycle. The more salient observations are summarised below.

- Documents initiating payroll transactions and master file updates were not reviewed to ensure they were valid (ie appropriately authorised).
- Master file updates and payroll transactions were not independently reviewed to ensure information processed was valid, complete and accurate.
- The process used for management review of payroll activity (bona fide and leave return procedures) did not ensure that all critical reports were adequately reviewed by the appropriate level of management and that all matters identified were followed-up and actioned.
- Functions, processes and CHRIS system access within Employee Information and Services (EIS) were not organised in a manner to ensure duties were adequately segregated. EIS is the principal processing operation unit for the CHRIS system.

The Department responded that in respect of the above matters corrective action will be undertaken to address audit recommendations where they consider it to be administratively practical. Where this was not the case, the Department has outlined alternative approaches to addressing the control deficiencies.

Control Framework

Audit also noted that a substantial component of the EIS activity related to processing payroll transactions for other Government agencies (clients) as a service provider. Audit was advised that this role is likely to increase in the future. In order to gain efficiencies, the processes used to update and input transactions for these clients are combined with the processing of DAIS transactions (ie transaction processing is not segregated). Consequently, the arrangements for transaction processing for DAIS and client agencies are the same. In this context Audit was advised that the role of EIS was primarily to process transactions and that due to the number of employees paid and transactions processed some controls may not be practical nor efficient to implement.

As detailed above, the controls within EIS are not sufficient to ensure only valid information is accurately and completely input. Accordingly, the reviews performed by DAIS business units and client agencies over the information processed is of critical importance. In this regard, Audit observed that the level and nature of checking performed varied considerably between business units within DAIS.

In light of the aforementioned, Audit recommended that DAIS review the internal control framework (arrangements) over the entire payroll business cycle (including activities performed by business units) to ensure that any risks relating to the validity, completeness and accuracy of the payroll are appropriately addressed. In addition, it was recommended that the control framework over the payroll business cycle be documented, including the establishment of detailed responsibilities and procedures for business units.

It was further recommended that the above review also consider matters that may be pertinent to DAIS providing transaction processing services to clients and that client agencies be fully (and formally) appraised of DAIS's role. This will enable those agencies to consider the appropriateness of control mechanisms within their own agencies.

The Department responded that a number of significant activities have contributed to the audit findings. These have included; projects spanning over seven months to convert two databases from the Concept system to the CHRIS system; development and implementation of new organisational arrangements; difficulties in sourcing appropriately skilled staff to fill vacancies within the payroll office; and transition of the payroll of two new client groups from other agencies to DAIS. The Department further added that, notwithstanding the impact of these activities on operations, internal controls are considered a high priority for DAIS and the Audit findings are a valuable tool in progressing this priority.

Hindmarsh Stadium Loan

In 1996 and 1997 the Government entered into formal arrangements with the South Australian Soccer Federation (SASF), regarding the capital redevelopments and fit out works associated with Stage 1 construction of the Hindmarsh Soccer Stadium. The arrangements resulted in SASF securing two loans; \$4.1 million (Stage 1 Construction); and \$2 million (Stage 1 Fit Out), to be applied with the Government funding to the abovementioned works.

As part of the arrangements the Government guaranteed SASF's loans. The SASF has made no contribution to the loan repayments since 31 December 1998 and as a result the loan guarantees have been exercised and the Government has met these loan repayments. Notwithstanding this, DAIS has only disclosed a contingent liability in relation to the outstanding loan balances at Note 37 to its financial statements.

At 30 June 2003 total loan repayments met by the government under the guarantees amounted to \$3.955 million (both principal repayments and interest payments). These amounts have been included in receivables, along with additional interest accruals in accordance with the loan underwriting arrangements. To date no payments have been received from SASF in relation to the loans receivables balance. In recognition of this, allowance for doubtful loans amounted to the entire loans receivable balance, including the interest accrual component.

In recognition of the status of these arrangements Audit considered that it was prudent to assess whether a liability should be recognised in the Statement of Financial Position. Audit's assessment, based on an analysis of relevant accounting standards and concepts, was that:

- a present obligation exists as a result of the Government entering into the guarantee arrangements;
- based on previous loan repayment experience by SASF, it is probable that the Government will continue to meet future loan repayment obligations;
- the liability under the arrangements can be reliably measured (ie principal outstanding).

On this basis Audit considered that, unless sufficient evidence can be provided to indicate that SASF will meet future loan repayments, the outstanding loans be recognised as a liability.

Audit also recommended that, in reviewing the recognition of a liability consideration also be extended to determine the appropriate accounting treatment relating to receivables recorded by DAIS as a result of the underwriting arrangements.

Departmental Response

The Department responded in early September, 2003 that it agrees that the SASF does not, at present, have the ability or the means to fund the loan obligations and that the current (1 year hence) obligations should be brought to account as a current liability.

With respect to the remainder of the loan, the Department considered that given that the loans are not fully payable until 2017, some 14 years hence, the predication of probability of not meeting loan obligations is highly speculative. The Department concluded, having regard to this consideration, that the SA Government arrangements with SASF regarding loan obligations of the SASF falling due more than one year forward would qualify as a contingent liability and disclosed in the notes to the accounts accordingly.

With respect to the receivables recorded so far by DAIS as a result of the underwriting arrangements, the Department agreed that it was not likely that the receivables would eventuate in the immediate future and therefore should not be recognised accordingly. It was noted that this would not limit the SA Government from recovering these amounts from the SASF at some point in the future, prior to the maturation of the loans, in accordance with the provisions of the loan agreement.

These proposed changes were not reflected in this years financial statements but will be considered for the 2003-04 reporting period.

Outsourcing of Warehouse Operations

Prior Year's Audit Recap

In the previous two year's Reports comment has been included on some matters associated with the outsourced provision of warehousing and logistic services. Comments covered issues relating to contractual arrangements, stock management control and information systems arrangements. Audit considered that these issues needed to be resolved as a matter of priority, particularly as the warehousing arrangements involve private sector participation.

The Contract's original term of two years was extended by a further one year in October 2001. As part of the one year extension a letter of variation was executed principally to provide for resolution of certain aspects of the original agreement.

Audit Review - 2002-03

The 2002-03 audit focussed on obtaining an up-to-date status of issues in relation to the outsourcing arrangements including variations executed. Audit recognises that the Department has managed and addressed various aspects of the warehousing contract reported in prior years.

Restructuring of the Supply SA Operations

On 5 April 2003, Cabinet approved for the insourcing of the Supply SA warehouse operation.

The implications of the implementation of the insourcing option will result in a warehouse operation whereby:

- costs, both fixed and variable, are managed and controlled by the Government;
- the Government would be the licensee of any software license agreement and the lessee in any warehouse lease arrangement;
- Government staff would be employed in the warehouse operations and all customer service functions;
- The ownership of all warehouse (plant and machinery) assets would transfer to the Government.

The anticipated transfer of operations is expected to take place in October 2003. There is a transition period of three months under the current contract conditions and the termination date is pending finalisation of the warehouse lease agreements. Audit intends to review the transfer of operations from the Contractor back in house, during 2003-04. This will include a follow up of any relevant outstanding matters raised by Audit over the past two years.

Office of Recreation and Sport (ORS)

Contract Management

ORS is responsible for managing a range of unique and diverse contracts. These contracts create obligations and risks that need to be managed to ensure the exposure to Government is minimised. Examples of these include contracts relating to the Hindmarsh Stadium; ETSA Park; Southern Sports Complex; and Basketball Association.

Audit review of the processes in place to manage these contract obligations and risks revealed that a structured framework had not been established. In addition, there was no register maintained that identified current contracts or outlined the key obligations and risks under the contracts.

Grants Expenditure

Three grant expenditure programs are administered by ORS, namely the Management and Development Program, Active Club Program and the Community Recreation and Sport Facilities Program. Audit review of each of the programs revealed a general lack of formal documented policies and procedures in relation to the assessment, monitoring and acquittal processes.

Audit recommended that, to ensure the integrity and objectivity of the process (in particular the evaluation and selection components) formal policies and procedures, which align with the operating objectives of ORS, be developed and implemented.

Management and Development Program Grants

In accordance with the Management and Development Program Funding Guidelines and Application 2002-03, ORS requires all applicants to provide the following documentation in support of their application:

- Organisation's Long Term Strategic/Development Plan
- Most recent audited financial statement
- Evidence of incorporation status or comparable legal status
- Endorsement of the State sporting or recreation association (if applicable).

The required documentation is important in determining the viability of the submissions received. Audit reviewed a sample of significant grants for the 2002-03 funding round and noted most of approved grant applications reviewed did not have the required supporting documentation on file.

The Department has responded positively to matters raised regarding ORS indicating that appropriate corrective action will be taken.

Aboriginal Affairs and Reconciliation

The audit of operations identified the requirement for improvement in the management arrangements applying to grant revenues and expenditures. Recommendations made were:

- formal processes be established to properly administer grant revenues as applies in respect of grant expenditures;
- evidencing procedures confirming review processes exercised over funding acquittals received from grant recipients be enhanced.

In addition, some internal control recommendations were made in relation to accounts payable and payroll processes.

A satisfactory response was received from the Department regarding the above matters.

Land Services Group - Land Ownership and Tenure System - Management Arrangements

Previous Reports have made comment concerning resolution of management issues pertaining to the future management and funding arrangements of the Land Ownership and Tenure System (LOTS). These issues have in recent years been the subject of discussion between DAIS and the Department for Environment and Heritage (DEH).

The Land Ownership and Tenure System (LOTS) is primarily directed toward recording land information. Information from LOTS is provided to government and non-government users. Many users are charged for information provided, while others (eg. Other government agencies and private sector entities who have arrangements with the Department), are not charged. LOTS information is provided either by Internet access (Property Assist), by dial up/direct connection (LOTS enquiries) or over the counter.

In January 2003 a Statement of Intent was agreed in principle between DEH and DAIS to re-align both agencies' land administration and land management information systems to the respective agencies roles. Resulting from this process the chief executives of DEH and DAIS noted that an agreement had been reached to transfer, from 1 September 2003, the management responsibilities for LOTS and Property Assist and related IT and financial services from DEH to DAIS. In addition the Departments approved the establishment of a Joint Management Committee to manage the transition process.

Motor Vehicle Fleet Finance Lease

The Government entered into a sale and leaseback facility managed by the Commonwealth Bank of Australia on 9 May 1996. On that date the Government sold all existing vehicles to a company for \$175.8 million. The book value of the vehicles at the time was \$169.9 million. The facility is set up on a perpetual basis with both parties having the option to terminate the agreement from year eight onwards. Once notice has been given that the facility is to be terminated the agreement has a 'wind down' period of seven years. The Department is responsible for the management of the motor vehicle lease arrangements.

Whilst Audit agreed with the Department that the lease facility was a finance lease as defined by Australian Accounting Standard AAS 17 'Accounting for Leases', there was a divergence of opinion on the interpretation of a number of key definitions in the Standard. The matters on which there was a divergence of opinion were fully explained in Part B of the 1995-96 Report of the Auditor-General to Parliament. In summary, the Department considered that the underlying asset is not the individual vehicles used by government agencies but a 'pool' of vehicles which is available for use and that a component of the residual value on the vehicles is not guaranteed by the Government.

Audit, however, considered that there are separate 'lease agreements' in place for each vehicle and that the Government, under the lease facility, guarantees the full residual value of the vehicles.

As the difference in interpretations resulted in a material difference to the amounts disclosed in the Department's financial statements, Audit has issued a qualification since the inception of the lease facility in 1995-96 in respect of the following asset and liabilities:

Assets

Motor vehicles under finance lease.

Liabilities

Current borrowings - finance lease on motor vehicles.

Non-current borrowings - finance lease on motor vehicles.

Other current liabilities - deferred profit on sale and leaseback of motor vehicles.

The Department for Administrative and Information Services (DAIS) has maintained, in respect of this year's financial statements, the reporting treatment adopted in respect of last year's financial statements. As such, Audit has again included a qualification in the Independent Audit Report for the year ended 30 June 2003 in respect of the aforementioned financial statement disclosure items. In Audit's view had there been compliance with the requirements of the Standard, assets of DAIS would increase by \$102 million and liabilities would increase by \$99 million.

IT Management and Control

Government Information and Communication Technologies (ICT) Directions

Executive Government is progressing its future long term IT infrastructure and systems requirements in preparation for the expiry of the EDS infrastructure contract and other major IT contracts with the private sector. Part of that review scope includes IT Governance arrangements for Executive Government, DAIS and Agencies.

At this time, DAIS is also progressing finalisation of a number of long standing projects including the development and revision of the draft ICT Directions Strategic Plan and the Information Security Management Framework (ISMF).

With respect to the ISMF, in April 2003, the SA Government Information Security Management Framework document was approved as the current Information Technology security standards and guidelines for implementation by Agencies. The ISMF will be introduced through a program of work including, a transition guide from current standards and guidelines, provision of agency security awareness training and the integration of new security work practices. Implementation of the overall program is estimated to cost in the vicinity of \$1.3 million over four years.

Audit Focus and Review

For some time DAIS has provided ICT strategic planning, policy and guidance to Agencies in a consultative and advisory manner.

My Reports to Parliament (Part A) for the last few years have stressed the importance of key aspects of whole of government IT Governance and Management Control, (strategic planning, policy and guidance to agencies) and the need to address notable shortcomings. My Reports have also included comment on the need for improvement in critical Agency security control matters, (agency systems and computer processing environments) including business recovery arrangements.

Over the past year, Audit has maintained a focus on IT Governance and Management Control matters at a whole of government, and Agency level and has undertaken a number of specific reviews. Those reviews essentially addressed:

- IT Governance and Management Control;
- Project and Risk Management for Major IT Developments;
- IT Security and Control;
- IT Legal Considerations in Electronic Government.

Audit has formally conveyed in detail the issues arising from the reviews to the relevant Agencies and has received appropriate responses from those Agencies.

Specifically with respect to DAIS, Audit has:

- reviewed the leadership, IT strategy development, and policy direction/guidance role provided by DAIS;
- reviewed certain EDS managed computer processing environments at the Glenside site, in particular, the Justice agencies mainframe operations environments and a specific environment for the Department of Human Services;
- given particular attention to the adequacy of control over the more recently outsourced Government wide CHRIS Human Resource Management System and its bureau based computer processing environments;
- reviewed aspects of project management and achievements, and risk management arrangements for the DAIS E-Procurement initiative;
- addressed matters of a legal and contract nature and certain aspects of risk management arrangements for the DAIS ServiceSA initiative. Further, the ServiceSA website facilities were reviewed for compliance with government requirements and better practice management.

At the time of preparation of this Report, the outcomes from the above reviews of the role of DAIS, and agency systems and computer processing environments, were being reported to and discussed with DAIS.

I intend to report on the issues arising from the reviews to Parliament, together with outcomes from certain other agency reviews, in the latter part of 2003.

Summary of Changes to Departmental Organisational Structure in Prior Years

Over the last few years, the Department has experienced a number of organisational changes. The more predominant of these are as follows:

- On 1 January 2001, the South Australian Forestry Corporation was established under the *South Australian Forestry Corporation Act 2000*. From this date the Corporation assumed the functions previously carried out by the Forestry SA Business Unit of the Department. The transfer of functions also included the transfer of Forestry SA net assets, amounting to \$795.9 million.

- On 4 December 2001, the operations of the Office for Recreation, Sport and Racing from Department for Environment and Heritage, and the Division of State Aboriginal Affairs from the Department for Transport, Urban Planning and the Arts were transferred to the Department. The transfer of these operations included the transfer of net assets to the Department of \$60.8 million and \$3.7 million respectively.

The results of these changes has been incorporated into the discussion provided under 'Interpretation and Analysis of Financial Statements'.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 \$/million	2002 \$/million	Percentage Change
OPERATING REVENUE			
Sales Revenue	338	339	(0.3)
Fees Regulatory Services	90	77	16.9
Across Government Contracts	90	85	5.9
Appropriation for operating purposes	122	127	(3.9)
Other Revenue	26	25	4.0
Total Operating Revenue	666	653	2.0
OPERATING EXPENDITURE			
Cost Of Sales	251	239	5.0
Across Government Contracts	90	88	2.3
Employee expenses	100	103	(2.9)
Other expenses	156	168	(7.0)
Total Operating Expenses	597	598	
Profit before restructure and tax	69	55	
Net Cash Flows From Operations	132	110	20.9
ASSETS			
Current Assets	322	300	7.3
Non-Current Assets	621	546	13.7
Total Assets	943	846	11.5
LIABILITIES			
Current Liabilities	94	96	(2.1)
Non-Current Liabilities	187	195	(4.1)
Total Liabilities	281	291	(3.4)
EQUITY	662	555	19.3

Statement of Financial Performance

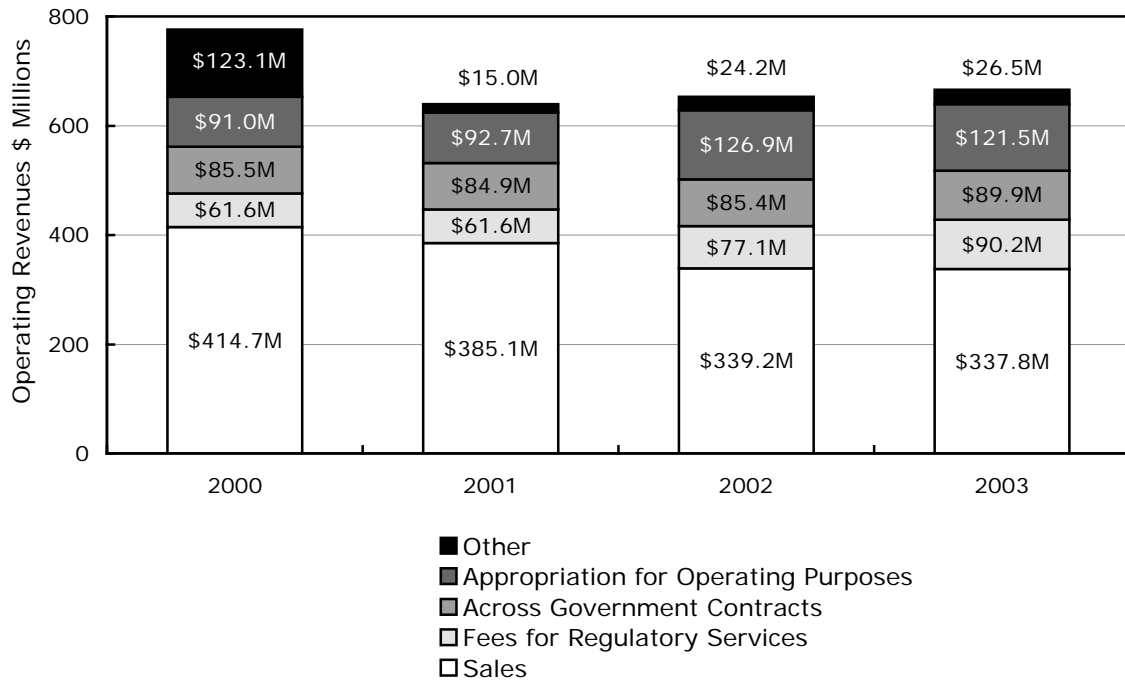
Operating Revenues

The main source of revenue for the Department is the sales revenue generated by its various business units (refer to note 34 to the financial statements). The majority of this revenue is sourced from services provided to other government agencies.

The Department also receives significant annual appropriations from the Government (\$122 million in 2003).

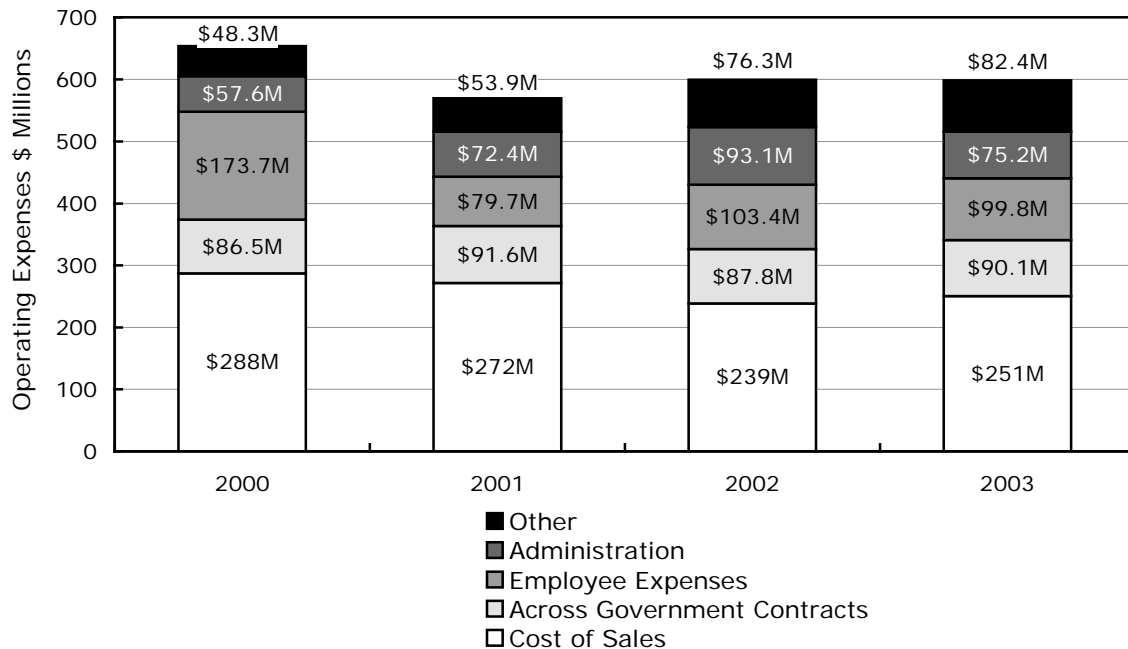
For the 2001 and 2000 years sales revenue was higher as Forestry operations (as previously noted) were part of the Department until 1 January 2001 and these operations generated significant revenues. Subsequent to this period the operating revenues of the Department have remained relatively constant.

A structural analysis of operating revenues for the Department in the four years to 2003 is presented in the following chart.



Operating Expenses

A structural analysis of the main operating expense items for the Department is shown in the following chart.

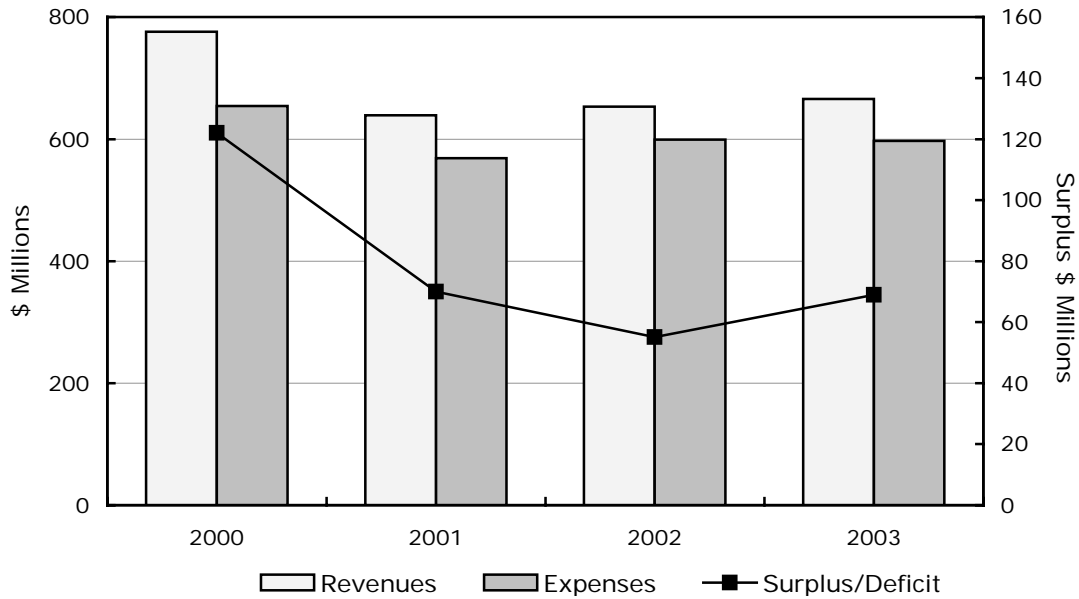


Cost of sales is the main item of expenditure for the Department. These costs are directly related to the generation of sales revenue and their composition is further explained in Note 2.3 to the financial statements. Further, Note 4(a) provides a dollar breakdown of cost of sales into its main components.

As noted above in Operating Revenue, the 2000 and 2001 years include Forestry Operations.

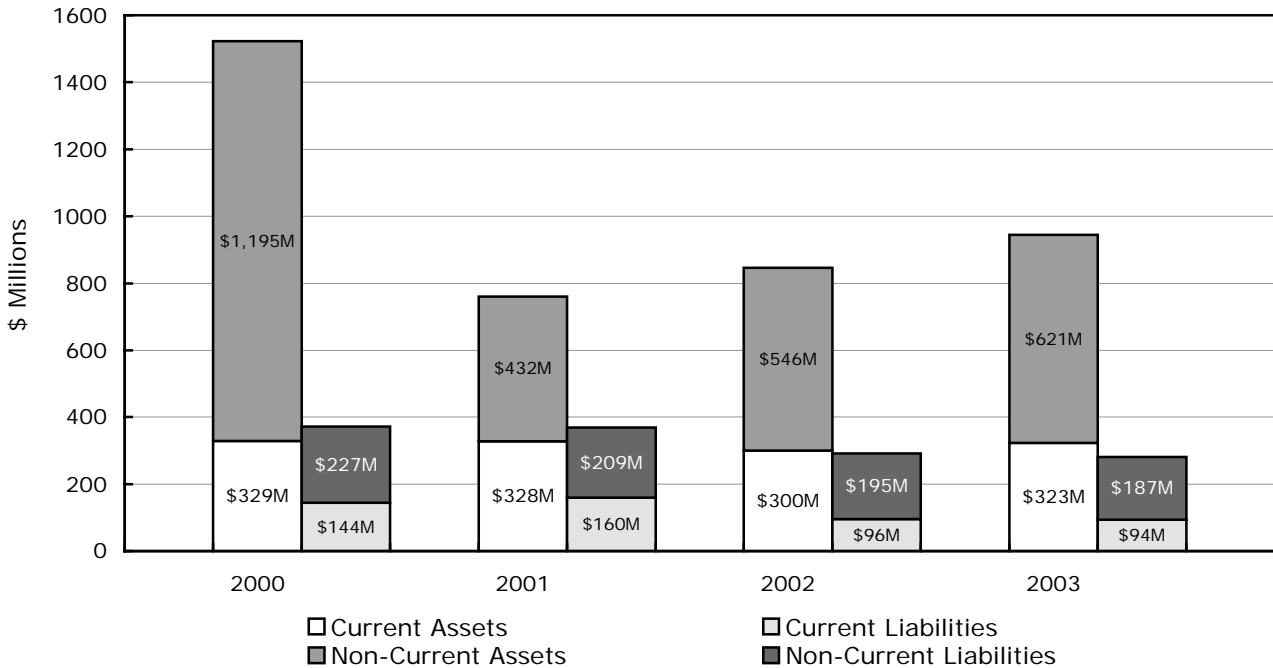
Operating Result

The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2003.



Statement of Financial Position

A structural analysis of assets and liabilities for the four years to 2003 is provided hereunder.



The above chart highlights that since 2001 there has been a significant growth trend regarding non-current assets. This has been due primarily to:

- restructuring of government operations resulting in DAIS assuming control of additional assets such as sporting stadia;
- revaluation upwards of assets.

The large non-current asset figure in 2000 reflects the fact that this was the last year that Forestry operations were part of DAIS prior to a separate entity being created to perform these functions.

The land, buildings and fitouts item of non-current assets is the most significant item in the Statement of Financial Position. In 2003 this item amounted to \$430 million, representing 69 percent of total non-current assets and 45 percent of total assets.

Cash

The other significant item is Cash, which in 2003 amounted to \$253 million, representing 78 percent of total current assets and 26 percent of total assets. As highlighted later on under the heading 'Statement of Cash Flows', since 2001 operations have generated large positive cash flows, which, after applying these cash flows to investing and financing activities, still leaves the Department with significant cash surpluses.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003	2002	2001	2000
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	132.3	109.7	177.2	21.7
Investing	(33.8)	(67.7)	(36.5)	(38.5)
Financing	(43.5)	(47.7)	(43.7)	3.5
Change In Cash	55.0	(5.7)	97.0	(13.3)
Cash At 30 June	253.4	198.4	204.1	107.1

The cash flow analysis indicates that the Department generates large cash flows from its operations which are then generally applied to satisfy its financing and investing activities. In 2003, the Department recorded an increase in cash of \$55 million due mainly to significantly less funds utilised in its investing activities as compared to the previous year.

With respect to financing activities dividends of \$57 million (\$50 million) were paid to the Government.

Business Unit Financial Analysis

The tables below indicate that, while a number of business units generate large revenue flows (ie Government ICS and SA Government Commercial Properties) they also have matching expenses resulting in relatively small contributions to the operating result of the Department.

The charts further highlight the significant consistent contribution made to the operating result by the Land Services Group. In 2003 it contributed \$56.9 million, representing 82 percent of the total profit from ordinary activities of the Department (\$48 million and 87 percent in 2002).

Total Revenue from Ordinary Activities by Business Unit

Business Unit	2003	2002	2001	2000
	\$'million	\$'million	\$'million	\$'million
Building maintenance	56.7	55.2	56.2	49.0
Contract services	25.7	25.6	24.0	24.3
Government ICS	178.8	180.5	176.7	157.4
Land Services	83.6	77.5	61.2	59.1
Office for Recreation and Sport	26.9	22.9	NA	NA
SA Government Commercial Properties	107.6	96.6	97.9	91.7
Fleet SA	78.3	71.8	70.6	66.5
Business and Corporate Services	46.0	53.7	36.4	32.3
Other	62.2	69.0	116.3	193.2
Total	665.8	652.8	639.3	673.5

Total Expenditure from Ordinary Activities by Business Unit

Business Unit	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Building Maintenance	55.9	53.8	55.0	47.2
Contract Services	28.4	27.3	27.2	27.5
Government ICS	168.3	168.2	156.9	129.5
Land Services	26.7	29.5	29.0	25.2
Office for Recreation and Sport	30.5	17.6	NA	NA
SA Government Commercial Properties	99.2	91.9	95.5	86.8
Fleet SA	84.0	80.3	75.0	66.9
Business and Corporate Services	42.2	61.0	34.9	30.3
Other	62.1	68.1	96.0	138.3
Total	597.3	597.7	569.5	551.7

Profit from Ordinary Activities before Restructuring by Business Unit

Business Unit	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Building Maintenance	0.8	1.4	1.1	1.9
Contract Services	(2.7)	(1.7)	(3.1)	(3.2)
Government ICS	10.6	12.4	19.8	28.0
Land Services	56.9	48.0	32.2	34.0
Office for Recreation and Sport	(3.6)	5.3	NA	NA
SA Government Commercial Properties	8.4	4.7	2.5	4.9
Fleet SA	(5.7)	(8.5)	(4.4)	0.2
Business and Corporate Services	3.8	(7.3)	1.4	2.0
Other	0.5	0.8	20.4	54.5
Total	69.0	55.1	69.9	122.3

FURTHER COMMENTARY ON OPERATIONS**South Australian Government Light Vehicle Fleet - Sale and Leaseback Arrangement**

In previous Reports comment has been included in relation to the abovementioned facility arrangement. Earlier comment in this section of this Report provides background information to the facility arrangement and discusses its financial reporting treatment. The main benefit from entering into the facility was the anticipated achievement of a lower cost of funding the Government's vehicle fleet.

Audit comments in past Reports have communicated the importance of exercising proper management over the ongoing arrangements due to the long term nature of the lease facility and its expected benefits over the extended period of time. This required an ongoing analysis of the elements affecting motor vehicle lease rate calculations to enable a proper assessment of the potential impact on the cost of the leaseback facility to the Government and ultimately expected benefits to be derived. The elements requiring consideration include changes in residual values of vehicles; changes in taxation law; and the number of replacement vehicle leases.

In the latter part of 1999-2000 the Department of Treasury and Finance (DTF) initiated a review of the facility to determine whether it remains economic, particularly in light of the changes to the taxation system. With respect to this review DTF received in 2000-01 a report from an external finance agency, which had been engaged by DTF to assist its review process.

During 2001-02 a review of the facility arrangement was completed by the South Australian Government Financing Authority (SAFA) and a report submitted to the SAFA Advisory Body in February 2002 and the Treasurer in March 2002. The Treasurer considered the conclusions and recommendations of the report and approved that SAFA evaluate options of continuing or terminating the lease arrangements.

Late in 2002-03 a voluntary termination and progressive wind down and sale of the vehicle fleet was agreed over a 24 month period from 10 July 2003 to 10 July 2005. Note 2.11 to the Department's financial statements provides further details. This arrangement will be subject to full review by Audit in 2003-04.

Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
REVENUE FROM ORDINARY ACTIVITIES:	34		
Sales		337 799	339 241
Fees for regulatory services		90 216	77 065
Across Government contracts		89 869	85 432
Appropriation for operating purposes		121 522	126 895
Grants	2.21	1 655	5 521
Other revenue	4(b)	24 784	18 658
Total Revenue		665 845	652 812
EXPENSES FROM ORDINARY ACTIVITIES:	34		
Cost of sales	4(a)	250 912	238 953
Across Government contracts		90 086	87 781
Employee expenses	2.3	99 716	103 378
Grant Payments	2.21	19 631	14 564
Administration	4(a)	75 207	93 087
Depreciation/Amortisation charges		38 647	35 896
Other expenses from ordinary activities	4(a)	16 303	15 850
Total Expenses		590 502	589 509
Borrowing costs		6 786	8 195
PROFIT FROM ORDINARY ACTIVITIES BEFORE RESTRUCTURING		68 557	55 108
NET REVENUE FROM RESTRUCTURING	4(c)	22 651	64 533
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		91 208	119 641
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	2.14	2 177	(835)
NET PROFIT AFTER TAX AND RESTRUCTURE		89 031	120 476
Increase in asset revaluation reserve arising on revaluation of non-current assets		56 877	41 810
TOTAL REVENUE, EXPENSE AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		56 877	41 810
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		145 908	162 286

Statement of Financial Position as at 30 June 2003

	Note	2003 \$'000	2002 \$'000
CURRENT ASSETS:			
Cash	12	253 404	198 423
Receivables	13	28 980	56 124
Inventories	11	5 715	6 464
Accrued revenue	14	23 065	26 793
Other	15	11 328	12 631
Total Current Assets		322 492	300 435
NON-CURRENT ASSETS:			
Land, buildings and fitouts	16, 21	430 373	350 427
Assets under finance lease	17	69 001	80 889
Plant and equipment	18, 21	21 877	17 555
Motor vehicles	20, 21	17 512	6 273
Government radio network	2.8, 19, 21	78 708	81 594
Receivables	2.19, 13	910	1 001
Other	22	3 000	7 799
Total Non-Current Assets		621 381	545 538
Total Assets		943 873	845 973
CURRENT LIABILITIES:			
Creditors and accrued expenses	23	59 310	57 129
Borrowings	24	12 846	12 157
Provisions	25	356	2 207
Employee benefits	26	10 680	10 465
Other	27	11 075	13 976
Total Current Liabilities		94 267	95 934
NON-CURRENT LIABILITIES:			
Borrowings	24	154 766	168 274
Provisions	25	-	549
Employee benefits	26	32 507	26 442
Total Non-Current Liabilities		187 273	195 265
Total Liabilities		281 540	291 199
NET ASSETS		662 333	554 774
EQUITY:			
Reserves	28	175 101	120 227
Capital funds	29	222 433	204 088
Retained profits	6	264 799	230 459
TOTAL EQUITY		662 333	554 774
Commitments and Contingent Liabilities	2.8,2.20,30,31,37		

Statement of Cash Flows for the year ended 30 June 2003

	2003 Inflows (Outflows)	2002 Inflows (Outflows)
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
INFLOWS:		
	Note	
Receipts from customers	558 046	523 253
Receipts from appropriation/Department of the Premier and Cabinet	121 246	126 894
Interest receipts	10 116	13 476
Receipts from taxation authority	8 792	21 524
Departmental restructuring	154	16 469
GST received	53 962	60 927
	752 316	762 543
OUTFLOWS:		
Payments to suppliers and employees	(538 533)	(565 350)
Finance lease interest payments	(7 616)	(8 388)
Income tax payments	-	(3 122)
GST paid	(61 034)	(77 123)
Payments to taxation authority	(667)	(825)
Departmental restructuring	(3 465)	(226)
Interest payments	(6 657)	(8 648)
	(617 972)	(663 682)
Construction works -reimbursements	70 757	124 299
Less: Payments	72 836	113 413
	(2 079)	10 886
	(620 051)	(652 796)
Net Cash provided by Operating Activities	32(b) 132 265	109 747
CASH FLOWS FROM INVESTING ACTIVITIES:		
INFLOWS:		
Proceeds from the sale of plant, equipment and motor vehicles	3 910	10
Proceeds from the sale of land, buildings and fitouts	4 115	7 444
Proceeds from repayment of leased assets	509	-
	8 534	7 454
OUTFLOWS:		
Purchase of plant, equipment and motor vehicles	(29 706)	(53 249)
Purchase of land, buildings and fitouts	(9 662)	(21 939)
Purchase of investments	(3 000)	-
	(42 368)	(75 188)
Net Cash used in Investing Activities	(33 834)	(67 734)

**Statement of Cash Flows
for the year ended 30 June 2003 (continued)**

	2003	2002
	Inflows	Inflows
CASH FLOWS FROM FINANCING ACTIVITIES:	(Outflows)	(Outflows)
INFLOWS:		
Prepayment of motor vehicle fleet operating expenses	Note \$'000 846	\$'000 -
Department of Treasury and Finance payment for asset replacement investment account	7 499	-
Capital funds contributed from SA Government	18 345	37 839
	26 690	37 839
OUTFLOWS:		
Repayment of long-term borrowings	(1 193)	(3 509)
Prepayment of motor vehicle fleet operating expenses	-	(21 342)
Repayment of lease liability	(12 253)	(11 145)
Dividends paid	(56 694)	(49 537)
	(70 140)	(85 533)
Net Cash used in Financing Activities	(43 450)	(47 694)
NET INCREASE (DECREASE) IN CASH HELD	54 981	(5 681)
CASH AT 1 JULY	198 423	204 104
CASH AT 30 JUNE	32(a) 253 404	198 423

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Role of the Department

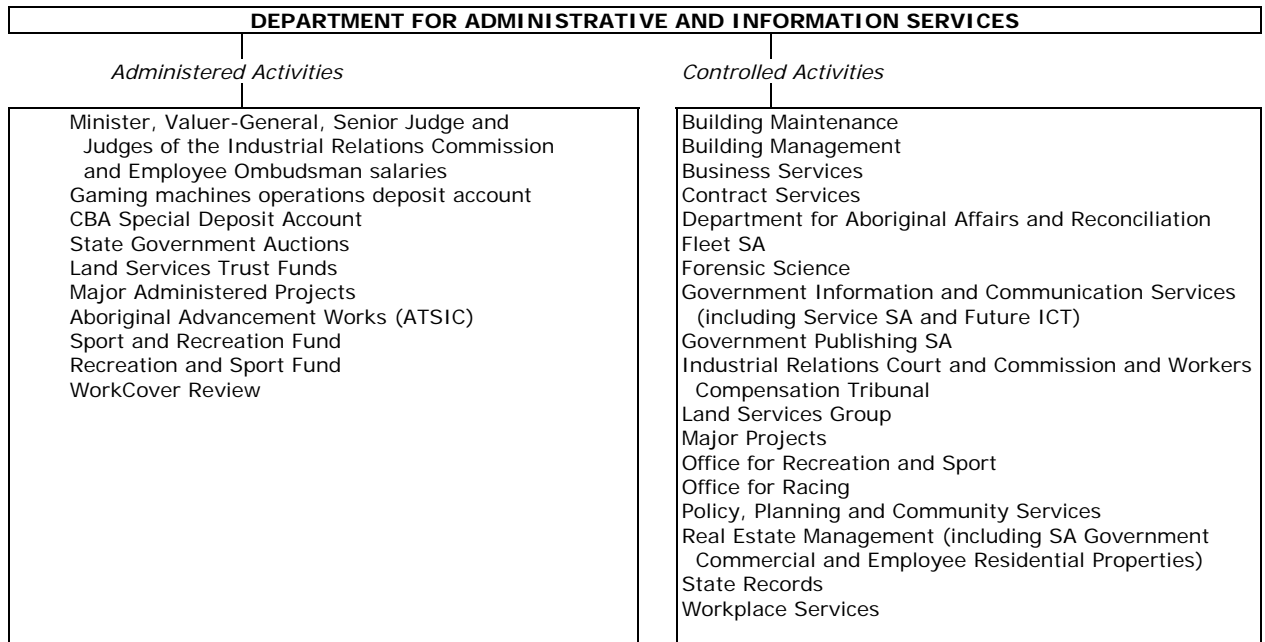
The Department for Administrative and Information Services (DAIS) is an agency that undertakes a broad range of functional responsibilities on behalf of the Government of South Australia. It plays a significant leadership role by providing community and specialist government services, quality infrastructure, information provision and policy advice. These activities support the creation of sustainable economic and social value for the Government and community. To achieve this DAIS will focus on delivering quality services to community and Government stakeholders by pursuing the following strategic challenges:

- work strategically and collaboratively to improve our specialist services and develop the State’s infrastructure
- promote across government services and strategies that achieve government savings
- focus on demonstrated results to build public confidence in government
- align our culture, business processes and staff practices with customer, industry and community expectations
- apply innovative technologies and leading industry practices working with national conventions where appropriate
- ensure that our programs contribute to social inclusion and community well-being
- adopt transparent and accountable management and information practices
- be a fair and just employer that encourages its workforce to be informed, skilled and motivated.

The Department provides direct support to the Minister for Administrative Services, the Minister for Industrial Relations, the Minister for Recreation, Sport and Racing, the Minister for Aboriginal Affairs and Reconciliation, and the Minister for Infrastructure. In addition to the Ministers, the Department’s key stakeholders include the Government, government agencies, key industry groups, government boards and committees and members of the public.

Within DAIS there is a cluster of capabilities and competencies that support the delivery of the Government’s broader strategic priorities, such as community services, project management, contract management, e-business and management of information technology and government assets.

The functional areas of the Department are as follows:



The governance arrangements for the Department’s operation are based on seven directorates that were established in 2002-03. Six of the directorates are overseen by Executive Directors whilst the seventh functional area has the status of a Department and is headed up by a Chief Executive. The latter is the Department for Aboriginal Affairs and Reconciliation. The heads of the seven directorates, along with the DAIS’s Chief Executive, form the Corporate Management Group (CMG). This group meets on a weekly basis to discuss strategic, policy, management, planning and administrative matters of relevance to the Department.

The number of full time equivalent employees at reporting date is 1 859.78 (1 856.07). Of this total, 14 (12) are full-time equivalent employees for Administered Activities.

The principal registered office is Level 2, Wakefield House, 30 Wakefield Street, Adelaide SA 5000. Telephone number is 08 8226 5060.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

Accounting Standards

The Financial Statements have been prepared in accordance with Statements of Accounting Concepts, applicable Urgent Issues Group Abstracts and appropriate Australian Accounting Standards and in accordance with Treasurer’s Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*.

The accounts have been prepared on the basis of historical cost and do not take into account changing money values, except where stated. The accounting policies have been consistently applied unless otherwise stated.

Reporting Period

The financial report has been prepared for the period 1 July 2002 to 30 June 2003.

Comparative Information

The Department has adopted the presentation and disclosure requirements of Australian Accounting Standards AASB 1018 'Statement of Financial Performance', AASB 1034 'Financial Report Presentation and Disclosure' and AASB 1040 'Statement of Financial Position' in the preparation of this financial report.

The previous year's figures are provided in the Financial Statements for comparative purposes. Where applicable, comparative figures have been adjusted to conform with any changes in presentation and classification in the current year.

2.2 Principles of Consolidation

The financial statements consolidate the activities of all operational business units of the Department as detailed in Note 1 as controlled activities.

All inter-business unit balances and transactions, and unrealised profits arising from inter-Department transactions affecting the Statement of Financial Performance have been eliminated.

2.3 Cost of Sales

The Department generates the majority of its income from services provided to other government agencies. The costs directly incurred in generating this income are included as cost of sales. The major categories within cost of sales are:

- Contract costs
- Employee costs
- Administration costs
- Commercial property costs
- Residential property costs
- Materials.

Employee expenses not directly involved in generating sales are included in employee expenses in the body of the Statement of Financial Performance.

2.4 Inventories

(a) Work in Progress - Construction Projects

Construction work in progress is stated at cost plus profit recognised to date less progress billings. Costs include all costs related to the professional services provided only.

Profits on construction contracts are brought to account on the percentage of completion basis, as determined by the current engineering estimates. Where losses are foreseeable, such losses are provided in full based on current engineering estimates.

(b) Stock on Hand - Government Supplies Warehouse

Stock on hand is valued at the lower of average cost and net realisable value.

2.5 Outstanding Contractor Reimbursement (Contractor Reimbursements in Advance)

The Department undertakes a number of capital projects on behalf of other agencies. Client agencies receive an invoice listing all costs including the professional contractor costs incurred in completing the capital project. Contractor costs in relation to projects managed by the Department are reimbursed by clients and are recorded as either contractor reimbursements in advance (other current liabilities) or outstanding contractor reimbursements (receivables).

2.6 Accrued Revenue

Revenue is accrued across all business units in the Department for work which has been performed but not billed as at 30 June 2003.

2.7 Non-Current Assets

Asset Recognition Threshold

Purchases of all non-current assets are initially recognised at cost in the Statement of Financial Position except for purchases costing less than \$10 000 which are expensed in the year of acquisition.

Valuations in General

In accordance with the new requirements of Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' and Accounting Policy Statement No 3 'Valuation of Non-Current Assets', all non-current assets, subsequent to initial recognition, are carried at valuation. Revaluations since 30 June 2002 have been undertaken for all assets that satisfy the APS3 revaluation thresholds in accordance with fair value methodology. The revaluation thresholds required that revaluation of a non-current asset or class of non-current asset is only required when the fair value at the time of acquisition is greater than \$1 million and has an estimated useful life greater than three years.

Under fair value methodology, the assets are valued at the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

Valuation Methodology - Freehold Land, Buildings and Fitouts

In accordance with the new requirements of Accounting Standard AASB 1041 'Revaluation of Non-Current Assets', freehold land, buildings and fitouts are being progressively brought to account at fair value.

Recreation, Sporting and Stadia Infrastructure

Recreation, Sporting and Stadia Infrastructure have been brought to account at current cost. Current cost has been determined on the following basis:

- All classes of physical non-current assets with fair values at the time of acquisition equal to or greater than \$1 million and estimated lives equal to or greater than three years are revalued by independent valuers at intervals not exceeding three years using fair value methodology. Valuations as at 30 June 2003 were undertaken by Valcorp.
- All classes of physical non-current assets, other than land, with fair values at the time of acquisition of less than \$1 million are valued at acquisition cost or fair value. The value of the assets is reduced to reflect the portion of economic benefits that have been consumed since the asset was acquired.

Commercial, Industrial and Heritage Properties

The valuation policy adopted in relation to property, and building plant is to revalue all owned properties on a progressive basis over three years.

In accordance with this policy, half the properties were revalued as at 30 June 2003 in accordance with fair value principles outlined in AASB 1041 'Revaluation of Non-Current Assets'.

Net market value has been adopted as the basis for recoverable amount for land and buildings. Written down market value based upon estimated useful life has been adopted as the basis for recoverable amount for plant and equipment revalued.

Independent valuations of land and buildings were conducted by the Valuer-General (Valuation SA), FPD Savills or by Egan National Valuer (SA).

Change in Policy

In previous years, the department has accounted for building plant in commercial, industrial and heritage properties as a separate asset class to the buildings. Building plant has now been reclassified so that it is included in the valuation of buildings and will be depreciated at the same rate as the buildings in future years. There is no effect on depreciation changes in 2002-03, as this re-classification was effective as at 30 June 2003.

Residential Properties

The valuation policy adopted in relation to property is to revalue all owned properties on an annual basis.

Asset values are determined in the following manner:

The Valuer-General estimates are used as the base valuation and then discounted by the average losses experienced over an average of the last five years. This management valuation has been adopted to ensure the value of assets is not stated at a balance in excess of recoverable amount. The discount rate used for the reporting period is 2.05 percent (4.27 percent).

Residential Properties, as the lessor, has entered into a number of finance lease arrangements for the purpose of providing housing accommodation for government agencies. These leases have been brought to account in the 'Statement of Financial Position and accounted for in accordance with AASB 1008 'Leases'.

Fitouts

Fitouts are valued at cost and depreciated over an average life of five years.

Valuation Methodology - Plant and Equipment

Plant and equipment is initially brought to account at cost less, where applicable, any accumulated depreciation. DAIS will progressively revalue plant and equipment that meets the revaluation thresholds during the next two financial periods, using fair value methodology in accordance with the transitional provisions of AASB 1041 'Revaluation of Non-Current Assets' and APS 3 'Valuation of Non-Current Assets'.

Valuation Methodology - Motor Vehicles

Motor vehicles purchased by the Department, outside of the CBA arrangement, have been brought to account at cost and depreciated on a straight line basis over their estimated useful lives.

Valuation Methodology - Government Radio Network

Infrastructure or plant and equipment assets that have been constructed or purchased for the provision of government radio network services are recorded at their cost of acquisition and are brought to account from the time a region is operationally available for use and are depreciated on a straight line basis over their estimated service lives. DAIS will progressively revalue each asset class and plans to complete the revaluation during the next two financial reporting periods in accordance with transitional provisions of AASB 1041 'Revaluation of Non-Current Assets'.

Disposal of Non-Current Assets

The gain or loss on disposal of all non-current assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the operating profit in the year of disposal. Any realised amounts within the Asset Revaluation Reserve are transferred to accumulated surplus on disposal.

Depreciation

All non-current assets, excluding freehold land and certain categories within the library collections, are depreciated using the straight line method over their useful lives commencing from the time the asset is held ready for use.

Depreciation (continued)

The following maximum years are generally used for the life of the assets:

	Years
Recreation, Sporting and Stadia Infrastructure:	
Buildings and improvements	80
Sporting equipment	10
Scientific equipment	10
Other equipment	20
Commercial, Industrial and Heritage Properties:	
Buildings	40
Residential Properties:	
Fitouts	5
Residential Properties	40
Plant and equipment:	
Computers	3
PABX	5
Office Equipment	5
Motor Vehicles (average life)	2
Government Radio Network:	
Huts	15
Towers	40
Terminal equipment	10

2.8 Government Radio Network Contract

On 29 April 1999 the South Australian Government signed a contract with Telstra Corporation Ltd to design, construct, operate and maintain the South Australian Government Radio Network (SA-GRN) for a period of seven years with a commencement date of 24 May 1999.

The contract is directed to the establishment of a single integrated government-owned, radio network providing voice, and for the first time, wide area data and paging communications to support public safety and other Government operations and includes a significant industry development program.

The SA-GRN is replacing 28 existing separate networks, giving agencies the ability to communicate with each other effectively through a common radio network for the first time. This approach has significant financial and operational advantages over a non-integrated network approach. Construction work has been progressively completed over five regions:

- Greater Metropolitan Area of R1 construction completed January 2000;
- Remainder of R1 (Fleurieu Peninsula and Kangaroo Island) construction completed July 2000;
- R2 (South East) construction completed January 2001;
- R4 (Yorke Peninsula and the Mid North) substantial construction completed October 2001. (Extension of time due to native title issue);
- R3 (Riverland) substantial construction completed March 2002 (Extension of time due to acquisition of Monash Site);
- R5 (Eyre Peninsula and the West Coast) construction completed March 2003.

The SA-GRN network will support approximately 45 000 users and provide vastly improved geographical coverage over existing networks.

As at 30 June 2003 approximately 17 420 (15 030) terminal units were active on the system and approximately 23 202 (19 290) terminal units were registered.

South Australian Government commitments to Telstra Corporation Ltd over the life of the contract total \$155.449 million. Other commitments associated with the project's development, over the life of the contract, total \$63.544 million. An additional provision of \$28.714 million has been established for contingencies over the duration of the contract.

As from 1 July 2000 the Department commenced charging entities for utilising the SA-GRN in order to recover recurrent project costs in accordance with agreed cost recovery principles. Entities that are partially or fully funded through the Community Emergency Services Levy Fund also make a capital contribution to the recovery of network infrastructure costs as the network has been dimensioned primarily to meet their needs.

2.9 Investments

The Department's interest in companies and trusts which are not controlled are brought to account at cost. Dividends and other distributions are recognised in the Statement of Financial Performance when receivable.

2.10 Client Monies Received in Advance

The Department enters into advance payment arrangements with specific agencies for minor and major works undertaken by the Department on behalf of the agency. As at 30 June 2003 this liability was shown under creditors and borrowings and amounted to \$5.728 million (\$5.728 million).

2.11 Leases*Operating Leases*

Operating leases are for office accommodation and carparking facilities at the State Centre Car Park.

The department has numerous lease arrangements with private sector companies for office accommodation. The terms of these leases range from monthly leases to leases between 4 and 10 years depending on the lease agreements. Generally, the leases are cancellable however for those that are fixed term leases, significant financial penalties are attached. Terms for renewal vary between 3 and 5 years. These commitments are not recognised as liabilities in the financial report.

Operating Leases

The operating lease in relation to the State Centre Carpark is a 10 year cancellable lease which expires on 1 November 2003. Negotiations are under way in respect of the provision of car parking facilities beyond this date.

Finance Leases

- *Light Motor Vehicles - Arrangement*

In May 1996, the Government sold and leased back its light motor vehicle fleet through an arrangement managed by the Commonwealth Bank of Australia for a total consideration of \$195 million which included some pre-paid operating expenditure such as fuel, registration and compulsory third party insurance. The total lease facility is for \$218 million which includes provision for an increase in new car prices and fleet running costs. The 15 year lease facility includes a 7 year wind down.

The lease has been treated as a finance lease in accordance with Australian Accounting Standard AASB 1008 'Leases'. The value of the lease property and the matching liability has been determined as the present value of the minimum lease payments discounted using the interest rate that equates the minimum lease payments to the fair value of the leased assets.

Given the exposure of the lessee, the lease has been accounted for as one under which the residual value is partially guaranteed by the lessee. Accordingly, the lease asset and liability have been valued in accordance with AASB 1008 'Leases' by deducting from the fair value of the motor vehicles, which are the subject of the lease, the value of the unguaranteed residual value which is expected to accrue to the lessor at the end of the lease term.

Any adjustments to the minimum lease payments are treated as contingent rentals and are brought to account as either revenues or expenses in the period in which they occur consistent with the provisions of AASB 1008 'Leases'.

The profit on the sale and leaseback transaction is amortised over the lease term of 15 years.

The Department is not subject to any interest rate risk in respect of the finance lease as the financial instrument is held between the Treasurer and the Commonwealth Bank of Australia.

- *Light Motor Vehicles - Contingent Rentals*

As mentioned, any adjustments to the vehicle minimum lease payments are treated as contingent rentals and are reflected as revenues and expenses in the Statement of Financial Performance. The adjustments essentially arise from periodic reviews of agreed vehicle residual values, which have a direct effect on the calculation of the lease payments to be applied to new vehicles leased under the arrangement.

These reviews, based on past market performance, have resulted in an increase in lease payments over time.

The amount of contingent rentals brought to account in 2002-03 as an expense was \$36.178 million (\$35.563 million).

- *Light Motor Vehicles - Future Arrangements*

Negotiations commenced in April 2003 to terminate the motor vehicle arrangement with the Commonwealth Bank of Australia. A voluntary termination and progressive wind down and sale of the vehicle fleet has been agreed over a 24 month period from 10 July 2003 to 10 July 2005. As from 10 July 2003, utilisation of the motor vehicle facility will cease such that the facility notice of 10 June 2003 was the last issued for the purchase and lease of motor vehicles under this arrangement.

A new arrangement for the on-going acquisition of motor vehicles was approved with the South Australian Financing Authority. Funding will be provided through a loan facility direct to Fleet SA, through the Minister for Administrative Services.

The consequences of this event will be incorporated into future financial statements and no financial impact is reflected in the 2002-03 financial statements.

- *Plant and Equipment*

In June 1999, Forensic Science entered into a five year finance lease agreement with Hewlett-Packard for a Mass Spectrometer. This scientific equipment is used to identify trace quantities of complex chemicals such as illicit drugs. This lease is non-cancellable and ownership transfers to DAIS upon payment of the residual value at the end of the lease term.

Commencing July 1999, the Department has progressively taken up numerous leases with EDS for information technology computer hardware and associated software such as file servers, disk arrays, tape drives, monitors, hubs, operating system software and data base management system software. As at 30 June 2003, the Department had 71 (53) separate leases that are being used by various business units as required. These lease terms are generally three or five years and are non-cancellable. At the end of the lease term, ownership is transferred to DAIS upon payment of a nominal sum.

- *Accommodation Leases*

The Department is responsible for the finance leases in relation to office accommodation for the Roma Mitchell House, North Terrace and Glenside Computing Facilities building. The Roma Mitchell House is for a lease term of thirty years and ownership transfers on payment of a nominal sum at the end of the lease term. The agreement has a buy-out option halfway through the lease term. The Glenside Computing Facilities is for a lease term of forty years and is non-renewable with a buy-out option halfway through the term. Both leases are non-cancellable.

All finance leases are accounted for in accordance with AASB 1008 'Leases'.

2.12 Employee Benefits

The Department has applied AASB 1028 'Employee Benefits (Revised)' which prescribes the recognition and measurement of employee benefits using remuneration rates that the Department expects to pay when the leave is taken. Previously, employee benefits expected to be settled in the next 12 months were recognised on employee's current salary rate applicable at the reporting date. Related on-costs consequential to the employment of employees have been included in the determination of the liabilities.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. In accordance with Treasurer's Accounting Policy Statement 9 'Employee Benefits' (APS 9), a salary inflation of 4 percent has been applied to current salary rates for annual leave which is expected to be paid in the next 12 months.

Long Service Leave

As at 30 June 2003 the provision for long service leave has been determined for the Department's employees who have completed seven or more years of service. This is consistent with the Treasurer's guidelines for APS 9. Based on an actuarial assessment, these guidelines were amended to allow a benchmark of seven years to be used for the short hand estimation of long service leave liability in accordance with AASB 1028 'Employee Benefits (Revised)'.

The benchmark for the measurement of long service leave liabilities has been revised down from eight years to seven years. The 2001-02 comparative liabilities are based on a benchmark of eight years.

The current component of long service leave is determined based on departmental estimates of long service leave due to be taken during the 12 months ending 30 June 2004.

2.13 Workers Compensation

DAIS is responsible for all Workers Compensation with an actuarial estimate of the outstanding liability as at 30 June 2003 provided by a consulting actuary through the Government Workers Rehabilitation and Compensation Office (GWRCO).

These figures reflect an apportionment of the whole-of-government estimate of Workers Compensation liability of \$262 million according to GWRCO's experience of claim numbers and payments over the period 1 July 1987-30 June 2003. A separate valuation of the liabilities of this Department has not been undertaken.

The whole-of-government estimate can be found in a report prepared by Taylor Fry Consulting Actuaries, dated August 2003, and submitted to the Public Sector Occupational Health and Injury Management branch (PSOHIM) of the Department of the Premier and Cabinet.

This report conforms to WorkCover Guidelines for Actuaries, Australian Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities', Accounting Guidance Release AAG 13 'Determination of Discount Rates for Measuring Certain Liabilities at Present Value' and Professional Standard PS 300 'Actuarial Reports and Advice on Outstanding Claims in General Insurance' of the Institute of Actuaries of Australia.

The above allocation of workers compensation liabilities has been split into current (ie the provision required to meet the liability over the coming year) and non-current (ie provision required for later years).

2.14 Taxation Equivalents

DAIS is not required to pay Commonwealth or State taxes. However, as several business units within DAIS engage in trading activities in competition with private sector enterprises, payments in lieu of these taxes, are made to the South Australian Government.

Taxation Equivalents are required to be paid by the following units of DAIS:

- Fleet SA
- Real Estate Management
- Building Maintenance
- SA Government Employee Residential Properties
- SA Government Commercial Properties.

In relation to Company tax equivalents the 'Accounting Profits model' is applied.

Under the Accounting Profits Model, income tax expense is calculated separately for each business unit by applying the income tax rate (currently 30 percent) to the individual business unit's accounting profit for the year.

2.15 Goods and Services Tax (GST)

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)' revenue, expenses and assets are recognised net of the amount of GST except that:

- The amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense;
- Receivables and payables are stated with the amount of GST included.

The net GST receivable from the Australian Taxation Office has been recognised as a receivable in the Statement of Financial Position.

The Department prepares a Business Activity Statement on behalf of its administered entities and for clients provided with bureau services under the grouping provisions of the GST legislation. Under these provisions, the Department is liable for the payments and entitled to the receipt of GST. As such, the GST applicable to these entities forms part of the Statement of Financial Position and Cash Flow Statement of the Department.

2.16 Prepaid Revenue

Prepaid Revenue has been recognised by all business units where monies have been received but work has not been performed as at 30 June 2003.

2.17 Incentives Monies Owing

Surplus Incentive Funds Reserve

Where incentives are provided by private building owners in relation to office accommodation contracts for government entities these monies are to be applied to refitting relevant accommodation. Once the fitout project is completed, any unspent monies are transferred to the Surplus Incentives Funds Reserve. Funds are applied from this reserve to fund approved fitout projects.

EDS Centre Incentives

Monies were receipted into the DAIS operating account on behalf of the Minister for Administrative Services during the 1998-99 to 2001-02 financial years for the management and administration of the design and construction of the EDS fitout works. Approval is required from the Minister before these monies can be committed for expenditure in relation to fitout works in the EDS Centre.

Monies receipted in relation to the management and administration of the EDS fitout works have initially been recognised through the Statement of Financial Position as part of incentive monies owing. Monies spent during a financial year on the management and administration of the EDS fitout works will be recognised through the Statement of Financial Performance as income and expenditure in the financial year in which the expenditure has been incurred. The balance of monies unspent at the end of the financial year is included in the incentive monies owing within the Statement of Financial Position.

2.18 Financial Instruments Disclosure

The Department recognises the following classes of debtors:

Trade accounts receivable being debtors from the general credit sale of goods and services. Trade accounts receivable generally settled within 60 days are carried at amounts due.

Loan payments receivable - debtors receiving financial assistance in the form of advances and loan agreements made by the Minister for Recreation, Sport and Racing. The terms of these agreements are contained in Deeds of Agreement between the Minister and the borrower. The carrying amount of these receivables are considered to approximate their net fair values.

Loans Receivable (Non Current) - an amount of \$2 million was advanced to Toga Development No 28 Pty Ltd (Toga), pursuant to the Loan Agreement between the Minister for Government Enterprises and Toga as part of arrangements for refurbishment and redevelopment of the Treasury Building.

Other Loans Receivable (Current) - amounts lent to other agencies receiving financial assistance from DAIS are carried at their fair value.

A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified and deemed irrecoverable.

Trade accounts payable, including accruals not yet billed, are recognised when the Department becomes obliged to make future payments as a result of purchases of assets or services. These amounts are recognised inclusive of GST. Trade accounts payable are generally settled within 30 days.

Loans are recognised when issued at the amount of the net proceeds received and carried at cost less any repayments until the loan is settled. Loans are drawn from the Department of Treasury and Finance, and repayments are determined in negotiation with this Department.

Interest on loans is recognised as an expense and is based on the common public sector interest rate plus a guaranteed margin, 7.0 percent as at 30 June 2003 (6.75 percent).

Forward foreign exchange contracts are used to reduce the risk associated with the purchase of foreign currency denominated goods and services.

Actual values carried in the Statement of Financial Position for all financial instruments are at fair values.

Cash at Bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis.

2.19 Provisions, Contingent Liabilities and Assets

In the 2002-03, the department applied AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' for the first time, thereby changing DAIS's current accounting policy regarding provisions, contingent liabilities and contingent assets. The previous definition of a contingent liability only included liabilities arising from past events that were contingent upon an uncertain future event.

Contingent liabilities and contingent assets now include all provisions not meeting either of the recognition criteria of a liability or an asset.

Provision for Across Government Initiatives

The provision for across government initiatives was created for the following purposes:

- Across Government Procurement Review - balance at 30 June 2003 \$0.356 million(\$0.356 million).
- Outsourcing of facilities maintenance - This provision has a zero balance at 30 June 2003 (\$1 001 million) as costs associated with this initiative are complete and have applied against this balance.

Provision for Income Tax

In previous years the department has raised provisions and made payments based upon estimated end of year results. No provision is required in 2002-03 based upon actual results in the previous financial year.

2.20 Major Contractual Commitments

Facilities Maintenance Contract

The Department holds two contracts with private Facility Management Contractors to undertake minor works and maintenance on behalf of government agencies. The contracts commenced in April 1998 for a period of three years plus two years plus two years. These contracts were renewed in 2001 and for a further two years in April 2003.

For both these contracts, the Department incurs expenditure on behalf of other government agencies and recovers these costs from those agencies.

The value of these contracts annually is approximately \$65 million (\$70 million) excluding management fees.

Information Technology Services

In October 1995, the South Australian Government signed an 'Information Technology Services and State Economic Development Agreement' with EDS (Australia) Pty Ltd that has a term of slightly more than nine years. It expires in mid 2005.

The agreement requires EDS to provide information technology infrastructure services across five 'business segments' (ie mainframe, midrange, local area network, wide area network and workstation segments) to most of the South Australian Government agencies.

The Department also incurs expenditure for this contract on behalf of other government agencies and recovers these costs from those agencies.

Telecommunication Services Agreement (TSA)

On 23 October 2001, the South Australian Government signed a 'Telecommunications Services Agreement' with Telstra over a term of three years with options to extend. The contract expires in October 2004. The contract requires a minimum across government spend. If the Government does not meet this minimum spend, the three year period will be extended until the minimum spend is achieved.

This is an across government agreement which requires Telstra to provide a broad range of telecommunication services to SA Government agencies. The commercial relationship exists between Telstra and the individual agencies directly, including the agencies' payment of individual accounts, while DAIS manages the contractual obligations.

Capital Works Program

The Department undertakes a risk management role within the Capital Works Program (ie Building). As a consequence of this role, building contractors are engaged to construct government assets on behalf of agencies. The annual value of construction work managed by the Department is approximately \$250 million.

Government Radio Network (GRN)

On 29 April 1999 the South Australian Government signed a contract with Telstra Corporation Ltd to design, construct, operate and maintain the South Australian Government Radio Network (SA - GRN) for a period of seven years with a commencement date of 24 May 1999 (refer Note 2.8).

Internet Services Provision

This initiative commenced on 1 November 2001, with the State entering into an Agreement with Agile Pty Ltd and Internode Systems Pty Ltd for the provision of internet services to the SA Government central corporate internet gateway for a period of 12 months. The option to extend has been exercised by the State and the Agreement will expire on 21 October 2003.

South Australia, particularly in regional areas, will benefit from the significant investment commitment already commenced by Agile Communications in deploying an 'IP' network offering next generation telephony services and broadband internet access via xDSL technology.

2.21 Grant Receipts and Payments

Recreation and Sport

- *Management Development Program*

This program provides assistance to organisations that provide leadership, direction and competition support for sport and active recreation in this state. The objective of the program is to assist the Government to work in partnership with State sporting and recreation organisations and other approved lead agencies to implement projects which: increase participation by the community in sport and recreation; provide high quality sport and recreation services and programs to all South Australians; encourage healthy, active lifestyles; promote the health benefits of participation in sport and active recreation; increase the growth in the commercial sector of the sport and recreation industry; develop world class athletes, coaches and programs; and increase community recognition of the social, health, physical and economical benefits of recreation and sport.

- *Active Club Program*

This program provides financial assistance to those organisations that provide sporting and/or recreational facilities and deliver competition and activity experience in the community. The objective of these grants is to assist community based sporting and active recreation organisations to develop and expand the services which they provide, thereby increasing the community's access to quality sport and active recreation activities and facilities.

- *Community Recreation and Sport Facilities Program*

The Community Recreation and Sport Facilities Program has been established to allocate funds to community-based organisations, Local Government and state sporting and active recreation associations which develop facilities for a wide range of recreation and sporting activities. The program aims to increase participation in sport and active recreation by providing an improved range of services and facilities at community and regional levels.

Aboriginal Affairs and Reconciliation

- *Grant Programs*

The Department receives funding and makes payments for a number of grants under the operations of the Department for Aboriginal Affairs and Reconciliation. All grants have the condition that any funds not expended in the agreed manner are to be repaid, and this is verified by the requirement for audited financial statements to be provided for large grants and the provision of source documents for the smaller grants.

The grant funding received from ATSIC, Commonwealth Department of Education, Science and Training (DEST), Department of Primary Industry and Resources (PIRSA) and other government departments is generally applied to the purposes of essential services such as roads, electricity and water in Aboriginal remote communities, Aboriginal Visitors Scheme, economic development and administration, Aboriginal reconciliation, heritage and legal rights.

3. Administered Items

The following funds and financial transactions are administered by the Department as at 30 June 2003. They do not represent controlled transactions of the Department. As such they are not recognised in the financial statements as transactions of the Department, rather they are disclosed by way of Note as Administered items. Refer Note 35.

3.1 Gaming Machines Operations Deposit Account

Contract Services holds funds on behalf of the State Supply Board for gaming machines and machinery sales as provided for under section 26 of the *Gaming Machines Act 1992*.

3.2 Auctions

Contract Services holds funds on behalf of other agencies in relation to vehicle and plant disposal auctions.

3.3 Commonwealth Bank of Australia (CBA) Deposit Account

This account was established as a result of the sale and leaseback of the light motor vehicle fleet. This account is non-interest bearing and is utilised to collect the proceeds from sales of vehicles on behalf of the fleet owner.

3.4 Special Acts Salaries

The Department receives a separate appropriation for the payment of salaries in relation to:

- Minister for Administrative Services;
- Presidents, Deputy Presidents and Magistrates of the Industrial Relations Court and Commission and Workers Compensation Tribunals;
- Valuer-General;
- Employee Ombudsman.

Funding is provided under 'Recurrent Expenditure - Special Acts'. The Department has no control over the use of these funds.

3.5 Land Services Trust Funds

The Department holds the funds in the following accounts under the authorisation of the following acts:

- Real Property Act Assurance Fund (RPAAF) - Section 201 *Real Property Act 1886*
- Real Property Act Trust Accounts - Section 146 *Real Property Act 1886*
- Workers Liens Trust Account - Section 16 *Workers Liens Act 1893*.

3.6 ATSIC Capital Works Fund

The Department is responsible for the administration of the funds described below, primarily on behalf of the Aboriginal and Torres Strait Islanders Commission. These funds are not recorded in the Department's Statement of Financial Performance or Statement of Financial Position, as the Department acts only as a project manager and does not have control over how these funds are to be spent.

The administered items are listed below:

- Commonwealth Government grants for construction of infrastructure in Aboriginal communities.
- State Government Grants for construction of infrastructure in Aboriginal communities.
- State Government Grants for employment and training in Aboriginal communities.

3.7 Sport and Recreation Fund

The Department administers this fund on behalf of the Minister for Recreation, Sport and Racing.

In accordance with provisions of the *Gaming Machines (Miscellaneous Amendments) Act 1966*, monies are paid into the fund for the following programs:

- Community Sport and Recreation Grants
- SASI Talent Scholarship Program
- State Facilities Fund.

3.8 Recreation and Sport Fund

The Department Administers this fund on behalf of the Minister for Recreation Sport and Racing. In accordance with provisions of the *Soccer Football Pools Act 1981*, *Racing Act 1976* and *State Lotteries Act 1966*, monies are paid into the Fund for the purpose of supporting and developing such recreational and sporting facilities and services within the state, as are approved by the Minister.

The major sources of annual income are receipts from licensee's to promote, conduct and operate soccer pools, and income derived from designated sport lotteries. Soccer pool income is returned to the Treasurer at the end of each financial year under an administrative arrangement agreed to in 1995.

3.9 Major Administered Projects

The Department holds funds in trust for capital works on behalf of other agencies for certain major projects. The Department holds any carry forward funds on behalf of the Government and applies expenditure to these projects subject to project manager approval. This arrangement has been established for the following:

- Sardi Pipeline (to be completed in July 2003)
- Deep Sea Grain Port at Outer Harbour (to be completed August 2005)

These projects, do not contribute to the asset base of the Department, in that the Department has no control over these assets once they are completed. The finished capital projects are transferred to the controlling agency.

3.10 Asset Sales Deposit Account

Although the responsibility of administering the funds in relation to the SAGRIC International Pty Ltd and Lotteries Commission of SA were transferred to the Department of Treasury and Finance from 4 December 2001, DAIS has continued to administer funds in relation to the Ports Corporation and South Australian Totalizator Agency Board redeployees. The Department of Treasury and Finance has reimbursed the Department for these costs.

3.11 WorkCover Review

The Minister for Industrial Relations, the Hon Michael Wright initiated a review of Workers Compensation and Occupational Health and Safety administration in South Australia. The review was headed by Judge Brian Stanley. The findings of the review were presented in a report to the Minister in December 2002. The South Australian Government tabled the Occupational Health, Safety and Welfare (SafeWork SA) Bill in the House of Assembly on 28 May 2003. The Bill seeks to introduce the recommendations of the review in relation to the occupational, health, safety and welfare system in South Australia.

4. Net Profit		2003	2002
Profit from Ordinary Activities has been arrived at after:	Note	\$'000	\$'000
(a) Debiting as Expense			
Cost of Sales:	2.3		
Contract costs		49 254	39 323
Employee costs		11 447	11 009
Administration costs		86 755	82 960
Commercial property costs		76 476	76 569
Residential property costs		8 424	10 281
Materials		18 556	18 811
		250 912	238 953
Administration:			
Finance charges on finance lease	2.11	7 616	8 388
Administration costs		67 559	84 648
Overseas travel		32	51
		75 207	93 087
Depreciation and Amortisation Charges:			
Amortisation of leased assets	2.11	12 360	11 380
Depreciation	2.7	26 287	24 516
		38 647	35 896
Other Expenses:			
Accommodation and power		13 673	12 421
Revaluation Decrement		897	-
Loss on disposal of assets	2.7	1 733	3 429
		16 303	15 850
(b) Crediting as Revenue			
Other Revenue:			
Interest on cash		13 601	13 313
Assets recognised for the first time		6 665	2 510
Other revenue		4 518	2 835
		24 784	18 658
(c) Net Expenses from Restructuring of Administrative Arrangements			
The net revenues (expenses) relating to the restructuring of administrative arrangements recognised in the Statement of Financial Performance are the following:			
Information Economy Policy Office		(3 585)	-
Media Monitoring Unit		(101)	-
Office of Government Enterprises		-	15
Office for Recreation and Sport (previously Office for Recreation, Sport and Racing)		26 337	60 779
Department for Aboriginal Affairs and Reconciliation (previously Division of State Aboriginal Affairs)		-	3 739
		22 651	64 533

Information Economy Policy Office

On 12 September 2002, it was published in the Government Gazette that the Information Economy Policy Office (IEPO), a Business Unit of DAIS, would be transferred to the Department for Further Education, Employment, Science and Technology (DFEEST). The Gazette deemed the effective date of transfer to be 1 October 2002. As of this date, all the assets and liabilities of IEPO have been transferred to the DFEEST and have been reported in accordance with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments', relevant Accounting Policy Statements and Urgent Issues Group Abstract 38 'Contributions by Owners Made to Wholly-Owned Public Sector Entities'.

Information Economy Policy Office (continued)

During the reporting period assets and liabilities amounting to \$3.963 million and \$0.378 million respectively were transferred from the Department.

In respect of the activities relinquished, the following assets and liabilities were transferred out of the Department:

	2003	2002
	\$'000	\$'000
Assets:		
Current assets	3 515	-
Non-current assets	448	-
Total Assets	3 963	-
Liabilities:		
Current liabilities	239	-
Non-current liabilities	139	-
Total Liabilities	378	-
NET ASSETS	3 585	-

Media Monitoring Unit

On 12 August 2002, Cabinet approved the transfer of the Media Monitoring Unit from the Department of the Premier and Cabinet (DPC) to DAIS. The effective date of transfer for reporting purposes is 1 July 2002. All the assets and liabilities of these units have been transferred to DAIS and have been reported in accordance with Australian Accounting Standard AAS29 'Financial Reporting by Government Departments', relevant Accounting Policy Statements and Urgent Issues Group Abstract 38 'Contributions by Owners Made to Wholly-Owned Public Sector Entities'.

During the reporting period liabilities amounting to \$0.101 million were transferred to the Department.

	2003	2002
	\$'000	\$'000
Assets:		
Current assets	-	-
Non-current assets	-	-
Total Assets	-	-
Liabilities:		
Current liabilities	59	-
Non-current liabilities	42	-
Total Liabilities	101	-
NET LIABILITIES	101	-

Summary of Total Revenues and Expenses from Ordinary Activities for the period of 1 July 2002 to 30 June 2003 for the Activities Transferred to the Department

The transfer was deemed effective from 1 July 2002. The amounts in the financial statements include the operations for the whole of the reporting period and have been consolidated in the total DAIS results.

Hindmarsh Stadium

By a Cabinet Decision taken on 11 June 2002 approval was given for the transfer of responsibility for Hindmarsh Stadium from the Office for Venue Management to DAIS (Office for Recreation and Sport) with effect from 1 July 2002. All the assets and liabilities of this facility have been transferred to DAIS and have been reported in accordance with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments', relevant Accounting Policy Statements and Urgent Issues Group Abstract 38 'Contributions by Owners Made to Wholly-Owned Public Sector Entities'.

During the reporting period assets and liabilities amounting to \$26.419 million and \$0.82 million respectively were transferred to the Department.

In respect of the activities taken up, the following assets and liabilities were transferred to the Department:

	2003	2002
	\$'000	\$'000
Assets:		
Current assets	296	-
Non-current assets	26 123	-
Total Assets	26 419	-
Liabilities:		
Current liabilities	82	-
Non-current liabilities	-	-
Total Liabilities	82	-
NET ASSETS	26 337	-

Summary of Total Revenues and Expenses from Ordinary Activities for the period of 1 July 2002 to 30 June 2003 for the Activities Transferred to the Department

The transfer was deemed effective from 1 July 2002. The amounts in the financial statements include the operations for the whole of the reporting period and have been consolidated in the total DAIS result.

Office of Government Enterprises (Comparatives 2002 Only)

On 4 December 2001, it was published in the Government Gazette that the Office of Government Enterprises (OGE), a Business Unit of DAIS, would be transferred to the Department of Treasury and Finance (DTF). As of this date, all the assets and liabilities of OGE have been transferred to the DTF and have been reported in accordance with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments', relevant Accounting Policy Statements and Urgent Issues Group Abstract 38 'Contributions by Owners to Wholly-Owned Public Sector Entities'.

Office of Government Enterprises (Comparatives 2002 Only) (continued)

During the reporting period assets and liabilities amounting to \$0.239 million and \$0.254 million respectively were transferred from the Department.

In respect of the activities relinquished, the following assets and liabilities were transferred out of the Department:

	2003	2002
	\$'000	\$'000
Assets:		
Current assets	-	226
Non-current assets	-	13
Total assets	-	239
Liabilities:		
Current liabilities	-	71
Non-current liabilities	-	183
Total liabilities	-	254
NET LIABILITIES	-	15

Office for Recreation, Sport and Racing (Comparatives 2002 Only)

On 4 December 2001, it was also published in the Government Gazette that the Office for Recreation and Sport and the Office for Racing would be transferred from the Department for Environment and Heritage (DEH) to DAIS. All the assets and liabilities of these units have been transferred to DAIS and have been reported in accordance with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments', relevant Accounting Policy Statements and Urgent Issues Group Abstract 38 'Contributions by Owners to Wholly-Owned public Sector Entities'.

During the reporting period assets and liabilities amounting to \$65.041 million and \$4.262 million respectively were transferred to the Department.

In addition to the transfer of net assets to the Department, the administration of two special deposit account operations ('Recreation and Sport Fund' and 'Sport and Recreation Fund') were also transferred and are recognised as administered amounts in the financial statements as at 30 June 2002. Refer Notes 3 and 35.

In respect of the activities taken up, the following assets and liabilities were transferred to the Department:

	2003	2002
	\$'000	\$'000
Assets:		
Current assets	-	12 838
Non-current assets	-	52 203
Total Assets	-	65 041
Liabilities:		
Current liabilities	-	3 097
Non-current liabilities	-	1 165
Total Liabilities	-	4 262
NET ASSETS	-	60 779

Division of State Aboriginal Affairs (Comparative 2002 Only)

On 4 December 2001, it was published in the Government Gazette that the Division of State Aboriginal Affairs was transferred from the Department for Transport, Urban Planning and the Arts (DTUPA) to DAIS. All the assets and liabilities of these units have been transferred to DAIS and have been reported in accordance with Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments', relevant Accounting Policy Statements and Urgent Issues Group Abstract 38 'Contributions by Owners to Wholly-Owned Public Sector Entities'.

During the reporting period assets and liabilities amounting to \$6.437 million and \$2.698 million respectively were transferred to the Department.

In addition to the transfer of net assets to the Department, the administration of the ATSIC operations was also transferred and is recognised as administered amounts in the financial statements as at 30 June 2002. Refer Notes 3 and 35.

In respect of the activities relinquished, the following assets and liabilities were transferred to the Department:

	2003	2002
	\$'000	\$'000
Assets:		
Current assets	-	5 386
Non-current assets	-	1 051
Total Assets	-	6 437
Liabilities:		
Current liabilities	-	1 924
Non-current liabilities	-	774
Total Liabilities	-	2 698
NET ASSETS	-	3 739

5. Targeted Voluntary Separation Packages (TVSPs)

In accordance with Government policy to reduce the public sector workforce, 32 (98) employees of the Department were paid TVSPs during 2002-03.

These payments were met by the Department and have been in part recovered from a fund administered by the Department of the Premier and Cabinet (DPC) and Department of Treasury and Finance (DTF).

5. Targeted Voluntary Separation Packages (TVSPs) (continued)	Note	2003 \$'000	2002 \$'000
TVSP payments		1 875	6 974
Recovered from the DPC and DTF in respect of TVSPs		1 157	5 857
Annual and long service leave accrued over the period of employment paid to employees who received TVSPs		269	2 123
6. Retained Profits			
Retained profits at 1 July		230 459	144 272
Net profit		89 031	120 476
Dividend declared		(56 694)	(36 537)
Transfers to and from reserves:			
Transfer from Asset Revaluation Reserve		2 003	2 248
Retained Profits at 30 June		264 799	230 459
7. Superannuation			
Amount paid to the Department of Treasury and Finance towards the accruing Government liability for superannuation in respect of its employees		10 490	10 275
8. Redeployees			
The Department funds the cost of redeployees within a corporate Placement Services Unit. The net cost for 2002-03 includes accommodation, training and outplacement services. This amount is included under expenses from ordinary activities.		3 198	4 321
9. Auditors' Remuneration			
Estimated amounts payable to the auditors of the Department		482	498
10. Fees Paid to Consultants			
Fees paid or payable to consultants		2 175	3 421
11. Inventories			
Work in progress - Construction and other Projects:	2.4(a)		
Cost to date plus profit recognised		64 780	66 394
Less: Progress billings		61 663	62 391
		3 117	4 003
Stock:	2.4(b)		
Other stock on hand		2 598	2 461
		5 715	6 464
12. Cash	2.18		
Cash held with Treasury		253 203	198 164
Cash held in imprest account and petty cash		201	259
		253 404	198 423
13. Receivables (Current)	2.18		
Trade debtors		29 907	57 612
Less: Provision for doubtful debts		999	1 404
		28 908	56 208
Loans receivable		4 066	3 111
Less: Provision for doubtful debts		3 994	3 195
		72	(84)
		28 980	56 124
Receivables (Non-Current)	2.18		
Loans Receivable		910	1 001
		910	1 001
14. Accrued Revenue			
TVSPs and incentive payments	5	1 990	2 377
Other accrued revenue	2.6	21 075	24 416
		23 065	26 793
15. Other Current Assets			
Accrued interest on bank		4 441	1 415
Prepaid expenses		6 887	11 216
		11 328	12 631

16. Land, Buildings and Fitouts	Note	2003 \$'000	2002 \$'000
Recreation, Sporting and Stadia Infrastructure:	2.7		
Land		43 143	21 755
Building and facilities		70 554	39 516
Less: Accumulated depreciation		-	11 264
		<u>113 697</u>	<u>50 007</u>
Commercial Properties:			
Land		35 521	27 031
Building plant		-	9 399
Buildings		111 380	103 390
Less: Accumulated depreciation		5 606	3 730
		<u>141 295</u>	<u>136 090</u>
Industrial Properties:			
Land		6 985	5 635
Building plant		-	1 447
Buildings		16 060	15 190
Less: Accumulated depreciation		18	313
		<u>23 027</u>	<u>21 959</u>
Heritage Properties:			
Land		6 288	5 788
Building plant		-	626
Buildings		5 799	5 334
Less: Accumulated depreciation		215	98
		<u>11 872</u>	<u>11 650</u>
Residential Properties:			
Land		23 565	21 709
Buildings		95 610	90 207
Buildings - Lease receivable		5 791	5 534
Less: Accumulated depreciation		-	-
		<u>124 966</u>	<u>117 450</u>
Fitouts:			
In owned buildings - At cost		9 000	5 614
Less: Accumulated depreciation		3 882	2 962
		<u>5 118</u>	<u>2 652</u>
In leased buildings - At cost		17 356	15 923
Less: Accumulated depreciation		6 958	5 304
		<u>10 398</u>	<u>10 619</u>
Total Fitouts		<u>15 516</u>	<u>13 271</u>
Total Freehold Land, Buildings and Fitouts		<u>430 373</u>	<u>350 427</u>
Lessor Finance Lease Receivable:			
Not later than one year		902	822
Later than one year and not later than five years		3 014	2 795
Later than five years		5 036	4 210
		<u>8 952</u>	<u>7 827</u>
Deduct future finance charges		3 161	2 293
		<u>5 791</u>	<u>5 534</u>
17. Assets under Finance Lease	2.11		
Motor Vehicles:			
At valuation		111 278	111 278
Less: Accumulated amortisation		61 610	50 709
		<u>49 668</u>	<u>60 569</u>
Accommodation:			
At valuation		19 121	19 121
Less: Accumulated amortisation		969	311
		<u>18 152</u>	<u>18 810</u>
Plant and Equipment:			
At valuation		2 846	2 374
Less: Accumulated amortisation		1 665	864
		<u>1 181</u>	<u>1 510</u>
Total Assets under Finance Lease		<u>69 001</u>	<u>80 889</u>
18. Plant and Equipment	2.7		
At cost		52 704	45 149
Less: Accumulated depreciation		30 827	27 594
		<u>21 877</u>	<u>17 555</u>
19. Government Radio Network	2.7, 2.8		
Assets held ready for use		97 031	82 888
Less: Accumulated depreciation		22 609	13 303
		<u>74 422</u>	<u>69 585</u>
Assets under construction		4 286	12 009
		<u>78 708</u>	<u>81 594</u>

20. Motor Vehicles		Note	2003	2002
	At cost	2.7	\$'000	\$'000
	Less: Accumulated depreciation		17 971	6 273
			459	-
			17 512	6 273

21. Movement in Carrying Amounts of Non-Current Assets as at 30 June 2003

	Balance at 1.7.02 \$'000	Reclassi- fication \$'000	Additions \$'000	Recovery Of Principal \$'000	Asset Recognised for First Time \$'000	Disposals \$'000
Land, Buildings and Fitouts						
Recreation, Sporting and Stadia						
Infrastructure:						
Land	18 080	(8 571)	-	-	-	-
Buildings and Improvements	31 927	8 571	1 094	-	-	-
	50 007	-	1 094	-	-	-
Commercial Properties:						
Land	27 031	-	30	-	6 625	(2 537)
Building Plant	8 070	(8 070)	-	-	-	-
Buildings	100 989	7 856	2 665	-	-	(559)
	136 090	(214)	2 695	-	6 625	(3 096)
Industrial Properties:						
Land	5 635	-	-	-	-	-
Building Plant	1 342	(1 342)	-	-	-	-
Buildings	14 982	1 342	1 140	-	-	-
	21 959	-	1 140	-	-	-
Heritage Properties:						
Land	5 788	-	-	-	-	(100)
Building Plant	598	(598)	-	-	-	-
Buildings	5 264	598	76	-	-	-
	11 650	-	76	-	-	(100)
Residential Properties:						
Land	21 709	(997)	-	-	-	(687)
Buildings	95 741	(3 748)	3 383	-	-	(2 257)
Buildings-Lease Receivable	-	2 365	-	(509)	-	-
	117 450	(2 380)	3 383	(509)	-	(2 944)
Fitouts:						
In Owned Buildings	2 652	2 380	1 007	-	-	-
In Leased Buildings	10 619	214	1 378	-	-	3
	13 271	2 594	2 385	-	-	3
Total Land, Buildings and Fitouts	350 427	-	10 773	(509)	6 625	(6 137)

	Revaluation Increments (Decrements) \$'000	Restructure Transfer \$'000	Write-off \$'000	Depreciation Expense \$'000	Carrying Amount at 30.6.03 \$'000
Land, Buildings and Fitouts					
Recreation, Sporting and Stadia					
Infrastructure:					
Land	27 889	2 070	-	-	39 468
Buildings and Improvements	10 631	23 670	-	(1 664)	74 229
	38 520	25 740	-	(1 664)	113 697
Commercial Properties:					
Land	4 372	-	-	-	35 521
Building Plant	-	-	-	-	-
Buildings	744	-	-	(5 921)	105 774
	5 116	-	-	(5 921)	141 295
Industrial Properties:					
Land	1 350	-	-	-	6 985
Building Plant	-	-	-	-	-
Buildings	(741)	-	-	(681)	16 042
	609	-	-	(681)	23 027
Heritage Properties:					
Land	600	-	-	-	6 288
Building Plant	-	-	-	-	-
Buildings	(155)	-	-	(199)	5 584
	445	-	-	(199)	11 872
Residential Properties:					
Land	3 540	-	-	-	23 565
Buildings	3 855	-	-	(1 364)	95 610
Buildings-Lease Receivable	3 935	-	-	-	5 791
	11 330	-	-	(1 364)	124 966
Fitouts:					
In Owned Buildings	-	-	-	(921)	5 118
In Leased Buildings	-	(148)	-	(1 668)	10 398
	-	(148)	-	(2 589)	15 516
Total Land, Buildings and Fitouts	56 020	25 592	-	(12 418)	430 373

21. Movement in Carrying Amounts of Non-Current Assets as at 30 June 2003 (continued)

Other Fixed Assets:	Balance at 1.07.02 \$'000	Additions \$'000	Transfer from Assets Under Construction \$'000	Restructure Transfer \$'000
Plant and Equipment	17 555	8 478	-	53
Motor Vehicles	6 273	15 539	-	-
Government Radio Network				
Assets held ready for use	69 585	327	13 817	-
Assets under construction	12 009	6 094	(13 817)	-
	81 594	6 421	-	-
				Carrying Amount at 30.06.03 \$'000
Other Fixed Assets:	Disposals \$'000	Deferred Profit on Sale \$'000	Depreciation Expense \$'000	
Plant and Equipment	(106)	-	(4 103)	21 877
Motor Vehicles	(3 626)	(215)	(459)	17 512
Government Radio Network				
Assets held ready for use	-	-	(9 307)	74 422
Assets under construction	-	-	-	4 286
	-	-	(9 307)	78 708

22. Other Non-Current Assets

	Note	2003 \$'000	2002 \$'000
TOGA Development Loan		2 000	-
Other		1 000	-
Asset replacement investment account		-	7 499
Investments in Ngapartji	2.9	-	300
		3 000	7 799

23. Creditors and Accrued Expenses

Client monies received in advance	2.10	5 728	5 728
Trade creditors	2.18	2 478	4 690
Accrued expenses		49 172	40 250
Incentive monies owing	2.17	1 932	2 489
		59 310	53 157

24. Borrowings

Current:			
Finance leases	2.11, 30	12 816	12 127
Other		30	30
		12 846	12 157
Non-Current:			
Borrowings from State Government	2.18	90 738	91 777
Finance leases	2.11, 30	64 028	76 497
		154 766	168 274

25. Provisions

Current:			
Across Government initiatives	2.19	356	808
Provision for income tax		-	1 399
		356	2 207
Non-Current:			
Across Government initiatives		-	549
		-	549
Movements in Provisions			
Across Government Initiatives:			
Balance 1 July		1 357	2 586
Net movement during the year		(1 001)	(1 229)
Balance 30 June		356	1 357
Provision for Income Tax:			
Balance 1 July		1 399	1 781
Net movement during the year		(1 399)	(382)
Balance 30 June		-	1 399

26. Employee Benefits		2003	2002
Current:	Note	\$'000	\$'000
Accrued salaries and wages		666	-
Annual leave	2.12	6 887	6 960
Workers compensation	2.13	1 330	1 157
Long service leave	2.12	1 797	3 699
		<u>10 680</u>	<u>11 816</u>
Non-Current:			
Workers Compensation	2.13	3 522	3 614
Long service leave	2.12	28 985	25 449
		<u>32 507</u>	<u>29 063</u>
27. Other Current Liabilities			
Prepaid reimbursements relating to the sale and leaseback of motor vehicles	2.11	945	98
Prepaid revenue	2.16	5 257	6 531
Contractor Reimbursements in Advance:	2.5, 13		
Contractor Recoveries		366 021	392 073
Less: Contractor Payments		<u>364 037</u>	<u>388 002</u>
		1 984	4 071
Deferred profit on sale and leaseback of motor vehicles	2.11	2 252	2 769
Accrued interest		<u>637</u>	<u>507</u>
		<u>11 075</u>	<u>13 976</u>
28. Reserves			
Asset Revaluation Reserve:			
Balance at the beginning of the reporting period		114 015	74 451
Revaluation increments		56 877	41 812
Transfer (from) Asset Revaluation Reserve		<u>(2 003)</u>	<u>(2 248)</u>
Closing balance		<u>168 889</u>	<u>114 015</u>
Surplus Incentive Funds Reserve:			
Balance at the beginning of the reporting period		666	666
Net movement during the year		-	-
Closing balance		<u>666</u>	<u>666</u>
Capital Reserves:			
Balance at the beginning of the reporting period		5 546	5 546
Net movement during the year		-	-
Closing balance		<u>5 546</u>	<u>5 546</u>
Total Reserves		<u>175 101</u>	<u>120 227</u>
29. Capital Funds provided by the South Australian Government			
During the current year additional funds of \$18.345 million were provided to the Department as equity funding for the Government Radio Network Project (GRN) and Automated Torrens Land Title Administration System (ATLAS).			
Balance at the beginning of the reporting period		204 088	166 249
Movement during the year		<u>18 345</u>	<u>37 839</u>
Closing Balance		<u>222 433</u>	<u>204 088</u>
30. Finance Lease Commitments	2.11		
Motor Vehicles:			
Not later than one year		15 090	15 395
Later than one year and not later than five years		38 366	47 163
Later than five years		<u>6 995</u>	<u>13 288</u>
		60 451	75 846
Deduct future finance charges		<u>10 783</u>	<u>15 277</u>
		<u>49 668</u>	<u>60 569</u>
Classified as:			
Current		11 509	10 900
Non-Current		<u>38 159</u>	<u>49 669</u>
		<u>49 668</u>	<u>60 569</u>
Accommodation:			
Not later than one year		3 750	3 573
Later than one year and not later than five years		15 000	14 281
Later than five years		<u>68 855</u>	<u>69 217</u>
		87 605	87 071
Deduct future finance charges		<u>61 623</u>	<u>60 540</u>
		<u>25 982</u>	<u>26 531</u>
Classified as:			
Current		581	550
Non-Current		<u>25 401</u>	<u>25 981</u>
		<u>25 982</u>	<u>26 531</u>

30. Finance Lease Commitments (continued)			2003	2002
Plant and Equipment:	Note		\$'000	\$'000
Not later than one year			780	754
Later than one year and not later than five years			489	897
Later than five years			-	-
			1 269	1 651
Deduct future finance charges			75	127
			1 194	1 524
Classified as:				
Current			726	677
Non-Current			468	847
			1 194	1 524
Total Finance Lease Commitments				
Current			12 816	12 127
Non-current			64 028	76 497
			76 844	88 624
31. Operating Lease Commitments	2.11			
Not later than one year			66 559	60 726
Later than one year and not later than five years			186 694	177 203
Later than five years			82 866	113 996
Total Operating Lease Commitments			336 119	351 925
32. Statement of Cash Flows				
(a) Reconciliation of Cash				
For the purposes of the Statement of Cash Flows, cash is cash at Bank	12		253 404	198 423
(b) Reconciliation of Operating Profit to Net Cash provided by Operating Activities				
Operating profit			89 031	120 476
Non cash items:				
Depreciation of buildings, plant and equipment			26 287	24 516
Assets recognised for the first time			(6 665)	(2 510)
Loss on disposal of assets			2 249	3 429
Net revenue on restructuring			(25 962)	(48 290)
Amortisation of finance lease			12 360	11 380
Profit on sale and leaseback			(516)	(516)
Revaluation decrement			897	-
Change in assets and liabilities:				
Decrease in debtors			26 750	19 168
Increase in provision for doubtful debts			394	1 477
Decrease in inventories			749	2 296
Decrease (Increase) in accrued revenue			702	(2 246)
Decrease (Increase) in prepaid expenses			4 329	(847)
(Decrease) Increase in creditors			(2 212)	317
Increase (Decrease) in accrued expenses			7 333	(16 722)
(Decrease) Increase in prepaid revenue			(3 361)	2 662
(Decrease) in incentive monies owing			(557)	(93)
Increase (Decrease) in provisions			457	(4 750)
Net Cash provided by Operating Activities			132 265	109 747
33. Remuneration of Employees				
Amounts received or receivable by employees of the Department whose remuneration is greater than \$100 000. The amounts include salaries and related payments, superannuation benefits and motor vehicle benefits:			8 261	7 731
The number of employees of the Department whose remuneration falls within the following bands for the year ended were:			2003	2002
			Number of	Number of
			Employees	Employees
\$100 000 - \$109 999			7	11
\$110 000 - \$119 999			11	10
\$120 000 - \$129 999			8	6
\$130 000 - \$139 999			8	5
\$140 000 - \$149 999			3	6
\$150 000 - \$159 999			5	1
\$160 000 - \$169 999			1	4
\$170 000 - \$179 999			5	6
\$180 000 - \$189 999			2	-
\$190 000 - \$199 999			2	2
\$200 000 - \$209 999			2	2
\$210 000 - \$219 999			1	-
\$230 000 - \$239 999			-	1
\$240 000 - \$249 999			-	1
\$250 000 - \$259 999			1	-
\$290 000 - \$299 000			1	-

During the year, one employee who transferred from the Department as a result of government administrative restructures, had remuneration exceeding \$100 000. Prior to their transfer from the Department, \$62 000 was paid to this employee. This amount has not been included in this remuneration note.

34. Business Unit Information

DAIS carries out a number of functions and services through its business units. These functions are as follows:

- Building Maintenance - Provides a comprehensive facilities management service to government agencies.
- Building Management and Major Projects - Provides leadership to government and the building and construction industry for policy and practices in the management and procurement of government built assets. Incorporates administrative support to the Industrial & Commercial Premises Corporation which facilitates the construction of premises for firms establishing or expanding in South Australia.
- Major Projects Unit provides specialist project management services in strategic partnership with other government agencies to deliver major and complex projects that support the economic development of the State.
- Contract Services - Best value government procurement including contract development and management, advice and supply, distribution and disposal operations; secretarial support to the State Supply Board.
- Department for Aboriginal Affairs & Reconciliation (previously called Division of State Aboriginal Affairs) - Creates Aboriginal sustainable development, provides and maintains community infrastructure, administers Aboriginal heritage legislation, supports the State's land holding authorities and monitors and evaluates government services.
- Government ICS (includes Services SA and Future ICT) - Supports the efficient electronic delivery of government services and takes a strategic leadership role in the planning, management and delivery of information and communication services across the public sector. Services SA provides a common first line service delivery point for South Australians to conduct financial transactions with government, access government related information services or receive referral for more specialised government services.
- Land Services - Provides a government guaranteed system of land titling, land boundary security, and a viable and impartial property valuation service for the benefit of business, government and the community.
- Office for Recreation and Sport - Promotes growth and excellence in recreation and sport for South Australia by providing leadership, services and assistance to State bodies, local government, community and private sector organisations servicing the recreation and sporting industries.
- Office for Racing - Provides strategic policy advice to the SA Government to assist the racing industry to operate successfully and flourish financially within an environment that promotes public confidence.
- Real Estate Management - Provides expert services to manage all aspects of government agencies' commercial office accommodation and housing for government employees who provide essential public services in country areas. The portfolio of owned and leased office accommodation is represented by SA Government Commercial Properties and the portfolio of housing assets is represented by SA Government Employee Residential Properties.
- Policy, Planning and Community Services - Enhances organisational performance by facilitating strategy, planning, policy and communications so that the Department is responsive to stakeholders and the community needs.
- State Records - Provides records management services across all State Government agencies and local councils and provides a range of archival services for preservation of and access to official records.
- Information Economy Policy Office - Transfer to DFEEST 1 October 2002. Refer Note 4.
- Fleet SA - Provides fleet management services for government vehicles including policy advice, vehicle leasing, car-pooling, maintenance, accident and fuel management, vehicle fit out, disposals preparation and a Chauffeured VIP Fleet Service.
- Forensic Science - Provides independent pathology and scientific analysis services to the justice system and the community.
- Workplace Services - Promotes and encourages effective occupational health, safety and welfare and workplace relations practices by informing and educating employees and employers of their responsibilities, rights and obligations, and ensuring compliance with relevant legislation.
- Government Publishing SA - Manages the publication and dissemination of a range of key parliamentary and government publications for the South Australian Government.
- Industrial Relations Court, Commission and Workers Compensation Tribunal - Provides administrative and financial management support and carries out the registry functions for the Industrial Relations Court and Commission and Workers Compensation Tribunal.
- Business and Corporate Services - Delivers a range of corporate business functions and services, project managements services, and business policy and planning services, to DAIS and other governments agencies on a 'shared services' basis. Corporate Services includes the activities of the Office of the Chief Executive, Employee Ombudsman and the Ministers' Office.

34. Business Unit Information (continued)

Abridged Statement of Financial Performance

	Revenue from Ordinary Activities			Expenses from Ordinary Activities	
	Sales and Misc Revenue	Appropriations	Total Revenues from Ordinary Activities	Employee Expenses	Goods and Services
	\$'000	\$'000	\$'000	\$'000	\$'000
Building Maintenance	56 403	300	56 703	6 177	49 759
Building Management and Major Projects	9 448	5 510	14 958	7 082	7 125
Contract Services	24 249	1 396	25 645	4 667	23 530
Department for Aboriginal Affairs and Reconciliation	1 753	10 028	11 781	3 433	9 125
Government ICS	149 420	29 414	178 834	11 393	144 255
Land Services	82 731	857	83 588	18 732	7 812
Office for Racing	-	451	451	276	118
Office for Recreation and Sport	5 671	21 237	26 908	5 692	22 962
Real Estate Management	5 598	52	5 650	3 264	1 980
SA Government Commercial Properties	104 975	2 595	107 570	-	91 790
SA Government Employee Residential Properties	16 242	-	16 242	-	13 865
Policy	34	1 714	1 748	1 279	843
State Records	844	2 373	3 217	2 356	2 707
Government Business Group	-	-	-	-	-
Information Economy Policy Office	71	2 332	2 403	541	331
Fleet SA	71 372	6 940	78 312	4 207	68 381
Forensic Science	2 781	6 543	9 324	5 496	3 816
Workplace Services	7 654	8 271	15 925	9 807	5 378
Government Publishing SA	2 275	663	2 938	689	1 649
Industrial Relations Court, Commission and Workers Compensation Tribunal	4 944	3 358	8 302	4 937	3 018
Business and Corporate Services	28 526	17 488	46 014	21 135	19 702
Eliminations	(30 668)	-	(30 668)	-	(30 668)
Consolidation	544 323	121 522	665 845	111 163	447 478

	Depreciation and Amortisation	Total Expenses from Ordinary Activities	2003 Profit	2002 Profit
			from Ordinary Activities	from Ordinary Activities
			Before Restructuring	Before Restructuring
	\$'000	\$'000	\$'000	\$'000
Building Maintenance	7	55 943	760	1 386
Building Management and Major Projects	152	14 359	599	(236)
Contract Services	171	28 368	(2 723)	(1 670)
Department for Aboriginal Affairs and Reconciliation	234	12 792	(1 011)	(396)
Government ICS	12 610	168 258	10 576	12 354
Land Services	105	26 649	56 939	48 005
Office for Racing	-	394	57	-
Office for Recreation and Sport	1 817	30 471	(3 563)	5 337
Real Estate Management	95	5 339	311	698
SA Government Commercial Properties	7 421	99 211	8 359	4 687
SA Government Employee Residential Properties	2 285	16 150	92	1 690
Policy	-	2 122	(374)	(611)
State Records	19	5 082	(1 865)	(1 918)
Government Business Group	-	-	-	(310)
Information Economy Policy Office	13	885	1 518	865
Fleet SA	11 413	84 001	(5 689)	(8 480)
Forensic Science	720	10 032	(708)	103
Workplace Services	131	15 316	609	(395)
Government Publishing SA	6	2 344	594	504
Industrial Relations Court, Commission and Workers Compensation Tribunal	106	8 061	241	800
Business and Corporate Services	1 342	42 179	3 835	(7 305)
Eliminations	-	(30 668)	-	-
Consolidation	38 647	597 288	68 557	55 108

34. Business Unit Information (continued)

Abridged Statement of Financial Position

	Assets			Liabilities			2003 Net Assets \$'000	2002 Net Assets \$'000
	Current Assets \$'000	Non- Current Assets \$'000	Total Assets \$'000	Current Liabilities \$'000	Non- Current Liabilities \$'000	Total Liabilities \$'000		
Building Maintenance	17 172	21	17 193	4 788	5 560	10 348	6 845	5 996
Building Management and Major Projects	44 557	5 715	50 272	17 688	2 931	20 619	29 653	29 281
Contract Services	(268)	407	139	1 269	978	2 247	(2 108)	1 190
Department for Aboriginal Affairs and Reconciliation	3 171	911	4 082	857	847	1 704	2 378	3 341
Government ICS	70 285	86 248	156 533	19 432	1 958	21 390	135 143	126 867
Land Services	82 673	5 054	87 727	7 143	5 337	12 480	75 247	53 143
Office for Racing	127	-	127	40	30	70	57	-
Office for Recreation and Sport	14 087	115 446	129 533	1 109	1 015	2 124	127 409	66 116
Real Estate Management	2 246	946	3 192	380	862	1 242	1 950	1 682
Policy	(320)	-	(320)	127	224	351	(671)	(333)
SA Government Commercial Properties	42 443	195 581	238 024	4 290	76 588	80 878	157 146	143 363
SA Government Employee Residential Properties	7 073	130 085	137 158	1 043	36 168	37 211	99 947	89 159
Government Business Group	-	-	-	-	-	-	-	2 287
State Records	(6)	967	961	264	275	539	422	-
Information Economy Policy Office	-	-	-	-	-	-	-	2 078
Fleet SA	(9 190)	67 462	58 272	30 229	39 226	69 455	(11 183)	(4 064)
Forensic Science	302	7 034	7 336	633	1 050	1 683	5 653	6 377
Workplace Services	2 309	133	2 442	1 399	2 588	3 987	(1 545)	(2 132)
Government Publishing SA	906	55	961	316	239	555	406	279
Industrial Relations Court, Commission and Workers Compensation Tribunal	2 358	613	2 971	664	692	1 356	1 615	1 343
Business and Corporate Services	42 567	4 703	47 270	2 596	10 705	13 301	33 969	28 801
Consolidation	322 492	621 381	943 873	94 267	187 273	281 540	662 333	554 774

**35. Schedule of Administered items
Statement of Financial Performance**

	Revenue from Ordinary Activities			Expenses from Ordinary Activities			2003 Net Profit (Loss) from Ordinary Activities \$'000	2002 Net Profit (Loss) from Ordinary Activities \$'000
	Recpts and Other Revenue \$'000	Recpts from Govt \$'000	Total Revenue from Ordinary Activities \$'000	Emple Expnses \$'000	Other Opratng Expnses \$'000	Total Opratng Expnses \$'000		
Asset Sales Deposit Account	1	(27)	(26)	(123)	46	(77)	51	(28)
Gaming Machines	30 678	-	30 678	-	31 984	31 984	(1 306)	(106)
State Government Auctions	86 843	-	86 843	-	86 862	86 862	(19)	(56)
CBA Vehicles	97 463	-	97 463	-	95 101	95 101	2 362	3 015
Special Acts Salaries	-	19	19	2 219	-	2 219	(2 200)	17
Lands Services Group Trust Funds	767	-	767	-	43	43	724	50
Major Administered Projects	47	4 338	4 385	-	6 222	6 222	(1 837)	(3 615)
World Congress on IT 2002	-	-	-	-	-	-	-	659
Workcover Review	249	-	249	14	214	228	21	-
ATSIC	5 578	-	5 578	-	2 635	2 635	2 943	4 423
Sport and Rec Fund	-	3 000	3 000	-	1 104	1 104	1 896	1 893
Rec & Sport Fund	256	-	256	-	191	191	65	238
Total	221 882	7 330	229 212	2 110	224 402	226 512	2 700	6 490

35. Schedule of Administered items (continued)

Statement of Financial Position

	Assets			Liabilities			2003	2002
	Current	Non-Current	Total	Current	Non-Current	Total	Net Assets	Net Assets
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Asset Sales Deposit Account	(17)	-	(17)	-	-	-	(17)	1 768
Gaming Machines	2 054	-	2 054	8	-	8	2 046	3 351
State Government Auctions	109	-	109	109	-	109	-	19
CBA Vehicles	10 250	-	10 250	2 924	-	2 924	7 326	4 963
Special Acts Salaries	(2 004)	-	(2 004)	46	116	162	(2 166)	34
Lands Services Group Trust Funds	5 119	-	5 119	-	-	-	5 119	4 396
Major Administered Projects	1 451	-	1 451	-	-	-	1 451	3 288
World Congress on IT 2002	-	-	-	-	-	-	-	628
WorkCover Review	20	-	20	-	-	-	20	-
ATSIC	7 365	-	7 365	-	-	-	7 365	4 423
Sport and Rec Fund	3 789	-	3 789	-	-	-	3 789	1 893
Rec & Sport Fund	303	-	303	-	-	-	303	238
Total	28 439	-	28 439	3 087	116	3 203	25 236	25 001

Statement of Cash Flows

	Operating Activities			Investing Activities		Net Increase (Decrease) Cash Held \$'000	Cash Balance as at 1 July \$'000	Cash Balance as at 30 June \$'000
	Inflows	Less: Outflows	Net Operating Activities	Cash from Operating Activities	Net Cash from Financing Activities			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Asset Sales Deposit Account	(26)	20	(46)	-	-	(46)	29	(17)
Gaming Machines	30 686	31 974	(1 288)	-	-	(1 288)	3 342	2 054
State Government Auctions	86 843	86 753	90	-	-	90	19	109
CBA Vehicles	95 480	98 874	(3 394)	-	-	(3 394)	6 424	3 030
Special Acts Salaries	1 915	2 093	(178)	-	-	(178)	(1 826)	(2 004)
Lands Services Group Trust Funds	693	43	650	-	-	650	4 396	5 046
Major Administered Projects	4 188	6 222	(2 034)	-	-	(2 034)	3 277	1 243
World Congress on IT 2002	123	227	(104)	(855)	-	(959)	959	-
WorkCover Review	314	228	86	-	-	86	-	86
ATSIC	6 103	3 264	2 839	-	-	2 839	4 411	7 250
Sport and Rec Fund	3 000	1 104	1 896	-	-	1 896	1 893	3 789
Rec & Sport Fund	256	191	65	-	-	65	238	303
Total	229 589	230 992	(1 403)	(855)	(2 273)	(2 273)	23 162	(20 889)

36. Administered Units: Remuneration of Employees

	2003	2002
	\$'000	\$'000
Amounts received or receivable by employees included under administered items whose remuneration is greater than \$100 000	2 393	1 988

The amounts include salaries, related payments and superannuation benefits.

The number of employees relating to Administered Items whose remuneration falls within the following bands for the year ended were:

	Number of Employees	Number of Employees
\$110 000 - \$119 999	2	-
\$130 000 - \$139 999	-	2
\$140 000 - \$149 999	1	-
\$160 000 - \$169 999	-	1
\$180 000 - \$189 999	2	-
\$200 000 - \$209 999	-	1
\$220 000 - \$229 999	1	-
\$250 000 - \$259 999	-	1
\$260 000 - \$269 999	-	3
\$270 000 - \$279 999	2	-
\$280 000 - \$289 999	2	1
\$300 000 - \$309 999	1	-

37. Contingent Liabilities

37.1 Hindmarsh Stadium

In 1996 and 1997 the Government entered into formal arrangements with the South Australian Soccer Federation (SASF), regarding the capital redevelopments and fit out works associated with stage 1 construction of the Stadium. The arrangements resulted in the SASF securing two loans from an external banking institution, \$4.1 million (Stage 1 Construction) and \$2 million (Stage 1 Fit Out), to be applied with the government funding to the abovementioned works.

As part of the arrangements the loans of the SASF are underwritten by the Government. As such the Department is contingently liable for the outstanding balance of the loans of the SASF. At balance date the outstanding balance of the respective loans were \$3.5 million and \$1.7 million.

37.1 Hindmarsh Stadium (continued)

During the reporting period the Department met the loan obligations of the SASF, consistent with the loan and underwriting arrangements, as follows:

Stage 1 Construction

Payments relating to the loan obligations totalling \$421 000 (\$421 500). Interest totalling \$243 500 (\$182 500) was charged during the reporting period. These amounts are recoverable from the SASF.

Stage 1 Fit Out

Payments relating to the loan obligations totalling \$194 000 (\$194 500). Interest totalling \$87 000 (\$62 000) was charged during the reporting period. These amounts are recoverable from the SASF.

Over the term of the loans, the Department has met repayments for the loans totalling \$3.955 million. These amounts have been included in receivables, along with additional interest accruals in accordance with the loan underwriting arrangements.

37.2 Netball Stadium - ETSA Park

In 1997 the Government entered into formal arrangements with the South Australian Netball Association (SANA), regarding the construction of a netball stadium at Mile End. The arrangements resulted in the SANA securing a loan of \$3.5 million from an external banking institution to be applied with Government funding toward the stadium construction.

As part of the arrangements the loan of SANA is underwritten by the Government. As such the Department is contingently liable for the outstanding balance of the loan of the SANA. At balance date the outstanding balance of the loan was \$3.2 million.

During the reporting period the SANA met its loan obligations and the Department was not required to underwrite any payment shortfalls.

38. Post Balance Date Events

On 23 July, the Government announced that the Public Sector Workforce Relations Division in the Office for the Commissioner for Public Employment will be moved to DAIS, thereby consolidating the Government's industrial relations and occupational health and safety related functions. The consequences of this event will be incorporated into future financial statements and no financial impact is reflected in the 2002-03 financial statement

On 24 July the Chief Executive of the Department for Environment and Heritage (DEH) and the Chief Executive of DAIS approved transfer arrangements for a range of land administration functions from DEH to DAIS. The functions include Section 7 of the 'Land and Business (Sale and Conveyancing) Act 1994', LOTS, Property Assist and related IT and financial services. The consequences of this event will be incorporated into future financial statements and no financial impact is reflected in the 2002-03 financial statements.

STATE SUPPLY BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The State Supply Board, a statutory authority established under the *State Supply Act 1985* (the Act), is principally responsible for providing a framework for public sector supply.

An amendment to the Act was effected in January 2002 which extended the definition of supply operations to cover not only goods but also services and other commodities, namely energy and intellectual property. In so doing the amendment makes it clear that the Board's statutory ambit regarding supply operations covers public authorities in relation to the management, procurement, disposal and control of both goods and services.

Functions

The functions of the State Supply Board are to:

- undertake, make arrangements for or control the supply operations of public authorities;
- develop and issue policies, principles and guidelines, and give directions, relating to the supply operations of public authorities;
- investigate and keep under review the supply operations of public authorities;
- provide advice relating to the supply operations of public authorities, including the training and development of persons engaged in supply operations.

The Board is also responsible for the purchase and on selling of gaming machines under the *Gaming Machines Act 1992*.

Structure

The Board comprises six members appointed by the Governor and, except as provided by the Act, is not subject to ministerial control and direction. The Board receives policy, administrative and financial accounting support from the Department for Administrative and Information Services (DAIS) for which it is charged a management fee. The Contract Services Business Unit within DAIS administers the strategic and complex whole-of-government contracts on behalf of the Board.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 21(2) of the *State Supply Act 1995* provides for the Auditor-General to audit the accounts of the State Supply Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the State Supply Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03 specific areas of Audit attention included:

- Supply Operations framework
- contract management
- expenditure and revenue
- salaries
- Board Minutes.

The accounts and financial transactions of the Board are maintained and processed by DAIS. In addition, in relation to the contract management activity, the Contract Services Business Unit of DAIS undertakes certain aspects of this activity on behalf of the Board. Audit reviews of the financial operations and contract management activity of the Board was covered as part of the examination of the operations, systems and processes of DAIS.

During the year Audit communicated in writing to the Board with respect to issues of importance regarding good procurement practice. In addition comments were also provided to the Board in relation to proposed changes to existing legislation governing procurement arrangements of public sector agencies. Matters communicated to the Board have included:

- advising of the importance of clarity of definition of supply operations in legislation, to ensure the Board and the agencies of government have a clear understanding of the types of procurement activities that come within the ambit of the definition and the Board's authority and responsibility.
- relating on the issues of clarity of role, authority and responsibility relationships among Ministerial portfolio department agencies, Accredited Purchasing Units established within the department agencies and individual statutory authorities that come within the Ministerial portfolio of agencies.
- matters governing policies, principles and guidelines of procurement practice, including mechanisms used by agencies to invite offers from the market; use of probity auditors/advisors; contract registers; contract waivers; and policy and guideline formulation and promulgation.

Further audit review work is proposed in relation to procurement practices within government agencies. That work will involve consideration of responses received from the Board to the Audit communications and changes that may be effected through legislation and/or policies and guidelines issued by the Board.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the State Supply Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the State Supply Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the State Supply Board have been conducted properly and in accordance with law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 \$'000	2002 \$'000	Percentage Change
<i>OPERATING REVENUE</i>			
Government grants	413	423	(2.4)
Registration fees	133	-	-
Interest on cash at bank	-	14	-
Total Operating Revenue	546	437	24.9
<i>OPERATING EXPENDITURE</i>			
Management fees	156	106	47.2
Administration expenses	279	85	228.2
Other expenses from ordinary activities	212	167	26.9
Total Operating Expenses	647	358	80.7
(Deficit) Surplus	(101)	79	(227.8)
Net Cash Flows used in Operations	(97)	(4)	-
<i>ASSETS</i>			
Current assets	209	307	(31.9)
Non-current assets	3	6	(50)
Total Assets	212	313	(32.3)
<i>LIABILITIES</i>			
Current liabilities	10	10	-
Total Liabilities	10	10	-
<i>EQUITY</i>	202	303	(33.3)

Operating Revenue included Registration Fees for the first time in 2002-03. This amount (\$133 000) relates to fees charged by the Board in connection with the provision of training courses. There has also been an increase in Administration Expenses reflecting the cost to the Board in running these training courses.

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003 \$'000	2002 \$'000
REVENUE FROM ORDINARY ACTIVITIES:			
Appropriation for operating purposes	2.3	413	423
Interest on cash at bank		-	14
Registration Fees		133	-
Total Revenue		546	437
EXPENSES FROM ORDINARY ACTIVITIES:			
Management fees	2.4 3	156	106
Administration expenses	3	279	85
Other expenses from ordinary activities	3	212	167
Total Expenses		647	358
(DEFICIT) SURPLUS FROM ORDINARY ACTIVITIES		(101)	79
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT OWNER		(101)	79

**Statement of Financial Position
as at 30 June 2003**

	Note	2003 \$'000	2002 \$'000
CURRENT ASSETS:			
Cash	5	209	306
Other	6	-	1
Total Current Assets		209	307
NON-CURRENT ASSETS:			
Fit outs	7	3	6
Total Non-Current Assets		3	6
Total Assets		212	313
CURRENT LIABILITIES:			
Accrued Sundry Expenses	8	10	10
Total Current Liabilities		10	10
Total Liabilities		10	10
NET ASSETS		202	303
EQUITY:			
Accumulated surplus	12	202	303
TOTAL EQUITY		202	303

Statement of Cash Flows
for the year ended 30 June 2003

		2003	2002
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
Receipts from appropriation		413	423
Receipts from registration fees		133	-
Interest received		1	14
Payments to suppliers and employees		(644)	(441)
Net Cash used in Operating Activities	11(b)	(97)	(4)
NET DECREASE IN CASH HELD		(97)	(4)
CASH AT 1 JULY		306	310
CASH AT 30 JUNE	11(a)	209	306

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Purpose of the Board

The Board's mission is:

To guide, manage and control the supplies acquisition, management, distribution and disposal activities of public authorities by direct action on behalf of agencies, where appropriate, and by the development and promulgation of supply policies and guidelines for application by those agencies subject to the *State Supply Act 1985*.

2. Statement of Significant Accounting Policies**2.1 Basis of Accounting**

The accounts have been prepared in accordance with Statements of Accounting Concepts, Australian Accounting Standards, Urgent Issues Group Consensus Views, and in accordance with Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*.

The accounts have been prepared on the basis of historical cost and do not take into account changing money values or, except where stated, current valuation of non-current assets. The accounting policies have been consistently applied unless otherwise stated.

The Board's principal source of funds is monies appropriated by Parliament. Appropriations are recognised as revenues in the period in which the Board gains control of the appropriated funds.

2.2 Gaming Machines

The State Supply Board is also responsible for the purchase and on-selling of gaming machines under the *Gaming Machine Act 1992*. Administration of the responsibilities of the Board is undertaken by the Contract Services Business Unit of the Department for Administrative and Information Services (DAIS).

2.3 Appropriations

Reconciliation of appropriations to government revenues:

Total appropriations

Total Government Revenues

	2003	2002
	\$'000	\$'000
	413	423
	413	423

2.4 Expenses from Ordinary Activities

The Board is serviced for policy, administrative and financial accounting matters by DAIS under a fee for service arrangement. Some expenses have been reclassified during the year and the comparatives have been changed to reflect this.

2.5 Non-Current Assets*Cost and Valuation*

Fit outs have been brought to account at cost or valuation. The gain or loss on disposal of all non-current assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is recorded as revenue or expense in the year of disposal.

Depreciation

All non-current assets, excluding freehold land, are depreciated using the straight line method over their useful lives commencing from the time the asset is held ready for use.

2.6 Superannuation

During 2002-03, amounts paid or payable by the Board to the Department of Treasury and Finance towards the accruing government liability for superannuation in respect of its employees was \$1 700 (\$1 300).

2.7 Accommodation

The Board occupies leased premises administered by the Department for Administrative and Information Services. Payments during the year to the Real Estate Management Unit for leasing and associated services amounted to \$5 300 (\$5 600).

2.8 Consulting

The Board has paid \$1 600 (\$nil) for expenditure on consultants to assist the Board in the conduct of whole-of-government reviews of supply activities, including the whole-of-government procurement review. These costs are included in the operating expenses in the financial statements.

2.9 Leases*Operating Leases*

For operating leases (being those where the lessor retains substantially all the risks and benefits incidental to ownership of the leased assets), the State Supply Board has brought the lease rental payments to account as an expense in the Statement of Financial Performance.

2.10 Receivables, Accounts Payable and Borrowings

Trade accounts receivables are settled within 30 days and are carried at amounts due. A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

Trade accounts payable, including accruals not yet billed, are recognised when the Board becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days.

2.11 Goods and Services Tax

The Department for Administrative and Information Services (DAIS) prepares a Business Activity Statement on behalf of the Board under the grouping provisions of the GST legislation. Under these provisions, DAIS is liable for the payments and entitled to the receipts of GST. As such, the GST applicable to the Board forms part of the Statement of Financial Position and Statement of Cash Flows of DAIS.

3. Surplus from Ordinary Activities		2003	2002
Surplus has been arrived at after:	Note	\$'000	\$'000
<i>Debiting as Expenses</i>			
Administration:			
Management fees		156	106
Administration expenses		279	85
		435	191
Other Expenses:			
Accommodation and power	2.7	5	7
Depreciation		3	13
Consultancy		1	-
Fee for services/overheads		203	147
		212	167
		647	358
4. Auditors' Remuneration		12	10
Estimated amounts payable to the auditors of the State Supply Board			
5. Cash		209	306
Cash held with Treasury			
6. Other Current Assets			
Accrued revenue		-	1
7. (a) Fitouts			
In leased buildings:			
At cost		19	122
Less: Accumulated depreciation		16	116
Total Fitouts	7(b)	3	6
(b) Reconciliation of Carrying Amount			
		Fitouts	Accumulated
		\$'000	Depreciation
Carrying value at 1 July		19	\$'000
Depreciation expense		-	3
Balance at 30 June 2003		19	3
8. Other Current Liabilities			
Accrued sundry expenses		10	10
9. Operating Lease Commitments	2.9		
Not later than one year		-	6
10. Related Party Disclosures			
During the year the following persons occupied the position of Board member (or Deputy Board Member) of the State Supply Board:			
Mr B Miller (Chair)		Ms F Miller*	
Ms P Crook*		Mr L Oxlad*	
Mr P Gardner*		Ms J Riedstra*	
Mr P Jackson*		Mr G Spence*	
Mr J Fitzpatrick		Mr L Thompson*	
* The term of appointment relating to these members expired on 12 April 2002. Their reappointment was approved by the Governor effective from 1 August 2002.			
During the period, a total of \$22 000 (\$23 000) was paid to Board Members in Board fees.			
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.			
11. Notes to the Statement of Cash Flows		2003	2002
For the purpose of the Statement of Cash Flows cash is Cash at Bank		\$'000	\$'000
(a) Reconciliation of Cash			
Cash		209	306

(b)	Reconciliation of Surplus to Net Cash provided by Operating Activities	2003	2002
		\$'000	\$'000
	(Deficit) Surplus	(101)	79
	Non-cash flows in surplus:		
	Depreciation	3	13
	Change in assets and liabilities:		
	(Decrease) in trade creditors	-	(1)
	Decrease in accrued revenue	1	37
	Increase in accruals and prepayment	-	(5)
	(Decrease) in accrued expenses	-	(23)
	Increase in accrued salaries and wages	-	(77)
	Increase in provision for annual leave	-	(12)
	Increase in provision for long service leave	-	(14)
	Increase in provision for Workers Compensation	-	(1)
	Net Cash used in Operating Activities	(97)	(4)
12.	Movement in Equity		
	Items relating to the Net Change in Equity:		
	Opening retained earnings	303	224
	Current year surplus	(101)	79
	Accumulated Surplus	202	303

SOUTH AUSTRALIAN WATER CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Water Corporation (the Corporation) was established on 1 July 1995 pursuant to the *South Australian Water Corporation Act 1994* (the Act).

Application of the Public Corporations Act 1993

The South Australia Water Corporation is a public corporation subject to the provisions of the *Public Corporations Act 1993*. That Act requires a charter and performance statement to be prepared by the Corporation's Minister and the Treasurer after consultation with the Corporation. The charter for the Corporation outlines:

- the nature and scope of commercial and non-commercial activities, including financial investment activities;
- financial standards and reporting, including interim reports on operations; the form and content of accounts and financial statements; and accounting and internal auditing systems and practices;
- the operating environment of the Corporation, asset management and control and the basis for setting fees and charges.

Objectives and Functions

The key objectives of the Corporation are to:

- provide value-for-money water services within South Australia;
- develop and commercialise leading water and related services, including technology solutions;
- assist in promoting economic development in South Australia;
- manage the assets (including intellectual property) of the Corporation prudently and effectively and, provide agreed returns to Government;
- optimise the value of the Corporation whilst achieving other key requirements of the Government.

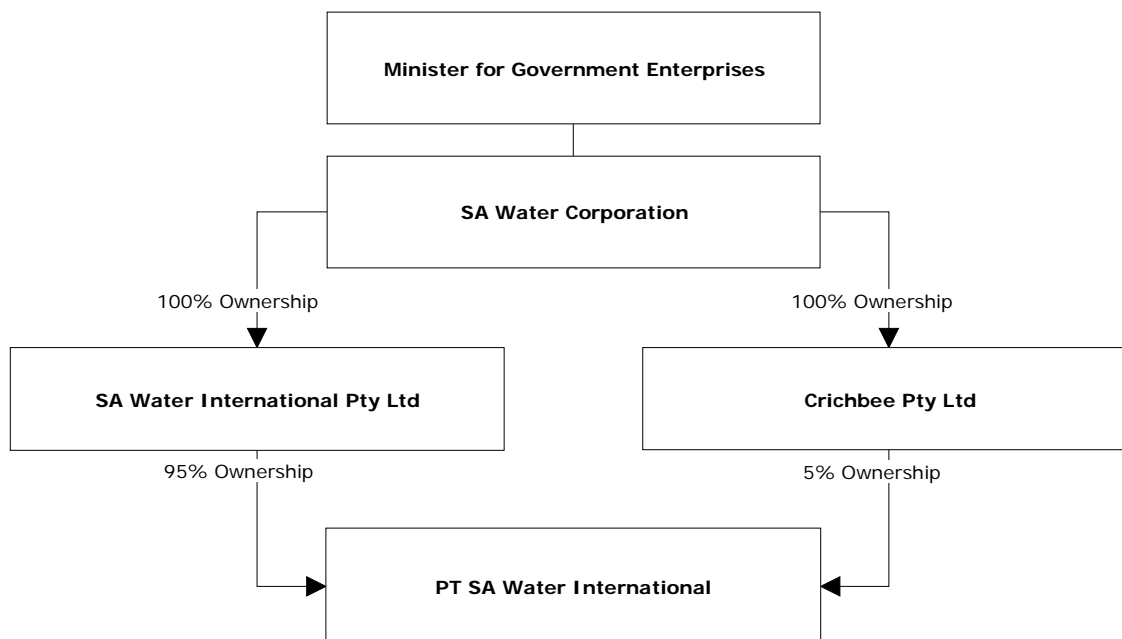
The primary functions of the Corporation in accordance with the Act are to provide services for the:

- supply of water by means of reticulated systems;
- storage, treatment and supply of bulk water;
- removal and treatment of wastewater by means of sewerage systems.

Additional functions of the Corporation as set out in the Act include researching and undertaking works to improve water quality and wastewater treatment; developing and marketing commercially viable products, processes and intellectual property; and encouraging and facilitating private or public sector investment and participation in the provision of water and wastewater services and facilities.

Structure

The structure of the Corporation is illustrated in the following organisation chart:



Changes to Functions and Structure

Apart from various changes to the Corporation's internal organisational structure, there were no changes to the corporate structure during the year. However, the Corporation is in the process of winding up its subsidiary companies which were primarily established to facilitate the Corporation's involvement in commercial operations overseas, particularly in Indonesia. The Corporation, following a series of reviews related to its overseas activities, has decided to cease its involvement in Indonesia and hence has commenced the winding up of SA Water International Pty Ltd, Crichbee Pty Ltd and PT SA Water International (which is a company incorporated in Indonesia). The winding up process should be finalised in early 2003-04.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 32(4) of the *Public Corporations Act 1993* provides for the Auditor-General to audit the accounts of the South Australian Water Corporation in respect of each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the South Australian Water Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2002-03, specific areas of audit attention included:

- contract management
- asset management and control
- revenue raising including cash receipting and banking
- expenditure including accounts payable and payroll
- budgetary control and management reporting.

The work done by the internal auditor was considered in designing the audit programs.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer and, by arrangement, copies were forwarded to the Chair of the Corporation's Audit Committee. Responses to the management letters were considered to be satisfactory. Major matters raised with the Corporation and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Water Corporation and of the economic entity as at 30 June 2003, their financial performance and their cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the South Australian Water Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the South Australian Water Corporation have been conducted properly and in accordance with law.

Significant Matters Raised with the Corporation

Management of Major Contracts

In previous years' Reports I have commented on various aspects of the management of the major water industry outsourcing contracts entered into between the Government and:

- United Water International Pty Limited (United Water) for the operation, maintenance and management of Adelaide's water and wastewater systems (the Adelaide Contract);
- Riverland Water Pty Limited (Riverland Water) for the design, construction and operation of ten water treatment plants to provide filtered water to the Adelaide Hills, Barossa Valley, Mid North and Riverland towns (the Riverland Contract);
- Actaris Pty Limited (Actaris) for the manufacture and supply of water meters in South Australia.

In particular, in last year's Report I commented on the difficulties experienced by Riverland Water in meeting its economic development obligations embodied in the Riverland Contract. I noted that in May 2002 the Board resolved to negotiate a settlement from Riverland Water in relation to the economic losses to the State as a result of the performance failures up to the end of the second triennium of the contract.

In July 2003 an agreement was reached between the Corporation and Riverland Water which has resulted in a variation to the Riverland Contract. The variation requires Riverland Water to provide a range of additional services directly to the Corporation in lieu of fulfilling the economic development requirements contained in the original contract. The Corporation is of the view that the value of these services is considerably in excess of the penalties available to it under the terms of the Riverland Contract which could have been invoked in response to the contractual defaults.

Revenue - Customer Service Information System (CSIS)

The Customer Service Information System (CSIS) is the Corporation's main revenue system. Its function includes the billing and recovery cycle process, the recording of customer property valuations and the application of customer rates and exemptions to charges. The system is highly automated and is characterised by on-line processing, checking and authorisation of transactions. Accordingly, there is a significant reliance on automated system controls.

Issues arising from the audit primarily related to the systems aspects of rating and billing. The issues were concerned mainly with the performance of various reconciliations, maintenance of parameter files and accounting for new connections.

In response the Corporation indicated that action would be taken to resolve the matters identified.

Payroll

The audit of the payroll function revealed that there was room for improvement in relation to the use of bona fide reports, monitoring of leave reports and independent review of transactions processed in relation to the executive payroll. Audit also noted that access controls to the payroll system could be strengthened.

Audit also undertook a review of remuneration arrangements for executive and senior management. The audit revealed the lack of documented procedures in relation to increases in base pay and the need to ensure that performance measurement criteria documented in job descriptions was applied in the performance appraisal process.

The Corporation's response indicated that action would be taken to address all the issues identified.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Consolidated Financial Statements

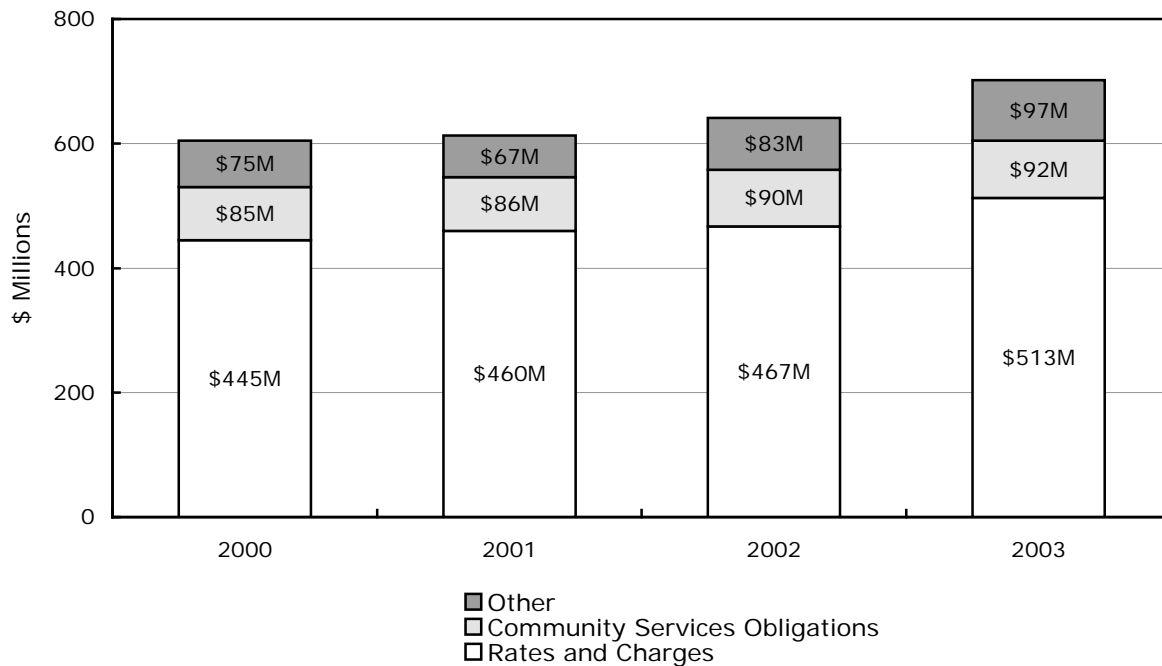
	2003 \$'million	2002 \$'million	Percentage Change
REVENUE FROM ORDINARY			
ACTIVITIES			
Rates and charges	513	467	10
Community service obligations	92	90	2
Other	97	83	17
Total Revenue	702	640	10
EXPENSES FROM ORDINARY			
ACTIVITIES			
Employment expenses	56	52	8
Depreciation and amortisation expense	110	108	2
Borrowing cost expense	83	90	(8)
Other expenses	195	167	17
Total Expenses	444	417	6
Profit from ordinary activities after			
income tax expense	184	162	14
Net Cash Flows from Operations	267	255	5
ASSETS			
Current assets	132	137	(4)
Non-current assets	6 430	6 075	6
Total Assets	6 562	6 212	6
LIABILITIES			
Current liabilities	175	141	24
Non-current liabilities	1 247	1 246	-
Total Liabilities	1 422	1 387	3
EQUITY	5 140	4 825	7

Statement of Financial Performance

Revenues from Ordinary Activities

Revenue from rates and charges increased by \$45.9 million or 10 percent. This was due mainly to the dry weather conditions which resulted in increased water sales (\$24 million) along with increased prices (\$18.1 million). This outcome also reflected the ready availability of water supply to meet demand. Restrictions on water use took effect from 1 July 2003 that are likely to have an effect on water sales after that date.

Other revenue also rose by \$15.2 million or 19 percent which was primarily as a result of an increase in contributed assets of \$13.7 million reflecting the unusually high level of building activity and an increase in recoverable works of \$8.7 million primarily on behalf of the Murray Darling Basin Commission, offset by a decrease in the gross proceeds from the sale of assets of \$10.5 million. A structural analysis of operating revenues for the Corporation in the four years to 2003 is presented in the following chart.

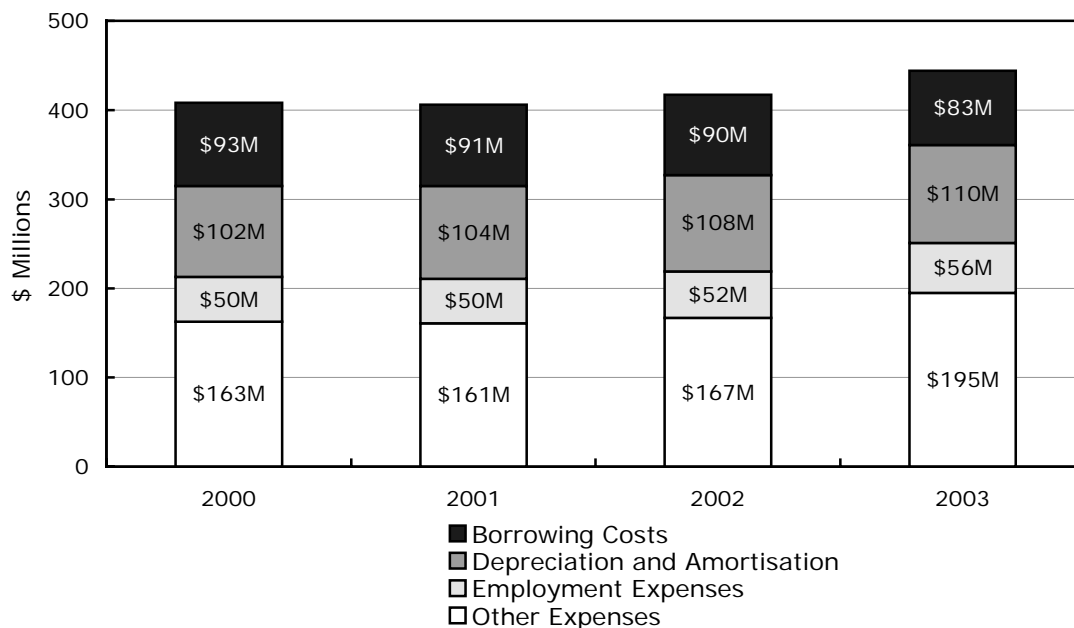


Expenses from Ordinary Activities

Total expenses from ordinary activities increased by \$27.8 million to \$444.3 million after remaining relatively constant for the previous three years.

Other expenses increased significantly from \$167 million in 2002 to \$195 million in 2003. The primary reasons for this increase were increases in electricity expense (up \$12.1 million) due to increased pumping from the River Murray and increased prices, and increased expenditure on supplies and services (up \$9.2 million) due mainly to increased costs incurred on Murray Darling Basin Commission projects. The costs incurred on behalf of the Murray Darling Basin Commission were fully recovered from the Commission and included in revenues.

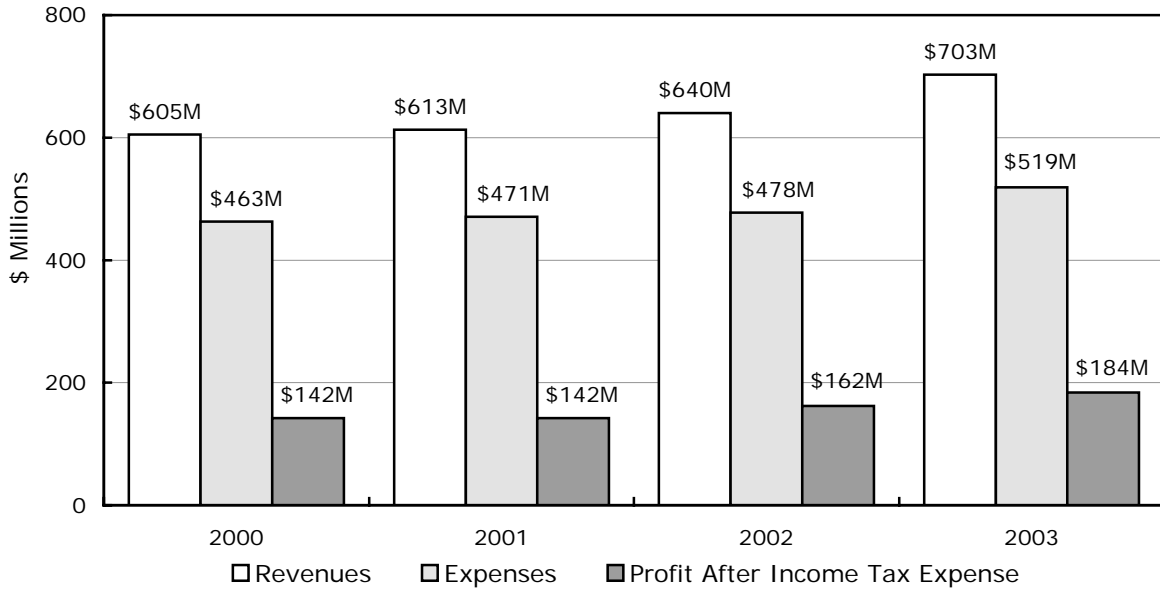
A structural analysis of the main expense items for the Corporation is shown in the following chart.



Operating Result

The Corporation has increased its profit by \$21.6 million or 14 percent over the previous year. Increased water sales and development activity are the main factors contributing to this result.

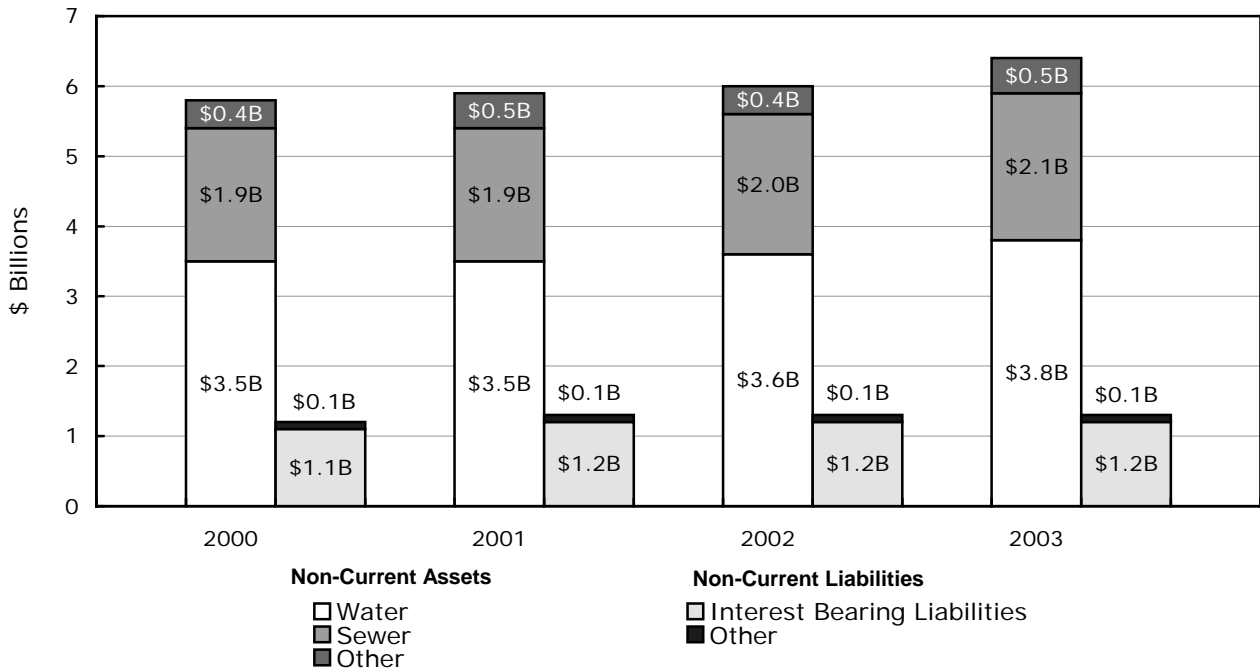
The following chart shows the revenues, expenses including income tax equivalent expense and profit after income tax expense for the current and preceding three years.



Statement of Financial Position

The Corporation’s financial position is dominated by non-current infrastructure assets and related borrowings. Current assets and liabilities are, while significant in their own right, not material relative to the non-current assets and liabilities. Notwithstanding, at 30 June 2003 current liabilities amounted to \$175 million, exceeding current assets of \$132 million, by \$43 million due to a short term borrowing of \$37 million to meet capital expenditure and dividend payment requirements.

A structural analysis of non-current assets and non-current liabilities for the four years to 2003 is shown in the following chart.



Non-current assets increased by \$355 million (6 percent) in 2003 of which \$303 million was as a result of the revaluation of water and sewer infrastructure assets. The value of all other assets and liabilities remained relatively unchanged over the period.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000
Net Cash Flows				
Operations	266 943	254 818	235 182	233 166
Investing	(123 253)	(91 209)	(100 713)	(93 439)
Financing	(143 462)	(163 205)	(133 943)	(139 844)
Change in Cash	228	404	526	(117)
Cash at 30 June	1 604	1 376	972	441

The analysis of cash flows shows that net cash from operations has been growing over the four years to 2003. The Corporation continues to invest in its infrastructure, plant and equipment assets as can be seen by the cash outflows on investing activities. Net outlays over the 4 year period total \$408.6 million. Cash flows used in financing activities primarily reflect the payment of dividends and repayments of capital made to the Government. In 2003 these payments totalled \$180.8 million and were offset by a net increase in borrowings of \$37.4 million.

FURTHER COMMENTARY ON OPERATIONS

Performance Charter

As a public corporation SA Water is bound by a Charter and is also required to meet a range of financial performance targets set out in an annual Performance Statement, as agreed to between the Corporation, the Minister for Government Enterprises and the Treasurer. The Performance Statement defines the contribution to the Government in terms of dividends, repayment of capital, income tax equivalents and other taxes and rates.

An analysis of some key financial ratios agreed to in the Performance Statement is set out in the following table:

Performance measure	Target	Actual	Actual	Actual	Actual
	2002-03	2002-03	2001-02	2000-01	1999-2000
Rate of return on assets (percent) ⁽¹⁾	5.2	5.3	5.3	5.2	5.1
Interest cover (times) ⁽²⁾	3.7	4.1	3.5	3.3	3.1

(1) Earnings before interest, tax and dividend divided by the total infrastructure assets (excluding leased assets and plant and equipment).

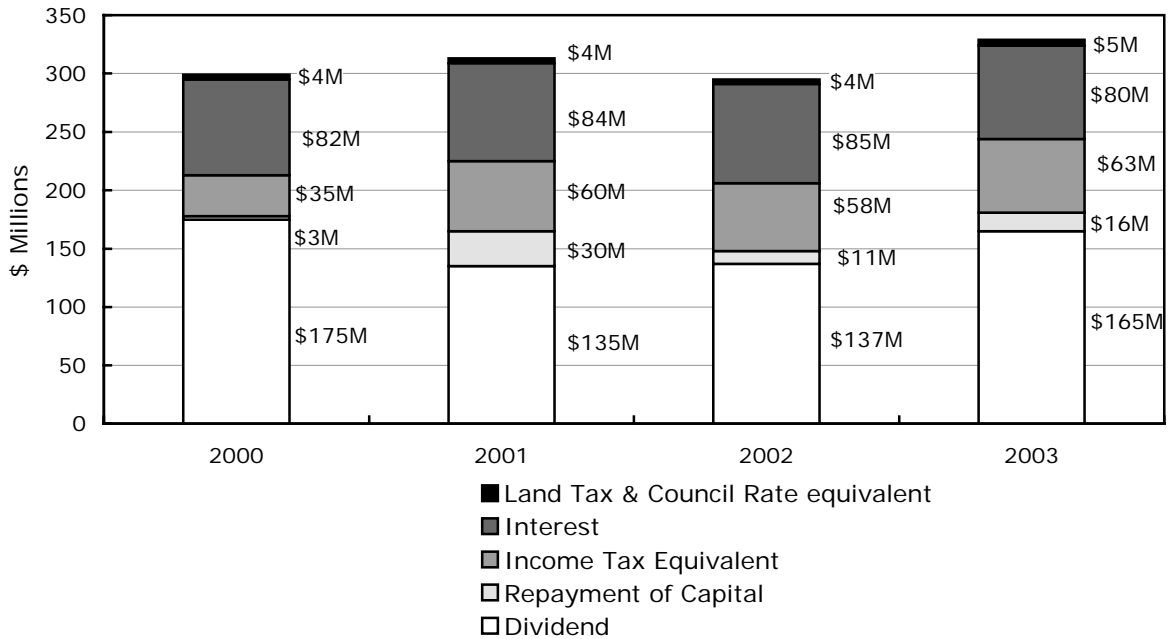
(2) Interest expense plus operating profit divided by interest expense.

The Corporation has achieved better than the targets agreed to in the Performance Charter. In particular interest cover was 0.4 greater than the target due largely to the effect of decreasing interest rates on the total interest expense incurred by the Corporation.

Contributions to the State Government

Effectively, the Government fulfils a number of key roles in relation to the Corporation including: price setter; taxpayer; banker; shareholder and owner; and regulator. In each of these roles it can influence the financial performance of the Corporation which impacts on the amount of funding it provides to, or receives from, the Corporation.

A structural analysis of the amounts paid to the Government for four years to 2003 is shown in the following chart.



In 2002-03 total cash paid to the Government which comprised a dividend payment, repayment of capital, tax equivalent payments and interest payments increased by \$33.2 million to \$329 million.

The key payment to the Consolidated Account in any year is subject to a standard, cash based, formula such that the total payment is 55 percent of earnings before interest, tax, depreciation and amortisation less the level of capital expenditure agreed with the Treasurer as necessary to maintain the ongoing business operations of the Corporation. This amount is paid as a combination of dividends, repayment of capital and income tax equivalent payments. On this basis, the Corporation has sufficient cash to meet its cash obligations. This formula only need be revised to the extent that the capital program varies from year to year or more particularly, over a long term.

Statement of Financial Performance for the year ended 30 June 2003

		Consolidated		The Corporation	
		2003	2002	2003	2002
	Note	\$'000	\$'000	\$'000	\$'000
REVENUE FROM ORDINARY ACTIVITIES	3	702 338	639 848	702 232	639 632
EXPENSES FROM ORDINARY ACTIVITIES					
Salaries and employee benefits expense		56 075	51 584	56 075	51 579
Electricity expense		37 400	25 300	37 400	25 300
Operational and service contracts		79 842	72 900	79 827	72 819
Services and supplies		77 725	69 419	78 515	69 247
Borrowing costs expense	4	82 948	89 723	82 948	89 723
Depreciation and amortisation expense	4, 12	110 322	107 582	110 322	107 582
Total Expenses		444 312	416 508	445 087	416 250
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		258 026	223 340	257 145	223 382
Income tax expense relating to ordinary activities	5(a)	(74 233)	(61 161)	(74 224)	(60 772)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	20	183 793	162 179	182 921	162 610
Net increase in asset revaluation reserve	19(a)	322 138	130 020	322 138	130 020
Net decrease in retained profits on the initial adoption of revised APS 3 'Valuation of Non-Current Assets'	20	(9 427)	-	(9 427)	-
Total valuation adjustments recognised directly in equity		312 711	130 020	312 711	130 020
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		496 504	292 199	495 632	292 630

Statement of Financial Position as at 30 June 2003

		Consolidated		The Corporation	
		2003	2002	2003	2002
CURRENT ASSETS:	Note	\$'000	\$'000	\$'000	\$'000
Cash assets	17(a)	1 604	1 376	1 148	973
Receivables	7	125 191	130 291	125 190	130 288
Inventories	8	3 344	3 294	3 344	3 294
Other financial assets	10	-	-	402	-
Other	9	1 689	1 925	2 125	1 954
Total Current Assets		131 828	136 886	132 209	136 509
NON-CURRENT ASSETS:					
Other financial assets	10	5 857	14 850	5 857	15 252
Infrastructure, plant and equipment	12	6 400 760	6 038 878	6 400 760	6 038 878
Deferred tax assets	5(d)	14 391	15 141	14 390	15 138
Intangible assets	11	58	116	58	116
Other	9	8 884	5 946	8 884	7 197
Total Non-Current Assets		6 429 950	6 074 931	6 429 949	6 076 581
Total Assets		6 561 778	6 211 817	6 562 158	6 213 090
CURRENT LIABILITIES:					
Payables	13	77 748	86 350	77 711	86 327
Interest-bearing liabilities	14	57 366	19 780	57 366	19 780
Current tax liabilities	5(b)	30 226	22 190	30 219	22 190
Provisions	15	8 982	11 653	8 982	11 653
Other	16	847	1 186	847	1 186
Total Current Liabilities		175 169	141 159	175 125	141 136
NON-CURRENT LIABILITIES:					
Payables	13	1 152	1 041	1 152	1 041
Interest-bearing liabilities	14	1 171 342	1 173 877	1 171 342	1 173 877
Deferred tax liabilities	5(c)	52 209	49 330	52 209	49 330
Provisions	15	21 227	21 390	21 227	21 390
Other	16	497	497	497	497
Total Non-Current Liabilities		1 246 427	1 246 135	1 246 427	1 246 135
Total Liabilities		1 421 596	1 387 294	1 421 552	1 387 271
NET ASSETS		5 140 182	4 824 523	5 140 606	4 825 819
EQUITY:					
Contributed equity	18	247 950	263 950	247 950	263 950
Reserves	19	4 773 518	4 451 380	4 773 562	4 451 424
Retained profits	20	118 714	109 193	119 094	110 445
TOTAL EQUITY		5 140 182	4 824 523	5 140 606	4 825 819
Commitments	22				
Contingent Liabilities	26				

Statement of Cash Flows for year ended 30 June 2003

		Consolidated		The Corporation	
		2003	2002	2003	2002
		Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000	\$'000	\$'000
Receipts from customers		598 935	550 786	598 883	550 871
Payments to suppliers and employees		(283 418)	(241 387)	(283 412)	(241 397)
Receipts from Community Service Obligation funding	1(d)	93 107	90 358	93 107	90 358
Receipts from contributions		15 155	11 752	15 155	11 752
Interest received		103	304	96	296
Borrowing costs paid		(94 371)	(98 986)	(94 371)	(98 986)
Income tax paid	5(b)	(62 568)	(58 009)	(62 568)	(57 998)
Net Cash provided by Operating Activities	17(b)	266 943	254 818	266 890	254 896
CASH FLOWS FROM INVESTING ACTIVITIES:					
Payments for construction and purchase of infrastructure, plant and equipment		(123 767)	(107 399)	(123 767)	(107 399)
Proceeds from sale of infrastructure, plant and equipment		514	16 190	514	16 190
Net Cash used in Investing Activities		(123 253)	(91 209)	(123 253)	(91 209)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from borrowings		499 300	419 615	499 300	419 615
Repayment of borrowings		(461 917)	(434 645)	(461 917)	(434 645)
Repayment of capital	18	(16 000)	(11 000)	(16 000)	(11 000)
Dividends paid	29	(164 845)	(137 175)	(164 845)	(137 175)
Net Cash used in Financing Activities		(143 462)	(163 205)	(143 462)	(163 205)
NET INCREASE IN CASH HELD		228	404	175	482
CASH AT 1 JULY		1 376	972	973	491
CASH AT 30 JUNE		1 604	1 376	1 148	973

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

The South Australian Water Corporation (SA Water or the Corporation) was incorporated on 1 July 1995, as a state owned statutory corporation pursuant to the *South Australian Water Corporation Act 1994*, to which the provisions of the *Public Corporations Act 1993* apply. Property, rights, powers and liabilities of the Minister for Government Enterprises, arising from the operation of the *Sewerage Act 1929* and the *Waterworks Act 1932*, were vested in the Corporation, with the exception of certain assets, mainly in relation to the operation of the *Irrigation Act 1994*.

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Statements of Accounting Concepts, Urgent Issues Group (UIG) Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*. Additionally, the Corporation has undertaken to prepare its financial report in accordance with the *Corporation's Act 2001*.

The financial report has been prepared in accordance with the historical cost convention, except for infrastructure, land, buildings and other non-current financial assets which are stated using fair value as detailed in Note 1(e).

(b) Changes in Accounting Policies

The consolidated entity has adopted the revised Accounting Policy Statement APS 3 'Valuation of Non-Current Assets' for the first time from 1 July 2002.

APS 3 requires all non-current assets to be measured on the fair value basis. Previously the Corporation measured and recognised at cost, a non-current investment in unlisted shares which has now been recognised at fair value in the financial report. As a result of this change, an adjustment has been made as at 1 July 2002, to the Corporation and consolidated financial reports. This adjustment resulted in:

- \$9.5 million decrease in opening retained profits
- \$9.5 million decrease in other non-current financial assets

As a result of this change in accounting policy, revenue from the revaluation of the investment in unlisted shares increased by \$0.4 million for the current financial year to 30 June 2003.

Note 2 shows the information that would have been disclosed had the revised APS 3 always been applied.

In accordance with Accounting Standard AASB 1028 'Employee Benefits' on 1 July 2002 the Corporation changed its policy for recognising its liability for salaries and wages and annual leave. Under the new policy the amount of the liability is calculated using the remuneration rate that is expected to apply at the time of settlement rather than the remuneration rate that applies at reporting date.

This change in accounting policy had no material impact on the results for the period.

(c) Principles of Consolidation*Controlled Entities*

The consolidated accounts incorporate the financial performance and position of all entities that, in terms of AASB 1024 'Consolidated Accounts', are controlled by the Corporation as at 30 June 2003. The financial reports of subsidiary entities have been included from the date control commences until the date control ceases. Further information regarding subsidiary company activities is disclosed in Note 23. All inter-entity balances and transactions have been eliminated on consolidation.

Joint Venture Operation

A joint venture operation is jointly controlled by the consolidated entity. The consolidated entity's interest in the joint venture operation is brought to account by including its proportionate share of joint venture's assets, liabilities, revenues and expenses in the respective items of the consolidated financial statements. Note 24 discloses the Corporation's interest in the joint venture operation.

(d) Revenue Recognition*Rates and Charges*

Rates and other charges billed, but not yet received at balance date, are recognised as revenue for the period. Water consumption recorded in unread meters as at 30 June 2003 is not taken into account in determining revenue for the year ended 30 June 2003.

This method is in accordance with accepted industry practice, where cyclical readings are used to assess water charges.

Community Service Obligations (CSOs)

The Corporation provides services to the community on behalf of the Government at a lower than commercial rate of return. The government provides funding for CSOs in recognition of the non-commercial impact of these services provided to the community. The main CSOs are for the pricing of country water and wastewater services, the administration of the pensioner concession scheme and the provision of water and wastewater concessions to exempt properties, which include charities, churches and public schools. These amounts are recognised as revenue for the period when advice is received from Government on the level of funding.

Contributed Assets

Contributed assets principally arise from:

- (i) consumers who make a contribution where a service or connection has been requested which requires construction of a new main; and
- (ii) subdividers who make contributions where either:
 - (a) water and sewerage infrastructures are constructed by the subdivider within yet to be completed subdivisions. The contribution recognised is equivalent to the Corporation's estimated cost of construction; or
 - (b) the Corporation constructs the infrastructure at the subdivider's request.

Contributed assets and contributions to assist in the construction of assets are recognised as revenue at the fair value of the asset received when the Corporation gains control of the asset.

Sale of Non-Current Assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and net proceeds from the sale.

Recoverable Works

Revenue derived from the provision of services to external parties is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured.

(e) Non-Current Assets*(i) Infrastructure, Plant and Equipment*

- *Acquisition*

Items of infrastructure, plant and equipment are initially recorded at cost, including capitalised borrowing costs, in accordance with Accounting Standard AASB 1036 'Borrowing Costs', and are depreciated as outlined below. Assets acquired under Build Own Operate Transfer (BOOT) Agreements are brought to account when commissioned and accounted for as outlined in Note 1(f).

- *Valuations*

To comply with Treasury Accounting Policy Statement APS 3 'Valuation of Non-Current Assets' and Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' the Corporation has adopted the fair value method for measuring and reporting land and buildings and infrastructure assets in the Statement of Financial Position.

To reflect the change in values, the Corporation annually revalues its non-current assets at Directors' valuation or independent valuation, with effect from 1 July each year. The Directors' valuation is performed using the General Cost Index (GCI) or current contract supply rates. The GCI is calculated by the Corporation's Chief Estimator from supporting indices maintained by the Australian Bureau of Statistics. The GCI is a calculation of the material and labour index for the construction industry in South Australia.

Additionally, the Corporation's valuation methodologies for all major classes of infrastructure assets are subject to a triennial review by Hunter Water Corporation Pty Ltd. The most recent independent review was completed in May 2002. The review concluded that there was, in general, a good correlation between the two organisations in terms of the methodology used and the modern equivalent replacement asset types adopted.

Accordingly the Corporation has adopted the following asset valuations:

- (i) **Infrastructure Assets**
The fair value of an asset is determined by its written-down current cost. The Corporation determines the written-down current cost as the lower of reproduction or replacement cost. The cost of replacing or reproducing excess capacity or over-engineering of the asset is excluded.

To determine the fair value of infrastructure assets the Corporation has utilised the following methodologies:

- (a) Water mains, sewer mains - Directors' valuations predominantly based on current contract rates. These rates are applied to the actual lengths of pre-defined modern equivalent asset types.
- (b) Water services, sewer connections and water meters – Directors' valuation predominantly based on current contract supply rates.
- (c) Reservoirs were independently revalued by Hydro Tasmania for the current financial year to 30 June 2003.
- (d) Waste water treatment plants were independently revalued by Tonkin Consulting for the current financial year to 30 June 2003.
- (e) Other infrastructure assets – Directors' valuations based on the current construction cost data. These assets are indexed in between comprehensive valuations using the GCI.

The cost of infrastructure assets constructed by the Corporation includes all materials used in construction, direct labour, an appropriate proportion of variable and fixed overheads and contract payments. Interest is capitalised to capital works in progress using funds borrowed generally at a weighted average capitalisation rate as outlined in Note 1(j).

- (ii) Land and Buildings
Land is brought to account at market value using valuations provided from the State Valuer-General. Buildings are brought to account at Directors' valuation using market value indexed annually using the GCI.
- (iii) Other Assets and Plant and Equipment
Other assets and plant and equipment are brought to account at historical cost.

• *Depreciation*

Infrastructure, buildings, plant and equipment and other assets are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 160 years. The useful lives of assets are reviewed annually and have been assessed as follows:

	2003	2002
	Years	Years
Water and sewer assets	7 - 160	7 - 160
Water and sewer leased assets	40 - 50	40 - 50
Buildings	50	50
Other	5 - 50	5 - 50
Plant and equipment	5 - 15	5 - 15

The method of depreciation has regard to the underlying nature of the assets and their expected use in operations of the Corporation. Work in progress is not depreciated until assets are completed and have been commissioned for operation.

(ii) *Other Financial Assets*

The Corporation's investment in non-voting class B Shares as part of the Build, Own, Operate and Transfer (BOOT) arrangements for the Virginia Pipeline Scheme have been measured at fair value, in accordance with Treasury Accounting Policy Statement APS 3 'Valuation of Non-Current Assets' and Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' (refer Note 10). Due to the nexus between the class B shares and the pipeline assets, the value of the shares has been determined using the written-down current cost of the pipeline assets in 2018 and discounted to their net present value. On this basis an independent valuation of the pipeline assets was undertaken at reporting date and the Class B shares were re-valued accordingly.

(iii) *Intangibles*

Water licences have been recognised at cost. In accordance with Accounting Standard AASB 1021 'Depreciation' and Accounting Interpretation 1 'Amortisation of Identifiable Intangible Assets', the cost has been amortised using the straight-line method over 5 years, which is the term of the current lease contract.

(f) *Leases*

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

Minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are recognised as an expense in the Statement of Financial Performance. Payments are made in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Finance Leases

Leases for infrastructure assets, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are assumed by the Corporation, are classified as finance leases. Finance leases are capitalised and depreciated over the useful life of the asset in accordance with Accounting Standard AASB 1008 'Leases' and the Corporation obtains ownership of the asset at the end of the lease term.

The Corporation has entered into BOOT agreements for a number of infrastructure facilities. These BOOT agreements include the requirement for an ongoing availability tariff, as escalated over time by certain indices, for the term of the agreement.

BOOT agreements have been classified as finance leases, with a lease asset and lease liability being recognised upon commissioning of the underlying asset (refer Note 12). The lease asset is brought to account at the fair value of the underlying assets constructed. The equivalent liability is recognised at the present value of the future availability charges. These have been determined at the inception of the lease and do not take account of any future estimated escalation.

Variation between the availability charges determined at the inception of the lease and the actual availability charges are brought to account as contingent rentals in accordance with Accounting Standard AASB 1008 'Leases'. Availability charges are allocated between interest expense and a reduction in the lease liability, with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

(g) *Investments*

Investments in controlled entities are carried in the Corporation's financial report at cost (refer Note 10 and Note 24).

(h) *Expenditure on Behalf of State Government*

Certain expenditure is incurred from time to time which is considered to be outside the normal course of the Corporation's business and for which no recovery is made or reimbursement received. These payments are made on behalf of the South Australian Government and are disclosed in Note 4.

(i) Taxes

Taxation Equivalents

The Corporation is subject to the payment of income tax equivalents, land tax equivalents and council rate equivalents. From 1 July 2001, the Corporation has operated under the National Tax Equivalent Regime (NTER) pursuant to the Memorandum of Understanding on NTER between the Commonwealth of Australia, the Commissioner of Taxation and all of the States and Territories. The NTER is administered by the Australian Taxation Office.

The Corporation has adopted the liability method of tax effect accounting for income tax equivalents, whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in accounting profit and when items are taken into account in determining taxable income, the net taxation benefit or liability, calculated at current rates, is carried forward in the Statement of Financial Position as a future income tax benefit or a provision for deferred income tax. Future income tax benefits relating to timing differences are not brought to account unless realisation of the asset is assured beyond reasonable doubt.

The charge for land tax and council rate equivalents has been calculated by RevenueSA – Department of Treasury and Finance, based on valuations supplied by the Valuer-General.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as a part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing activities, which is recoverable from or payable to the ATO, is classified as an operating cash flow in accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)'.

(j) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and finance lease charges.

Borrowing costs are expensed as incurred unless they relate to the construction of a qualifying asset. Qualifying assets are assets which take more than 12 months to complete. In these circumstances, borrowing costs are capitalised to the cost of the assets.

Interest was capitalised to capital works in progress using funds borrowed generally at a weighted average capitalisation rate of 6.67 percent (7.07 percent) (Note 1(e)).

(k) Cash

Cash on hand and at bank is stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank.

(l) Receivables

Receivables for rates and charges and sundry debtors are normally settled within 21 days. These are recognised in the accounts at amounts due. An allowance for doubtful debts is established based on a review of outstanding amounts at balance date.

Bad debts are written off when they are identified.

(m) Inventories

Inventory is valued on a weighted average cost basis. Costs have been assigned to inventory manufactured by the Corporation, including work in progress, on a full absorption cost basis. Inventories are valued at the lower of cost and net realisable value.

Inventories are held for purposes of maintenance and construction and not for resale.

(n) Employee Benefits

Wages, Salaries, Annual Leave and Sick Leave

Liabilities for wages, salaries and annual leave are measured and recognised at undiscounted amounts based on remuneration rates that the Corporation expects to pay when the liabilities are settled. The related on-costs for annual leave have been recognised in the Statement of Financial Position as payables.

No provision is made for sick leave as entitlements do not vest and it is considered that sick leave is taken from the current year's accrual.

Long Service Leave

Liabilities arising in respect of long service leave expected to be settled within twelve months of balance date are measured at their nominal rates. All other long service leave benefits are measured as the present value of expected future payments to be made in respect of services provided by employees when the liabilities are settled. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on negotiable government guaranteed securities with terms of maturity that match, as closely as possible, the estimated future cash flows. The related on-costs have been recognised in the Statement of Financial Position as payables.

The Corporation's long service leave liability is valued by Mr. C. Papanicolas BSc, (Ma)(Hons), ASIA, FIAA of Mercer Human Resource Consulting Pty Ltd.

Superannuation

Contributions are made by the Corporation to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability outstanding at balance date relates to any contribution due but not yet paid to the superannuation schemes.

(o) Workers Compensation

The Corporation is registered with WorkCover as an exempt employer and is responsible for payment of workers compensation claims. The Corporation establishes a provision for any claims arising under the *Workers Rehabilitation and Compensation Act 1986* and the repealed *Workers Compensation Act 1971* outstanding at year-end. The Corporation's outstanding claims liability is valued by Mr. L. Brett BSc FIA, FIAA of Brett & Watson Pty Ltd.

(p) Insurance

The South Australian Government Captive Insurance Corporation (SAICORP) has assumed responsibility and liability for, and will indemnify SA Water against, damage suffered to the Corporation's property or claims made against the Corporation and/or the South Australian Government. In addition, insurance arrangements are in place for construction works, travel insurance and Directors' and Officers' liability.

Workers compensation risks for which the Corporation is responsible are excluded from these arrangements.

(q) Payables

Liabilities, whether or not billed to the Corporation, are recognised at amounts to be paid in the future for goods and services received, including any related GST. Trade accounts payable are normally settled within 30 days.

(r) Provisions

The new Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' has been adopted for the first time as at 1 July 2002.

Provisions are recognised when the Corporation has a legal, equitable or constructive obligation to make future sacrifice of economic benefits to a third party as a result of past transactions or other past events. The amount is recognised in the Statement of Financial Position when it is probable that a future sacrifice of economic benefits will be required to settle the obligation and the timing or amount is significantly uncertain.

Where the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation using interest rates on negotiable government guarantee securities with terms of maturity that match, as closely as possible, the estimated future cash flows.

Removal of Biosolids

A provision is recognised for the disposal and management of a prior accumulation of bio-solid products resulting from the operation of the Bolivar Waste Water Treatment Plant.

The Corporation has a present obligation under the *Environmental Protection Act (EPA) 1993* to ensure no harm is caused to the environment. The removal of bio-solids is administered in accordance with the 1996 Biosolids Guidelines issued by the EPA.

Estimated future cash flows are based on the processing and administration costs associated with the preparation and loading of biosolids from the stockpile for disposal offsite. These costs have been determined based on current costs, current legal requirements and current technology.

Significant uncertainties exist as to the amount and timing of expected future obligations required to settle the obligation due to the uncertainty as to the quantity of biosolids expected to be disposed off-site and the impact of changes in environmental legislation and technology.

Damages and Claims

A provision is recognised for claims against the Corporation relating to property damage, personal injury and civil liability.

The amounts measured and recorded for claims are based on estimates of specified claims and the probability that the Corporation will be required to settle the obligation. Previous claims history and Crown Law advice are used in the determination of the liability.

Asset Disposal and Site Rehabilitation

A provision for the disposal and abandonment of assets is recognised when there is a present obligation to undertake further work to decommission surplus assets and ensure they are safe to the public and do not cause harm to the environment.

The estimated costs of decommissioning non-current assets are based on past experience and current market prices. Obligations associated with the retirement or disposal of long lived assets are excluded from the scope of Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'.

(s) Foreign Currency*Transactions*

Foreign currency transactions are translated to Australian currency at the rates of exchange applicable at the dates of the transactions. All monetary items in foreign currencies at balance date are converted to Australian currency at rates of exchange current at that date. Exchange differences relating to monetary items in foreign currencies are brought to account as exchange gains or losses and are included in the Statement of Financial Performance.

Translation of Controlled Foreign Operations

Overseas controlled entities are deemed to be integrated and are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date. Exchange differences arising on translation are brought to account in the Statement of Financial Performance.

Hedges

Where hedge transactions are designated as a hedge of the purchase of goods, exchange differences arising up to the date of the purchase, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the purchase.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arose on the foreign currency hedge prior to its termination continue to be deferred and are included in the measurement of the purchase.

The Corporation currently has a policy to hedge all of its foreign currency exposures in accordance with the Treasurer's Instruction 23 'Management of Foreign Currency Exposures'. An exposure is defined to exist at the firm commitment of an approved purchase or signed contract.

(t) Commodities

The Corporation's exposure to commodities is managed through a natural hedge. This exposure is monitored, and if any conditions arise that change the exposure profile of commodity prices, appropriate hedge transactions will be entered into.

(u) Interest Bearing Liabilities

All loans are measured at the principal amount. Short-term borrowings are carried in the Statement of Financial Position at their face value. Long-term borrowings are valued at their historical yield. Interest expense is accrued at the contracted rates on a daily basis and includes costs incurred in restructuring borrowings. The Government provides a guarantee in respect of these borrowings pursuant to the provisions of the *Public Finance and Audit Act 1987*.

(v) Derivatives

The Corporation manages exposures to changes in interest rates, foreign exchange rates and commodity prices as per the Board approved Treasury Risk Management Policy. Derivative financial instruments as approved by the Board are used by the Corporation to implement strategies for the management of the debt portfolio, or the hedge of specific debt.

To assist in managing these exposures, the following derivative financial instruments are utilised from time to time to hedge the exposure:

(i) Interest Rate Swaps

Interest payments and receipts under interest rate swaps are recognised on an accrual basis in the Statement of Financial Performance as an adjustment to interest expense. Gains or losses on early termination of the swap transaction will be recognised immediately as an adjustment to interest expense in the Statement of Financial Performance. Only if the swap transaction is designated specifically to an underlying line of debt will gains or losses on early termination be deferred and amortised over the life of the debt.

(ii) Interest Rate Futures Contracts

Interest rate futures contracts are purchased to hedge interest rate exposures. Any gains and losses arising are immediately recognised as an adjustment to interest expense in the Statement of Financial Performance. Only if futures contracts are designated specifically to an underlying line of debt will gains or losses be deferred and amortised over the life of the debt.

(iii) Forward Rate Agreements

Any realised gains or losses on forward rate agreements are recognised immediately in the Statement of Financial Performance as an adjustment to interest expense during the period in which settlement occurs. Only if the agreement is designated specifically to an underlying line of debt will gains or losses be deferred and amortised over the life of the debt.

(iv) Forward Foreign Exchange Contracts

The accounting for forward foreign exchange contracts is set out in Note 1(s) above.

Derivative financial instruments are not held for speculative purposes.

(w) Segment Reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities mainly comprise tax assets, borrowings, tax liabilities and corporate assets and liabilities that cannot be allocated to segments on a reasonable basis.

Segment capital expenditure is the total cost recognised during the period to acquire and construct segment assets that are expected to be used for more than one annual reporting period.

2. Change in Accounting Policies

Proforma Statement of Financial Performance, the restatement of retained profits and non-current financial assets.

	Consolidated		The Corporation	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Restatement of Statement of Financial Performance:				
Profit from ordinary activities before revaluation of non-current investment in unlisted shares and income tax expense	257 592	(Re-stated) 223 340	256 711	(Re-stated) 223 382
Revaluation non-current investment in unlisted shares	434	402	434	402
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	258 026	223 742	257 145	223 784
Income tax expense related to ordinary activities	(74 233)	(61 161)	(74 224)	(60 772)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	183 793	162 581	182 921	163 012

2. Change in Accounting Policies (continued)	Consolidated		The Corporation	
	2003	2002	2003	2002
Restatement of Retained Profits:	\$'000	\$'000	\$'000	\$'000
Reported retained profits at end of previous year	109 193	84 189	110 445	85 010
Decrease in retained profits due to change in accounting policy on initial adoption of revised APS 3 'Valuation of Non-Current Assets' - Revaluation decrement of investment in unlisted shares	(9 427)	(10 573)	(9 427)	(10 573)
Restated retained profits at 1 July	99 766	73 616	101 018	74 437
Profit from ordinary activities after income tax	183 793	162 581	182 921	163 012
Dividends Paid	(164 845)	(137 175)	(164 845)	(137 175)
RESTATED RETAINED PROFITS AT 30 JUNE	118 714	99 022	119 094	100 274
3. Revenue from Ordinary Activities				
Revenue from Operating Activities:				
Rates and charges	513 350	467 437	513 350	467 437
Community service obligations	91 706	90 358	91 706	90 358
Contributed assets	42 811	29 127	42 811	29 127
Recoverable works	32 378	23 679	32 378	23 679
Fees and charges	14 421	12 847	14 421	12 847
Miscellaneous	5 505	4 215	5 407	4 007
	700 171	627 663	700 073	627 455
Revenue from Outside Operating Activities:				
Gross proceeds from sale of infrastructure, plant and equipment	370	10 893	370	10 893
Interest received	205	159	197	151
Rents	1 158	1 133	1 158	1 133
Revaluation of investment in unlisted shares	434	-	434	-
	2 167	12 185	2 159	12 177
Total Revenue from Ordinary Activities	702 338	639 848	702 232	639 632
4. Profit from Ordinary Activities before Income Tax Expense				
Profit from ordinary activities before income tax expense has been arrived at after charging (crediting) the following items:				
Depreciation:				
Infrastructure assets - Water	66 867	62 436	66 867	62 436
Infrastructure assets - Sewer	33 620	35 151	33 620	35 151
Buildings	463	451	463	451
Other	6 526	6 951	6 526	6 951
Plant and equipment	2 788	2 420	2 788	2 420
Amortisation:				
Water licences	58	173	58	173
	110 322	107 582	110 322	107 582
Borrowing Costs:				
Interest expense	77 832	81 639	77 832	81 639
Finance charges on capitalised leases	12 966	13 149	12 966	13 149
Less: Capitalised borrowing costs	(7 850)	(5 065)	(7 850)	(5 065)
	82 948	89 723	82 948	89 723
Finance lease contingent rentals	1 243	833	1 243	833
Operating lease rental expense	3 081	2 955	3 081	2 955
Net bad and doubtful debts expense including movements in allowance for doubtful debts	305	24	305	24
Net (loss) gain on disposal of infrastructure, plant and equipment	(570)	8 170	(570)	8 170
Write-down in value of other infrastructure assets	1 869	3 008	1 869	3 008
Write-down in value of capital works in progress	2 918	-	2 918	-
Write-down in loan to controlled entities	-	-	896	-
Expenditure on behalf of State Government:				
Water Industry Best Practice Program	808	848	808	848
Cooperative Research Centre	150	300	150	300
	958	1 148	958	1 148
5. Income Tax				
(a) Income Tax Expense				
The difference between income tax expense provided in the financial report and the prima facie income tax expense is reconciled as follows:				
Operating Profit	258 026	223 340	257 145	223 382
Prima facie income tax expense calculated at 30 percent (30 percent)	77 408	67 002	77 143	67 015

(a)	Income Tax Expense (continued)	Consolidated		The Corporation	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
	Tax effect of permanent differences:				
	Sundry expenses not deductible	14	11	14	10
	Amortisation of intangible assets	17	52	17	52
	Non-deductible loss from foreign operations	13	5	-	-
	Tax benefit on loss transferred from controlled entity	-	-	-	(4)
	Loss (gain) from sale of land	230	(2 670)	230	(2 670)
	Accounting depreciation on revalued assets	911	-	911	-
	Write-down in loan to controlled entities	-	-	269	-
	Upward revaluation of investment	130	-	130	-
	Non-assessable contributed assets	(1 709)	-	(1 709)	-
	Additional deduction for research & development expenditure	(326)	(1 429)	(326)	(1 429)
		76 688	62 971	76 679	62 974
	Amounts over provided in prior years	(2 455)	(1 810)	(2 455)	(2 202)
	Income Tax Expense Attributable to Operating Profit	74 233	61 161	74 224	60 772
	The income tax expense comprises movements in:				
	Provision for income tax	70 319	55 945	70 312	55 945
	Provision for deferred income tax*	5 590	6 743	5 590	6 743
	Future income tax benefit*	779	283	777	286
	Amounts over provided in prior years	(2 455)	(1 810)	(2 455)	(2 202)
		74 233	61 161	74 224	60 772
	* This has been calculated at the current company tax rate of 30 percent (30 percent).				
(b)	Current Tax Liabilities				
	Provision for Current Income Tax				
	Movements during the year were as follows:				
	Balance at 1 July	22 190	23 635	22 190	24 017
	Income tax paid	(62 568)	(58 009)	(62 568)	(57 998)
	Current years income tax provision	70 319	55 945	70 312	55 945
	Under-provision in prior year	285	619	285	226
		30 226	22 190	30 219	22 190
(c)	Deferred Tax Liabilities				
	<i>Provision for Deferred Income Tax</i>				
	Provision for deferred income tax comprises the estimated liability at the applicable rate of 30 percent (30 percent) on the following items:				
	Expenditure currently deductible for tax but deferred and amortised for accounting purposes	140	40	140	40
	Expenditure currently deductible for tax but capitalised and amortised/depreciated for accounting purposes	3 971	1 648	3 971	1 648
	Difference in depreciation and amortisation of infrastructure, plant and equipment assets for accounting and income tax purposes	45 997	45 574	45 997	45 574
	Interest receivable	34	1	34	1
	Environmental expenditure	212	212	212	212
	Research and development expenditure	1 855	1 855	1 855	1 855
		52 209	49 330	52 209	49 330
(d)	Deferred Tax Assets				
	Future Income Tax Benefit				
	Future income tax benefit comprises the estimated future benefit at the applicable rate of 30 percent (30 percent) on the following items:				
	Provisions and accruals for employee entitlements	7 343	6 801	7 343	6 801
	Allowance for obsolete stock	144	143	144	143
	Allowance for bad debts	158	165	158	165
	Sundry provisions	862	1 802	862	1 802
	Accrued interest expense	3 884	4 462	3 884	4 462
	Sundry items	75	48	74	45
	Provision for the disposal of assets	330	335	330	335
	Capitalised finance leases	1 595	1 385	1 595	1 385
		14 391	15 141	14 390	15 138

6. Segment Reporting (continued)**Business Segments**

The consolidated entity comprises the following main business segments based on the consolidated entity's management reporting system:

Metropolitan Water

Manage, operate and maintain metropolitan water filtration plants and pipelines that deliver water to customers.

Country Water

Manage, operate and maintain country reservoirs, pipelines and water filtration plants delivering peak and off-peak water to customers.

Metropolitan Sewer

Manage, operate and maintain metropolitan wastewater treatment plants and pipelines that remove wastewater from customer properties.

Country Sewer

Manage, operate and maintain country wastewater treatment plants and pipelines that remove wastewater from customer properties.

Other

Revenue and expenses associated with the Murray Darling Basin Commission, the Australian Water Quality Centre, engineering workshops and water industry business development.

7. Receivables

	Note	Consolidated		The Corporation	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current:					
Community service obligations		83 357	93 094	83 357	93 094
Rates receivable (water and wastewater)		17 109	18 033	17 109	18 033
Allowance for doubtful debts		(210)	(210)	(210)	(210)
		16 899	17 823	16 899	17 823
Sundry debtors		16 916	11 230	16 915	11 227
Allowance for doubtful debts		(317)	(339)	(317)	(339)
		16 599	10 891	16 598	10 888
Minister for Government Enterprises - Irrigation	33	8 336	8 483	8 336	8 483
		125 191	130 291	125 190	130 288

8. Inventories

Raw materials and stores		3 821	3 770	3 821	3 770
Allowance for slow moving and obsolete inventory		(477)	(476)	(477)	(476)
		3 344	3 294	3 344	3 294

9. Other Assets

Current:					
Prepayments		873	856	873	855
Interest receivable		115	4	115	4
Loans to controlled entities		-	-	436	-
Other		701	1 065	701	1 095
		1 689	1 925	2 125	1 954
Non-Current:					
Preliminary investigations		8 884	5 716	8 884	5 716
Loans to controlled entities		-	-	-	1 251
Other		-	230	-	230
		8 884	5 946	8 884	7 197

10. Other Financial Assets

Current:					
Controlled entities - Unlisted shares at cost	23	-	-	402	-
		-	-	402	-
Non-Current:					
Other Corporations - Unlisted shares at fair value	10(a)	5 857	14 850	5 857	14 850
Controlled entities - Unlisted shares at cost	23	-	-	-	402
		5 857	14 850	5 857	15 252

(a) The Corporation was a participant to the funding arrangements for the Virginia Pipeline Scheme (VPS). Its involvement in this scheme will result in an option at the end of the contract to acquire the scheme. The scheme distributes 'Class A' reclaimed water from the Bolivar wastewater treatment plant throughout the Virginia region for irrigation of seasonal crops and fixed plantings. As part of the arrangement the Corporation made advances to the operating Company of VPS, Water Reticulation Systems (Virginia) Pty Ltd (WRS), a subsidiary of Euratech Limited. Advances to WRS were converted to non-voting B Class shares, issued at a price of \$1 per share.

11. Intangible Assets

	Consolidated		The Corporation	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Water licences - At cost	289	289	289	289
Accumulated amortisation	(231)	(173)	(231)	(173)
	58	116	58	116

12. Infrastructure, Plant and Equipment

Infrastructure Assets:	Consolidated		The Corporation	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Water:				
Water Infrastructure	6 228 116	5 940 791	6 228 116	5 940 791
Accumulated depreciation	(2 544 624)	(2 406 838)	(2 544 624)	(2 406 838)
	3 683 492	3 533 953	3 683 492	3 533 953
Leased Water Infrastructure	121 018	121 018	121 018	121 018
Accumulated depreciation	(11 397)	(8 976)	(11 397)	(8 976)
	109 621	112 042	109 621	112 042
Sewer:				
Sewer Infrastructure	3 171 096	3 093 289	3 171 096	3 093 289
Accumulated depreciation	(1 026 107)	(1 115 368)	(1 026 107)	(1 115 368)
	2 144 989	1 977 921	2 144 989	1 977 921
Leased Sewer Infrastructure	3 377	3 305	3 377	3 305
Accumulated depreciation	(499)	(407)	(499)	(407)
	2 878	2 898	2 878	2 898
Land and Buildings:				
Land	191 299	172 710	191 299	172 710
Buildings	24 423	22 917	24 423	22 917
Accumulated depreciation	(3 985)	(3 565)	(3 985)	(3 565)
	20 438	19 352	20 438	19 352
Other	79 580	74 729	79 580	74 729
Accumulated depreciation	(39 878)	(33 150)	(39 878)	(33 150)
	39 702	41 579	39 702	41 579
Plant and Equipment	32 915	29 874	32 915	29 874
Accumulated depreciation	(19 036)	(17 801)	(19 036)	(17 801)
	13 879	12 073	13 879	12 073
Capital work in progress	194 462	166 350	194 462	166 350
Total Infrastructure, Plant and Equipment	6 400 760	6 038 878	6 400 760	6 038 878

Reconciliations

Reconciliations of the carrying amounts for each class of infrastructure, plant and equipment are set out below:

Water Infrastructure:				
Carrying amount at 1 July	3 533 953	3 392 627	3 533 953	3 392 627
Additions	66 289	72 487	66 289	72 487
Depreciation	(64 446)	(60 186)	(64 446)	(60 186)
Net revaluation increment	147 696	129 025	147 696	129 025
Carrying amount at 30 June	3 683 492	3 533 953	3 683 492	3 533 953
Leased Water Infrastructure:				
Carrying amount at 1 July	112 042	114 292	112 042	114 292
Depreciation	(2 421)	(2 250)	(2 421)	(2 250)
Carrying amount at 30 June	109 621	112 042	109 621	112 042
Sewer Infrastructure:				
Carrying amount at 1 July	1 977 921	1 917 396	1 977 921	1 917 396
Additions	45 323	99 870	45 323	99 870
Depreciation	(33 536)	(35 069)	(33 536)	(35 069)
Net revaluation increment (decrement)	155 281	(4 276)	155 281	(4 276)
Carrying amount at 30 June	2 144 989	1 977 921	2 144 989	1 977 921
Leased Sewer Infrastructure:				
Carrying amount at 1 July	2 898	2 980	2 898	2 980
Depreciation	(84)	(82)	(84)	(82)
Net revaluation increment	64	-	64	-
Carrying amount at 30 June	2 878	2 898	2 878	2 898
Land:				
Carrying amount at 1 July	172 710	168 665	172 710	168 665
Additions	839	286	839	286
Disposals	(405)	(1 401)	(405)	(1 401)
Net revaluation increment	18 155	5 160	18 155	5 160
Carrying amount 30 June	191 299	172 710	191 299	172 710
Buildings:				
Carrying amount at 1 July	19 352	19 031	19 352	19 031
Additions	1 636	661	1 636	661
Disposals	(307)	-	(307)	-
Depreciation	(463)	(451)	(463)	(451)
Net revaluation increment	220	111	220	111
Carrying amount at 30 June	20 438	19 352	20 438	19 352
Other:				
Carrying amount at 1 July	41 579	47 413	41 579	47 413
Additions	5 796	4 125	5 796	4 125
Net revaluation increment	722	-	722	-
Depreciation	(6 526)	(6 951)	(6 526)	(6 951)
Asset value write down	(1 869)	(3 008)	(1 869)	(3 008)
Carrying amount at 30 June	39 702	41 579	39 702	41 579

Reconciliations (continued)

	Note	Consolidated		The Corporation	
		2003	2002	2003	2002
Plant and Equipment:		\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July		12 073	11 942	12 073	11 942
Additions		4 748	3 713	4 748	3 713
Disposals		(154)	(1 162)	(154)	(1 162)
Depreciation		(2 788)	(2 420)	(2 788)	(2 420)
Carrying amount at 30 June		13 879	12 073	13 879	12 073
Capital Work in Progress:					
Balance at 1 July		166 350	212 449	166 350	212 449
Additions		128 189	118 219	128 189	118 219
Transfers		(97 159)	(164 318)	(97 159)	(164 318)
Write down		(2 918)	-	(2 918)	-
Balance at 30 June		194 462	166 350	194 462	166 350
Total Infrastructure, Plant and Equipment		6 400 760	6 038 878	6 400 760	6 038 878

13. Payables

Current:

Trade creditors		47 939	44 435	47 939	44 435
Interest payable		12 948	14 872	12 948	14 872
Other creditors		16 861	27 043	16 824	27 020
		77 748	86 350	77 711	86 327

Non-Current:

Other creditors		1 152	1 041	1 152	1 041
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14. Interest Bearing Liabilities

Current:

Short-term borrowings		55 388	18 005	55 388	18 005
Lease liability	22	1 978	1 775	1 978	1 775
		57 366	19 780	57 366	19 780

The Corporation has a \$75 million short term borrowing facility with the Department of Treasury and Finance bearing interest at the daily cash rate charged by the South Australian Government Financing Authority.

Non-Current:

Long-term borrowings		1 055 966	1 056 522	1 055 966	1 056 522
Lease liability	22	115 376	117 355	115 376	117 355
		1 171 342	1 173 877	1 171 342	1 173 877

The Corporation has a fully utilised long term borrowing facility with the Department of Treasury and Finance. The loan is denominated in Australian dollars and carries both fixed and floating interest rates.

15. Provisions

Current:

Employee benefits	25	6 051	5 895	6 051	5 895
Asset disposal		832	537	832	537
Workers compensation	25	750	1 102	750	1 102
Damages and claims		703	3 479	703	3 479
Removal of biosolids		488	476	488	476
Site Rehabilitation		158	164	158	164
		8 982	11 653	8 982	11 653

Non-Current:

Employee benefits	25	16 432	14 934	16 432	14 934
Workers compensation	25	3 001	3 988	3 001	3 988
Removal of biosolids		1 526	1 888	1 526	1 888
Asset disposal		268	580	268	580
		21 227	21 390	21 227	21 390

Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits, asset disposal and site rehabilitation, are set out below:

Removal of Biosolids - current:

	2003	
	Consolidated \$'000	The Corporation \$'000
Carrying amount 1 July	476	476
Payments made during the year	(415)	(415)
Transfer from non-current provision	427	427
Carrying amount at 30 June	488	488

Removal of Biosolids - non-current:

Carrying amount at 1 July	1 888	1 888
Transfer to current provision	(427)	(427)
Re-measurement adjustments	65	65
Carrying amount at 30 June	1 526	1 526

Reconciliations (continued)

2003
Consolidated The Corporation
\$'000 \$'000

Damages and Claims:				
Carrying amount at 1 July		3 479		3 479
Payments made during the year		(639)		(639)
Re-measurement adjustments		(2 137)		(2 137)
Carrying amount at 30 June		703		703

16. Other Liabilities

	Note	Consolidated		The Corporation	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current:					
Deposits from contractors		657	582	657	582
Unearned income		190	604	190	604
		847	1 186	847	1 186
Non-Current:					
Advances for work carried out on behalf of Murray Darling Basin Commission		497	497	497	497

17. Notes to the Statement of Cash Flows**(a) Reconciliation of Cash**

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the items in the Statement of Financial Position as follows:

Cash assets	1 604	1 376	1 148	973
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(b) Reconciliation of Profit from Ordinary Activities after Income Tax to Net Cash provided by Operating Activities

Profit from ordinary activities after income tax	183 793	162 179	182 921	162 610
Add (Less) items classified as investing activities:				
Profit on sale of infrastructure, plant and equipment	534	(8 421)	534	(8 421)
Contributed assets	(27 307)	(16 922)	(27 307)	(16 922)
Add (Less) non-cash items:				
Depreciation	110 264	107 409	110 264	107 409
Amortisation	58	173	58	173
Write-off of capitalised expenditure	5 592	3 770	5 592	3 770
Write-down in loan to controlled entities	-	-	896	-
Revaluation of investment in unlisted shares	(434)	-	(434)	-
Provision for employee benefits	1 808	1 059	1 808	1 059
Provision for workers compensation	(1 339)	1 271	(1 339)	1 271
Adjustment for non-business operations	116	44	116	44
Decrease in future income tax benefit	748	283	747	286
Decrease (increase) in income taxes payable	8 037	(1 445)	8 030	(1 827)
Increase in deferred taxes payable	2 880	4 314	2 880	4 314
Net cash provided by Operating Activities before change in Assets and Liabilities	284 750	253 714	284 766	253 766

Changes in assets and liabilities:

(Increase) decrease in rates and sundry receivables	(7 035)	14 793	(7 035)	14 936
Decrease (increase) in prepayments	17	(132)	17	(132)
(Increase) decrease in inventories	(50)	190	(50)	190
Decrease (increase) in other operating assets	232	(235)	202	(251)
Decrease in trade creditors	(2 705)	(633)	(2 705)	(634)
Decrease in other operating liabilities	(5 491)	(13 608)	(5 530)	(13 708)
(Decrease) increase in other provisions	(2 775)	729	(2 775)	729
Net Cash provided by Operating Activities	266 943	254 818	266 890	254 896

18. Contributed Equity

Balance at 1 July		263 950	274 950	263 950	274 950
Repayment of Capital	18(a)	(16 000)	(11 000)	(16 000)	(11 000)
Balance at 30 June		247 950	263 950	247 950	263 950

(a) Repayment of capital is included as part of the total distribution to Government.

19. Reserves	(a) <i>Asset Revaluation Reserve</i>	Note	Consolidated		The Corporation	
			2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
	Balance at 1 July		4 451 424	4 321 404	4 451 424	4 321 404
	Add: Revaluation increment on infrastructure, plant and equipment assets	1(e)	322 138	130 020	322 138	130 020
	Balance at 30 June		4 773 562	4 451 424	4 773 562	4 451 424

The asset revaluation reserve is the cumulative balance of asset revaluation increments and decrements.

(b) <i>Foreign Currency Translation Reserve</i>				
Balance at 1 July		(44)	(44)	-
Balance at 30 June		(44)	(44)	-
Total Reserves		4 773 518	4 451 380	4 773 562

The foreign currency translation reserve is the cumulative balance of exchange differences due to the translation of financial reports of a foreign operation from prior reporting periods when the foreign operation was classified as self sustaining, refer to Notes 1(s) and 23.

20. Retained Profits				
Retained profits at 1 July		109 193	84 189	110 445
Net effect of initial adoption of revised APS 3 'Valuation of non-current assets':				
Revaluation decrement of investment in unlisted shares		(9 427)	-	(9 427)
Net profit from ordinary activities after income tax		183 793	162 179	182 921
		283 559	246 368	283 939
Dividends paid	29	(164 845)	(137 175)	(164 845)
Retained Profits at 30 June		118 714	109 193	119 094

21. Additional Financial Instruments Disclosure

(a) *Objectives of Holding Derivative Financial Instruments*

The Corporation is exposed to the risk of adverse movements in interest rates and the Australian Dollar relative to foreign currencies. The Corporation uses derivative financial instruments solely to hedge against interest rate and foreign currency risks.

Forward exchange contracts are purchased to hedge the Australian Dollar value of foreign currency payments arising from the purchase of inventory. The forward exchange contracts commit the Corporation to purchase foreign currency at an agreed rate of exchange.

Interest rate swap agreements are used to convert interest rate exposures on certain debt from floating to fixed rates and vice versa. These swaps entitle the Corporation to either receive/pay floating interest quarterly or semi annually and receive/pay fixed interest semi annually.

Interest rate futures contracts and forward rate agreements are utilised by the Corporation to hedge interest rate exposures on borrowings.

(b) *Interest Rate Risk Exposures*

The Corporation's financial assets and financial liabilities are exposed to interest rate risk. The following table summarises interest rate risk for the Corporation, together with effective weighted average interest rates as at balance date.

	Note	2003 Fixed Interest Maturing In					2003 Total \$'000	Weighted Average Interest Rate	
		Floating Interest Rate \$'000	1 Year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non- Interest Bearing \$'000		Floating Percent	Fixed Percent
Financial Assets:									
Cash	17(a)	1 604	-	-	-	-	1 604	4.22	
Current receivables	7	-	-	-	-	41 834	41 834		
CSO receivable	7	-	-	-	-	83 357	83 357		
Other financial assets	10	-	-	-	-	5 857	5 857		
Other	9	-	-	-	-	115	115		
		1 604	-	-	-	- 131 163	132 767		
Financial Liabilities:									
Short term borrowings	14	55 388	-	-	-	-	55 388	4.93	
Long term borrowings	14	185 399	111 572	394 823	364 172	-	1 055 966	4.60	6.31
Payables	13	-	-	-	-	74 604	74 604		
Deposits with SA Water	13,16	-	3 144	-	-	657	3 801		4.58
Non business advances	16	-	-	-	-	497	497		
Lease liabilities	14	-	1 978	10 462	104 914	-	117 354		10.96
Interest rate swaps*		(173 500)	-	37 500	136 000	-	-	4.58	6.87
		67 287	116 694	442 785	605 086	75 758	1 307 610		

* Notional Principal amount

(b) Interest Rate Risk Exposures (continued)

		2002					2002 Total \$'000	Weighted Average Interest Rate	
		Floating Interest Rate \$'000	Fixed Interest Maturing In			Non- Interest Bearing \$'000		Floating Percent	Fixed Percent
		1 Year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000					
Financial Assets:									
Cash	17(a)	1 376	-	-	-	-	1 376	4.21	
Current receivables	7	-	-	-	-	37 197	37 197		
CSO receivable	7	-	-	-	-	93 094	93 094		
Other financial assets	10	-	-	-	-	14 850	14 850		
Other	9	-	-	-	-	4	4		
		<u>1 376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>- 145 145</u>	<u>146 521</u>		
Financial Liabilities:									
Short term borrowings	14	18 005	-	-	-	-	18 005	4.93	
Long term borrowings	14	169 827	80 572	383 189	422 934	-	1 056 522	4.95 6.83	
Payables	13	-	-	-	-	84 908	84 908		
Deposits with SA Water	13,16	-	1 442	-	-	582	2 024	4.44	
Non-business advances	16	-	-	-	-	497	497		
Lease liability	14	-	1 775	9 384	107 971	-	119 130	10.96	
Interest Rate Swaps*		(134 500)	-	37 500	97 000	-	-	5.05 6.77	
		<u>53 332</u>	<u>83 789</u>	<u>430 073</u>	<u>627 905</u>	<u>85 987</u>	<u>1 281 086</u>		

* Notional Principal amount

Interest Rate Sensitivity

In relation to borrowings, a 1 percent change in interest rates would impact on interest expense by \$2.03 million (\$1.56 million) for the year to 30 June 2004. A 1 percent increase in interest rates would decrease the market value of the debt portfolio by \$45.3 million as at 30 June 2003 (\$43.4 million). This analysis is based on interest rates as at 30 June 2003.

(c) Foreign Exchange

Contracts to buy foreign currency are entered into from time to time to offset purchase obligations so as to maintain a desired hedge position. The following table summarises by currency the Australian Dollar value of forward foreign exchange contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the Corporation.

Currency	Contract Value		Weighted Average Exchange Rate	
	2003 \$'000	2002 \$'000	2003	2002
American Dollars:				
Buy:				
Not later than one year	50	-	0.6617	-
Euro Dollars:				
Buy:				
Not later than one year	-	98	-	0.5985
	<u>50</u>	<u>98</u>		

As these contracts are hedging anticipated purchases, any unrealised gains and losses on the contracts, together with the costs of the contracts, will be recognised in the financial statements at the time the underlying transaction occurs (refer Note 1(s)). The unrecognised gains and losses, which are unrealised as at 30 June 2003, on hedges of anticipated foreign currency purchases are:

	2003		2002	
	Foreign Currency Gross Unrealised Gains \$'000	Foreign Currency Gross Unrealised Losses \$'000	Foreign Currency Gross Unrealised Gains \$'000	Foreign Currency Gross Unrealised Losses \$'000
Not longer than one year	-	1	5	-

(d) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties to the Corporation fail to meet their obligations.

The Corporation minimises concentrations of credit risk by undertaking transactions with a large number of counterparties with low outstanding amounts and/or credit worthy counterparties.

The credit risk on futures contracts is minimised as transactions are made through a recognised futures exchange.

SA Water undertakes all foreign exchange, interest rate risk management and commodity risk management transactions with SAFA as an eligible counterparty without limit. There is no credit risk exposure as SAFA is an entity guaranteed by the Government of South Australia.

Recognised Financial Instruments

The credit risk on financial assets recognised in the Statement of Financial Position is the carrying amount, net of any allowance for doubtful debts.

(d) Credit Risk Exposures (continued)**Non-Recognised Financial Instruments**

The credit risk on swap contracts is limited to the amount to be received from counter parties on contracts that are favourable to the Corporation. The amount due to the Corporation as at 30 June 2003 was \$1.21 million (Nil).

The forward foreign exchange contracts are subject to credit risk with the South Australian Government Financing Authority. The maximum credit risk exposure on forward foreign exchange contracts is the amount of foreign currency the Corporation is entitled to receive from the counterparties when the contracts are closed out. As at the 30 June 2003, there was no amount due to the Corporation (\$0.005 million).

There was no credit risk exposure on the forward rate agreements as at 30 June 2003 (Nil).

(e) Net Fair Values of Financial Assets and Liabilities

Net fair value is the amount at which the asset could be exchanged, or liability settled, in a current transaction between willing parties after allowing for transaction costs.

Recognised Financial Instruments

The carrying amounts and estimated net fair values of financial assets and financial liabilities held at balance date are given below.

The net fair value of cash and cash equivalents, non-interest bearing monetary financial assets and financial liabilities of the Corporation approximate their carrying value and are therefore not disclosed below.

The net fair value of other monetary financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows at 30 June 2003 interest rates.

	2003		2002	
	Carrying Amount \$'000	Net Fair Value \$'000	Carrying Amount \$'000	Net Fair Value \$'000
Financial Liabilities:				
Long-term borrowings	1 055 966	1 106 133	1 056 522	1 083 018
Lease liabilities	117 354	117 354	119 130	119 130

Non-Recognised Financial Instruments

The net fair value of non-recognised financial instruments held at the reporting date is:

	Net Fair Values	
	2003 \$'000	2002 \$'000
Interest rate swaps	(17 765)	(9 126)
Swaptions	94	-
Forward foreign exchange contracts	49	103

The net fair value for interest rate swaps and swaptions is estimated by discounting the anticipated future cash flows to their present value, based on current market interest rates at the respective balance dates.

The net fair value of forward foreign exchange contracts is determined by reference to amounts quoted by the South Australian Government Financing Authority as at 30 June 2003.

22. Expenditure Commitments**Capital Commitments**

Total capital expenditure contracted for at balance date but not recognised in the financial report and payable:

 Not later than one year

	Consolidated		The Corporation	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Not later than one year	66 485	16 129	66 485	16 129
	66 485	16 129	66 485	16 129

Joint Venture Commitments

Share of capital commitments contracted for arising from interest in joint venture operation and payable:

 Not later than one year

	129	-	129	-
	129	-	129	-

Finance Lease Payment Commitments

Finance Lease Commitments are payable:

 Not later than one year

 Later than one year and not later than five years

 Later than five years

Less: Future lease finance charges

Not later than one year	16 088	15 643	16 088	15 643
Later than one year and not later than five years	64 352	62 572	64 352	62 572
Later than five years	228 659	236 976	228 659	236 976
	309 099	315 191	309 099	315 191
Less: Future lease finance charges	191 745	196 061	191 745	196 061
	117 354	119 130	117 354	119 130

Future finance lease payments are amounts contracted with private sector providers to construct, own and operate water and wastewater treatment facilities. The leases comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the Consumer Price and related indexes. The amount of contingent rentals paid and payable during the year is disclosed in Note 4.

Finance Lease Payment Commitments (continued)

	Note	Consolidated		The Corporation	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Lease Liabilities provided for in the financial statements:					
Current	14	1 978	1 775	1 978	1 775
Non-Current	14	115 376	117 355	115 376	117 355
		117 354	119 130	117 354	119 130
Operating Leases and Other Expenditure Commitments:					
Future operating leases and other expenditure commitments not provided for in the financial Statements and payable:					
Not later than one year		57 622	61 958	57 622	61 958
Later than one year and not later than five years		220 738	219 214	220 738	219 214
Later than five years		169 843	226 302	169 843	226 302
		448 203	507 474	448 203	507 474

The operating lease commitments relate to property leases which are non-cancellable leases. The rental is payable monthly with reviews indexed every two years. These bi-annual reviews alternate between CPI indexation and Market Value. Options exist to renew the leases at the end of the term of the leases.

Other expenditure commitments include commitments pursuant to the contract to operate, manage and maintain the Adelaide metropolitan water and waste water networks and treatment plants. The costs for the commitments include the service charge payable to United Water International Pty Ltd and the costs incurred by United Water International Pty Ltd in performing services which are reimbursed by the Corporation. The costs are reported for the total period of the contract and include an estimate for escalation charges.

23. Controlled Entities

Particulars in relation to Controlled Entities

Parent Entity:

 South Australian Water Corporation

Controlled Entities:

 SA Water International Pty Ltd

 Crichbee Pty Limited

 PT SA Water International ⁽¹⁾

	Ordinary Share Consolidated Entity Interest	
	2003 Percent	2002 Percent
SA Water International Pty Ltd	100	100
Crichbee Pty Limited	100	100
PT SA Water International ⁽¹⁾	100	100

(1) PT SA Water International was established in Indonesia. All other controlled entities were incorporated in Australia. To comply with Indonesian company regulations requiring at least two shareholders, 95 percent of the capital of PT SA Water International is held by SA Water International Pty Ltd with the remaining 5 percent held by Crichbee Pty Ltd.

	Consolidated		The Corporation	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
SA Water International Pty Ltd:				
Capital subscribed	-	-	381	381
	-	-	381	381
Crichbee Pty Ltd:				
Capital subscribed	-	-	21	21
	-	-	21	21
PT SA Water International:				
Capital subscribed (US \$200 000)	-	-	383	383
	-	-	383	383

On 1 April 2003, the Board announced its decision to wind up its international subsidiary in Indonesia PT SA Water International and following the completion of this its two Australian subsidiaries Crichbee Pty Ltd and SA Water International Pty Ltd by the end of the financial period 30 June 2004.

24. Interest in Joint Venture Operation

The Corporation holds an interest of 50 percent in the output of the joint venture operation named SA Water Hydro Joint Venture whose principal activity is the generation of electricity from the use of water energy stored in and by the Corporation's infrastructure at Mt Bold and Hope Valley.

Included in the assets and liabilities of the Corporation and the consolidated entity are the following items which represent the Corporation's and the consolidated entity's interest in the assets and liabilities employed in the joint venture, recorded in accordance with the accounting policies described in Note 1(c).

	Consolidated		The Corporation	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current Assets:				
Cash assets	108	-	108	-
Receivables	282	-	282	-
Other	1	-	1	-
Total Current Assets	391	-	391	-
Non-Current Assets:				
Capital work in progress	1 403	-	1 403	-
Total Non-Current Assets	1 403	-	1 403	-
Total Assets	1 794	-	1 794	-

24. Interest in Joint Venture Operation (continued)

		Consolidated		The Corporation	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Current Liabilities:	Note				
Payables		451	-	451	-
Total Current Liabilities		451	-	451	-
Total Liabilities		451	-	451	-
Net Assets		1 343	-	1 343	-

Refer to Note 22 for details of joint venture capital commitments.

25. Employee Benefits

Aggregate liability for employee benefits, including on-costs

Current:

Accrued wages and salaries included in other creditors	13	870	620	870	620
Workers compensation	15	750	1 102	750	1 102
Annual Leave					
Included in other creditors	13	728	673	728	673
Provision for employee benefits	15	4 313	3 912	4 313	3 912
		5 041	4 585	5 041	4 585
Long Service Leave					
Included in other creditors	13	115	128	115	128
Provision for employee benefits	15	1 738	1 983	1 738	1 983
		1 853	2 111	1 853	2 111
		8 514	8 418	8 514	8 418

Non-Current:

Workers compensation	15	3 001	3 988	3 001	3 988
Long service leave					
Included in other creditors	13	1 152	1 041	1 152	1 041
Provision for employee benefits	15	16 432	14 934	16 432	14 934
		17 584	15 975	17 584	15 975
		20 585	19 963	20 585	19 963
Total Employee Benefits		29 099	28 381	29 099	28 381

Long Service Leave Provision

The balance at 30 June 2003 was determined on the basis of an actuarial valuation of the outstanding liability carried out by Mr Christos Papanicolas BSc (Ma) (Hons) ASIA, FIAA of Mercer Human Resource Consulting Pty Ltd.

26. Contingent Liabilities and Contingent Assets**Contingent Liabilities**

The Corporation has no material contingent liabilities as at 30 June 2003

Contingent Assets

SA Water and Riverland Water Pty Ltd entered into BOOT agreements in 1996 where Riverland Water would provide and operate for 25 years 10 water treatment filtration plants along the Murray River. Refer Note 1(f).

Both parties have signed a commercial basis of agreement in February 2003 to renegotiate the terms of the BOOT agreements whereby Riverland Water would undertake further water treatment to replace its economic development obligations.

This contingent asset is based on the possible assets arising from a past event which will only be confirmed by the occurrence of a future event not wholly within the control of SA Water. The formalisation of the agreement requires a variation to the original BOOT agreements.

The probability of future economic benefits is greater than remote, the estimated value is commercial in confidence.

27. Auditors' Remuneration

		Consolidated		The Corporation	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Amounts received and receivable by the Auditors for auditing the accounts	Note	243	239	235	226

The Auditors received no other benefits.

28. Consultancy Costs

During the year ended 30 June 2003, the Corporation paid \$0.7 million (\$1 million) as a result of engaging consultants. Assignments undertaken by consultants included work for operating projects.

29. Dividends

Dividends paid	20	164 845	137 175	164 845	137 175
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The dividends paid to the South Australian Government Consolidated Account on 30 June 2003 were based upon the recommendation of the Board to the Treasurer pursuant to section 30 of the *Public Corporations Act 1993*.

30. Remuneration of Employees

	Consolidated		The Corporation	
	2003	2002	2003	2002
The number of employees whose remuneration received and receivable falls within the following bands is:	Number of Employees	Number of Employees	Number of Employees	Number of Employees
\$100 000 - \$109 999	12	5	12	5
\$110 000 - \$119 999	9	5	9	5
\$120 000 - \$129 999	5	2*	5	2*
\$130 000 - \$139 999	2	3*	2	3*
\$140 000 - \$149 999	-	5*	-	5*
\$150 000 - \$159 999	5*	3	5*	3
\$160 000 - \$169 999	4	1	4	1
\$170 000 - \$179 999	2	1	2	1
\$180 000 - \$189 999	-	1	-	1
\$190 000 - \$199 999	-	3	-	3
\$210 000 - \$219 999	2	-	2	-
\$220 000 - \$229 999	1	-	1	-
\$230 000 - \$239 999	1	-	1	-
\$250 000 - \$259 999	-	1	-	1
\$260 000 - \$269 999	1	-	1	-
\$290 000 - \$299 999	1	-	1	-
\$400 000 - \$409 999	1*	-	1*	-

The total remuneration received and receivable by those employees was \$6.7 million (\$4.3 million). This amount includes fringe benefits, bonuses (paid for 2002 only) and superannuation payments made to the Department of Treasury and Finance. The SA Water bonus scheme has been abandoned and no bonus payments will be made from or in relation to 2003. These figures include two employees (three employees) who are no longer with the Corporation (denoted by *). The comparatives for 2002 Remuneration of Employees have been restated to include all employees with remuneration received and receivable above \$100 000.

31. Remuneration of Directors

	Consolidated		The Corporation	
	2003	2002	2003	2002
The number of Directors of the Corporation whose remuneration received and receivable falls within the following bands is:	Number of Directors	Number of Directors	Number of Directors	Number of Directors
\$10 000 - \$19 999	2*	1	2*	1
\$20 000 - \$29 999	2*	-	2*	-
\$30 000 - \$39 999	1	1	1	1
\$40 000 - \$49 999	1	2	1	2
\$50 000 - \$59 999	1	2*	1	2*
\$60 000 - \$69 999	-	1*	-	1*
\$80 000 - \$89 999	1	-	1	-
\$250 000 - \$259 999	-	1	-	1
\$290 000 - \$299 999	1	-	1	-

The total remuneration received and receivable by those Directors was \$0.58 million (\$0.56 million) which includes fringe benefits and superannuation contributions. These figures include two (two) Directors who are no longer with the Corporation (denoted by *), as well as the Chief Executive Ms Anne Howe who is also included in Note 30.

32. Related Party Disclosures

The following persons held the position of Director of the Corporation during the financial year:

G B Allison
A D Howe
A E Thomas
P W Pledge
F T Blevins (appointed 5 December 2002)
R J Owens (appointed 23 January 2003)
R A Cook (resigned 31 August 2002)
S V McPhee (resigned 20 December 2002)
S M Doyle (appointed 22 August 2002)

Mr Allison is a Director and Partner of the Cape d'Estaing Group, a Partner of GB and JD Allison, a Principal of Allison Partners Pty Ltd, is on the Investment Committee of the Australian Water Infrastructure Fund and a 15 percent shareholder in Environmental Solutions (Aust) Pty Ltd.

Mr Cook was the Chairman of the South Australian Tourism Commission, the South Australian Motor Sports Board, Urban Construct Pty Ltd, Brock Partners Pty Ltd and a Director of Adelaide Bank Ltd.

Ms Doyle is the Chairman of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme.

Ms Howe is a director of the Construction Industry Training Board and Water Services Association of Australia (WSAA).

Ms McPhee is the Group General Manager Alliances for QANTAS and a Director of Australia Post.

Ms Owens is the Treasurer and National Committee Member of the Australian Labour Law Association Inc, deputy Chair of the Working Women's Centre SA Inc and a Trustee of the ASKM Adelaide Recitals Trust.

Mr Pledge is a Consultant for Ernst & Young and Chairman of the Adelaide Chamber Orchestra.

Mr Thomas is a Director of G H Michell & Sons (Aust) Pty Ltd and Engelhardt Eyewear Pty Ltd.

All financial benefits provided by SA Water to related parties are provided on arm's length terms.

33. Irrigation Assets and Liabilities

Assets and liabilities arising from the *Irrigation Act 1994* which were controlled by the former Engineering and Water Supply Department were not vested in the Corporation. Government policy is for self-management of Government Irrigation Districts which resulted in the transfer of assets to trusts formed under the *Irrigation Act 1994* on 1 July 1997 for the Highland Irrigation Areas. During this transitional period, the Corporation continues to manage the irrigation activities for the reclaimed areas on behalf of the Minister for Government Enterprises. In order to reflect this arrangement, the assets and liabilities associated with the irrigation function have been excluded from the Corporation's financial statements. Agreement has been reached whereby the funding of capital works and operations for irrigation activities will be assumed by the Treasurer.

Under this arrangement, the Corporation is able to account for these amounts as advances due from the Minister for Government Enterprises. These amounts are recorded in a separate account, Minister for Government Enterprises - Irrigation Assets.

	Consolidated		The Corporation	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Balance due from the Minister for Government Enterprises	8 483	8 881	8 483	8 881
Rates revenue - Irrigation	(583)	(926)	(583)	(926)
Operating expenses - Irrigation	470	661	470	661
Capital work in progress reclaimed areas	-	8	-	8
Less: Contributions received	(34)	(141)	(34)	(141)
	8 336	8 483	8 336	8 483

34. Targeted Voluntary Separation Packages (TVSPs & TVERs)

In accordance with Government policy, 29 employees (20 employees) were paid a Targeted Voluntary Separation Package (TVSP) at a total value of \$2.2 million (\$1.3 million) with an additional \$0.9 million paid (\$0.5 million) in accrued annual leave and long service leave entitlements. There were 22 employees (Nil) that were paid a Targeted Voluntary Early Retirement (TVER) package during the period, at a total value of \$1.3 million (\$nil) with an additional \$0.6 million paid (\$nil) in accrued annual leave and long service leave entitlements.

PREMIER

PORTFOLIO - AUDITOR-GENERAL'S DEPARTMENT

INTRODUCTION

This section of this Part of the Report contains the financial statements of, and comments concerning, the operations of those agencies under the direction and control of the following Minister, namely:

- Premier

The agency included herein relating to this portfolio is the Auditor-General's Department.

AUDITOR-GENERAL'S DEPARTMENT

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment and Functions

The *Public Finance and Audit Act 1987* confers wide powers on the Auditor-General to examine any matters relating to the collection, receipt, issue or expenditure of public monies and to report on the efficiency and economy of public sector operations. In addition, the Auditor-General has been appointed auditor of various statutory corporations and funds; has been appointed auditor of a number of companies associated with the operations of public sector agencies; has a discretionary right under the *Education Act 1972* to inspect or audit the accounts of school councils and; is required by the *South Australian Health Commission Act 1976* to audit the accounts of prescribed incorporated hospitals and health units and to approve of the auditor of other incorporated hospitals and units.

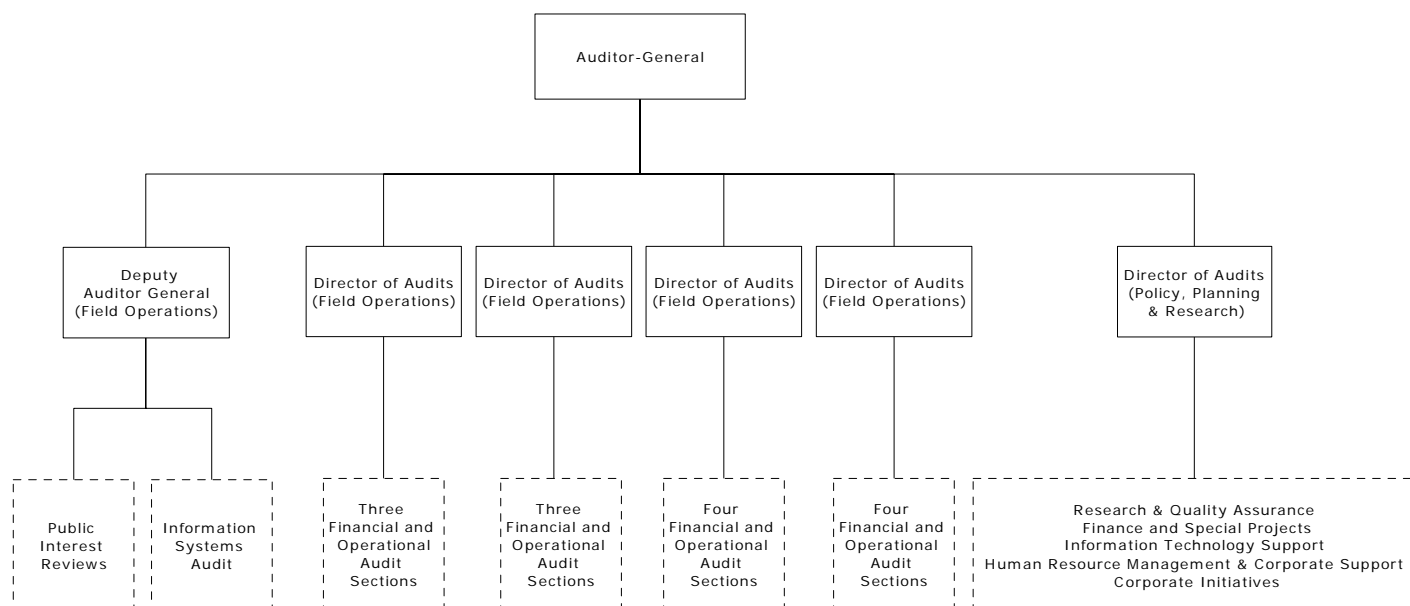
The Act provides a mandate for the Auditor-General to conduct five different types of audits and reviews. These are:

- financial and compliance audit - subsection 31(1)
- efficiency and economy audit - subsection 31(2)
- review of the adequacy of controls exercised by auditee agencies - subsection 36(1)(a)(iii)
- examination of the accounts of a publicly funded body - section 32
- review of a summary of a confidential government contract - section 41A

The Auditor-General's Department was established to assist the Auditor-General in the discharge of his/her statutory audit mandate

Structure

The structure of the Department is:



Changes to Structure

During the year the Department revised its organisation structure to ensure that the priorities and risks of the Department were more effectively addressed. These changes included the establishment of an additional Field Audit Director position and the dedication of functions relating to the conduct of Public Interest reviews to the Deputy Auditor-General.

AUDIT MANDATE AND COVERAGE

Audit Authority

Under section 35(1) of the *Public Finance and Audit Act 1987*, the Governor, on the recommendation of the Treasurer, has appointed Grant Thornton as auditor of the Auditor-General's Department. An unqualified Independent Audit Report was issued in respect of the year ended 30 June 2003.

AUDIT FINDINGS AND COMMENTS

Grant Thornton reported the results of their audit in a management letter dated 18 August 2003 and advised no matters of significance were identified during the course of the audit

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

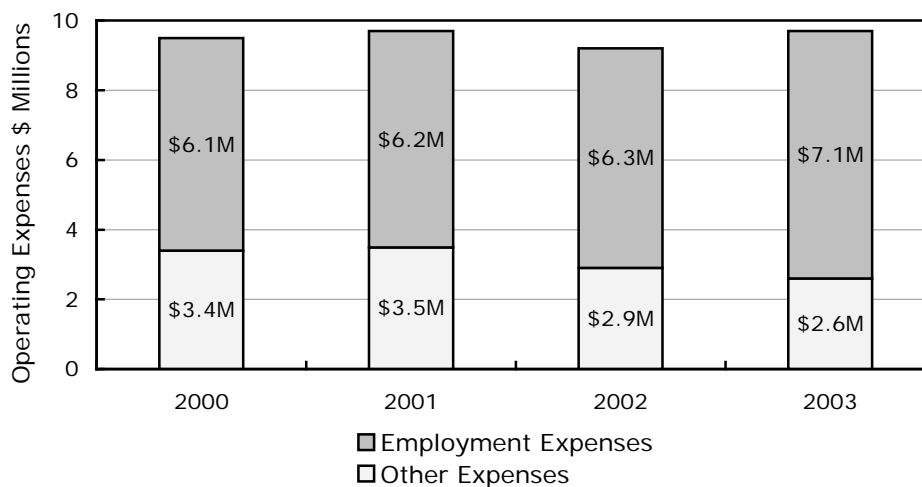
Highlights of Financial Statements

	2003 \$'million	2002 \$'million	Percentage Change
OPERATING REVENUE			
Government grants	9.9	9.2	8
OPERATING EXPENDITURE			
Employment expenses	7.1	6.3	13
Other expenses	2.6	2.9	(10)
Total Operating Expenses	9.7	9.2	5
Net Cash Flows from Operations	.8	.6	25
Total Assets	2.1	1.5	40
Total Liabilities	2.3	2.1	10

Statement of Financial Performance

Operating Expenses

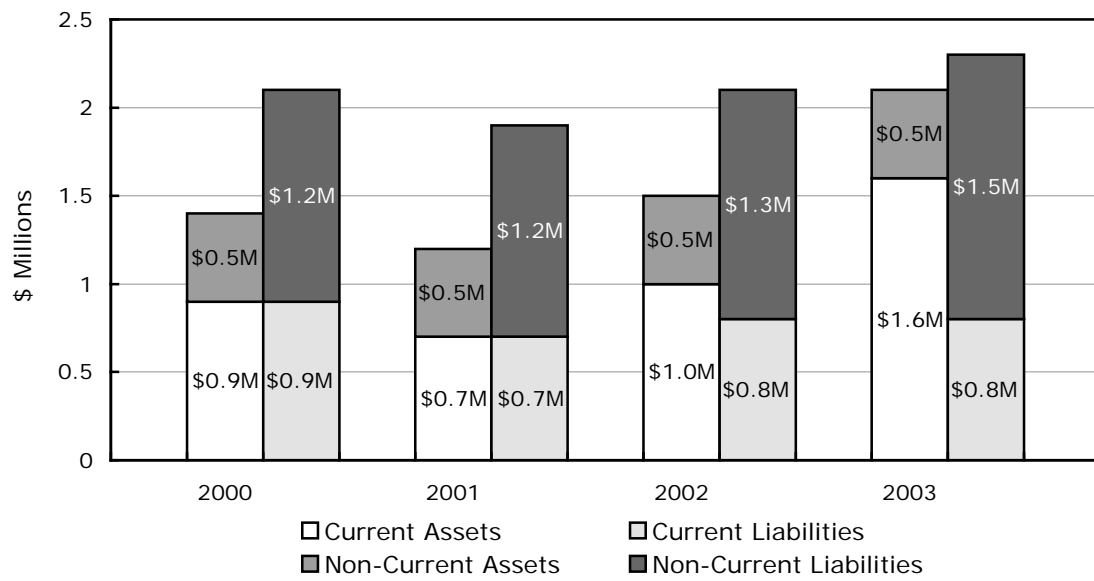
A structural analysis of the main operating expense items is shown in the following chart.



During the 2002-03 year there was an increase in employee entitlements and the associated on-costs as a result of graduate recruitment to replace employee turnover levels which did not eventuate and the implementation of a revised organisational structure.

Statement of Financial Position

A structural analysis of assets and liabilities is shown in the following chart.



Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee entitlements	1.3, 6	6 026	5 351
Employment on-costs	6	1 077	954
Contract audit fees		665	671
Other expenses		626	780
Accommodation and service costs		487	561
Consultancies		339	356
Depreciation	1.4, 5.2	269	279
Staff development and training		185	209
Loss (Profit) on disposal of assets	4	3	(1)
Total Expenses	2	9 677	9 160
REVENUES FROM ORDINARY ACTIVITIES:			
Interest		73	132
Other income		11	3
Total Revenues		84	135
NET COST OF SERVICES		9 593	9 025
REVENUES FROM GOVERNMENT:			
Recurrent appropriations	3	9 938	9 232
NET SURPLUS		345	207
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		345	207

Statement of Financial Position as at 30 June 2003

	Note	2003	2002
		\$'000	\$'000
CURRENT ASSETS:			
Cash	1.7, 8.1	1 471	940
Receivables	1.7	92	116
Total Current Assets		1 563	1 056
NON-CURRENT ASSETS:			
Computer and office facilities	1.4, 5	1 513	1 460
Accumulated depreciation	1.4, 5	(1 034)	(971)
Total Non-Current Assets	5	479	489
Total Assets		2 042	1 545
CURRENT LIABILITIES:			
Payables	1.7	47	43
Cash advance - Imprest accounts	1.7	3	3
Employee entitlements	1.3, 6	589	586
Employment on-costs		118	145
Total Current Liabilities		757	777
NON-CURRENT LIABILITIES:			
Employee entitlements	1.3, 6	1 287	1 136
Employment on-costs		169	148
Total Non-Current Liabilities		1 456	1 284
Total Liabilities		2 213	2 061
NET ASSETS	7	(171)	(516)
EQUITY:			
Opening balance - Deficit		(516)	(723)
Increase in net assets		345	207
TOTAL EQUITY	7	(171)	(516)
Commitments	11		

Statement of Cash Flows
for the year ended 30 June 2003

		2003	2002
		Inflows	Inflows
		(Outflows)	(Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
PAYMENTS:			
Employee entitlements		(5 862)	(5 196)
Employment on-costs		(1 088)	(920)
Goods and services		(2 536)	(2 878)
RECEIPTS:			
Interest		73	132
Other income		11	3
Goods and service tax refunds		257	270
CASH FLOWS FROM GOVERNMENT:			
Recurrent appropriations	3	9 938	9 232
Net Cash provided by Operating Activities	8.2	793	643
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of computer and office facilities		(314)	(358)
Disposal of computer and office facilities		52	59
Net Cash (used in) Investing Activities		(262)	(299)
NET INCREASE (DECREASE) IN CASH HELD		531	344
CASH AT 1 JULY		940	596
CASH AT 30 JUNE	8.1	1 471	940

Schedule of Administered Expenses and Revenues for the year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
ADMINISTERED EXPENSES:			
Employee entitlements	1.3, 9.2	223	207
Amounts paid/payable to consolidated account		8 301	8 478
Goods and services tax paid/payable		755	770
Total Administered Expenses		9 279	9 455
ADMINISTERED REVENUES:			
Fees for audit services	9.1	7 554	7 700
Goods and services tax received/receivable on audit fees		755	770
Appropriation under Special Acts	3, 9.2	209	199
Appropriation - Goods and Services Tax	3	775	735
Total Administered Revenues		9 293	9 404
ADMINISTERED REVENUE LESS ADMINISTERED EXPENSES		14	(51)

Schedule of Administered Assets and Liabilities as at 30 June 2003

	Note	2003 \$'000	2002 \$'000
ADMINISTERED ASSETS:			
CURRENT ASSETS:			
Receivables	1.7, 9.1	394	564
Total Administered Assets		394	564
ADMINISTERED LIABILITIES:			
CURRENT LIABILITIES:			
Employee entitlements	1.3, 6	87	88
Payables		-	9
Amounts payable to consolidated account	9.1	394	564
Goods and services tax payable		168	187
Total Current Liabilities		649	848
NON-CURRENT LIABILITIES:			
Employee entitlements	1.3, 6	185	170
Total Non-Current Liabilities		185	170
Total Administered Liabilities		834	1 018

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. **Statement of Significant Accounting Policies**

1.1 **Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* (the Act). The accounts are presented on the accrual basis of accounting using historical cost accounting which does not take into account changing money values. Unless otherwise stated, the accounting policies adopted are the same as those in the previous year.

1.2 **Appropriations**

The Department is funded by Parliamentary appropriations for the full accrual cost of its services. The appropriation is paid into Special Deposit Account titled 'Auditor-General's Department Operating Account'. Appropriation for accrued expense at year end has in previous years been deposited in a special deposit account in the name of the Department at Treasury titled 'Accrual Appropriation Excess Funds'. Use of the funds requires the approval of the Treasurer. Pursuant to Treasurer's Instruction 3.8, this money is deemed to be controlled by the public authority in the name of which the money is recorded.

Administered items are funded by Parliamentary appropriations on a cash basis.

1.3 **Employee Entitlements**

Provision has been made for employee entitlement liabilities arising from services rendered by employees to balance date in accordance with Australian Accounting Standard AAS 30 'Accounting for Employee Entitlements'. Employee entitlements comprise entitlements to salaries and wages, annual leave, long service leave and workers compensation.

- *Salaries, Wages*
Liabilities for salaries and wages are recognised, and are measured as the amount unpaid at current pay rates in respect of employee service periods up to the reporting date.
- *Annual Leave*
Liabilities for annual leave are recognised, and are measured as the amount unpaid at the pay rate at which the liability is expected to be settled in respect of employee service periods up to the reporting date.
- *Sick Leave*
No liability is recognised, as sick leave taken by employees is considered to be taken from the current year's accrual.
- *Long Service Leave*
Long service leave is recognised on a pro-rata basis for the employee service periods up to the reporting date. The Department of Treasury and Finance has advised that a benchmark of seven years service (previously eight years) can be used for a shorthand estimation of long service leave liability in accordance with the provisions of AAS 30. This advice has been adopted and the long service leave liability as at 30 June 2003 has been calculated at nominal amounts based on current salary and wage rates for employees with seven or more years service.

The long service leave to be taken in the 12 months to 30 June 2004 has been estimated by adding the estimated termination payments in this period to the estimated long service leave to be taken by ongoing employees in the 12 months (based on previous years' experience). The basis of calculation is similar to that used in previous years.

- *Workers Compensation*
The workers compensation provision is an actuarial estimate of the outstanding liability at 30 June provided by a consulting actuary engaged through the Office for the Commissioner for Public Employment. This actuarial estimate provides for the estimated cost of ongoing payments to employees as required under current legislation.

The Department is responsible for the payment of day to day workers compensation claims. Any lump sum settlements are funded from the Government Workers Compensation Fund, administered by the Department of the Premier and Cabinet.

- *Superannuation*
The Department's liability for superannuation is to the Department of Treasury and Finance rather than the superannuation beneficiaries. The Department pays amounts to the Department of Treasury and Finance which represents the Department's share of the accruing liability to employees in relation to the Government's various superannuation schemes. The liability for superannuation is included in Employment on-costs.

1.4 **Computer and Office Facilities**

Computer and office facilities are recorded at historical cost less accumulated depreciation.

Non-current assets with acquisition cost greater than \$2 000 are depreciated using the straight line method of depreciation over their useful lives, which reflects the consumption of their service potential.

All assets useful lives have been set at three years.

1.5 Inventories

Consumable supplies are not recognised in the Statement of Financial Position as the value of these supplies is not considered to be material.

1.6 Administered Items

The Department has two Administered Items namely:

- *Special Acts*
As provided in subsection 24(4) of the Act, the Department receives a separate appropriation for the cash salary and allowances of the Auditor-General.
- *Administered Revenue*
Section 39 of the Act provides for the levying of fees for audit services provided by the Department. All audit fee monies received by the Department are paid into the Consolidated Account. The Department receives a cash appropriation to fund the payment of Goods and Services Tax on audit fees to the Australian Taxation Office.

1.7 Financial Instruments

The Department's accounting policies for financial instruments, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2003, are as follows:

- Cash is held in two Special Deposit Accounts as detailed in Note 1.2 and in two imprest accounts;
- Two interest free imprest accounts are advanced to the Auditor-General by the Treasurer pursuant to section 9 of the Act and are repayable on demand.
- Receivables relate to:
 - Audit Fee debtors (Note 9.1). Terms are 14 days;
 - Goods and Services Tax Receivable. Terms are 14 days of submission of quarterly Business Activity Statement;
- Payables are raised for amounts billed but unpaid and are normally settled within 30 days;
- All financial instruments are valued at historical cost in the Statement of Financial Position, which approximates net fair value.

1.8 Goods and Services Tax

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense;
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of the cash flows arising from investing or financing activities, which are recoverable from, or payable to, the Australian Taxation Office have however been classified as operating cash flows.

1.9 Changes in Accounting Policy

In accordance with Accounting Standard AASB 1028 "Employee Benefits", on 1 July 2002 the Department changed its policy for recognising provisions for annual leave. Under the new policy the amount of the provision is calculated using the remuneration rate expected to apply at the time of settlement, rather than the remuneration rate that applies at reporting date. The previous years figures in the statement of financial performance were not adjusted as if the new policy had always been applied as the impact was immaterial. Had the previous years figure been adjusted the effect of this change in accounting policy is to decrease the accumulated deficit for the Department by \$16 000.

2. Objectives of the Department

The Department's main statutory responsibilities are to audit the public accounts and the accounts of public authorities and to report the results to Parliament in accordance with the requirements of the Act.

The Department's sole program is the provision of Auditing Services covering all the audit responsibilities prescribed under the Act. Within this program class there are two subprograms:

- *Prescribed Audits*
Includes all audit work to be undertaken for agencies where the Auditor-General is the prescribed auditor and the Department must annually conduct the audit as prescribed by the Act. During the year the Department spent \$9 493 000 (\$8 941 000) on this subprogram.
- *Special Investigations*
Includes all work defined in the Act that is specifically requested to be undertaken by the Auditor-General. The Auditor-General may be requested to undertake work associated with:
 - conducting and reporting on Special Investigations when requested by the Parliament or Treasurer;
 - reviewing summaries of confidential government contracts and reporting on the adequacy of the document as a summary of the contents of the contract when requested to do so by a Minister.

These projects have specific Terms of Reference requested by the referring party and are treated as a separate output. Consistent with the legislative requirement of audit independence the reports are presented directly to the Parliament. During the year the Department expenditure on this subprogram totalled \$179 000 (\$219 000).

3. Funding of the Department

Appropriations to the Department in 2002-03 amounted to \$9 938 000 (\$9 232 000).

Appropriations under Special Acts are reported under Administered Items.

A summary of appropriations and departmental accrual funding for the year is set out below.

Appropriation:	Department		Administered Items	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Prescribed audits	9 458	9 232	-	-
Special Investigations	480	-	-	-
Special Acts	-	-	209	199
Goods and Services Tax	-	-	775	735
	9 938	9 232	984	934
Accrual Appropriation Excess Funds Account:				
Interest	18	84		
Balance of funds at beginning of year	369	285		
Balance of funds at end of year	387	369		

4. Loss (Profit) on Disposal of Assets

	2003 \$'000	2002 \$'000
Historic cost of assets disposed	261	236
Less: Accumulated depreciation	206	178
	55	58
Proceeds on disposal	52	59
Total Loss (Profit) on Disposal of Assets	3	(1)

5. Computer and Office Facilities

5.1 Classes of Computer and Office Facilities

	2003 \$'000	2002 \$'000
Computing and office equipment - At cost	899	898
Accumulated depreciation	(495)	(489)
	404	409
Computer software - At cost	301	301
Accumulated depreciation	(287)	(270)
	14	31
Library - At cost	16	16
Accumulated depreciation	(16)	(16)
	-	-
Leasehold improvements - At cost	127	76
Accumulated depreciation	(76)	(76)
	51	-
Projects - At cost	169	169
Accumulated depreciation	(159)	(120)
	10	49
Total Computer and Office Facilities	479	489

5.2 Reconciliation of Carrying Amount

	Carrying Amount 1 July \$'000	Additions \$'000	Disposals \$'000	Depreciation \$'000	Carrying Amount 30 June \$'000
Computing and office equipment	409	263	55	213	404
Computer software	31	-	-	17	14
Library	-	-	-	-	-
Leasehold improvements	-	51	-	-	51
Projects	49	-	-	39	10
Total Computer and Office Facilities	489	314	55	269	479

6. Employee Entitlements

Current:	Department		Administered Items	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Salaries	19	25	1	1
Annual leave provision	393	359	86	87
Long service leave provision	174	198	-	-
Workers compensation provision	3	4	-	-
Total Current	589	586	87	88
Non-Current:				
Long service leave provision	1 280	1 123	185	170
Workers compensation provision	7	13	-	-
Total Non-Current	1 287	1 136	185	170
Aggregate Employee Entitlement Liability	1 876	1 722	272	258

Employee entitlements recorded under Administered Items relate to the salary and allowances of the Auditor-General. During the 2002-03 year there was an increase in employee entitlements and the associated on-costs as a result of graduate recruitment to replace employee turnover levels which did not eventuate and the implementation of a revised organisational structure.

7. Total Equity

The deficit arises as a result of the Department's previous funding arrangements. Prior to 1998-99, the Department was funded on a cash basis, which did not take account of the full accrual liabilities. The Department will continue to receive annual appropriations from the Consolidated Account to fund its operations. Without funding to meet past liabilities the Department will continue to have a deficit.

8. Notes to the Statement of Cash Flows**8.1 Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks. Cash at 30 June as shown in the Statement of Cash Flows is reconciled to the Statement of Financial Position as follows:

	2003	2002
	\$'000	\$'000
Auditor-General's Department Operating Account	1 081	568
Accrual Appropriation Excess Funds Account	387	369
Imprest Accounts	3	3
	1 471	940

8.2 Reconciliation of Net Cost of Services to Net Cash provided by Operating Activities

Net cost of services	(9 593)	(9 025)
Cash flows from government	9 938	9 232
Depreciation	269	279
Decrease in receivables	24	15
Increase in employee entitlements	151	143
Increase (Decrease) in creditors and accruals	7	(34)
(Decrease) Increase in employment on costs	(6)	34
Loss (Profit) on disposal of assets	3	(1)
Net Cash provided by Operating Activities	793	643

9. Administered Items**9.1 Auditing Fees**

Section 39 of the Act provides for the levying of fees for audit services provided by the Department that are paid into the Consolidated Account.

Fees outstanding at 1 July	564	590
Billings (including goods and services tax)	8 301	8 470
	8 865	9 060
Receipts (including goods and services tax)	8 471	(8 496)
Fees outstanding at 30 June	394	564

At 30 June, the value of audit work in progress was \$2 255 000 (\$2 352 000). The Department is of the opinion that this amount is recoverable.

9.2 Special Acts

Subsection 24(4) of the Act, provides that the salary and allowances of the Auditor-General will be determined by the Remuneration Tribunal and will be paid from the Consolidated Account.

10. Remuneration of Employees

The number of employees whose total remuneration is within the followings bands was:

	2003	2002
	Number of	Number of
	Employees	Employees
\$120 000 - \$129 999		4
\$130 000 - \$139 999	3	1
\$140 000 - \$149 999	2	
\$250 000 - \$259 999		1
\$260 000 - \$269 999	1	

Total remuneration received or receivable by these employees was \$962 000 (\$896 000).

11. Operating Leases

The Department's operating leases are for the leasing of office accommodation and motor vehicles.

- *Office Accommodation*
Office accommodation is leased from the Real Estate Management business unit of the Department for Administrative and Information Services (DAIS). The lease expires on 30 June 2004 and there is a right of renewal for six years from that date. The rental amount is based on floor space and the time period of the lease, with the rental rate reviewed by Real Estate Management every two years.
- *Motor Vehicles*
Motor vehicles are leased from the Fleet SA business unit of DAIS. The vehicles are leased for a specified time period or a specified number of kilometres, whichever occurs first. The lease rate is determined according to the type of vehicle being leased and the number of months of the lease period. The lease rates are reviewed annually by Fleet SA.

For the current year the total amount of expense for minimum lease payments for operating leases was \$487 000 (\$533 000).

Operating Lease Commitments

At the reporting date the Department had the following obligations under non-cancellable operating leases (these obligations have not been recognised as liabilities):

Not later than one year

Later than one year and not later than five years

Total Operating Lease Commitments

2003	2002
\$'000	\$'000

493	476
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41	454
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534	930
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12. Remuneration of Auditor

Remuneration for audit of financial reports

Remuneration for other services

7	7
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-	-
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7	7
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**MINISTER FOR INDUSTRY, TRADE AND REGIONAL DEVELOPMENT;
MINISTER FOR ECONOMIC DEVELOPMENT;
MINISTER FOR SMALL BUSINESS; MINISTER FOR FORESTS**

PORTFOLIO – BUSINESS, INVESTMENT AND TRADE

INTRODUCTION

This section of this Part of the Report contains the financial statements of, and comments concerning, the operations of those agencies under the direction and control of the following Ministers, namely:

- Minister for Industry, Trade and Regional Development
- Minister for Economic Development
- Minister for Small Business
- Minister for Forests

The agencies included herein relating to the portfolio of Business, Investment and Trade are:

- Business, Manufacturing and Trade — Department for
- Economic Development Board and the Office of Economic Development
- Industry and Trade — Department of
- South Australian Forestry Corporation
- South Australian Motor Sport Board

DEPARTMENT FOR BUSINESS, MANUFACTURING AND TRADE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

Pursuant to a proclamation in the South Australian Government Gazette on 12 September 2002, and effective from 30 September 2002, the Department of Industry and Trade was abolished. The employees, functions and duties, together with the assets and liabilities of the abolished Department and the employees of the Department of Primary Industries and Resources in the Office of Regional Development, were transferred to the Office of Economic Development, which was established as an administrative unit under the *Public Sector Management Act 1995*, on 1 October 2002.

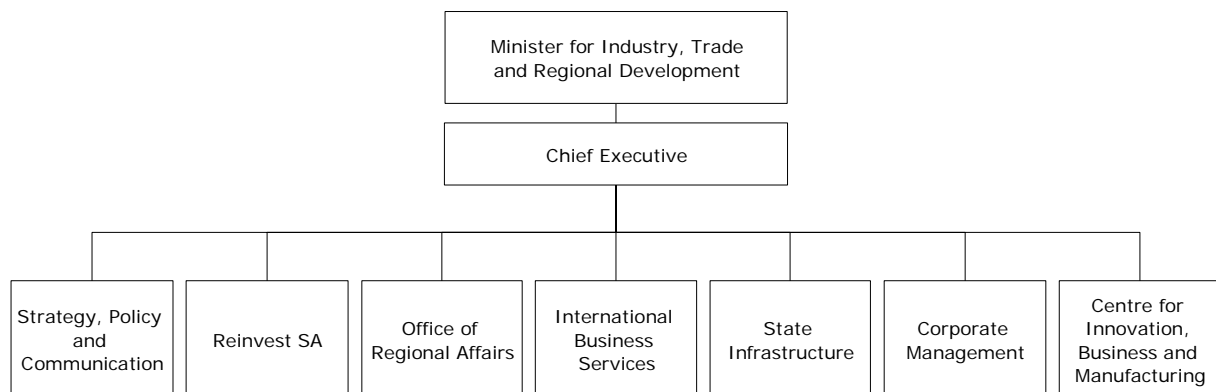
The title 'Office of Economic Development' was then changed by proclamation to the Department for Business, Manufacturing and Trade on 5 December 2002.

Functions

The function of the Department for Business, Manufacturing and Trade is to enhance the State's international competitiveness and accelerate its economic growth by working with business and industry to facilitate trade, creation of new enterprises, enterprise improvement, infrastructure development and investment.

Structure

The structure of the Department for Business, Manufacturing and Trade at 30 June 2003 is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Department for Business, Manufacturing and Trade for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Department for Business, Manufacturing and Trade in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- review of financial accounting and related processes covering:
 - revenue collection
 - accounts payable
 - personnel/payroll function
 - financial assistance
 - non-current assets (property, plant and equipment)
 - general ledger
- review of the following aspects of IT operations:
 - information resource strategy and planning
 - relationship with outsourced vendors
 - information security
 - business continuity planning
- review of aspects of the Edinburgh Parks Project.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Department and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provision of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department for Business, Manufacturing and Trade as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department for Business, Manufacturing and Trade in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under 'Significant Matters Raised with Agency' is sufficient to provide reasonable assurance that the financial transactions of the Department for Business, Manufacturing and Trade have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Expenditure Delegations

Requirements relating to the delegation and sub-delegation of authority to incur expenditure are contained in Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services'. The Financial Management Framework prescribes procedures and controls to ensure expenditure is effectively and efficiently managed including the establishment of a system of purchase approval delegations and authorisation of payments by an appropriate officer.

The administrative changes explained under Functional Responsibility and Structure were also coupled with changes in Ministerial responsibility.

At the time of the audit the Department's expenditure delegations did not reflect the changed administrative arrangements and Ministerial responsibilities.

The Department advised in May 2003 that its expenditure delegations now reflect the changed administrative arrangements and Ministerial responsibilities.

Edinburgh Parks Project

The Department has continued the role initiated by its predecessor (the Department of Industry and Trade) in the development of surplus Department of Defence land at Salisbury for use as a multi-purpose industrial precinct, known as Edinburgh Parks.

Audit undertook a review of the Edinburgh Parks Project which represents the largest and most material land acquisition, development and disposal project undertaken by the Department.

The review identified the following matters:

- Maintenance of project documentation was inadequate.
- Instances were noted of non-compliance with public sector project approval requirements.
- Project management practices required improvement including high level monitoring and reporting arrangements to support effective overview of the project and timely identification of emerging problems.
- Some of the Project land contains significant levels of contamination as a result of the previous land use. A number of studies had been conducted to identify the extent of the contamination but these studies did not consider future contamination issues as a result of the change in the use of the land and the earthworks and construction undertaken for the Project.
- A limited take up of land developed as part of the project raises questions as to the validity of the strategic decision making which supported the Department's commitment to the project.
- The Department were in discussions with the Land Management Corporation (LMC) in relation to transferring responsibility for the Project to the LMC.

The following provides comments regarding Audit recommendations and responses by the Department.

Project Documentation

To enable complete Project handover to the LMC Audit recommended the:

- collation of all Project records and preparation of a complete central record containing all relevant information on the Project; and
- Department undertake a review of all contractual obligations that the Department, its predecessor (the Department of Industry and Trade) or the Minister has entered into in relation to the Project. In undertaking the review consideration should also be given to environmental management obligations.

In response the Department advised:

- it was actively working towards assembling a full inventory of project files; and
- a review of contractual obligations is to be conducted and finalised by the end of September 2003.

Approvals Framework/Project Reporting

Audit recommended the:

- Department report on the current status of the Project by preparing a Cabinet Submission; and
- Department prepare a consolidated record of Project expenditure to date and the funding sources used to enable complete Project handover to the LMC.

In response the Department advised:

- a submission was made to Cabinet on the current status of the Project in April 2003; and
- project revenue and expenditure as at 30 June 2003 will be identified and reported by the end of September 2003.

Environmental Management

Audit recommended an assessment be undertaken as to the potential liability for future contamination issues as a result of the change in the use of the land and the earthworks and construction undertaken for the Project.

In response the Department advised that an assessment of future liability for contamination as a result of a change in the use of the land will be conducted and completed by the end of September 2003.

Accounting Records

The review of the Edinburgh Parks project included consideration of the adequacy of the Department's accounting systems and records to support this type of project. Audit concluded that while the transactions associated with the project were supported by general ledger balances, which were in turn supported by vouchers and journals, they were not supported by subsidiary ledgers which enabled analysis by allotment or development.

In response the Department advised in May 2003 that a working party was reviewing all aspects of the reporting and recording of the activity associated with the Edinburgh Parks project. It further advised that this project would be used as a modelling exercise to determine the form, structure and content of a subsidiary record to support the general ledger balances of other projects.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

As explained under 'Functional Responsibility and Structure' the Department was established on 1 October 2002. Therefore a comparison of the period 1 October 2002 to 30 June 2003 with the full year operations and the financial position for 2001-02 would not be meaningful.

However, comment is provided below under various headings.

Statement of Financial Performance

The Department reported a Surplus from Ordinary Activities of \$13.8 million. This was due mainly to a decision by Government to generally restrict financial assistance to industry to agreements executed by the former Department of Industry and Trade as at 30 June 2002.

Statement of Financial Position

The \$197 million in net assets reported by the Department at 30 June 2003 indicates that the Department is an asset intensive public sector agency.

Cash Holdings

Cash holdings at 30 June 2003 totalled \$55.6 million. Cash holdings at 30 June 2003 are to be applied towards financial assistance commitments under agreements with various bodies. Refer Note 26.1.

Financial Assistance Debtors

The total of \$117.4 million reported as Financial assistance debtors in the Statement of Financial Position at 30 June 2003 comprises the face value of assistance debtors advanced by way of loan (\$122.6 million) less an allowance for doubtful recovery (\$5.2 million).

The net present value of the financial assistance advanced by way of loan using discount rates advised by the South Australian Government Financing Authority (SAFA), is \$42.5 million. Refer Note 23.2.

Property, Plant and Equipment

The Net book value of Property, plant and equipment at 30 June 2003 of \$32.5 million mainly comprises Land (\$8.5 million) and Work in Progress (\$22.9 million).

FURTHER COMMENTARY ON OPERATIONS

As stated under 'Interpretation and Analysis of Financial Statements' a decision was made by Government to generally restrict financial assistance to industry to agreements executed by the Department as at 30 June 2002. The Department continues to monitor conditions attached to these agreements.

A number of reviews of aspects of the Department's operations were in progress at the time of this Report. Outlined below are comments in respect of these reviews.

Audit understand that there will be an ongoing need to monitor whether recipients of financial assistance have complied with the conditions under which assistance was provided and that restructuring proposals need to support this.

Review of the Department for Business, Manufacturing and Trade

On 17 July 2003 Cabinet approved the implementation of 70 of the 71 recommendations of the Economic Development Board's *A Framework for the Economic Development of South Australia*.

One of the approved Framework recommendations was that the Government examine the functions of the Department with the intention of achieving substantial restructuring and downsizing to increase efficiency and effectiveness.

In line with this recommendation in August 2003 the Minister for Industry, Trade and Regional Development requested a wide-ranging review to consider the future direction and structure of the Department. The review is to examine and make recommendations to the Minister in relation to the Department's strategic role, functional responsibilities and structure, following acceptance by the South Australian Government of the Economic Development Board recommendations impacting directly on the Department, and its interaction and relationships with the South Australian business sector.

The review is being undertaken by a Review Committee comprising two Economic Development Board members and an independent expert appointed by the Minister in consultation with the Premier and the Chairman of the Economic Development Board.

The Review Committee is to make written recommendations to the Minister. It is expected that the review will be completed by 30 September 2003.

Review of Industry and Investment Attraction Fund

A review of the provision of assistance to the private sector by the Department was requested in February 2003 by the Treasurer and the Minister for Trade and Regional Development. The review initially focuses on the Industry and Investment Attraction Fund (IIAF).

The review is to provide an assessment of the administration of the provision of assistance to the private sector against the established IIAF guidelines and with reference to principles of equity, transparency and accountability. The review is also required to consider whether any changes are required to policy or administrative arrangements.

The review is being undertaken by the Department of Treasury and Finance (South Australian Government Finance Authority) with assistance from the Prudential Management Group.

As part of its assessment of the administration of the IIAF, the review team examined a sample of projects that have received financial assistance from the IIAF.

Draft findings in respect of an initial 21 projects, further 10 and another 9 projects were provided to the Department by the Under Treasurer on 8 July 2003, 22 July 2003 and 11 August 2003 respectively.

The Department, as requested, provided comment on the review findings to the Under Treasurer. The Department accepted the project specific findings to date and were of the opinion that no material errors were contained in the findings.

Adelaide to Darwin Railway Project

Last years report provided comment on project background, legislative and agreement framework, project parties and financing arrangements relating to the Adelaide to Darwin Railway Project. Further commentary regarding the project is outlined below:

Total Project Payments

As at 30 June 2003 payments totalling \$125.8 million have been made by the Department for Business, Manufacturing and Trade (DBMT) and its predecessor, the Department of Industry and Trade (DIT), to the AustralAsia Railway Corporation (AARC) in relation to the project. Payment details are provided below:

	DIT 1.07.99 to 30.06.00 \$'000	DIT 1.07.00 to 30.06.01 \$'000	DIT 1.07.01 to 30.06.02 \$'000	DIT 1.07.01 to 30.09.03 \$'000	DBMT 1.10.03 to 30.06.03 \$'000	Total \$'000
Towards construction of the railway						
Grants	-	25 000	25 000	25 000	18 000	93 000
Interest bearing loan	-	25 000	-	-	-	25 000
	-	50 000	25 000	25 000	18 000	118 000
Towards AARC operating costs	1 117	4 407	1 335	-	980	7 839
	1 117	54 407	26 335	25 000	18 980	125 839

Construction Progress

The following details were reported on AARC's internet site as at 2 September 2003 in respect of construction progress and forthcoming milestones:

Construction Progress - Vital Statistics	Total Required	Completed
Clearing	1 420 km	1 420 km
Embankment	1 420 km	1 420 km
Capping layer	1 420 km	1 420 km
Bridges	90	90
Track laying	1 420 km	1 346 km
Rail delivery	146 000 tonnes	146 000 tonnes
Flash butt welds	110 324	98 449
Sleepers	2 million	2 million
Ballast	2.835 million tonnes	2.835 million tonnes

Forthcoming Milestones

- Joining of the north and south sectors at Alice Springs - 18 September 2003.
- Completion of track laying at the Port of Darwin - 25 September 2003.
- Inauguration of the railway - 15 to 17 January 2004.

**Statement of Financial Performance
for the period 1 October to 30 June 2003**

	Note	2003 \$'000
REVENUE FROM ORDINARY ACTIVITIES:		
Appropriations from Government		92 162
Fees, charges and recoveries	5	3 685
Interest on loans and operating account		2 132
Proceeds from disposal of assets		955
Other Revenue	6	1 425
Total Revenues		100 359
EXPENSES FROM ORDINARY ACTIVITIES:		
Industry and other financial assistance	7	47 585
Salaries, wages and related payments	8	17 097
Other expenses	9	10 899
Accommodation and service costs		2 722
Payments to consultants	10	583
Marketing expenses		1 437
Payments to contractors		1 328
Interest on borrowings		450
Written-down value of disposed assets	15	2 435
Depreciation	15	669
Write-down of financial assistance debtors	11	421
Assets written down to nil value	15	918
Total Expenses	3	86 544
SURPLUS FROM ORDINARY ACTIVITIES		13 815
Net revenue from restructuring	12	183 108
INCREASE IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES AFTER RESTRUCTURING		196 923
Increase in asset revaluation reserve	15, 20	105
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		197 028

Statement of Financial Position as at 30 June 2003

	Note	2003 \$'000
CURRENT ASSETS:		
Cash	21.2	55 623
Receivables	13	2 249
Financial assistance debtors	14	4 854
Total Current Assets		<u>62 726</u>
NON-CURRENT ASSETS:		
Financial assistance debtors	14	112 521
Property, plant and equipment	15	32 473
Total Non-Current Assets		<u>144 994</u>
Total Assets		<u>207 720</u>
CURRENT LIABILITIES:		
Borrowings	16	746
Payables	17	1 405
Employee benefits and related costs	18	1 444
Total Current Liabilities		<u>3 595</u>
NON-CURRENT LIABILITIES:		
Borrowings	16	4 477
Payables	17	211
Employee benefits and related costs	18	2 409
Total Non-Current Liabilities		<u>7 097</u>
Total Liabilities		<u>10 692</u>
NET ASSETS		<u>197 028</u>
EQUITY:		
Accumulated surplus	19	196 923
Asset revaluation reserve	20	105
TOTAL EQUITY		<u>197 028</u>
Commitments	24	
Contingent Assets	25	
Contingent Liabilities	26	

**Statement of Cash Flows
for period 1 October to 30 June 2003**

	Note	2003 Inflows (Outflows) \$'000
OPERATING ACTIVITIES:		
Appropriations from SA Government		92 162
Net cash received from restructures		66 097
Grants and other contributions		389
Fees for service		3 965
Interest received		2 167
GST received on sales		844
GST recovered from Australian Taxation Office		4 456
Other receipts (includes financial assistance loan repayments)		2 561
Financial assistance and infrastructure development		(63 787)
Suppliers and employees		(35 023)
GST payments on purchases		(5 203)
GST remitted to Australian Taxation Office		(685)
Borrowing costs		(450)
Net Cash provided by Operating Activities	21.3	<u>67 493</u>
INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant and equipment		955
Payments for purchase of property, plant and equipment		(10 516)
Net Cash used in Investing Activities		<u>(9 561)</u>
FINANCING ACTIVITIES:		
Repayments of borrowings		(2 309)
Net Cash used in Financing Activities		<u>(2 309)</u>
NET INCREASE IN CASH HELD		55 623
CASH AT 1 OCTOBER		-
CASH AT 30 JUNE	21.2	<u><u>55 623</u></u>

Schedule of Administered Revenues and Expenses for the period 1 October 2002 to 30 June 2003

	SA Motor Sport Board 2003 \$'000	Ministerial Payments 2003 \$'000	Total 2003 \$'000
ADMINISTERED EXPENSES:			
Salaries, wages and related payments	-	159	159
Grants and subsidies	505	-	505
Total Administered Expenses	505	159	664
Revenues from ordinary activities:			
Government appropriation	505	159	664
Total Administered Revenues	505	159	664
CHANGE IN NET ASSETS	-	-	-

Schedule of Administered Assets and Liabilities as at 30 June 2003

	SA Motor Sport Board 2003 \$'000	Ministerial Payments 2003 \$'000	Total 2003 \$'000
ADMINISTERED ASSETS:			
Current	-	-	-
Non-Current	-	-	-
Total	-	-	-
ADMINISTERED LIABILITIES:			
Current	-	-	-
Non-Current	-	-	-
Total	-	-	-
NET ADMINISTERED ASSETS	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. **Creation of the Department for Business, Manufacturing and Trade, Objectives and Funding**1.1 **Creation of the Department**

Pursuant to the proclamation in the South Australian Government Gazette on 12 September 2002, and effective from 30 September 2002, the Department of Industry and Trade was abolished. The functions and duties, together with the assets and liabilities of the abolished Department, the employees of the Department of Primary Industries and Resources in the Office of Regional Development, were transferred to the Office of Economic Development, which was established as an administrative unit under the *Public Sector Management Act 1995*, on 1 October 2002.

The title Office of Economic Development was then changed by proclamation to the Department for Business, Manufacturing and Trade on 5 December 2002.

1.2 **Objectives and Funding**

The Department's objective is to enhance the State's international competitiveness and accelerate its economic growth by working with business and industry to facilitate trade, creation of new enterprises, enterprise improvement, infrastructure development and investment.

The Department is funded primarily from Parliamentary appropriations.

2. **Significant Accounting Policies**

The significant Accounting Policies which have been adopted in the preparation of these financial statements are:

2.1 **Basis of Preparation of Financial Statements**

The Financial Statements are prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The Financial Statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

2.2 **The Department for Business, Manufacturing and Trade Reporting Entity**

The Financial Statements encompass all activities transacted through an interest bearing Special Deposit Account titled 'Department for Business, Manufacturing and Trade Operating Account' and any other funds through which the Department controls resources to carry out its functions.

The financial activities of the South Australian Trade and Investment Corporation (SATIC) and other overseas representative offices have been included in the Financial Statements.

Administered Resources

The Department is responsible for the administration of the funds described below. These funds are not recorded in the Department's Statement of Financial Performance or Statement of Financial Position as the Department does not have the discretion to deploy these funds for the achievement of the Department's objectives. Administered revenues, expenses, assets and liabilities are detailed separately within these statements and are shown in the Schedules of Administered Items. Administered items comprise:

- *South Australian Motor Sport Board*
The Department administers the appropriation transfers from the Department of Treasury and Finance to the South Australian Motor Sport Board.
- *Ministerial Payments*
The Department processes salary and allowances paid and payable, under the *Parliamentary Remuneration Act 1990*, to the Minister for Industry, Trade and Regional Development.

2.3 **Revenue Recognition**

Revenues from ordinary activities are recorded in the Statement of Financial Performance at the time they are earned or at the time control passes to the Department. Interest revenues are recognised as they accrue.

Revenue from the disposal of property, plant and equipment is recognised when control of the asset is passed to the buyer.

2.4 **Appropriations, Grants and Other Contributions**

Appropriations, grants and other contributions are recognised as revenue in the period in which the monies are received and the Department obtains control of the asset.

2.5 **Depreciation of Property, Plant and Equipment**

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable fixed asset (except work in progress) over its expected useful life, taking into consideration any anticipated salvage value. Estimates of remaining useful lives are made on a regular basis for all assets. The estimated useful lives of each asset class are as follows:

Furniture and equipment	Years 5-10
Computer equipment	3
Motor vehicles	4
Works of art	Not depreciated

2.6 Borrowing Costs

Borrowing costs in relation to loans repayable to the South Australian Government Financing Authority (SAFA) are expensed in the period in which they occur.

2.7 Receivables

Fees and Charges

Fees and charges receivable are recognised at their recoverable amount and at the end of the reporting period the balances are reviewed and a provision is made where recoverability of amounts is considered doubtful.

Financial Assistance Debtors

Amounts outstanding with respect to financial assistance advances by way of loan are brought to account at their face value. A provision is made where recoverability of amounts is considered doubtful. Conditions relating to some forms of assistance provide that in certain circumstances, loans can be reduced or forgiven.

Recoveries

Amounts recovered that have been written off or previously provided for have been included as revenue, under fees, charges and recoveries.

2.8 Financial Assistance Debtor Recognition

In accordance with Statements of Accounting Concepts SAC4 'Definition and Recognition of the Elements of Financial Statements', the Department has adopted the following accounting policy in relation to 99 year interest free loans:

With respect to 99 year interest free loans, these are recognised as assets for the first seven years, or for material individual loans until the purpose of the loan has been fulfilled, after which they are no longer recognised as assets in the Statement of Financial Position. They do, however, continue to be administered as debts due to the Department.

2.9 Property, Plant and Equipment

All property, plant and equipment controlled by the Department are reported in the Statement of Financial Position. The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Department. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

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

Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Minor items of equipment with an individual value of less than \$2 000 are expensed at the time of acquisition.

Works of art controlled by the Department are anticipated to have very long and indeterminate useful lives. Their service potential has not, in any material sense, been consumed during the reporting period. Consequently, no amount for depreciation has been recognised for this class of asset.

2.10 Revaluation of Plant and Equipment

The Department engaged the services of Paul C Tilley (FAPI, AREI, CREI (Val)), from Fudali Waterhouse PRP, 33 Angas Street, Adelaide SA 5000 to revalue Furniture and Equipment and Computer Equipment assets at 30 June 2003.

These assets were revalued in accordance with Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets' to reflect their fair value.

2.11 Work in Progress

Under the investment attraction program the Department engages in projects that include land acquisition, development and ultimate disposal through sale and various leasing arrangements.

The Department accounts for the projects with various stages of completion as work in progress. All costs of conversion related to a particular project are treated as work in progress until such time as a project is completed.

2.12 Employee Benefits

Salaries and Wages

Liability for unpaid salaries and wages at the reporting date is based on current pay rates. Liability for employment on-costs, such as superannuation contributions and payroll tax, is calculated in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'.

Annual Leave

Liability for unpaid annual leave at the reporting date is based on nominal amounts based on estimated future pay rates and employees' services to that date. Liability for employment on-costs, such as superannuation contributions and payroll tax, is calculated in accordance with AASB 1028.

Long Service Leave

Long service leave is recognised at nominal amounts based on estimated future pay rates on a pro-rata basis in respect of services provided by employees up to the reporting date. The Department of Treasury and Finance has advised that a benchmark of seven years can be used for a shorthand estimation of long service leave liability in accordance with the provisions of AASB 1028. This advice has been adopted and the long service leave liability has been calculated on that basis. Liability for employment on-costs, such as superannuation contributions and payroll tax, is calculated in accordance with AASB 1028.

Sick Leave

No liability for sick leave is recognised in the Financial Statements as sick leave taken by employees is considered to be taken from the current year's accrual.

2.13 Leases

The Department leases premises for its administrative and operating activities. Lease payments are included as expenditure in equal instalments over the terms of the leases.

2.14 Foreign Currency

Cash holdings that are in a foreign currency have been recognised at the 'spot' exchange rate applying at 30 June 2003. Income, expenses, assets and liabilities arising from transactions in a foreign currency are recognised at the 'spot' exchange rate that applied on the day they occurred. Unrealised losses resulting from currency transactions have been recognised in the Statement of Financial Performance.

2.15 Financial Instruments

The following summarises the accounting policies adopted in preparing the financial instruments disclosures in Note 23.2.

Financial Assets

Cash comprises cash on hand and deposits at call. Cash is recorded at nominal amounts. Interest on cash is credited to revenue as it accrues.

Receivables are recognised at nominal amounts due at the time the debt is incurred. Credit terms are set at 7 days.

The basis of recognition of Financial Assistance Debtors is as reflected in Note 2.8. The fair value of Financial Assistance Debtors reflects the face value discounted to the net present value using discount rates advised by SAFA.

Financial Liabilities

Borrowings are recognised at face value. The fair value of Borrowings reflects the face value discounted to their net present value using discount rates advised by SAFA.

Trade payables are recognised as they accrue. Accrued expenses are recognised for goods and services supplied that have not been paid for. Trade payables are normally settled on 30 day terms.

2.16 Goods and Services Tax

In accordance with the requirements of Urgent Issues Group UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

The GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of the cash flows arising from investing or financing activities, which are recoverable from, or payable to the Australian Taxation Office have, however, been classified as operating cash flows.

2.17 Reporting Period and Comparative Figures

As the Department was established on 1 October 2002, the Financial Statements cover the period 1 October 2002 to 30 June 2003. Accordingly there are no comparative figures reported in the Financial Statements.

3. Expenses by Program

The Department has identified five broad programs that reflect the nature of the services delivered to the South Australian Community. These are:

Program 1: Industry Development

Encourage economic growth in South Australia by identifying and facilitating strategic industry or economy-wide initiatives to reduce structural impediments to growth, strengthen industry competitiveness and enhance export capability.

Program 2: Business and Manufacturing Capability

Support key industries and local small to medium sized business to grow their businesses and to improve their competitiveness, both domestically and internationally. This involves programs to develop export capability, investor readiness, skilled development (such as export market and management skills) and access to research and commercialisation capabilities. These programs involve mentoring and coaching, networking and development of stronger linkages with research and education institutions.

Program 3: Small Business

Increase the contribution of the small business sector to the state economy by:

- helping to improve the performance of existing small business;
- removal of barriers to growth; and
- the provision of practical advice and support to those wishing to start new business.

Program 3: Small Business (continued)

This is achieved by:

- addressing skilled development issues;
- the delivery of enterprise improvement programs aimed at increasing local business competitiveness; and
- market development aimed at facilitating access to markets.

Program 4: Trade Development

Promote and facilitate strategic trade development and international trade activities to South Australian business and industry through:

- provision of overseas market intelligence;
- assistance with better access into overseas markets;
- promotion of South Australia's export capability through business missions;
- provision of relevant services to incoming business leaders, investors and official delegations; and
- the establishment and maintenance of strong government-to-government relationships between South Australia and key countries and regions to maximise commercial outcomes.

Program 5: Regional Development

In partnership with regional stakeholders, including Regional Development Boards, actively develop sustainable communities in regional South Australia through:

- building community and business capacity;
- improved co-ordination of government activities impacting on regions; and
- the provision of strategic and timely advice to government on regional issues.

Expenses by program for the reporting period are as follows:

Program						2003
	1	2	3	4	5	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Industry and other financial existence	37 548	3 881	927	572	4 657	47 585
Salaries, wages and related payments	5 685	5 856	1 365	2 781	1 410	17 097
Other expenses	2 124	4 263	1 022	2 622	868	10 899
Accommodation and service costs	460	1 484	143	491	144	2 722
Payments to contractors	218	604	6	453	47	1 328
Marketing expenses	515	495	57	291	79	1 437
Payments to consultants	388	26	-	115	54	583
Interest on borrowings	450	-	-	-	-	450
Written-down value of disposed assets	2 432	2	-	1	-	2 435
Depreciation	192	243	65	114	55	669
Write-down of financial assistance debtors	421	-	-	-	-	421
Assets written down to nil value	270	359	96	111	82	918
Total Expenses	50 703	17 213	3 681	7 551	7 396	86 544

4. Overseas Representative Offices

The following table provides a summary of the financial transactions for the reporting period. The transactions relating to operating expenses and operating revenues have been included in the financial statements.

								2003
	SATIC	Hong Kong	Bandung	Singapore	Kuala Lumpur	Dubai	New York	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses	667	836	71	670	88	416	1 054	3 802
Operating revenues	21	3	5	-	3	7	9	48
Funds advance to overseas offices towards operating expenses	391	473	58	375	85	269	675	2 326

5. Fees, Charges and Recoveries

Recoveries
TVSP recoveries from the Office of the Commissioner for Public Employment
Other

2003
\$'000
2 265
1 217
203
3 685

6. Other Revenue

Grants and other contributions
Assets transferred from OED (refer Note 15)
Other revenue

389
5
1 031
1 425

7. Industry and Other Financial Assistance

Financial Assistance is provided from State and Commonwealth Funds. Proposals and applications for funding under various support programs and schemes are subject to specific guidelines and procedures issued by the Department and the Commonwealth. There are several approval delegations dependent upon the level and nature of assistance provided.

In some cases, the provision of assistance does not involve the direct outlay of funds by the Department. Assistance packages may involve elements of assistance provided through other government agencies, with the Department assuming the overall responsibility for the assistance arrangements. Generally, this is through the provision of purpose built buildings and exemptions or remissions from certain elements of state taxation.

7. Industry and Other Financial Assistance (continued)

Class of Assistance	Assistance Loans					2003 Total Assistance \$'000
	Interest Free	Interest Bearing	99 Year Interest Free	Total Loans \$'000	Total Grants \$'000	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Automotive Program	15 000	-	-	15 000	-	15 000
Adelaide to Darwin Railway construction	-	-	-	-	18 000	18 000
AustralAsia Railway Corporation operating cost	-	-	-	-	980	980
Enterprise Development	32	-	-	32	8 549	8 581
Industry Development	-	-	691	691	12 702	13 393
Payroll Tax Reimbursement	-	-	-	-	1 168	1 168
Rail Reform Transition Program	-	-	-	-	620	620
Regional Development	-	-	-	-	2 200	2 200
Regional Industry Development	50	-	40	90	230	320
Regional Infrastructure	48	-	-	48	1 577	1 625
Other	-	-	-	-	1 559	1 559
	15 130	-	731	15 861	47 585	63 446

In relation to assistance to Industry, under the provisions of the *Industries Development Act 1941*, the Minister may refer any matter to the Industries Development Committee for review and recommendation by the Committee. Details of assistance referred to the Committee during the reporting period were:

Financial assistance:	2003	
	Number	Total \$'000
Investment incentives ⁽¹⁾	4	4 176
Industrial and Commercial Premises Corporation	1	3 850

(1) Three projects totalling \$3.5 million were referred to the Committee as briefings and the Committee made recommendations to the Minister in relation to 1 investment incentive project totalling \$0.7 million during the reporting period.

8. Salaries, Wages and Related Payments

8.1	Composition of Salaries, Wages and Related Payments:	2003 \$'000
	Salaries, wages, annual and sick leave	14 611
	Long service leave	230
	Superannuation	1 277
	Other employee on-costs	979
		<u>17 097</u>

8.2 Executive Remuneration

A total of 24 employees were transferred to the Department for Business Manufacturing and Trade on 1 October 2002, who received remuneration in excess of \$100 000 for the 12 month period to 30 June 2003.

For the 12 month period ended 30 June 2003, total remuneration received and receivable by these employees was \$3 058 000.

The following table sets out the number of employees with total remuneration in excess of \$100 000 within the following bands:	2003 Number of Employees
\$100 000 - \$110 000	7
\$110 001 - \$120 000	4
\$120 001 - \$130 000	3
\$130 001 - \$140 000	4
\$140 001 - \$150 000	2
\$150 001 - \$160 000	3
\$190 001 - \$200 000	1

8.3 Superannuation

During the reporting period, a total of \$994 000 was paid, or due and payable to the Department of Treasury and Finance towards accruing the government liability for superannuation in respect of the Department's employees.

In addition, \$283 000 was paid to other externally managed superannuation schemes.

Superannuation contributions are charged as an expense in the period in which they occur. The Department is not liable for payments to beneficiaries as this is the responsibility of the superannuation schemes.

8.4 Targeted Voluntary Separation Packages (TVSPs)

During the reporting period, TVSP payments were made to 17 employees, amounting to \$1 217 000.

These payments were met by the Department and have been recovered from the Department of the Premier and Cabinet.

Annual leave and Long Service leave paid to employees receiving TVSP payments amounted to \$443 000.

9. Other Expenses	2003
	\$'000
Bad debts	1 117
Staff related expenses	800
Travel and related expenses	891
Infrastructure development	341
Equipment and information technology expenses	1 439
Overseas offices administration expenses	1 561
Other industry assistance	1 466
Legal fees, search and stamp duty	40
Audit fees - Auditor-General's Department	107
Audit fees - Other	34
Settlement of loans ⁽¹⁾	77
Assets transferred to OED (refer Note 15)	3
Printing and stationery	368
Communication expenses	399
General office and administration expenses	2 256
	10 899

(1) Loans with a face value of \$284 000 were settled for \$207 000. The discount of \$77 000 has been recognised as an expense in the reporting period.

10. Payments to Consultants

Total payment to consultants were \$583 000.

The consultancies used by the Department and payments made have been grouped under the following ranges:

	2003
	Number of
	Consultancies
Below \$10 001	18
\$10 001 - \$20 000	8
\$20 001 - \$30 000	5
\$30 001 - \$40 000	3
\$40 001 - \$50 000	1
\$50 001 - \$60 000	2

\$10 001 - \$20 000

Australian Bureau of Statistics
Deloitte Touche Tohmatsu

Hassell Pty Ltd
Hudson Howells
Outlook Management
Paul Dibb and Associates
Shackleton Management
Watt Power Brokers Pty Ltd

Consultancy Title

ICT Survey questionnaire
Report into the factual findings of the Comparative Development Application Fees Study
Industry Bulletin Project
Sustainable and Distributed Energy Study
Review Business Research and Development in the Upper Spencer Gulf
Defence Consulting
Defence Consulting
Gas Supply options for Adelaide's southern suburbs

\$20 001 - \$30 000

Disney-Howe Associates
Gutteridge Haskins & Davey
Hassell Pty Ltd

Leadenhall Australian Ltd

SA Centre for Economic Studies

Defence Consulting
Study of Infra Policies and Practices
Consistent Development Assessment Approaches in the Upper Spencer Gulf
Financial Advice on the South Australian Magnesium Resource Development Project
ICT Sector Measurement Study

\$30 001 - \$40 000

Economic Research Consultants Pty Ltd

IBM Business Consulting Services Pty Ltd
Thompson Clarke

Review of Regional Development Boards and preparation of Summary report for whole RDB framework
Report on the impact of taxation on business start up
Advice re viability of shipping service using Alice-Darwin rail link

\$40 001 - \$50 000

Connor Holmes Consulting

Analysis of Industrial database

\$50 001 - \$60 000

Clark and Marron
Hudson Howells

Magnesium report and 10 Year outlook
Australian Centre for Innovation and Simulate Solutions (ACISS) Consultancy

11. Write-down of Financial Assistance Debtors

Consistent with the policy regarding Financial Assistance Debtor Recognition in relation to 99 year interest free loans (refer Note 2.8), loans with a carrying amount of \$421 000 were written down to nil value in the reporting period.

12. Restructure of the Department**12.1 Net Revenue from Restructuring**

As outlined in note 1, there was considerable restructure of the Department during the reporting period. A list of assets and liabilities transferred and assumed, from the former Department of Industry and Trade (DIT), from the Office of Regional Development in the Department of Primary Industries and Resources (PIRSA), and to the Office of Economic Development (OED) is detailed herein:

	DIT \$'000	PIRSA \$'000	OED \$'000	2003 Total \$'000
Assets assumed (transferred):				
Cash	66 361	122	(386)	66 097
Receivables	1 696	-	-	1 696
Financial assistance debtors	104 797	-	-	104 797
Property, plant and equipment (net of depreciation)	26 008	38	(174)	25 872
	<u>198 862</u>	<u>160</u>	<u>(560)</u>	<u>198 462</u>
Liabilities assumed (transferred):				
Borrowings	(7 532)	-	-	(7 532)
Payables	(3 423)	(25)	-	(3 448)
Employee benefits and related costs	(4 497)	(200)	323	(4 374)
	<u>(15 452)</u>	<u>(225)</u>	<u>323</u>	<u>(15 354)</u>
Net Result	<u>183 410</u>	<u>(65)</u>	<u>(237)</u>	<u>183 108</u>

12.2 Reporting of Transferred Functions

Revenues and expenses attributable to the transferred activities for the 12 month reporting period ending 30 June 2003 were:

	DIT 1.07.02 to 30.09.03 \$'000	DBMT 1.10.02 to 30.06.03 \$'000	2003 Total \$'000
Functions transferred from DIT to DBMT			
Total Revenues	63 924	98 581	162 505
Total Expenses ⁽¹⁾	39 884	85 341	125 225
Net Result	<u>24 040</u>	<u>13 240</u>	<u>37 280</u>
Functions transferred from PIRSA to DBMT			
Total Revenues	-	1 778	1 778
Total Expenses ⁽¹⁾	225	1 203	1 428
Net result	<u>(225)</u>	<u>575</u>	<u>350</u>

- (1) Expenditure reported for functions transferred from PIRSA to the Department for the period 1 October 2002 to 30 June 2003 represent direct costs attributable to the Office of Regional Affairs Unit in the Department. Departmental overheads have not been allocated to the Unit and are reported in the expenditure amount for the Department for the same period.

13. Receivables

	2003 \$'000
Trade debtors	478
Less: Provision for doubtful debts	<u>3</u>
	475
Interest on deposit accounts and bank accounts	206
Prepayments	274
GST receivable	1 209
Other receivables	85
	<u><u>2 249</u></u>

14. Financial Assistance Debtors

Current	6 548
Less: Provision for doubtful debts	<u>1 694</u>
Total Current	<u><u>4 854</u></u>
Non-Current	116 079
Less: Provision for doubtful debts	<u>3 558</u>
Total Non-Current	<u><u>112 521</u></u>

15. Property, Plant and Equipment	Land \$'000	Work in Progress \$'000	Motor Vehicles \$'000	Furniture and Equipment \$'000	Computer Equipment \$'000	Works of Art \$'000	Total \$'000
Gross Carrying Amount:							
Assets assumed from DIT on 1 October 2002	4 962	18 601	455	3 860	1 754	21	29 653
Assets assumed from PIRSA on 1 October 2002	-	-	-	9	74	-	83
Assets transferred to OED on 1 January 2003	-	-	-	(151)	(172)	(21)	(344)
Additions	4 450	5 782	-	162	122	-	10 516
Disposals	(923)	(1 499)	-	(60)	(82)	-	(2 564)
Assets transferred to OED	-	-	-	-	(24)	-	(24)
Assets transferred from OED	-	-	-	-	23	-	23
Assets written down to Nil value	-	-	-	(3 097)	(7)	-	(3 104)
Add back accumulated depreciation at revaluation	-	-	-	(354)	(1 273)	-	(1 627)
Net revaluation increments	-	-	-	8	97	-	105
Balance at 30 June	8 489	22 884	455	377	512	-	32 717
Accumulated depreciation:							
Assets assumed for DIT on 1 October 2002	-	-	217	2 347	1 081	-	3 645
Assets assumed from PIRSA on 1 October 2002	-	-	-	2	43	-	45
Assets transferred to OED on 1 January 2003	-	-	-	(54)	(116)	-	(170)
Depreciation expense	-	-	27	290	352	-	669
Disposals	-	-	-	(59)	(70)	-	(129)
Assets transferred to OED	-	-	-	-	(21)	-	(21)
Assets transferred from OED	-	-	-	-	18	-	18
Assets written down to Nil value	-	-	-	(2 172)	(14)	-	(2 186)
Add back accumulated depreciation at revaluation	-	-	-	(354)	(1 273)	-	(1 627)
Balance at 30 June	-	-	244	-	-	-	244
Net Book Value:							
As at 1 October 2002	4 962	18 601	238	1 513	673	21	26 008
As at 30 June 2003	8 489	22 884	211	377	512	-	32 473
16. Borrowings							
Repayment details during the reporting period were:							2003
Opening balance							\$'000
Opening balance							7 532
Less: Principal repaid to SAFA							2 309
Balance Outstanding at 30 June							5 223
Represented by:							
Current Liability							746
Non-Current Liability							4 477
Balance Outstanding at 30 June							5 223
17. Payables							
Current Liabilities:							
Trade creditors and accruals							649
GST payable							254
Employee on-costs							502
							1 405
Non Current Liabilities:							
Employee on-costs							211
18. Employee Benefits and Related Costs							
Current Liabilities:							
Salaries and Wages							63
Annual leave							1 100
Long service leave							262
Workers compensation ⁽¹⁾							19
Total Current							1 444

18. Employee Benefits and Related Costs (continued)	2003
Non-Current Liabilities:	\$'000
Long service leave	2 357
Workers compensation ⁽¹⁾	52
Total Non-Current	2 409

(1) The 2003 amounts reflect an actuarial assessment of the Department's workers compensation liabilities at 30 June 2003 contained in a report prepared by Taylor Fry Consulting Actuaries and submitted to the Public Sector Occupational Health and Injury Management branch (PSOIM) of the Department of the Premier and Cabinet. The amounts reflect the Department's experience of claim numbers and payments.

The actuarial report conforms to the WorkCover Guidelines for Actuaries, Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' and Professional Standard PS 300 'Actuarial Reports and Advice on Outstanding Claims in General Insurance' of the Institute of Actuaries of Australia.

19. Accumulated Surplus	2003
	\$'000
Balance 1 October	-
Surplus from ordinary activities	13 815
Net revenue from restructuring	183 108
Balance at 30 June 2003	196 923

20. Asset Revaluation Reserve	
Balance 1 October	-
Revaluation increment arising from revaluation of Computing Equipment	97
Revaluation increment arising from revaluation of Furniture and Equipment	8
Balance at 30 June 2003	105

21. Notes to the Statement of Cash Flows

21.1 Definition of Cash

For the purposes of the Statement of Cash Flows, cash on hand and on deposit includes cash deposits which are used in the cash management function on a day to day basis.

21.2 Reconciliation of Cash

Closing cash balance as shown in the Statement of Cash Flows is represented by the following balances:

Department for Business, Manufacturing and Trade operating account and other funds ⁽¹⁾	54 463
Cash held in bank accounts	1 144
Treasury imprest accounts	14
Cash on hand	2
	55 623

(1) The Government is considering introducing a new policy with respect to aligning agency cash balances with appropriation and expenditure authority. It is not practical to estimate the potential effect this may have on the financial position of the Department. This policy may come into effect during the course of 2003-04 and, depending on implementation arrangements, the Department may be required to transfer a portion of its cash balances to the Consolidated Account.

21.3 Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities	2003
	\$'000
Surplus from ordinary activities	13 815
Net cash received from restructuring	66 097
Proceeds from disposal of assets	(955)
Non-cash items:	
Written-down value of disposed assets	2 435
Depreciation	669
Assets written down to nil value	918
Assets transferred to OED	3
Assets received from OED	(5)
Change in assets and liabilities (net of restructuring transfers):	
Increase in receivables	(553)
Increase in financial assistance debtors	(12 578)
Decrease in payables	(1 801)
Decrease in employee benefits and related costs	(552)
Net Cash provided by Operating Activities	67 493

22. Auditors' Remuneration

Amounts due and receivable by the Auditor-General's Department for the audit of the Department for the reporting period total \$107 000.

23. Financial Investments**23.1 Credit Risk**

The Department's maximum exposure to credit risk at reporting date in relation to each class of recognised assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Department has no significant exposure to any concentrations of credit risks.

23.2 Interest Rate Risk

The Department's exposure to interest rate risk and the effective weighted average interest rate is set out in the following table. Exposures arise predominantly from financial assets and financial liabilities bearing variable interest rates.

	Weighted Average Effective Interest Rate Percent	As at 30 June 2003 Fixed Interest Maturing in					Non- Interest Bearing \$'000	Face Value 2003 Total \$'000	Fair Value 2003 Total \$'000
		Floating Interest \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000				
Financial Assets:									
Cash on hand and on deposit	4.6	55 623	-	-	-	-	55 623	55 623	
Receivables	-	-	-	-	-	2 252	2 252	2 252	
Financial assistance debtors:									
99 year loans	-	-	-	-	-	40 408	40 408	2 214	
Interest free loans	-	-	-	-	-	80 608	80 608	39 670	
Interest bearing loans	5.6	-	255	1 021	335	-	1 611	572	
		55 623	255	1 021	335	123 268	180 502	100 331	
Financial Liabilities:									
Borrowings	10.65	-	746	4 477	-	-	5 223	5 031	
Payables	-	-	-	-	-	1 616	1 616	1 616	
		-	746	4 477	-	1 616	6 839	6 647	

24. Lease Commitments

The Department has various non-cancellable operating lease arrangements for the use of property that generally provide for lease payments in advance. Rental provisions provide for rental adjustments by negotiation or in accordance with movements in the CPI. Generally options exist to renew the leases at the expiration of the term of the leases. These obligations have not been recognised as liabilities in the Financial Statements.

At 30 June 2003 the Department had the following obligations under non-cancellable operating leases:	2003
Not later than one year	\$'000
Later than one year but not later than three years	2 283
Later than three years but not later than five years	5 857
	315
	8 455

25. Contingent Assets

Where specific conditions relating to a financial assistance grant are not met the Department may request the amount granted to be repaid by the grantee.

Contingent assets that may arise from these present obligations are unquantifiable at 30 June 2003.

26. Contingent Liabilities**26.1 Financial Assistance**

As at 30 June 2003, the Department has financial obligations under agreements with various bodies. The payment of funds in future years is subject to certain performance criteria being met by these bodies.

	2003
	\$'million
Not later than one year	42.6
Later than one year but not later than three years	27.6
Later than three years but not later than eight years	16.6
	86.8

26.2 Guarantees and Indemnities

Guarantees granted in respect of borrowing arrangements that were effected through the Industry Incentives and Assistance Fund (IIAF) are provided on the approval of the Treasurer pursuant to the terms of the *Industries Development Act 1941*. That approval provides, inter alia, that no such guarantees should be executed except on the recommendation of the Industries Development Committee.

In addition, certain guarantees and indemnities have been provided by the Minister for Industry, Trade and Regional Development as part of various Industry Assistance packages.

26.3 Non-Quantifiable Contingent Liabilities

The AustralAsia Railway Corporation (the Corporation), the Northern Territory and South Australian Governments and Asia Pacific Transport Pty Ltd have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway on a build, own, operate, transfer-back (BOOT) basis.

26.3 Non Quantifiable Contingent Liabilities (continued)

Both the SA and NT Governments guarantee the obligations of the Corporation. This guarantee is a joint guarantee but SA and the NT each accept responsibility for breach of an indemnity that is caused by its act or omission. Where the event giving rise to a Corporation obligation is solely caused by one jurisdiction, that jurisdiction accepts sole responsibility. If both the SA and NT caused the event, then each accepts responsibility to the extent to which it caused the event.

For other Corporation obligations, SA and the NT accept liability for events occurring within the geographical area of its jurisdiction. Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title claims, undisclosed interests in the corridor, environmental contamination, heritage and sacred sites, and environmental assessment processes.

The project documents provide for the early termination of the concession arrangement by Asia Pacific. In certain circumstances that would give rise to the payment of an early termination amount. The amount includes all debt and debt break costs for the project, certain agreed break costs for the project, certain agreed break costs for third party contractors and payments to equity. For all of these events the cure is within the control of either the Corporation or the Governments

While the Department for Business, Manufacturing and Trade is not a signatory to these agreements, the SA Government has assigned responsibility for these agreements to the Department. If a subsequent event were triggered such that the SA Government had to honour a commitment under the agreement that commitment would have to be funded by the SA Government and the payment would be made through the Department.

The prospect of any one of the contingent liabilities arising is considered to be extremely remote.

ECONOMIC DEVELOPMENT BOARD AND THE OFFICE OF ECONOMIC DEVELOPMENT

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Economic Development Advisory Board was established on 11 April 2002 pursuant to the section 68 of the *Constitution Act 1934*.

Pursuant to a proclamation in the South Australian Government Gazette on 5 September 2002 the:

- Economic Development Advisory Board was abolished;
- Economic Development Board was established, pursuant to the *Economic Development Act 1993*;
- Chairman and 11 Members of the Economic Development Advisory Board were appointed to the Economic Development Board; and
- Chief Executive of the Economic Development Board was also appointed and declared to have the powers and functions of Chief Executive to the Office of Economic Development.

Pursuant to a proclamation in the South Australian Government Gazette on 12 December 2002, and effective from 1 January 2003, the Office of Economic Development was established as an Administrative Unit under the *Public Sector Management Act 1995*.

Functions

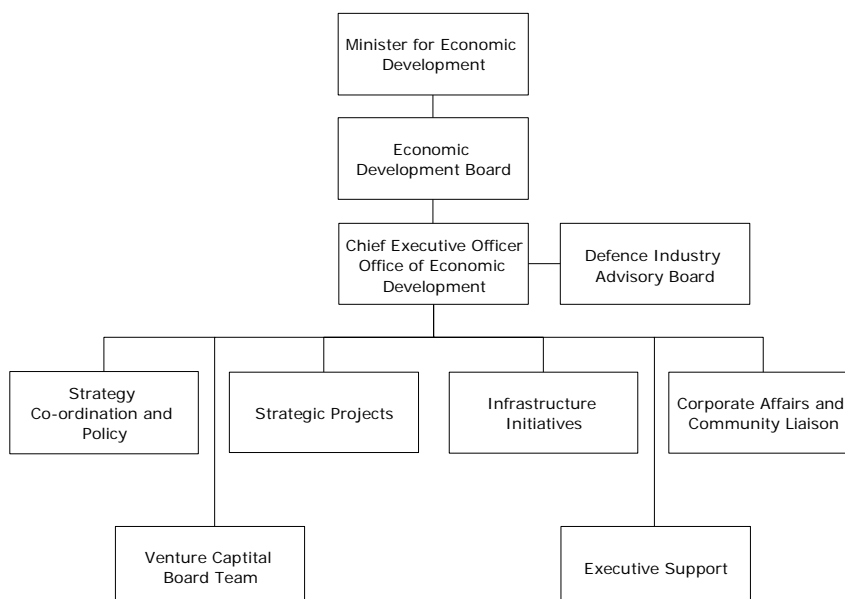
The function of the Economic Development Board is to develop and implement economic plans for the State, that contribute to the achievement of the South Australian Government's economic development strategy.

The function of the Office of Economic Development is to support the Economic Development Board.

Structure

On 17 June 2003 the Treasurer approved the treatment of the Economic Development Board and the Office of Economic Development as one entity for the purposes of Treasurer's Instruction 19 'Financial Reporting'.

The structure of the Economic Development Board and the Office of Economic Development is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 21(3) of the *Economic Development Act 1993* provides for the Auditor-General to audit the accounts of the Economic Development Board for each financial year.

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Office of Economic Development for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Economic Development Board and the Office of Economic Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- review of financial accounting and related processes covering:
 - revenue
 - accounts payable
 - payroll
 - plant and equipment
 - general ledger
 - industry and other financial assistance
 - consultants and contractors
- review of compliance with Economic Development Board and the Office of Economic Development governing legislation.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. Responses to the management letter were generally considered to be satisfactory. Major matters raised with the Economic Development Board and the Office of Economic Development and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Economic Development Board and the Office of Economic Development as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Economic Development Board and the Office of Economic Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under 'Significant Matters Raised with Agencies', is sufficient to provide reasonable assurance that the financial transactions of the Economic Development Board and the Office of Economic Development have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Financial Accounting and Related Processes

The discussion under Establishment highlights the changes to organisational arrangements associated with the Board and the Office. The audit included review of compliance with aspects of relevant legislation including regulations and contractual arrangements. This review identified a number of areas of non-compliance which are summarised below.

Performance Agreements and Charters

The *Economic Development Act 1993* requires that the Board establish a performance agreement with the Minister for each financial year. The audit established that this did not occur in 2002-03 but that the Board was addressing this requirement for the 2003-04 year.

Regulations under the *Public Corporations Act 1993* require the preparation of a Charter for the Economic Development Board which must be agreed to by the Treasurer and its Minister. The audit established that a Charter had not been settled to date. Audit were advised that a draft has been prepared and is being considered by the Board.

Authority for Expenditure

The review of expenditure associated with the operations of the Office and the Board included review of arrangements for delegation of authority to expend monies and compliance with relevant delegations. The review established that while delegations of authority for the Office were documented they were not formally authorised by the Chief Executive. Audit were advised that delegations were formally approved in August 2003.

The audit also identified that expenditure associated with the establishment of a Venture Capital Board was authorised by officers, including the newly appointed Executive Chairman of the Venture Capital Board, who did not have delegated authority to expend monies. In response to this finding Audit were advised that the Executive Chairman has been advised he has no current authority to spend monies and that any expenditure will be authorised by officers of the Office of Economic Development who have delegated authority. Audit were also advised that measures are being investigated which will provide the Executive Chairman with required expenditure and human resource management authority delegations.

Employment Arrangements

The restructure of administrative arrangements associated with the Board and the Office have included changes to employment arrangements for staff of the Office. The audit included consideration of these arrangements and identified a number of instances of non-compliance with requirements of relevant legislation and contractual arrangements.

Staff of the Department for Business, Manufacturing and Trade were assigned to the Office by agreement between the Acting Chief Executive of the Department and the Chief Executive of the Office. In Audit's view this was not consistent with the requirements of the *Public Sector Management Act 1995*. In August 2003 the formal transfer of staff was effected.

The Chief Executive of the Office and Board was appointed pursuant to a contract which provided that he may resign by giving no less than four months notice in writing to the Minister. Audit established the Chief Executive resigned with effect from 6 June 2003 by notice to the Chairman of the Board. In response to this matter Audit were advised that while the terms of the contract were not complied with this was considered to be a technical rather than a material breach.

As mentioned the Chief Executive resigned on 6 June 2003. On 10 June 2003 Audit understand the Minister verbally assigned an officer to fill the position of Chief Executive for the Office. In Audit's view this reassignment was required by the *Public Sector Management Act 1995* to be in writing. In any event it is understood that this reassignment did not proceed.

Contracts for Services

The review of expenditure by the Office identified two contracts for the supply of consultancy services which involved expenditure in excess of \$200 000. The acquisition of these services was referred to the Accredited Purchasing Unit of the Department for Business, Manufacturing and Trade who gave in principle support for the purchases but recommended that the Office seek the approval of the State Supply Board.

The Office proceeded with the purchases without seeking the approval of the State Supply Board. In Audit's view the recommendation of the Accredited Purchasing Unit was appropriate and this view was communicated to the Office.

The Office has accepted Audit's recommendation that all contracts for expenditure on goods or services greater than \$200 000 be referred to the State Supply Board.

Audit Comment

In isolation the above instances of non-compliance may be seen to be not significant. It is appropriate, however, to reflect that the Board and Office have significant authority and responsibilities. In this regard due importance is required to be given to compliance with the legislative and regulatory framework within which the Board and Office work.

The legislative and regulatory framework within which the Board and Office are established and within which their staff are appointed and operate support appropriate control and accountability over the commitment and expenditure of public monies. It is appropriate in Audit's view that increased focus is given to ensuring compliance with the requirements of this framework.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

As explained under 'Functional Responsibility and Structure' the Economic Development Board and Office of Economic Development was established in December 2002. Therefore, a comparison of the period December 2002 to June 2003 with comparative figures is not possible.

However, comment is provided below under 'Statement of Financial Performance' and 'Statement of Financial Position'.

Statement of Financial Performance

The surplus from ordinary activities of \$1.3 million reflects total revenue of \$7.4 million offset by \$6.1 million in total expenditure.

Statement of Financial Position

Cash holdings as at 30 June 2003 of \$1.9 million principally reflect unspent appropriations received from the South Australian Government.

FURTHER COMMENTARY ON OPERATIONS

Economic Development Board

On its establishment, the South Australian Government set the Economic Development Board two major tasks.

The first task was the preparation of a status report on the state of the South Australian Economy. In November 2002 the Board delivered to the Government the *State of the State* report. The Report contained a comprehensive examination of South Australia's current economic performance relative to other Australian States and Territories.

Economic Development

The second task was the preparation of a strategic plan for the economic development of South Australia. Through extensive consultation with business and community leaders across the State over a 6 month period, the Board developed a draft plan (called *Economic Development Plan*). The Board held South Australia's Economic Growth Summit in Adelaide between 10 and 12 April 2003. The Board invited a representative group of 280 key South Australians to the Summit to deliberate on its draft plan. The outcome of the consultation process was *A Framework for Economic Development in South Australia*.

The Board submitted the framework, which incorporates a range of recommendations, to Cabinet in May 2003. Cabinet have, with one exception, endorsed the recommendations incorporated by the Board.

The Economic Development Committee of Cabinet will be advising on the implementation of the Government adopted Board recommendations. The Chief Executive, Department of the Premier and Cabinet is responsible for ensuring implementation and coordination across Government agencies. The Board will monitor implementation progress and report to the Minister for Economic Development.

Statement of Financial Performance for the period ended 30 June 2003

	Note	2003 \$'000
REVENUE FROM ORDINARY ACTIVITIES:		
Appropriations from Government		6 235
Sponsorship	4	1 016
Interest		42
Fees, charges and recoveries		14
Assets transferred from the Department for Business, Manufacturing and Trade	11	3
Other revenue		47
Total Revenues		<u>7 357</u>
EXPENSES FROM ORDINARY ACTIVITIES:		
Salaries, wages and related payments	5	1 678
Industry and other financial assistance	6	942
Support services	7	733
Consultants	8	536
Contractors		485
Promotional and special events		443
Audio visual productions		325
Board fees	18	325
General office and administration expenses		243
Travel and accommodation		224
Information technology		33
Depreciation	11	37
Assets written down to nil value	11	29
Decrement on revaluation of furniture and equipment	11	18
Assets transferred to the Department for Business, Manufacturing and Trade	11	5
Total Expenses	3	<u>6 056</u>
SURPLUS FROM ORDINARY ACTIVITIES		1 301
Net revenue from restructure	9	237
INCREASE IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES AFTER RESTRUCTURING		<u>1 538</u>
Increase in asset revaluation reserve	11,15	17
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		<u><u>1 555</u></u>

Statement of Financial Position as at 30 June 2003

	Note	2003 \$'000
CURRENT ASSETS:		
Cash	16.2	1 936
Receivables	10	236
Total Current Assets		2 172
NON-CURRENT ASSETS:		
Plant and equipment	11	112
Total Non-Current Assets		112
Total Assets		2 284
CURRENT LIABILITIES:		
Payables	12	216
Employee benefits and related costs	13	216
Total Current Liabilities		432
NON-CURRENT LIABILITIES:		
Payables	12	22
Employee benefits and related costs	13	275
Total Non-Current Liabilities		297
Total Liabilities		729
NET ASSETS		1 555
EQUITY:		
Accumulated surplus	14	1 538
Asset revaluation reserve	15	17
TOTAL EQUITY		1 555
Contingent Liabilities	21	

Statement of Cash Flows for the period ended 30 June 2003

		2003 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	
Appropriations from SA Government		6 235
Sponsorship		399
Cash transferred from Department for Business, Manufacturing and Trade		386
Interest received		35
Fees for service		4
Other receipts		6
GST charged on sales		41
GST recovered from Australian Taxation Office		333
Suppliers and Employees		(4 014)
Financial assistance		(942)
GST remitted to Australian Taxation Office		(499)
GST payments on purchase		(41)
Net cash provided by Operating Activities	16.3	1 943
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchase of plant and equipment		(7)
Net cash used in Investing Activities		(7)
NET INCREASE IN CASH HELD		1 936
CASH AT BEGINNING OF REPORTING PERIOD		-
CASH AT END OF REPORTING PERIOD	16.2	1 936

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Creation of the Economic Development Board and the Office of Economic Development, Objectives and Funding

1.1 Creation of the Board

Pursuant to the proclamation in the South Australian Government Gazette on 12 December 2002, and effective from 5 December 2002, the Economic Development Board (EDB) was established pursuant to the *Economic Development Act 1993*.

The Chief Executive of the Economic Development Board was also appointed on 5 December 2002, and declared to have the powers and functions of Chief Executive of the Office of Economic Development (OED).

1.2 Creation of the Office

Pursuant to the proclamation in the South Australian Government Gazette on 12 December 2002, and effective from 1 January 2003, the OED was established as an administrative unit under the *Public Sector Management Act 1995*.

1.3 Objectives and Funding

The objective of the OED is to facilitate and support the EDB in its development and implementation of economic plans for the State, that contribute to the achievement of the South Australian Government's economic development strategy.

The activities of the OED and the EDB are funded primarily from Parliamentary appropriations.

The Financial Statements encompass all activities transacted through an interest bearing Special Deposit Account titled 'Office of Economic Development Operating Account'.

2. Significant Accounting Policies

The significant Accounting Policies which have been adopted in the preparation of these financial statements are:

2.1 The Economic Development Board and Office of Economic Development Reporting Entity

On 17 June 2003 the Treasurer approved the treatment of the EDB and the OED as one entity for the purposes of Treasurer's Instruction 19 'Financial Reporting'. Reference to the Entity in the Financial Statements therefore relates to operations and activities of the EDB and the OED.

2.2 Basis of Preparation of Financial Statements

The Financial Statements of the Entity are prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The Financial Statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets, which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

2.3 Revenue Recognition

Revenues from ordinary activities are recorded in the Statement of Financial Performance at the time they are earned or at the time control passes to the Entity. Interest revenues are recognised as they accrue.

Revenue from the disposal of plant and equipment is recognised when control of the asset is passed to the buyer.

2.4 Appropriations and Other Contributions

Appropriations and other contributions are recognised as revenue in the period in which the monies are received and the Entity obtains control of the asset.

2.5 Depreciation of Plant and Equipment

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each depreciable asset over its expected useful life, taking into consideration any anticipated salvage value.

Estimates of remaining useful lives are made on a regular basis for all assets. The estimated useful lives of each asset class are as follows:

	Years
Furniture and equipment	5-15
Computer equipment	3
Works of art	Not depreciated

2.6 Receivables

Fees and Charges

Fees and charges receivable are brought to account at their recoverable amount and at the end of the reporting period the balances are reviewed and a provision is made where recoverability of amounts is considered doubtful.

Recoveries

Amounts recovered that have been written off or previously provided for have been included as revenue, under fees, charges and recoveries.

2.7 Plant and Equipment

All plant and equipment controlled by the Entity are reported in the Statement of Financial Position. The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Entity. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

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

Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Minor items of equipment with an individual value of less than \$2 000 are expensed at the time of acquisition.

Works of art controlled by the Entity are anticipated to have very long and indeterminate useful lives. Their service potential has not, in any material sense, been consumed during the reporting period. Consequently, no amount for depreciation has been recognised for this class of asset.

2.8 Revaluation of Property, Plant and Equipment

The Entity engaged the services of Paul C Tilley (FAPI, AREI, CREI (Val)), from Fudali Waterhouse PRP, 33 Angas Street, Adelaide SA 5000 to revalue Furniture and Equipment and Computer Equipment assets at 30 June 2003.

These assets were revalued in accordance with Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets' to fair value.

As a result of the revaluation some assets were valued at an amount lower than the \$2 000 asset recognition threshold. These assets have been written down to nil value.

In addition, Works of Art which were previously recognised in the Statement of Financial Position have been written down to nil value as a reliable fair value of these items could not be determined.

2.9 Employee Benefits

The EDB Chief Executive was the only gazetted employee of the EDB (until his resignation in June 2003).

Officers of the Department for Business, Manufacturing and Trade (DBMT) have been assigned as at 1 January 2003 to OED pursuant to an agreement between the Chief Executive, DBMT and the Chief Executive, OED. Payments paid and payable to these employees have been recognised in the financial statements as obligations met by the Entity.

Salaries and Wages

Liability for unpaid salaries and wages at the reporting date is based on current pay rates. Liability for employment on-costs such as superannuation contributions and payroll tax is calculated in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

Annual Leave

Liability for unpaid salaries, wages and annual leave at the reporting date is based on nominal amounts based on estimated future pay rates and employees' services to that date. Liability for employment on-costs such as superannuation contributions and payroll tax is calculated in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

Long Service Leave

Long service leave is recognised at nominal amounts based on estimated future pay rates on a pro-rata basis in respect of services provided by employees up to the reporting date. The Department of Treasury and Finance has advised that a benchmark of seven years can be used for a shorthand estimation of long service leave liability in accordance with the provisions of AASB 1028. This advice has been adopted and the long service leave liability has been calculated on that basis. Liability for employment on-costs such as superannuation contributions and payroll tax is calculated in accordance with AASB 1028.

Sick Leave

No liability for sick leave was recognised in the Financial Statements as sick leave taken by employees is considered to be taken from the current year's accrual.

2.10 Leases

The Entity is not committed to any premises leases directly, but is charged for accommodation pursuant to a service level agreement with DBMT. The commitment remains DBMT's obligation. The Entity records payments for premises under support services. Lease payments are charged on a six monthly basis.

2.11 Financial Instruments*Financial Assets*

Cash comprises cash on hand and deposits at call with Westpac Banking Corporation. The deposits are recorded at cost. Interest revenues are recognised as they accrue. Receivables are recognised at the time the debt is incurred.

Financial Liabilities

Trade Payables are recognised as they are incurred. Accrued Expenses are recognised for goods and services supplied that have not been paid for. Trade Payables are normally settled on 30 day terms.

2.12 Goods and Services Tax

In accordance with the requirements of Urgent Issues Group UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Entity as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense;
- receivables and payables are stated with the amount of GST included

The GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of the cash flows arising from investing or financing activities, which are recoverable from, or payable to the Australian Taxation Office have, however, been classified as operating cash flows.

2.13 Reporting Period and Comparative Figures

As the reporting entity was established in December 2002 the Financial Statements cover the period December 2002 to June 2003. Accordingly there are no comparative figures reported in the Financial Statements.

3. Expenses by Program

The Entity has identified only one program 'Economic Development': to develop and implement an economic development strategy for the State. However, two sub-programs have been identified that reflect the nature of the services delivered to the South Australian community. These are:

Sub-Program 1: Economic Strategy

To provide strategy development and research support to the EDB.
Support the identification and development of strategic options to build on the Economic Development Framework.

Sub-Program 2: Major Project Facilitation and Implementation

Facilitate major investment and infrastructure projects that contribute to the strategic development and expansion of industry in the State.
Implement the EDB's strategic initiatives.

Expenses by sub-program for the reporting period are as follows:

	Sub-Program		2003 Total \$'000
	1 \$'000	2 \$'000	
Salaries, wages and related payments	674	1 004	1 678
Industry and other financial assistance	70	872	942
Support services	389	344	733
Consultants	62	474	536
Contractors	46	439	485
Promotional and special events	307	136	443
Audio visual productions	19	306	325
Board fees	304	21	325
General office and administration expenses	80	163	243
Travel and accommodation	78	146	224
Information technology	14	19	33
Depreciation	20	17	37
Assets written down to nil value	15	14	29
Decrement on revaluation of furniture and equipment	10	8	18
Assets transferred to DBMT	3	2	5
Total Expenses	2 091	3 965	6 056

4. Sponsorship

The EDB held South Australia's Economic Growth Summit in April of 2003. Private sector contributions to the cost of the Summit were made by way of sponsorship of the event. These contributions were in the form of cash and 'in-kind' funding.

'In-kind' contributions have been recognised as sponsorship and expensed under supplies and services at fair value.

Total sponsorship amounted to:

	2003 \$'000
Cash	399
In-kind	617
Total	1 016

5. Salaries, Wages and Related Payments

5.1 Composition of Salaries, Wages and Related Payments

Salaries, wages, annual and sick leave	1 303
Long service leave	53
Superannuation	146
Other employee on-costs	176
Total	1 678

5.2. Executive Remuneration

The EDB Chief Executive was the only gazetted employee of the EDB (until his resignation in June 2003).

DBMT employees assigned to OED on 1 January 2003 included employees who will receive remuneration in excess of \$100 000 for the 12 month period ending 30 June 2003.

Total remuneration receivable by Entity employees for the 12 month period ending 30 June 2003 was \$1 032 000.

The following table sets out the number of employees with total annual remuneration in excess of \$100 000 within the following bands:

	2003 Number of Employees
\$100 000 - \$110 000	3
\$120 001 - \$130 000	1
\$130 001 - \$140 000	1
\$190 001 - \$200 000	1
\$250 001 - \$260 000	1

5.3. Superannuation

For the period ended, a total of \$146 000 was paid, or due and payable to the Department of Treasury and Finance towards accruing the government liability for superannuation in respect of the Entity's employees.

Superannuation contributions are charged as an expense in the period in which they occur. The Entity is not liable for payments to beneficiaries as this is the responsibility of the superannuation schemes.

6. Industry and Other Financial Assistance

Financial Assistance is provided to the private sector by OED. Proposals and applications for funding under various support programs and schemes are subject to specific guidelines and procedures issued by the Entity. There are several approval delegations dependent upon the level and nature of assistance provided.

Class of Assistance:	2003 Total Grants \$'000
Defence	288
Film	200
Industry Development	200
Enterprise Development	180
Other	74
	942

7. Support Services

The Entity is provided with support services by DBMT, under a Service Level Agreement. Such services include finance, administration, information technology and accommodation.

8. Payments to Consultants

Total payment to consultants were \$536 000.

The consultancies used by the Department and payments made have been grouped under the following ranges:

	2003 Number of Consultancies
Less than \$10 001	2
\$10 001 - \$20 000	4
\$30 001 - \$40 000	1
\$40 001 - \$50 000	1
\$110 001 - \$120 000	1
\$250 001 - \$260 000	1

\$10 001 - \$20 000

Harrison Market Research

Paul Dibb & Associates

ARUP Water Pty Ltd

Disney-Howe Associates

Consultancy Title

Survey of community and business attitudes about South Australia's economic future

Provide advice with regard to Defence matters

Gawler Craton water supply investigation

Collection of information on defence procurement programmes

\$30 001 - \$40 000

Hudson Howells

Australian Centre for Innovation and Simulated Solutions (ACISS) Consultancy

\$40 001 - \$50 000

Graham Loughlin

Review policies and identify opportunities for Adelaide to become a Centre for Funds Management

\$110 001 - \$120 000

Global Strategic Vision

Services provided by Mr Jim Duncan as head of the Naval Shipbuilding and Repair Task Force

\$250 001 - \$260 000

Shackleton Management

Provide high level advice to the Premier and Chairman, EDB on defence and industry matters. Lead the State effort to secure a rationalised naval shipbuilding and repair industry. Lead the development of a State Defence Industry strategy. Promote the South Australian defence sector and opportunities at a senior industry and government level both within Australia and overseas.

9. Net Revenue from Restructure					2003
Assets transferred from DBMT:					\$'000 \$'000
Cash					386
Works of art					21
Furniture and equipment				151	
Less: Accumulated depreciation				54	97
				<hr/>	
Computer equipment				172	
Less: Accumulated depreciation				116	56
				<hr/>	560
				<hr/>	
Liabilities assumed from DBMT:					
Employee benefits and related costs:					
Annual leave				71	
Long service leave				221	
Associated on-costs				31	
Total liabilities assumed				31	323
					<hr/>
Net Result					237
					<hr/> <hr/>
10. Receivables					2003
					\$'000
GST receivable					166
Trade debtors					49
Prepayments					12
Accrued interest on deposits and bank accounts					7
Other receivables					2
					<hr/>
					236
					<hr/> <hr/>
11. Property, Plant and Equipment					2003
					Total
					\$'000
Gross Carrying Amount:					
Assets transferred at restructure	151	172	21		344
Additions	2	5	-		7
Transfers in from DBMT	-	24	-		24
Disposals	-	(1)	-		(1)
Transfers out to DBMT	-	(23)	-		(23)
Assets written down to nil value	(20)	-	(21)		(41)
Add back accumulated depreciation at revaluation	(53)	(144)	-		(197)
Net revaluation increments (decrements)	(18)	17	-		(1)
Balance at 30 June	<hr/> 62	<hr/> 50	<hr/> -		<hr/> 112
					<hr/> <hr/>
Accumulated Depreciation:					
Assets transferred at restructure	54	116	-		170
Transfers in from DBMT	-	21	-		21
Depreciation expense	11	26	-		37
Disposals	-	(1)	-		(1)
Transfers out to DBMT	-	(18)	-		(18)
Assets written down to nil value	(12)	-	-		(12)
Add back accumulated depreciation at revaluation	(53)	(144)	-		(197)
Balance at 30 June	<hr/> -	<hr/> -	<hr/> -		<hr/> -
					<hr/> <hr/>
Net Book Value:					
Assets transferred at restructure	97	56	21		174
As at 30 June	<hr/> 62	<hr/> 50	<hr/> -		<hr/> 112
					<hr/> <hr/>
12. Payables					2003
Current Liabilities:					\$'000
Trade creditors and accruals					187
Employee on-costs					29
					<hr/>
					216
					<hr/> <hr/>
Non Current Liabilities:					
Employee on-costs					22
					<hr/> <hr/>
13. Employee Benefits and Related Costs					
Current Liabilities:					
Salaries and wages					14
Annual leave					164
Long service leave					27
Workers compensation ⁽¹⁾					11
Total Current					<hr/> 216
					<hr/> <hr/>

13. Employee Benefits and Related Costs (continued)	2003
Non-Current Liabilities:	\$'000
Long service leave	245
Workers compensation ⁽¹⁾	30
Total Non-Current	275

(1) These amounts reflect an actuarial assessment of the Entities workers compensation liabilities at 30 June 2003 contained in a report prepared by Taylor Fry Consulting Actuaries and submitted to the Public Sector Occupational Health and Injury Management branch (PSOHIM) of the Department of the Premier and Cabinet. The amounts reflect the Entity's experience of claim numbers and payments over the period 1 January to 30 June 2003.

The actuarial report conforms to the WorkCover Guidelines for Actuaries, Accounting Standard AASB 1023 'Financial Reporting of General Insurance Activities' and Professional Standard PS 300 'Actuarial Reports and Advice on Outstanding Claims in General Insurance' of the Institute of Actuaries of Australia.

14. Accumulated Surplus	2003
	\$'000
Balance at beginning of the period	-
Operating surplus	1 538
Balance at the end of the period	1 538

15. Asset Revaluation Reserve	
Balance at beginning of the period	-
Revaluation increment arising from revaluation of Computing Equipment	17
Balance at the end of the period	17

16. Notes to the Statement of Cash Flows

16.1 Definition of Cash

For the purposes of the Statement of Cash Flows, cash includes deposits which are used in the cash management function on a day to day basis.

16.2 Reconciliation of Cash

Closing cash balance as shown in the Statement of Cash Flows is represented by the following balances:

The Office of Economic Development operating account and other funds

1 936

16.3 Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities

Surplus from ordinary activities	1 301
Cash transferred from DBMT	386
Non-cash items:	
In-Kind revenue	(617)
Assets transferred from DBMT	(3)
In-kind expense	617
Depreciation	37
Assets written down to nil value	29
Decrement on revaluation of furniture and equipment	18
Assets transferred to DBMT	5
Change in assets and liabilities (net of transfers in on restructure):	
Increase in receivables	(236)
Increase in payables	207
Increase in employee benefits and related costs	199
Net Cash provided by (used in) Operating Activities	1 943

17. Related Party Information

17.1 Members of the Economic Development Board

The following members served on the Economic Development Board during the reporting period:

Robert Champion de Crespigny (Chairman)	Caroline Hewson
Cheryl Bart	Scott Hicks (resigned 8 May 2003)
John Bastian	Mike Moore (appointed 15 May 2003)
Grant Belchamber	Fiona Roche
Maurice Crotti	Roger Sexton (ex Officio) (resigned 6 June 2003)
Andrew Fletcher	David Simmons
Bob Hawke	William Wood (resigned 5 June 2003)

17.2 Related Party Transactions

There have been no transactions during the reporting period between the Members of the Economic Development Board and the Entity other than those which occur as a result of a normal employment relationship.

18. Remuneration of Board Members

18.1 Economic Development Board

The Members of the Economic Development Board were entitled to receive remuneration of \$45 000 per annum during the reporting period. Mr Wood waived his right to receive board fees. Upon creation of the Board the Chairman, Mr de Crespigny also waived any rights to receive board fees.

	2003
	Number of
	Members
The number of Members of the Economic Development Board whose remuneration received or receivable falls within the following bands were:	
\$nil	2
\$20 000 - \$29 999	11

The aggregate remuneration received by Members of the Economic Development Board during the reporting period was \$308 000.

18.2 Defence Industry Advisory Board

The Defence Industry Advisory Board was established on 20 January 2003 to underpin the continued growth of the defence industry in South Australia.

	2003
	Number of
	Members
The number of Members of the Defence Industry Advisory Board whose remuneration received or receivable falls within the following bands were:	
\$nil	8
\$1 - \$9 999	1
\$20 000 - \$29 999	1

The aggregate remuneration received by Members of the Defence Industry Advisory Board during the reporting period was \$17 000.

19. Auditors' Remuneration

Amounts due and receivable by the Auditor-General's Department for the audit of the Entity for the reporting period total \$17 000.

20. Financial Instruments

20.1 Credit Risk

The Entity's maximum exposure to credit risk at reporting date in relation to each class of recognised assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Entity has no significant exposure to any concentrations of credit risk.

20.2 Interest Rate Risk

The Entity's exposure to interest rate risk and the effective weighted average interest rate is set out in the following table. Exposures arising predominantly from financial assets and financial liabilities bearing variable interest rates.

	Weighted Average Effective Interest Rate Percent	Floating Interest \$'000	Non- Interest Bearing \$'000	2003 Total \$'000
Financial Assets:				
Cash on hand and on deposit	4.60	1 936	-	1 936
Receivables	-	-	236	236
		<hr/>	<hr/>	<hr/>
		1 936	236	2 172
Financial Liabilities:				
Payables	-	-	238	238
		<hr/>	<hr/>	<hr/>
		-	238	238

20.3 Net Fair Value

The carrying amount of the financial assets and financial liabilities recorded in the financial statements approximate their net fair value.

21. Contingent Liabilities

The Entity has no known contingent liabilities.

SOUTH AUSTRALIAN FORESTRY CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Forestry Corporation (the Corporation) is a public corporation, established under the *South Australian Forestry Corporation Act 2000* (the Act). On 1 January 2001, the Corporation effectively took over the functions previously undertaken by the ForestrySA business unit within the Department for Administrative and Information Services (DAIS). As such, as at 1 January 2001, the operations and employees as well as the assets and liabilities of ForestrySA were transferred to the Corporation.

Functions

The object of the Act was to establish a statutory corporation as a business enterprise with the principal responsibility of managing plantation forests for the benefit of the people and economy of the State. More specifically, the Act provides for the Corporation to carry out the following functions:

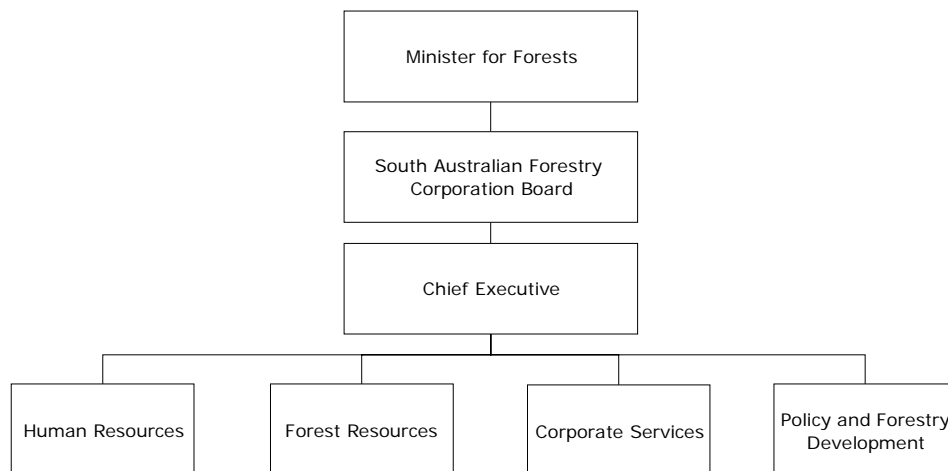
- To manage plantation forests for commercial production.
- To encourage and facilitate regionally based economic activities based on forestry and other industries.
- To conduct research related to the growing of wood for commercial purposes.
- Any other function conferred on the Corporation by an Act or the Minister.

The Act specifies that the Corporation is a statutory corporation to which the provisions of the *Public Corporations Act 1993* apply.

Under the *Public Corporations Act 1993* the Minister and the Treasurer must prepare a charter and a performance statement for the Corporation after consultation with the Corporation. The charter outlines the nature and scope of the Corporation's operations and its reporting obligations, while the performance statement sets out the various performance targets for the Corporation over a defined period.

Structure

The Corporation's structure is represented in the following diagram.



Audit Committee

The Corporation has an Audit Committee comprising members of the Board and is attended by Internal and External Auditors as observers. The Audit Committee meets on a quarterly basis and reports to the Board.

The broad functions of the Audit Committee are to regularly review the adequacy of the accounting, internal auditing, reporting and other financial management systems. The responsibilities extend to monitoring risk management practices, approving and evaluating the internal audit program, the review of the annual financial statements prior to approval of the Board and communicating with officers of the Auditor-General's Department (External Auditors).

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 32(4) of the *Public Corporations Act 1993* provides for the Auditor-General to audit the accounts and financial statements of the Corporation in respect of each financial year.

Assessment of Controls

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the South Australian Forestry Corporation included an assessment of the controls exercised in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- revenue from forest product sales
- harvesting and transporting contract expenditure
- accounts payable and accounts receivable functions
- procurement processes
- measurement and valuation of growing timber
- recording and control of fixed assets
- stores management and control
- maintenance of the general ledger and associated reconciliations and subsidiary systems
- management and financial reporting
- computing environment and operations.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Corporation and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

The following is an extract from the 2003 Independent Audit Report, which details the qualification to the Corporation's financial report.

Qualification

The Corporation manages South Australia's plantation forests. In relation to Forestry operations the Corporation has adopted a market based method of revaluation for the Non-Current Asset - Growing Timber, consistent with the requirements of Australian Accounting Standard AASB 1037 'Self-Generating and Regenerating Assets'. Under this method, the inventory 'growing timber' is valued at its 'net market value' at the reporting date.

The Corporation utilises a comprehensive computer based model to estimate the actual volume of timber standing in the forests. That is, the existence of the asset 'growing timber' is estimated via a predictive growth model. Market prices for timber products are then applied to the volume estimates to establish a value for 'growing timber' for financial reporting purposes.

In recognition of the complexity of the estimation model and the need for Audit to attest to the existence of the asset, Audit has, several times over a number of years, engaged an independent consultant with expertise in Forestry to examine the systems and processes used in the estimation of growing timber and to report with respect to their auditability. While these reviews noted that the systems and processes used in the estimation of growing timber were generally of a high technical standard a number of issues required resolution to enable the attestation of the estimates of the volume of standing timber. This precluded the independent verification of these estimates within an acceptable level of audit confidence.

Audit review of the status of issues in 2002-03 confirmed that some matters relating to the auditability of the estimation process were still being addressed. Therefore, consistent with prior years, I am not in a position to form an opinion on the reasonableness of the estimation of the value of the asset growing timber.

Qualified Audit Opinion

In my opinion, except for the effect on the financial report of the matter referred to in the qualification paragraph, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Forestry Corporation as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under 'Significant Matters Raised with Agencies', is sufficient to provide reasonable assurance that the financial transactions of the Corporation have been conducted properly and in accordance with law.

Valuation of Forest Assets

Note 2.3 to the Corporation's financial statements provides a summary of the valuation methodology utilised by the Corporation in arriving at a value for growing timber. The value, in part, is based on volume estimates of growing timber. This is a matter of technical complexity and involves systems and databases associated with predicting growing timber. That is, the existence of the asset 'growing timber' is estimated via a predictive growth model. Market prices for timber products are then applied to the volume estimates to establish a value for 'growing timber' for financial reporting purposes.

In auditing the value of growing timber a number of assertions are required to be attested to. Two important assertions are existence and valuation.

With respect to valuation, Audit has noted that the Corporation has adopted a market based method consistent with the requirements of Australian Accounting Standard AASB 1037 'Self-Generating and Regenerating Assets'. That is, the Corporation calculates the weighted average return for each log diameter class by sampling market prices over the 12 months preceding the balance date. As part of the financial statement review process Audit has been able to attest to the reasonableness of this calculation.

In regard to the existence assertion, as noted above, a technically complex model is utilised to estimate the existence of growing timber at a point in time. In recognition of this complexity and the need to attest to the existence of the asset, Audit has, several times over a number of years, engaged an independent consultant with expertise in Forestry to examine the systems and processes used in the estimation of growing timber and to report with respect to their auditability.

While these reviews noted that the systems and processes used in the estimation of growing timber were generally of a high technical standard a number of issues required resolution to enable the attestation of the estimates of the volume of standing timber. This precluded the independent verification of these estimates within an acceptable level of audit confidence. For the 2002-03 year some issues are still ongoing and as a result, consistent with prior years, I am not in a position to form an opinion on the reasonableness of the estimation of the value of the asset growing timber.

As part of the annual planning and execution process Audit will follow up on the status of issues regarding the estimation of growing timber with the Corporation in 2003-04. Further, as part of this process, Audit will revisit the approach to attesting to the existence of the growing timber estimate.

Further comment on the Growing Timber valuation is provided in the section below titled 'Interpretation and Analysis of Financial Statements'.

Significant Matters Raised with Agencies

Financial Systems and Contract Management Issues

Forestry Logging System

It was noted that there is no independent review of critical changes to the Forestry Logging System master file data. Audit recommended that a report be devised detailing critical changes to the system and be independently reviewed to ensure that changes are accurate and bone fide.

Payroll

The audit revealed that there could be improvements in the Corporations control environment to ensure the new CHRIS payroll system is operating satisfactorily and that reports produced from the system are tested for the validity, accuracy and completeness of the information contained therein. In addition, it was identified that controls over master file changes could be improved to ensure that only valid changes are being made to the system to maintain the ongoing integrity of employee information on the payroll master file.

Insurance Contracting Arrangements

As was the position last year, the matter of confirmation of insurance coverage of Harvesting and Transporting contractors was conveyed to the Corporation. Audit suggested that formalised monitoring and assessment of the adequacy of contractor insurance coverage arrangements be undertaken on an annual basis in consideration of the present state of the insurance industry risk environment.

Formal Customer Supply Agreements

The audit identified instances where a formal supply contract was not in place prior to commencement of supply obligations. Time delays can be experienced in getting formal agreements executed. Audit considers that a formal supply agreement is critical in underpinning and enforcing, if appropriate, customer revenue obligations.

The Corporation's response to the matters raised above were generally satisfactory. The Corporation indicated that all matters raised will be addressed as part of the process to prioritise all outstanding External and Internal Audit issues.

Computer Systems Operations and Environment

In the latter part of 2002-03, Audit undertook a follow-up review of the status of important matters raised last year principally regarding the Forestry Logging System and the Masterpiece System Operation.

Components of those systems are operated at Mt Gambier and Adelaide and the EDS Australia Pty Ltd (EDS) site at Glenside. Further, some aspects of the Complete Human Resource Information System (CHRIS) were reviewed. As at 30 June 2003, the audit review was yet to be finalised in relation to certain matters. The following matters have been noted at this stage of the review.

- Certain action had been taken regarding the Corporation's business recovery planning processes resulting in formalised plans for a number of Information Technology related functions.
- A Risk Management Co-ordination group has been established by the Corporation.
- Consideration is being given to moving from the Masterpiece financial system to the smaller Accpac financial system.
- Formal Service Level Agreements for the IT infrastructure services provided by EDS and for the IT related services provided by DAIS were not in place. Further, an assessment should be made as to whether any other IT agreements between the Corporation and private sector service providers are required.

The Corporation's response in July 2003, indicates that some action has been taken in regard to the abovementioned matters since the follow up review by audit commenced. Audit was also advised of a number of issues encountered in regard to the implementation of the CHRIS HRM system.

Overall findings of Audit's review when completed will be the subject of a formal communication to the Corporation.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

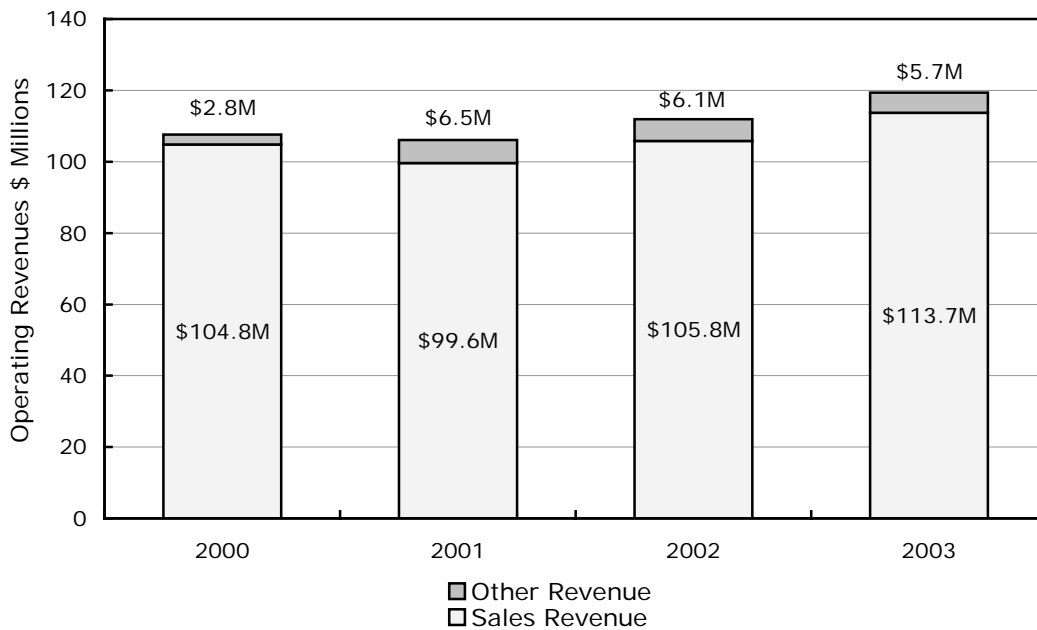
Highlights of Financial Statements

	2003 \$'million	2002 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Sales revenue	113.7	105.8	7.4
Community service obligation funding	3.5	3.5	1.0
Other revenue	2.2	2.5	(14.7)
Total Operating Revenue	119.4	111.8	6.6
<i>OPERATING EXPENDITURE</i>			
Cost of sales	53.8	50.3	7.1
Plantation expenses	16.1	16.1	0.1
Other expenses	11.7	10.1	15.3
Total Operating Expenses	81.6	76.5	6.7
Trading Profit before Revaluation of Growing Timber	37.8	35.5	6.6
Net Cash Flows from Operations	27.7	25.4	9.1
<i>ASSETS</i>			
Current assets	27.8	30.2	8.0
Non-current assets	861.7	811.6	6.2
Total Assets	889.5	841.8	5.7
<i>LIABILITIES</i>			
Current liabilities	10.7	10.6	1.4
Non-current liabilities	5.8	3.7	5.5
Total Liabilities	16.5	14.3	15.3
<i>EQUITY</i>	873	827.5	5.5

Statement of Financial Performance

Operating Revenues

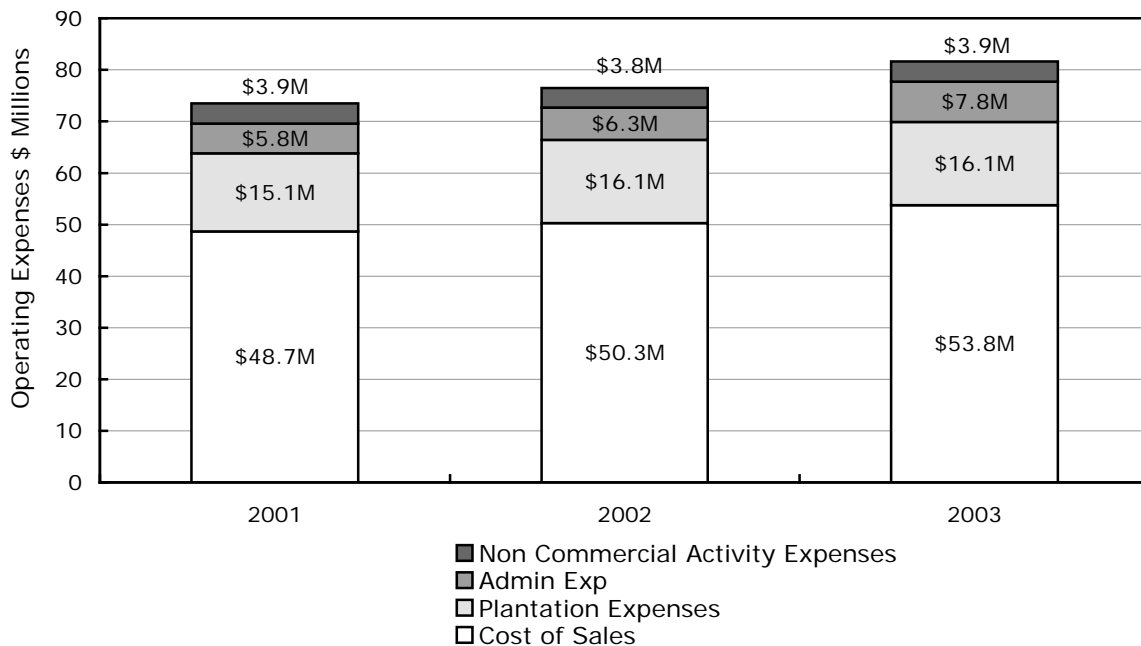
A structural analysis of the Corporation's operating revenue over recent years is presented in the following chart.



Sales revenue has gradually increased over the period due to the strong demand for housing construction over the last few years. The trend of the sales revenue over the last four years reflects the stable nature of the Corporation's operations, partly reflecting the long term supply sales agreements with the Corporation's customers.

Operating Expenses

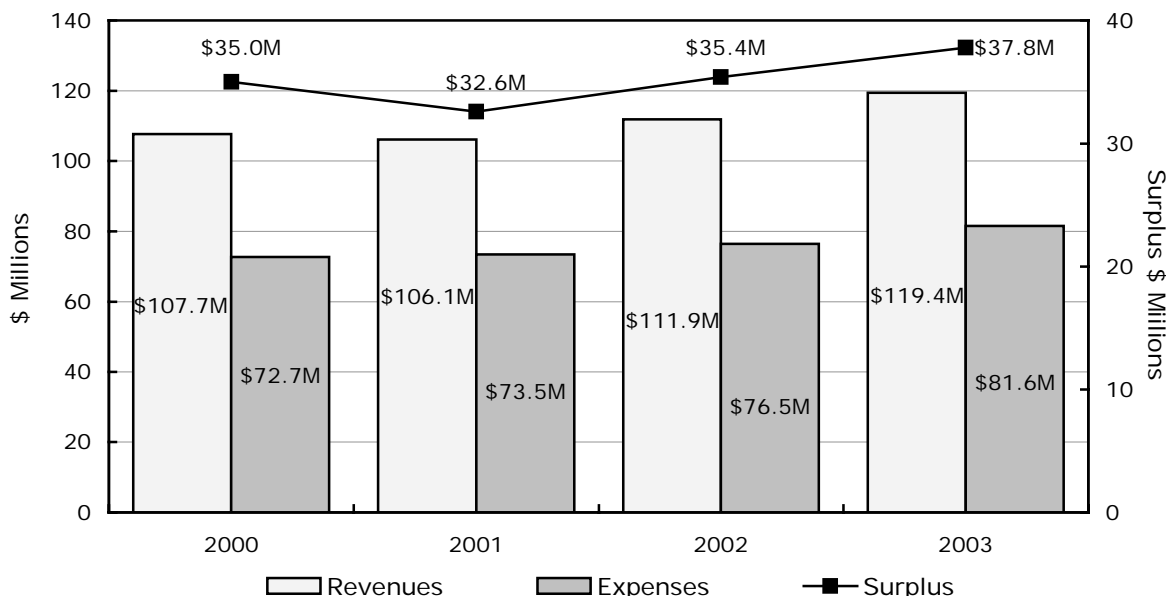
For the four years to 2003 a structural analysis of the main operating expense items for the Corporation is shown in the following chart.



Cost of sales is the main expenditure item for the Corporation representing approximately 65 percent of expenditure. This expense predominantly includes harvesting and transporting costs. Expenditure over the last four years has risen in direct proportion to sales revenue as the harvesting and transporting contract costs are directly related to the activity under the sales contracts.

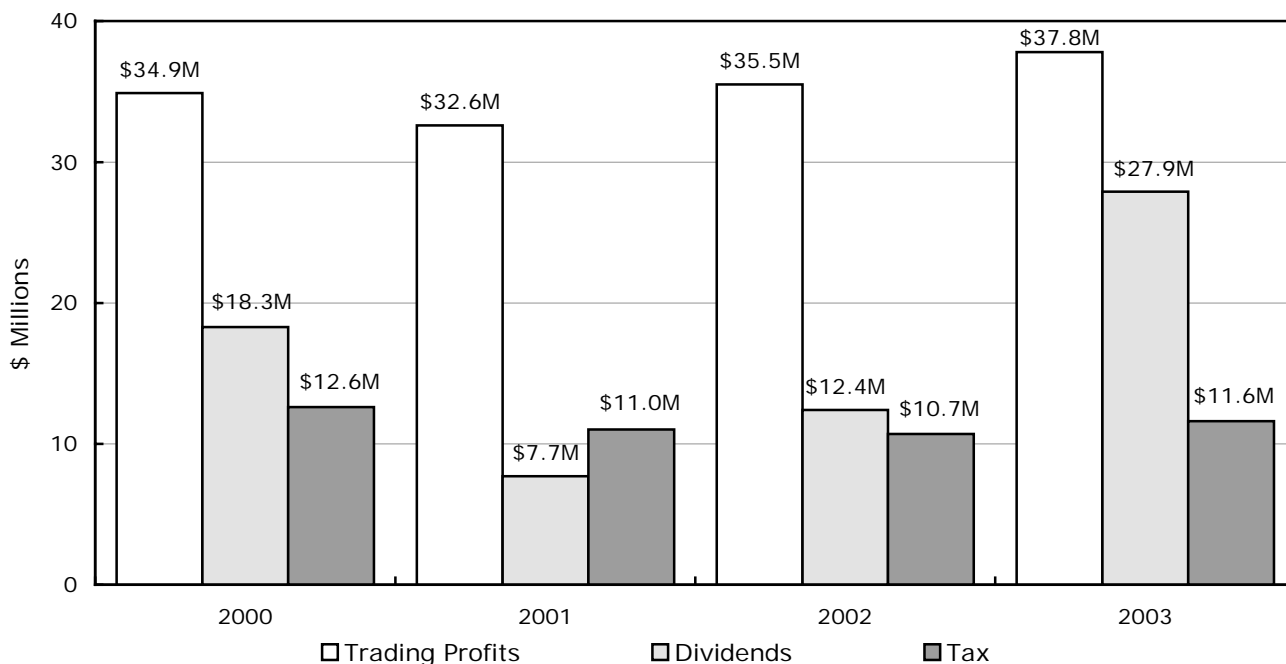
Operating Result

The Corporation's financial performance during the last few years has benefited from the strong demand for housing construction including the flow on effect of the First Home Owners Grant. Trading activity has continued to increase despite the housing industry having had to cope first with the pre-GST building rush in 2000 followed by a severe slump in housing starts in 2001. Notwithstanding this volatility, the Corporation's profit performance indicates a growth trend over the past four years.



Distributions to Government

For the four years to 2003 an analysis of the Corporation's Trading Profits before revaluation of Growing Timber compared to returns to Government is shown on the following chart.



As previously mentioned, trading profits before revaluation of Growing Timber have consistently risen over the last few years. Subsequently, returns to Government through both dividends provided for or paid and tax related to ordinary activities have been substantially covered by the Corporation's trading profits.

Statement of Financial Position

The two dominant items of the Statement of Financial Position are the non current assets 'Growing Timber' and 'Land' representing approximately 95 percent of the total assets of the Corporation. The value of Growing Timber has risen steadily over the last few years as indicated below. The value of Land has risen reflecting both purchases of new land and the increase in the value of property resulting from the strong real estate market experience over the last few years.

Other items within the Statement of Financial Position comprise Cash, Trade Debtors, Trade Creditors and an Interest Bearing Loan.

Growing Timber

Note 2.3 'Forestry Accounting' to the financial statements explains the basis and main features of the Corporation's valuation methodology applied to the non-current asset growing timber for financial reporting purposes.

The following table summarises valuations of growing timber for the past five years by region and revaluation increments (decrements).

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million	1999 \$'million
Region					
South East Region:					
Young plantations	29.1	27.5	25.9	24.9	22.4
Old plantations	496.4	486.1	486.5	478.5	469.1
Central and Northern Regions:					
Young plantations	3.9	3.9	3.8	3.4	3.3
Old plantations	88.8	79.7	77.2	71.7	71.3
	618.2	597.2	593.4	578.5	566.1
Revaluations:					
Increment (Decrement)	21.0	3.8	14.9	12.4	(6.1)

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Net Cash Flows				
Operations	27.7	25.4	18.9	25.3
Investing	(4.4)	(2.2)	(1.6)	(4.4)
Financing	(25.9)	(32.4)	(12.6)	(14.1)
Change in Cash	(2.6)	(9.2)	4.7	6.9
Cash at 30 June	13.4	16	25.2	20.6

The analysis of cash flows shows that the Corporation's surplus cash generated through operating activities is applied to fund its financing activities, predominantly returns to Government through dividends paid. In 2002 the Corporation also returned capital of \$20 million to the Government as part of its financing activities.

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003 \$'000	2002 \$'000
Sales revenue	5(ii)	113 709	105 844
Cost of sales		(53 840)	(50 287)
Gross Profit		59 869	55 557
Community service obligation funding	5(ii)	3 512	3 547
Other revenue	5(ii)	2 163	2 536
Plantation expenses		(16 110)	(16 088)
Non-commercial activity expenses		(3 871)	(3 822)
Administration expenses		(7 761)	(6 264)
Trading Profit before Revaluation of Growing Timber		37 802	35 466
Net change in value of growing timber	4	21 020	3 800
Profit from Ordinary Activities before Related			
Income Tax Expense		58 822	39 266
Income tax related to ordinary activities	2.4,6	11 593	10 653
Profit from Ordinary Activities after Related			
Income Tax Expense		47 229	28 613
Net credit to an asset revaluation reserve on revaluation of non-current assets		26 193	510
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		73 422	29 123

**Statement of Financial Position
as at 30 June 2003**

		2003	2002
CURRENT ASSETS:	Note	\$'000	\$'000
Cash		13 428	15 993
Receivables	9	11 961	10 983
Inventories	10	1 909	2 716
Other	11	461	469
Total Current Assets		27 759	30 161
NON-CURRENT ASSETS:			
Growing timber	10	618 270	597 250
Property, plant and equipment	12	243 389	214 312
Other	13	61	53
Total Non-Current Assets		861 720	811 615
Total Assets		889 479	841 776
CURRENT LIABILITIES:			
Creditors and accruals	14	6 352	6 374
Interest Bearing Loan	15	165	-
Provisions	16	3 114	2 895
Other	17	1 085	1 301
Total Current Liabilities		10 716	10 570
NON-CURRENT LIABILITIES:			
Creditors and accruals	14	2 609	2 508
Interest Bearing Loan	15	1 866	-
Provisions	16	1 291	1 222
Total Non-Current Liabilities		5 766	3 730
Total Liabilities		16 482	14 300
NET ASSETS		872 997	827 476
EQUITY:	18		
Base capital	19	4 983	4 983
Reserves	22	801 648	754 435
Retained profits	20	66 366	68 058
TOTAL EQUITY		872 997	827 476
Commitments and Contingent Liabilities	23(a),(b),(c)		

Statement of Cash Flows for the year ended 30 June 2003

		2003	2002
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
Receipts from customers		113 996	107 798
Payments to suppliers and employees		(79 519)	(76 108)
Interest received		972	563
Borrowing costs		(36)	-
Community service obligation funding		3 512	3 548
GST receipts on sales		11 510	10 656
GST payments on purchases		(6 825)	(6 585)
GST payments to taxation authority		(4 745)	(4 103)
Income tax paid		(11 178)	(10 352)
Net Cash provided by Operating Activities	24 (ii)	27 687	25 417
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(2 272)	(2 749)
Purchase of land		(2 176)	(549)
Proceeds from sale of fixed assets		66	315
Insurance recoveries		-	715
Net Cash used in Investing Activities		(4 382)	(2 268)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Borrowings		2 085	-
Repayment of Borrowings		(54)	-
Dividend paid		(27 901)	(12 380)
Repayment of capital	19	-	(20 000)
Net Cash used in Financing Activities		(25 870)	(32 380)
NET DECREASE IN CASH HELD		(2 565)	(9 231)
CASH AT 1 JULY		15 993	25 224
CASH AT 30 JUNE	24(i)	13 428	15 993

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Role and Function of the South Australian Forestry Corporation

The South Australian Forestry Corporation (SAFC), trading under the name of ForestrySA, was established under the *South Australian Forestry Corporation Act 2000* on 1 January 2001. The SAFC is subject to the provisions of the *Public Corporations Act 1993* and has the key responsibilities of:

- Managing State-owned plantation forests including harvesting and delivery of forest products to customers
- Supporting and facilitating forestry industry development
- Providing recreational access to forest reserves
- Managing native forests for conservation purposes
- Providing policy support and advice to Government, the industry and the community.

In addition to its business operations, SAFC is funded for the provision of certain community service obligations (CSOs). These are:

- Forest industry development
- Forestry policy and legislative support
- Community use of forests
- Native forest management; and
- Community protection (including fire protection).

Prior to the creation of SAFC on 1 January 2001 its functions were carried out by the ForestrySA business unit within the Department for Administrative and Information Services (DAIS), an administrative unit of the South Australian Government.

2. Accounting Policies**2.1 Basis of Accounting**

These accounts cover the operations of SAFC and have been prepared in accordance with Statement of Accounting Concepts, applicable Australian Accounting Standards and Urgent Issues Group Consensus Views and the Treasurer's Instructions. The accounts have been prepared on the basis of historical cost and do not take into account changing money values or except where stated, current valuation of non-current assets. A market value based method as described in Note 2.3, Forestry Accounting, has been applied in relation to growing timber. The accounting policies have been consistently applied unless otherwise stated. The accrual method of accounting has been adopted in these accounts.

2.2 Comparative Figures

At 30 June 2003 the SAFC had been operating for more than two complete financial years. Accordingly comparative figures are provided for the year ended 30 June 2002.

Where necessary, comparative figures are adjusted to conform with changes in presentation and classification in the current period. No material changes in presentation are included in these financial statements.

2.3 Forestry Accounting

Due to the special nature of growing timber, which includes a long production cycle combined with physical change, historical cost accounting does not provide a meaningful measure of the economic performance or asset value of forestry activities. In order to provide more relevant, reliable and understandable information, a market value based method has been applied to growing timber.

The inventory value of growing timber (Note 2.8) is calculated for financial reporting purposes only, as a measure of forest management performance over the reporting period.

The main features of this method are:

- At the reporting date the inventory of growing timber is valued at its net market value. For the purpose of this financial statement net market value is defined as the amount which could be expected to be received from the disposal of the existing mix of forest products in an active and liquid market after deducting the direct costs incurred in realising the proceeds of such a disposal. This is in accordance with the requirements of Accounting Standard AASB 1037 'Self Generating and Regenerating Assets'. All amounts are calculated in pre-tax dollars in accordance with the Treasurer's Instructions.
- The difference between the net market value of the inventory of growing timber held at the reporting date and the net market value at the previous reporting date is recognised as revenue in the Statement of Financial Performance, where it is described as 'Net change in value of growing timber';
 - The market value of growing timber realised during the period is reported under Sales Revenue;
 - All non-capital forest expenditure is recognised as 'plantation expenses' in the year the expenditure takes place.

Current policy provides that revenue resulting from the net increment in the value of growing timber is unrealised revenue and is therefore not available for distribution. This amount is transferred from Retained Profits to the Growing Timber Revaluation Reserve (Note 22) of the Statement of Financial Position.

The volume of growing timber is estimated using a model that simulates forest growth. Actual growth will invariably differ to some extent from growth predicted by the model resulting in periodic adjustments to net market value for these growth variations. The model uses sample inventory data as the base line from which to start growth simulations. Inventory data are continuously being collected with the complete forest estate being covered in about five yearly intervals. The inventory master database is updated about every three to five years and on these occasions the model simulations are repeated. For South Eastern forests the master database was last updated in 2001, for Central forests in 2002 and Northern forests in 1999.

2.3 Forestry Accounting (continued)

The method used to determine the volume of timber contained in the radiata plantations is 'standing volume' (the volume of wood in the stem of trees which is potentially useable) less an allowance for residues incurred under current harvesting practice. This ensures that the net market value is based upon realisable volumes.

2.4 Income Tax (Payment in Lieu of Income Tax)

SAFC is required to make taxation payments in accordance with the taxation equivalents regime. As SAFC engages in trading activities in competition with private sector enterprises, a payment in lieu of income tax, equivalent to the tax applicable to public companies under Commonwealth income tax law, is paid to the South Australian Government Consolidated Account.

The liability method of tax-effect accounting has been adopted, whereby the income tax expense shown in the Statement of Financial Performance is based on the operating profit before income tax expense, adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of operating profit before income tax expense and taxable income are brought to account as either provision for deferred income tax, or an asset described as future income tax benefit. These items are recorded at the rate of income tax applicable to the period in which the benefit will be received, or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

2.5 Current and Non-Current Classifications

In the Statement of Financial Position, assets and liabilities expected to be realised as cash within 12 months are classified as current. Assets and liabilities expected to be realised as cash in a period greater than 12 months are classified as non-current.

2.6 Property, Plant and Equipment*Cost and Valuation*

The majority of property, plant and equipment are measured at fair value in accordance with AASB 1041 Revaluation of Non-Current Assets. Fair value represents the value that is able to be achieved in an active and liquid market. Where an active and liquid market does not exist then the asset will be brought to account at its written down current cost.

The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the fair value of the asset at the time of disposal and the proceeds of disposal, and is included in the results in the year of disposal.

SAFC undertakes an annual revaluation of land to fair value at the end of June. The basis of the revaluation is the current market value of the unimproved land. In accordance with this policy, land was revalued in 2003 in an independent valuation by the Valuer-General. Where a valuation has not been provided by the Valuer-General the land is valued at cost.

The revaluations of freehold land have not taken account of the potential capital gains tax on assets acquired after the introduction of capital gains tax.

Buildings, plant and equipment have continued to be brought to account at written down cost. The Corporation will progressively revalue each asset class and plans to complete the revaluation during the next two financial reporting periods in accordance with transitional provisions of the accounting standard.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land and there has been no change in major depreciation periods.

Major depreciation periods are:

Freehold buildings	25 years
Leasehold improvements	Lease term
Plant and equipment	3-10 years
Computer software	3-10 years
Log storage sites	25 years

2.7 Leases

Lease payments under operating leases are charged as expenses in the periods in which they are incurred.

2.8 Inventories*Harvested Log Stocks*

Harvest log stocks at 30 June represent timber harvested for sale and are valued at net market value in accordance with AASB 1037 'Self Generating and Regenerating Assets'. Harvested log stocks are disclosed as a current asset.

Growing Timber

Growing timber of a marketable size is valued at its net market value and disclosed as a non-current asset. SAFC has determined the net market value by sampling market conditions over the 12 months preceding balance date and has calculated the weighted average return for each diameter class, after deducting direct costs incurred in realising those returns. This is in accordance with the requirements of AASB 1037 'Self Generating and Regenerating Assets'.

Growing timber below a marketable size is valued by a reasonable proxy by annually compounding the current replacement cost, from the date of preparation of the site for planting, at the minimum desired rate of return of 6 percent per annum in absence of verifiable market prices. This is considered to be a reasonable approximation, particularly as young timber accounts for approximately 5.5 percent of the total value.

2.9 Employee Benefits

In the 2003 financial year, the Corporation applied AASB 1028 'Employee Benefits (Revised)' for the first time. The revised AASB 1028 prescribes the recognition and measurement of employee benefits using remuneration rates that the Corporation expects to pay when the leave is taken. Previously, employee benefits expected to be settled in the next 12 months were recognised on the employee's current salary rate applicable at the reporting date.

In accordance with Treasurer's Accounting Policy Statement 9 'Employee Benefits', a salary inflation of 4 percent has been applied to employee benefits existing at the reporting date which are expected to be paid in the next 12 months.

As a result of the new standard, the provisions for current employee annual leave liability existing at 30 June 2002, where expected to be paid in the next 12 months could be adjusted to include the 4 percent wage increase. Related on-costs consequential to the employment of employees have been included in the determination of the liability. There was no material effect on the Statement of Financial Performance arising from the change in policy and no adjustment was made to retained surplus at the beginning of the financial year.

The guidelines for the Treasurer's Accounting Policy Statement 9 'Employee Benefits' have been amended based on an actuarial assessment and a benchmark of seven years can be used for a short hand estimation of long service leave liability in accordance with Accounting Standard AASB 1028 'Employee Benefits'

The benchmark for the measurement of the long service leave liabilities has been revised from eight years to seven years as a result of actuarial assessment. The 2001-02 liabilities are based on a benchmark of eight years.

SAFC as a self-insurer is responsible to fund its workers compensation obligations. The workers compensation liability was based on an actuarial assessment provided by the Public Sector Occupational Health and Injury Management Branch of the Department of the Premier and Cabinet and provides for the estimated unsettled workers compensation claims.

During the year ended 30 June 2003 SAFC paid \$1.110 million to the Department of Treasury and Finance towards the accruing Government liability for superannuation in respect of its employees. These contributions were made to the:

State Pension Scheme
State Lump Sum Scheme
Triple S Scheme.

2.10 Doubtful Debts

The provision for doubtful debts is reviewed on an annual basis giving consideration to the currency of each customer account.

2.11 Goods and Services Tax

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenue, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by SAFC as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

2.12 Foreign Currency Translation

Foreign currency transactions are initially translated into Australian currency at the spot rate of exchange at the date of the transaction.

Forward foreign currency exchange contracts are translated at the exchange rate applying when entering the contract, on 30 June 2003 and at settlement date. Where the hedge is considered effective in hedging the foreign currency denominated price of goods or services, forward contract premiums and gains or losses resulting from translation will be deferred and included in the hedged cost of the foreign goods or services purchased. Other premiums and gains or losses resulting from translation will be recognised in the Statement of Financial Performance.

SAFC entered into specific foreign hedging transactions with the South Australian Financing Authority during June 2003.

2.13 Administered Items

The following item is administered by SAFC as at 30 June 2003:

2.13.1 IPS Fund

A collective group interested in the effective control of the IPS beetle. The balance of the Fund is for the publication of research findings.

3. Funding

SAFC is funded by its trading operations. Prices charged for its products are determined by existing market forces. This financial report encompasses the SAFC Operating Account with the Department of Treasury and Finance through which all funds controlled by SAFC are recorded.

Proceeds from the sale of all goods and services are controlled by SAFC and can be deployed for the achievement of its objectives. Returns to the SA Government are by way of payments in lieu of income tax and dividends in accordance with SAFC's dividend policy.

4. Change In Net Market Value of Growing Timber

	Note	2003 \$'000	2002 \$'000
Change in net market value due to:			
Normal growth and price changes		81 117	59 819
Reported in the Statement of Financial Performance as:			
Sales revenue (market value of growing timber realised)	5(ii)	60 097	56 019
Net change in value of unrealised growing timber due to:			
Change in volume	2.3	20 071	(1 389)
Change in wood prices	2.3	(613)	3 553
Young plantations valued at replacement cost	2.3	1 562	1 636
		21 020	3 800
Net Change in Market Value		81 117	59 819

5. Profit

Profit from Ordinary Activities before income tax has been determined after:

(i) Charging as Expenses

Interest paid or payable	15	36	-
Depreciation of non-current assets	12(b)	1 461	1 328
Bad and doubtful debts	7	(2)	8
Rental expense on operating leases:			
Property		107	120
Plant and equipment		1 152	1 171
Transfers to (from) provision for:			
Long service leave		135	176
Annual leave		132	(50)
Workers compensation		(141)	24

(ii) Crediting as Income

Sales Revenue:			
Revenue realised from the sale of timber products	4	60 097	56 019
Other sales revenue (including recoup of harvesting and transport costs)		53 612	49 825
		113 709	105 844
Community service obligation funding received	1	3 512	3 547
Other operating revenue:			
Interest received or receivable		1 185	511
Proceeds on disposal of non-current assets		66	412
Insurance recoveries		-	715
Government grants received		340	455
Other revenue		572	443
		2 163	2 536
(iii) During the year \$31 248 was paid to consultants		31	53
No individual consultancy exceeded \$10 000.			

6. Income Tax

(i) The prima facie tax on operating profit is reconciled to the income tax provided in the accounts as follows:

Prima facie tax at 30 percent on profit from ordinary activities		17 647	11 780
Add: Increase in income tax expense due to non tax deductible items:			
Prior year adjustment		187	-
Other non-allowable items		65	13
		17 899	11 793
Less: Decrease in income tax expense due to:			
Forest revaluation		6 306	1 140
		6 306	1 140
Income tax attributable to operating profit before income tax		11 593	10 653
Income Tax Expense		11 593	10 653

(ii)	The income tax expense comprises amounts set aside as:	2003	2002
	Provision for income tax attributable to current year:	\$'000	\$'000
	Income tax payable on operating profit	11 450	10 355
	Provision for income tax attributable to future years:		
	Provision for deferred income tax	186	351
	Future Income Tax Benefit	(43)	(53)
		11 593	10 653
7.	Bad and Doubtful Debts		
	Transfer to (from) doubtful debts	(2)	8
	Bad debts written off against doubtful debts	-	13
8.	Auditors' Remuneration		
	Amount received, or due and receivable, by the auditors for auditing the accounts	85	85
9.	Receivables		
	Current:		
	Trade debtors	11 606	10 781
	Less doubtful debts	-	2
		11 606	10 779
	Other debtors	355	204
		11 961	10 983
10.	Inventories		
	Current:		
	Harvested log stocks	1 159	1 462
	Chip stocks	556	900
	Materials and stores	194	354
		1 909	2 716
	Non-Current:		
	Growing timber	618 270	597 250
11.	Other Current Assets		
	Prepayments	461	469
12.	(a) Property, Plant and Equipment		
	Land:		
	At independent valuation	226 443	199 701
	At cost	3 552	1 925
		229 995	201 626
	Buildings:		
	At cost	8 652	7 667
	Less: Accumulated depreciation	3 637	3 298
		5 015	4 369
	Plant and Equipment:		
	At cost	16 961	16 138
	Less: Accumulated depreciation	8 860	8 086
		8 101	8 052
	Log Storage Site Works and Facilities:		
	At cost	157	157
	Less: Accumulated depreciation	150	150
		7	7
	Computer Software:		
	At cost	759	679
	Less: Accumulated depreciation	488	421
		271	258
	Total Property, Plant and Equipment	243 389	214 312
(b)	Property, Plant and Equipment - Movement Schedule		
		Log	
		Buildings &	Plant &
		Land	Storage
		Structures	Sites
		Equipment	Computer
		\$'000	Software
		\$'000	\$'000
		\$'000	\$'000
	Balance at 1 July	201 626	4 369
	Additions	2 176	1 012
	Disposals	-	26
	Net revaluation increments	26 193	-
	Depreciation expense	-	340
	Carrying Amount at 30 June	229 995	5 015
		8 101	7
		258	7
		119	271
		679	243 389
		421	214 312
		258	243 389

13. Other Non-Current Assets		2003	2002
		\$'000	\$'000
Future Income Tax Benefit		<u>61</u>	<u>53</u>
The future income tax benefit is made up of the following estimated tax benefits:			
Timing differences		<u>61</u>	<u>53</u>
14. Creditors and Accruals			
Current:			
Trade creditors		5 125	5 408
Accrued salaries and wages		467	435
Employee benefits		<u>760</u>	<u>531</u>
		<u>6 352</u>	<u>6 374</u>
Non-Current:			
Employee benefits		<u>2 609</u>	<u>2 508</u>
15. Interest Bearing Loan			
Current:			
Unsecured		<u>165</u>	-
Non-Current:			
Unsecured		<u>1 866</u>	-
<i>(a) Terms and Conditions Relating to the above Financial Instrument</i>			
During the reporting period, SAFC entered into an unsecured 10 year loan with SAFA to purchase land. Repayments are due monthly with the final payment due on 26 February 2013 and the interest rate is fixed at 5.30 percent for the term of the loan.			
16. Provisions		2003	2002
Current:		\$'000	\$'000
Income tax		3 011	2 769
Workers compensation		<u>103</u>	<u>126</u>
		<u>3 114</u>	<u>2 895</u>
Non-Current:			
Income tax		1 017	830
Workers compensation		<u>274</u>	<u>392</u>
		<u>1 291</u>	<u>1 222</u>
17. Other Liabilities			
Current:			
Accrued expenses		1 022	1 189
Revenue received in advance		<u>63</u>	<u>112</u>
		<u>1 085</u>	<u>1 301</u>
18. Equity			
Equity represents the residual interest in the net assets of the South Australian Forestry Corporation. The South Australian Government holds the equity interest in the Corporation on behalf of the community.			
19. Base Capital			
Base capital represents advances from the South Australian Government in the nature of contributions as owner.			
		2003	2002
		\$'000	\$'000
Base Capital at 1 July		4 983	24 983
Repayment of capital		-	(20 000)
Base Capital as at 30 June		<u>4 983</u>	<u>4 983</u>
20. Retained Profits			
Retained profits at 1 July		68 058	35 428
Profit from ordinary activities after related income tax		47 229	28 613
Transfer from insurance loss reserve	22	-	11 033
Transfer (to) growing timber revaluation reserve	22	<u>(21 020)</u>	<u>(3 800)</u>
Total available for appropriation		<u>94 267</u>	<u>71 274</u>
Dividends provided for or paid	21	<u>27 901</u>	<u>3 216</u>
Retained Profits at 30 June		<u>66 366</u>	<u>68 058</u>

Dividends are paid to the South Australian Government using a free cash model. The balance of retained profits is reinvested in capital and transfers to/from reserves.

21. Dividends Paid and Proposed		2003	2002
		\$'000	\$'000
Provision as at 1 July		-	9 164
Dividend paid		-	9 164
		<hr/>	<hr/>
Dividend provided		-	-
		<hr/>	<hr/>
Provision as at 30 June		-	-

During the year SAFC made dividend payments to the Treasurer of \$27.9 million (\$12.4 million). Dividend payments totalling \$20.1 million were met from 2002-03 trading operations the remaining \$7.8 million was a special dividend resulting from 2001-02 trading operations.

22. Reserves		2003	2002
		\$'000	\$'000
Asset revaluation reserve	Note	214 103	187 910
Growing timber revaluation reserve		587 545	566 525
		<hr/>	<hr/>
		801 648	754 435
		<hr/>	<hr/>
(a) Asset Revaluation Reserve			
Movements in reserve:			
Balance at 1 July		187 910	187 400
Revaluation increment on land	12b	26 193	510
Balance at 30 June		214 103	187 910
		<hr/>	<hr/>
(b) Insurance loss reserve			
Movements in reserve:			
Balance at 1 July		-	11 033
Transfer (to) from retained profits		-	(11 033)
Balance at 30 June		-	-
		<hr/>	<hr/>
(c) Growing timber revaluation			
Movements in reserve:			
Balance at 1 July		566 525	562 725
Net increase in value for period transferred from retained profits	4	21 020	3 800
Balance at 30 June		587 545	566 525

23. Capital and Leasing Commitments			
(i) Operating Lease Commitments			
Non cancellable operating leases contracted for but not capitalised in the			
Accounts due:			
Not later than one year		873	961
Later than one year but not later than five years		697	352
Later than five years		270	211
		<hr/>	<hr/>
Total Operating Lease Commitments		1 840	1 524

These operating lease commitments are not recognised in the financial report as liabilities.

The property lease is non cancellable, with rental payable monthly in advance. Rental provisions within the lease agreement require the minimum lease payments to be increased by 3 percent per annum.

Plant and equipment leases are non cancellable, with rental payable monthly in arrears. Rental provisions within the lease agreements apply fixed rates for the full term of each lease.

No options exist to renew the leases at the end of the term of the leases.

(ii) Capital Expenditure Commitments			
During the year SAFC entered into a contract for the supply of replacement fire trucks at an estimated total program cost of \$9.3 million and is anticipated to be completed by October 2005. The liability has not been provided for in the Statement of Financial Position as the contract is equally proportionally unperformed as at 30 June 2003.			

(iii) Contingent Liabilities			
The Corporation has no contingent liabilities.			

24. Statement of Cash Flows			
(i) Components of Cash			
For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposit account. Cash as shown in the Statement of Cash Flows is reconciled to the beginning and end of period Statement of Financial Position as follows:			
		2003	2002
		\$'000	\$'000
Cash		1	1
Deposit account		13 427	15 992
		<hr/>	<hr/>
		13 428	15 993

(ii) Reconciliation of Net Cash provided by Operating Activities to Operating Profit After Tax	2003	2002
	\$'000	\$'000
Net cash provided by operating activities	27 687	25 417
Other reconciliation movements:		
Depreciation and amortisation	(1 461)	(1 328)
Doubtful debts	2	5
(Increase) Decrease in provisions for:		
Long service leave	(135)	(176)
Annual leave	(132)	50
Other employee benefits	(63)	-
Workers compensation	141	(24)
Movement in income taxes payable and future income tax benefit	(421)	(308)
Revenue on insurance recoveries	-	715
(Loss) Gain on sale of property, plant and equipment	(37)	6
Changes in Assets and Liabilities:		
Increase in receivables	978	14
Increase in inventories	20 211	4 494
(Increase) decrease in prepaid expenses	(8)	163
Decrease (Increase) in creditors and accrued salaries and wages	251	(546)
Decrease (Increase) in accrued expenses	167	(25)
Decrease (Increase) in unearned revenue	49	156
Profit from Ordinary Activities after Related Income Tax Expense	47 229	28 613

25. Schedule of Administered Items

	Note	2003 IPS Fund \$'000
Statement of Financial Performance		
Administered operating revenues receipts from Government		-
Total administered operating revenues		-
Administered operating expenses		-
Administered Operating Revenues Less Administered Operating Expense		-
Statement of Financial Position		
Current assets		10
Non-current assets		-
Total Assets		10
Current liabilities		-
Non-current liabilities		-
Total Liabilities		-
Net Assets		10
Retained profits		10
Statement of Cash Flows		
Operating Activities:		
Inflows		-
Outflows		-
Net Cash Flow provided by Operating Activities		-
Net Increase (Decrease) in Cash Held		-
Cash Balance at 1 July		10
Cash Balance at 30 June	2.13	10

26. Remuneration of Directors and Employees

(i) Directors' Remuneration	2003	2002
	\$'000	\$'000
Income paid or due and payable to or on behalf of directors	181	169
The number of directors whose income was within the following bands:	2003	2002
	Number of Directors	Number of Directors
\$20 000 - \$29 999	1	-
\$30 000 - \$39 999	3	4
\$40 000 - \$49 999	-	1
\$50 000 - \$59 999	1	-
(ii) Employees' Remuneration	2003	2002
	\$'000	\$'000
Income paid or due and payable to or on behalf of employees whose income was \$100 000 or more.	419	373
The number of executive officers whose income was within the following bands:	2003	2002
	Number of Executive Officers	Number of Executive Officers
\$100 000 - \$109 999	-	1
\$110 000 - \$119 999	1	1
\$120 000 - \$129 999	1	-
\$150 000 - \$159 999	-	1
\$180 000 - \$189 999	1	-

27. Related Party Disclosures

The following persons held the position of director of the Corporation during the financial year:

S Blencowe (Chairperson)	S Duncan
J Meeking	D McLeod
W Wilson	

Transactions between SAFC and its directors are made at arms length.

28. Financial Instruments**(i) Credit Risk Exposures**

The credit risk on financial assets of the economic entity which have been recognised in the Statement of Financial Position is generally the carrying amount, net of any provision for doubtful debts.

(ii) Interest Rate Risk Exposures

The economic entities exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table.

	Floating Rate \$'000	Non- Interest Bearing \$'000	Fixed Interest Maturing			2003 Total \$'000	2002 Total \$'000
			1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000		
Financial Assets:							
Cash	13 428	-	-	-	-	13 428	15 993
Receivables	-	11 961	-	-	-	11 961	10 983
	<u>13 428</u>	<u>11 961</u>	<u>-</u>	<u>-</u>	<u>-</u>	25 389	<u>26 976</u>
Weighted average interest rate percent	4.60	-	-	-	-		
Financial Liabilities:							
Interest bearing loan	-	-	165	862	1 004	2 031	-
Payables	-	5 125	-	-	-	5 125	5 408
	<u>-</u>	<u>5 125</u>	<u>165</u>	<u>862</u>	<u>1 004</u>	7 156	<u>5 408</u>
Weighted average interest rate percent	-	-	5.30	5.30	5.30	-	-
Net Financial Assets (Liabilities)	<u>13 428</u>	<u>6 836</u>	<u>(165)</u>	<u>(862)</u>	<u>(1 004)</u>	18 233	<u>21 568</u>

	2003 \$'000
Reconciliation of Net Financial Assets to Net Assets	18 233
Net financial assets as above	18 233
Non-financial Assets and (Liabilities):	
Current inventories	1 909
Other current assets	461
Non-current inventories	618 270
Property, plant and equipment	243 389
Other non-current assets	61
Accrued salaries and wages	(467)
Employee benefits	(3 369)
Current provisions	(3 114)
Other current liabilities	(1 085)
Non-current provisions	(1 291)
Net Assets per Statement of Financial Position	872 997

(iii) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, trade debtors and payables approximates their carrying amount.

The resultant net fair values represents the best estimate of replacement cost. The cost of realising fair values is considered immaterial.

Furthermore, management consider that all financial instruments cannot be readily traded on organised markets in standardised form.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

Financial Assets:	2003 \$'000
Cash	13 428
Trade Debtors	11 961
	<u>25 389</u>
Financial Liabilities:	
Trade Creditors	5 125
Interest bearing loan	2 031
	<u>7 156</u>

(iv) Terms and Conditions*Financial Assets*

- *Cash on Hand and Deposits*

Cash at bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis. Interest is calculated on the average daily balance of the account and the interest rate is the interest rate average overnight cash deposit rate less 0.05 percent which averaged 4.60 percent for the year ended 30 June 2003.

- *Receivables*

Receivables are recorded at amounts due to SAFC less a provision for doubtful debts. They are recorded as the debts fall due. Receivables are due within 30 days.

Financial Liabilities

- *Creditors*

Creditors are recorded at the agreed amounts at which the liabilities are to be settled. They are recorded when the goods and services have been provided.

Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

(v) Hedging Instruments*Hedges of Specific Instruments*

SAFC entered into exchange contracts during June 2003 as a hedge of anticipated costs to purchase components relating to the fire truck replacement program (Note 23(b)). Under the contract, SAFC has contracted to sell \$US821 219 and EURO133 177 on 1 April 2004 which represents an approximate invoice date for the purchase of components. As the hedging transactions are treated as specific, in accordance with UIG 33, 'Hedges of Anticipated Purchases and Sales', the unrealised exchange gain of \$16 920 at 30 June, will be deferred and recognised as part of the cost to purchase the components.

DEPARTMENT OF INDUSTRY AND TRADE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department of Industry and Trade was an administrative unit established under the *Public Sector Management Act 1995* which was abolished with effect from 30 September 2002.

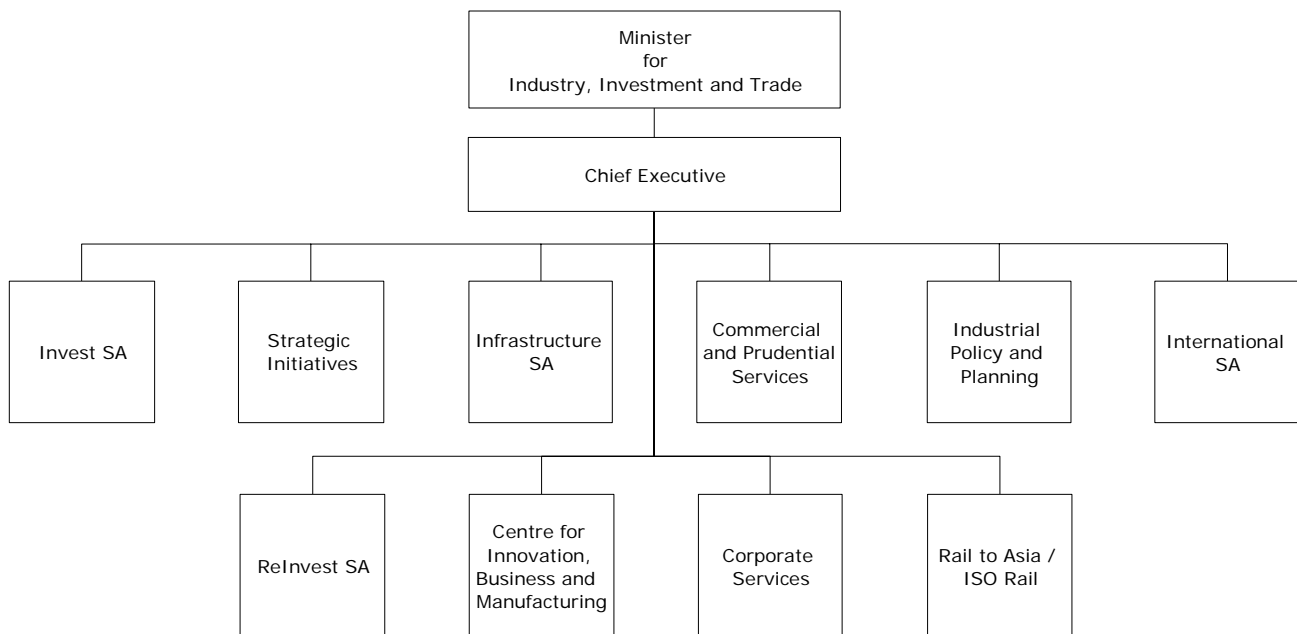
Functions

The function of the Department of Industry and Trade was to implement the South Australian Government's economic development strategy by:

- creating a competitive business operating environment;
- promoting investment in appropriate physical capital;
- promoting development of human and intellectual capital;
- integrating of South Australia into the global economy;
- creating a culture of collaboration and cooperation;
- encouraging the development of productive, creative and competitive enterprises.

Structure

The structure of the Department of Industry and Trade is illustrated in the following organisation chart.



Changes to Functions and Structure

Pursuant to a proclamation in the South Australian Government Gazette on 12 September 2002, and effective from 30 September 2002, the Department of Industry and Trade was abolished. The employees, functions and duties, together with the assets and liabilities of the abolished Department, were transferred to the Office of Economic Development, which was established as an administrative unit under the *Public Sector Management Act 1995*, on 1 October 2002.

The title 'Office of Economic Development' was changed by proclamation to the Department for Business, Manufacturing and Trade on 5 December 2002.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Department of Industry and Trade.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Department of Industry and Trade in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

For the period ending 30 September 2002, specific areas of audit attention included review of financial accounting and related processes covering:

- revenue collection
- accounts payable
- personnel/payroll function
- financial assistance
- non-current assets (property, plant and equipment).

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department of Industry and Trade as at 30 September 2002, its financial performance and its cash flows for the period then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department of Industry and Trade in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Department of Industry and Trade have been conducted properly and in accordance with law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

As explained under 'Changes to Functions and Structure' the Department was abolished from 30 September 2002. Therefore a comparison of the period 1 July to 30 September 2002 with the full year operations and the financial position for 2001-02 would not be meaningful. However, comment is provided relating to the level of cash holdings at 30 September.

Cash Holdings

Cash holdings as at 30 September 2002 amounted to \$66.4 million compared to \$37.4 million as at 30 June 2002. The increase of \$29 million (77 percent) is due mainly to:

- the timing of the \$60.7 million in Appropriations received from Government during the reporting period; and
- a decision by Government to generally restrict financial assistance to industry to agreements executed by the Department as at 30 June 2002.

Cash holdings at 30 September 2002 were available to meet financial assistance commitments under agreements with various bodies. Refer Note 23.

**Statement of Financial Performance
for the period 1 July 2002 to 30 September 2002**

	Note	1.07.02 to 30.09.02 \$'000	2002 \$'000
REVENUE FROM ORDINARY ACTIVITIES:			
Appropriations from Government		60 723	190 134
Fees, charges and recoveries		780	5 003
Interest on loans and operating account		644	1 395
Proceeds from disposal of assets		1 171	3 330
Other revenue	5	606	6 804
Total Revenues		63 924	206 666
EXPENSES FROM ORDINARY ACTIVITIES:			
Salaries, wages and related payments	6	5 965	24 333
Other expenses	9	3 211	14 703
Industry and other financial assistance	10	27 198	78 579
Payments to consultants	11	129	1 110
Payments to contractors		373	2 474
Accommodation and service costs		1 244	3 312
Marketing expenses		199	3 207
Depreciation	16	248	1 064
Written-down value of disposed assets	16	1 185	3 418
Interest on borrowings		132	1 393
Write-down of financial assistance debtors	12	-	1 269
Settlement of loans	13	-	18 330
Total Expenses	3	39 884	153 192
SURPLUS FROM ORDINARY ACTIVITIES		24 040	53 474
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		24 040	53 474

Statement of Financial Position as at 30 September 2002

		1.07.02 to 30.09.02	2002
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	22.1	66 361	37 357
Receivables	14	1 696	5 583
Financial assistance debtors	15	2 394	4 015
Total Current Assets		70 451	46 955
NON-CURRENT ASSETS:			
Financial assistance debtors	15	102 403	100 267
Property, plant and equipment	16	26 008	25 866
Total Non-Current Assets		128 411	126 133
Total Assets		198 862	173 088
CURRENT LIABILITIES:			
Borrowings	17	2 309	2 309
Payables	18	3 208	1 698
Employee entitlements and related costs	19	1 994	1 676
Total Current Liabilities		7 511	5 683
NON-CURRENT LIABILITIES:			
Borrowings	17	5 223	5 223
Payables	18	215	281
Employee entitlements and related costs	19	2 503	2 531
Total Non-Current Liabilities		7 941	8 035
Total Liabilities		15 452	13 718
NET ASSETS		183 410	159 370
EQUITY:			
Accumulated surplus	20	182 497	158 457
Asset revaluation reserve	21	913	913
TOTAL EQUITY		183 410	159 370
Commitments	23, 24		
Contingent Liabilities	28		

Statement of Cash Flows
for the period 1 July 2002 to 30 September 2002

		1.07.02 to 30.09.02	2002
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
OPERATING ACTIVITIES:			
RECEIPTS:			
Appropriations from SA Government		60 815	190 042
Grants and other contributions		-	665
Fees for service		2 053	4 231
Interest received		524	1 343
GST charged on sales		224	629
GST recovered from Australian Taxation Office		2 716	6 339
Other receipts (includes financial assistance loan repayments)		2 327	3 885
PAYMENTS:			
Financial assistance and infrastructure development		(29 435)	(115 763)
Suppliers and employees		(8 661)	(49 531)
GST payments on purchases		(687)	(7 210)
GST remitted to Australian Taxation Office		(468)	(353)
Borrowing costs		-	(1 393)
Net Cash provided by Operating Activities	22.2	29 408	32 884
INVESTING ACTIVITIES:			
Proceeds from disposal of property, plant and equipment		1 171	3 330
Payments for purchase of property, plant and equipment		(1 575)	(10 990)
Net Cash used in Investing Activities		(404)	(7 660)
FINANCING ACTIVITIES:			
Repayments of borrowings		-	(4 728)
Net Cash used in Financing Activities		-	(4 728)
NET INCREASE IN CASH HELD		29 004	20 496
CASH AT 1 JULY		37 357	16 861
CASH AT THE END OF THE PERIOD	22.1	66 361	37 357

**Schedule of Administered Revenues and Expenses
for the period 1 July 2002 to 30 September 2002**

	SA Motor Sport Board 1.07.02 to 30.09.02 \$'000
ADMINISTERED EXPENSES:	
Grants and subsidies	1 590
Total Administered Expenses	<u>1 590</u>
Revenues from ordinary activities:	
Government appropriation	1 590
Total Administered Revenues	<u>1 590</u>
CHANGES IN NET ASSETS	<u><u>-</u></u>

**Schedule of Administered Assets and Liabilities
as at 30 September 2002**

	SA Motor Sport Board 1.07.02 to 30.09.02 \$'000
ADMINISTERED ASSETS:	
Current	-
Non-Current	-
Total	<u>-</u>
ADMINISTERED LIABILITIES:	
Current	-
Non-Current	-
Total	<u>-</u>
NET ADMINISTERED ASSETS	<u><u>-</u></u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Abolishment of the Department of Industry and Trade, Objectives and Funding**1.1 Abolishment of the Department**

Pursuant to the proclamation in the South Australian Government Gazette on 12 September 2002, and effective from 30 September 2002, the Department of Industry and Trade was abolished. The functions and duties, together with the assets and liabilities of the abolished Department, the employees of the Department of Primary Industries and Resources in the Office of Regional Development, were transferred to the Department for Business Manufacturing and Trade, which was established as an administrative unit under the *Public Sector Management Act 1995*, on 1 October 2002.

1.2 Objectives and Funding

Prior to abolishment, the objectives and responsibilities of the Department of Industry and Trade focussed on implementing strategies that contribute to the achievement of the South Australian Government's economic development strategy. The key strategies developed to achieve these outcomes are:

- create a competitive business operating environment;
- promote investment in appropriate physical capital;
- promote development of human and intellectual capital;
- integration of South Australia into the global economy;
- create a culture of collaboration and cooperation;
- encourage the development of productive, creative and competitive enterprises.

The Department is funded primarily from Parliamentary appropriations.

2. Significant Accounting Policies

The significant Accounting Policies which have been adopted in the preparation of these financial statements are:

2.1 Basis of Preparation of Financial Statements

The Financial Statements are prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The Financial Statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

2.2 The Department of Industry and Trade Reporting Entity

The Financial Statements encompass all activities transacted through an interest bearing Special Deposit Account titled 'Department of Industry and Trade Operating Account' and any other funds through which the Department controls resources to carry out its functions.

The financial activities of the South Australian Trade and Investment Corporation (SATIC) and other overseas representative offices have been included in the Financial Statements.

Administered Resources

As a result of the overall government and portfolio restructure, from 1 July 2002 the Department is required to recognise the South Australian Motor Sport Board as an Administered Item. In prior years the South Australian Motor Sport Board was recognised as an agency relating to the Premier and Cabinet portfolio.

The Department administers but does not control certain resources on behalf of the South Australian Motor Sport Board. The Department is accountable for the transactions relating to these administered resources but does not have the discretion to deploy these resources for the achievement of the Department's objectives.

Transactions and balances relating to these administered resources do not form part of the Department's Statements and are disclosed separately. The Schedules of Administered Revenues and Expenses and Assets and Liabilities are prepared on the same basis and using the same policies as for Departmental items.

2.3 Financial Instruments*Financial Assets*

The net fair values of Cash, Trade Debtors and Financial Assistance Debtors approximate their carrying amounts.

Financial Liabilities

The net fair values of all borrowings approximate their carrying amounts.

Trade creditors by nature are short-term, therefore their net fair values are approximated by their carrying amounts.

2.4 Financial Assistance Debtor Recognition

In accordance with Statements of Accounting Concepts SAC4 'Definition and Recognition of the Elements of Financial Statements', the Department has adopted the following accounting policy in relation to 99 year interest free loans:

With respect to 99 year interest free loans, these are recognised as assets for the first seven years, or for material individual loans until the purpose of the loan has been fulfilled, after which they are no longer recognised as assets in the Statement of Financial Position. They do, however, continue to be administered as debts due to the Department.

2.5 Revenue Recognition

Revenues from ordinary activities are recorded in the Statement of Financial Performance at the time they are earned or at the time control passes to the Department. Interest revenues are recognised as they accrue.

Revenue from the disposal of property, plant and equipment is recognised when control of the asset was passed to the buyer.

2.6 Appropriations, Grants and Other Contributions

Appropriations, grants and other contributions are recognised as revenue in the period in which the monies are received and the Department obtains control of the asset.

In relation to grants, where specific conditions relating to the grant are not met and the amount is required to be repaid, a liability is recognised as a result of a present obligation arising to the grantor.

2.7 Property, Plant and Equipment

All property, plant and equipment controlled by the Department are reported in the Statement of Financial Position. The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Department. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

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

Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Minor items of equipment with an individual value of less than \$2 000 are expensed at the time of acquisition.

Works of art controlled by the Department are anticipated to have very long and indeterminate useful lives. Their service potential has not, in any material sense, been consumed during the reporting period. Consequently, no amount for depreciation has been recognised for this class of asset.

2.8 Revaluation of Property, Plant and Equipment

The Department engaged the services of Don Harris (MAVA) from Edward Rushton (Australia) Pty Ltd, 13 King William Road, Unley SA 5061 to revalue Furniture and Equipment and Computer Equipment assets at 30 June 2001.

These assets were revalued in accordance with Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets' on deprival value.

2.9 Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line basis to write-off the net cost or revalued amount of each depreciable fixed asset (except work in progress) over its expected useful life, taking into consideration any anticipated salvage value. Estimates of remaining useful lives are made on a regular basis for all assets. The estimated useful lives of each asset class are as follows:

	Years
Furniture and equipment	5-10
Computer equipment	3
Motor vehicles	4
Works of art	Not depreciated

2.10 Work in Progress

Under the investment attraction program the Department engages in projects that include land acquisition, development and ultimate disposal through sale and various leasing arrangements.

The Department accounts for the projects with various stages of completion as work in progress. All costs of conversion related to a particular project are treated as work in progress until such time as a project is completed.

2.11 Receivables

Fees and Charges

Fees and charges receivable are brought to account at their recoverable amount and at the end of the reporting period the balances are reviewed and a provision is made where recoverability of amounts is considered doubtful.

Financial Assistance Debtors

Amounts outstanding with respect to financial assistance advances by way of loan are brought to account at their recoverable amount. Conditions relating to some forms of assistance provide that in certain circumstances, loans can be reduced or forgiven.

Recoveries

Amounts recovered that have been written off or previously provided for have been included as revenue, under fees, charges and recoveries.

2.12 Employee Entitlements*Salaries, Wages and Annual Leave*

Liabilities for unpaid salaries, wages and annual leave at the reporting date are based on current pay rates and employees' services to that date. Liabilities for employment on-costs such as superannuation contributions and payroll tax are calculated in accordance with Australian Accounting Standard AAS 30 'Accounting for Employee Entitlements'.

Long Service Leave

Long service leave is recognised at current rates on a pro-rata basis in respect of services provided by employees up to the reporting date. The Department of Treasury and Finance has advised that a benchmark of eight years can be used for a shorthand estimation of long service leave liability in accordance with the provisions of AAS 30. This advice has been adopted and the long service leave liability has been calculated on that basis. Liabilities for employment on-costs such as superannuation contributions and payroll tax are calculated in accordance with AAS 30.

Sick Leave

No liability for sick leave was recognised in the Financial Statements as sick leave taken by employees is considered to be taken from the current year's accrual.

2.13 Cash on Hand and on Deposit

For the purposes of the Statement of Cash Flows, cash on hand and on deposit includes cash deposits which are used in the cash management function on a day to day basis.

2.14 Borrowing Costs

Borrowing costs in relation to loans repayable to the SA Government Financing Authority (SAFA) are expensed in the period in which they occur.

2.15 Leases

The Department leases premises for its administrative and operating activities. Lease payments are included as expenditure in equal instalments over the accounting periods covered by the respective terms of the leases.

2.16 Foreign Currency

Assets and liabilities that are in a foreign currency have been brought into the accounts at the exchange rate applying at 30 September 2002. Income and expenses arising from transactions in a foreign currency are brought to account at the 'spot' exchange rate that applied on the day they occurred. Unrealised losses resulting from currency transactions have been brought to account in the Statement of Financial Performance.

2.17 Goods and Services Tax

In accordance with the requirements of Urgent Issues Group UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense;
- receivables and payables are stated with the amount of GST included

The GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of the cash flows arising from investing or financing activities, which are recoverable from, or payable to the Australian Taxation office have, however, been classified as operating cash flows.

2.18 Comparative Figures

The comparative figures used in the Financial Statements reflect the full 2001-02 financial year. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

3. Expenses by Output Class and Output

The Department has identified three broad output classes that reflect the nature of the services delivered to the South Australian community. These are:

Output Class 1: Coordination and Advice

Relates to coordination of whole of government initiatives or services and policy advice and development for and on behalf of the Minister.

Output Class 2: Infrastructure Development

Relates to the delivery and project management of major infrastructure projects.

Output Class 3: Industry Development

Relates to the development of South Australian industry to world competitive standards.

Summary of expenses by output class and output for the year are as follows:		1.07.02 to	
		30.09.02	2002
		\$'000	\$'000
Coordination and advice:			
Policy advice		70	272
Infrastructure Development:			
Infrastructure facilitation		10 312	33 728
Industry Development:			
Investment facilitation		14 568	63 373
Enterprise development		9 968	33 778
Industry support		2 096	11 652
Trade development		1 502	5 565
Market South Australia		1 368	4 824
		29 502	119 192
Total		39 884	153 192

4. Overseas Representative Offices

The following table provides a summary of the financial transactions for the year to 30 September 2002. The transactions relating to operating expenses and operating revenues have been included in the financial statements. Tokyo and Jakarta Offices closed in September 2002.

									1.07.02 to	
									30.09.02	2002
									Total	Total
	SATIC	Hong Kong	Jakarta	Singapore	Kuala Lumpur	Tokyo	Dubai	US	\$'000	\$'000
Operating expenses	87	251	179	169	34	613	126	261	1 720	5 878
Operating revenues	2	-	1	-	-	18	2	1	24	428
Funds advance to overseas offices towards operating expenses	180	359	145	224	43	165	116	261	1 493	7 613

5. Other Revenue

	1.07.02 to	
	30.09.02	2002
	\$'000	\$'000
Adjustment for Financial Assistance Debtor recognition ⁽¹⁾	-	4 072
Grants and other contributions	-	665
Recognition of assets previously expensed	-	182
Other revenue	606	1 885
	606	6 804

(1) In prior years a process of debtor confirmation with respect to amounts owing by companies in receipt of financial assistance by way of short term interest free and interest bearing loans and 99 year interest free loans was commenced to provide assurance that all information of both a financial and non-financial nature is materially reliable for reporting purposes. During 2001-02 the process progressed to the extent that a consistent underlying error in the reported financial assistance debtors was identified. It is considered that previous balances reported for financial assistance debtors have been understated by \$4 million.

The restating of the financial assistance debtors to their true balance as at 1 July 2001 has resulted in an additional \$4 million in financial assistance debtors being brought to account with a corresponding figure being recognised as revenue during 2001-02.

6. Salaries, Wages and Related Payments

	1.07.02 to	
	30.09.02	2002
	\$'000	\$'000
Salaries, wages and related payments comprise:		
Salaries, wages, annual and sick leave	5 117	20 872
Long service leave ⁽¹⁾	35	(19)
Superannuation	504	1 798
Other employee on-costs	309	1 682
Total	5 965	24 333

(1) The 2002 amount reflects a reduction in long service leave accrual as a result of employee transfers and separations during 2001-02.

7. Superannuation

For the period ended, a total of \$419 000 (\$1 468 000) was paid, or due and payable to the Department of Treasury and Finance towards accruing the government liability for superannuation in respect of the Department's employees.

In addition, \$85 000 (\$330 000) was paid to other externally managed superannuation schemes.

Superannuation contributions are charged as an expense in the period in which they occur. The Department is not liable for payments to beneficiaries as this is the responsibility of the superannuation schemes.

8. Targeted Voluntary Separation Packages (TVSPs)

For the period ended 30 September 2002 TVSP payments amounted to Nil (\$379 000).

In 2001-02, four employees of the Department were paid TVSPs. In addition to TVSPs, \$23 000 was paid in accrued annual leave and long service leave entitlements to those employees who received a TVSP. These payments were met by the Department and have been recovered from the Department of the Premier and Cabinet.

9. Other Expenses

	1.07.02 to 30.09.02	2002
	\$'000	\$'000
Bad debts	30	110
Infrastructure development	1	92
Staff related expenses	220	1 162
Travel and related expenses	459	1 540
Equipment and information technology expenses	428	1 975
Overseas offices administration expenses	659	1 954
Other industry assistance	390	2 266
Legal fees, search and stamp duty	26	895
Audit fees	57	362
Printing and stationery	136	641
Communication expenses	114	577
General office and administration expenses	691	3 129
	3 211	14 703

10. Industry and Other Financial Assistance

Financial Assistance is provided from State and Commonwealth Funds. Proposals and applications for funding under various support programs and schemes are subject to specific guidelines and procedures issued by the Department and the Commonwealth. There are several approval delegations dependent upon the level and nature of assistance provided.

In some cases, the provision of assistance does not involve the direct outlay of funds by the Department. Assistance packages may involve elements of assistance provided through other government agencies, with the Department assuming the overall responsibility for the assistance arrangements. Generally, this is through the provision of purpose built buildings and exemptions or remissions from certain elements of state taxation.

Class of Assistance	Assistance Loans			Total Loans \$'000	Total Grants \$'000	1.07.02 to 30.09.02 Total Assistance \$'000
	Interest Free \$'000	Interest Bearing \$'000	99 Year Interest Free \$'000			
Automotive Program	-	-	-	-	-	-
Adelaide to Darwin Railway construction	-	-	-	-	25 000	25 000
AustralAsia Railway Corporation operating cost	-	-	-	-	-	-
Enterprise Development	-	-	-	-	203	203
Industry Development	54	-	2 182	2 236	335	2 571
Payroll Tax Reimbursement	-	-	-	-	79	79
Rail Reform Transition Program	-	-	-	-	60	60
Regional Development	-	-	-	-	-	-
Regional Industry Development	-	-	-	-	909	909
Regional Infrastructure	-	-	-	-	400	400
Tourism Infrastructure	-	-	-	-	-	-
Other	-	-	-	-	212	212
	54	-	2 182	2 236	27 198	29 434

In relation to assistance to Industry, under the provisions of the *Industries Development Act 1941*, the Minister may refer any matter to the Industries Development Committee for review and recommendation by the Committee. Details of assistance referred to the Committee during the reporting period were:

	1.07.02 to 30.09.02		2002	
	Number	Total \$'000	Number	Total \$'000
Financial assistance:				
Investment incentives	*2	20 560	14	60 394
Industrial and Commercial Premises Corporation	-	-	4	51 543

* Two projects totalling \$20.56 million were referred to the Committee as briefings.

11. Payments to Consultants

Total payment to consultants were \$129 000. There were no capitalised consultants as part of Work in Progress in the period.

The consultancies used by the Department and payments made have been grouped under the following ranges:

	1.07.02 to 30.09.02
	Number of Consultancies
Below \$10 001	4
\$10 001 - \$20 000	1
\$20 001 - \$30 000	1
\$70 001 - \$80 000	1

Industry and Trade

11. **Payments to Consultants (continued)**

\$10 001 - \$20 000

AustralAsia Economics

Consultancy Title

Contribute to the South Australian Government's submission to the Productivity Commission's Inquiry into post 2005 assistance to the Automotive Industry

\$20 001 - \$30 000

Leadenhall Aust Ltd

Financial Advice on the South Australian Magnesium Resource Development Project

\$70 001 - \$80 000

Equibrand Consulting

Market Research into the Textile Clothing and Footwear Exporters Group entry into the US Market

12. **Write-down of Financial Assistance Debtors**

Consistent with the policy regarding Financial Assistance Debtor Recognition in relation to 99 year interest free loans (refer Note 2.4), loans with a carrying amount of \$1 269 000 were written down to nil value in 2001-02. No further write-downs were necessary for the period to 30 September 2002.

13. **Settlement of Loans**

In 2001-02, included in the expense item 'Settlement of loans' in the Statement of Financial Performance, is an amount of \$18.1 million in relation to the Australian Submarine Corporation.

In 1998 the South Australian Government Financing Authority provided the Australian Submarine Corporation with a loan of \$18.2 million. Under instruction of the Department of Treasury and Finance, administration of the 99 year interest free loan was subsequently assigned to the Department. During the year the Australian Submarine Corporation exercised an option within the original loan agreement that enabled it to settle the loan based on the net present value of the outstanding principal of the loan, which was calculated at \$90 000.

The difference between the face value and net present value of the loan has been brought to account as an \$18 330 000 expense in the Statement of Financial Performance.

No loans were settled for less than face value in the period to 30 September 2002.

14. **Receivables**

1.07.02 to

30.09.02 2002

\$'000 \$'000

Trade debtors

791 2 188

Less: Provision for doubtful debts

119 130

672 2 058

Interest on deposit accounts and bank accounts

241 121

Prepayments

290 880

GST receivable

441 2 463

Other receivables

52 61

1 696 5 583

15. **Financial Assistance Debtors**

Current

5 342 6 963

Less: Provision for doubtful debts

2 948 2 948

Total Current

2 394 4 015

Non-Current

103 550 101 414

Less: Provision for doubtful debts

1 147 1 147

Total Non-Current

102 403 100 267

16. **Property, Plant and Equipment**

	Land	Work in Progress	Motor Vehicles	Furniture and Equipment	Computer Equipment	Works of Art	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Carrying Amount:							
Balance at 1 July 2002	5 142	18 043	498	3 866	1 777	21	29 347
Additions	-	1 549	-	-	26	-	1 575
Disposals	(180)	(991)	(43)	(6)	(49)	-	(1 269)
Balance at 30 September 2002	4 962	18 601	455	3 860	1 754	21	29 653
Accumulated Depreciation:							
Balance at 1 July 2002	-	-	240	2 247	994	-	3 481
Depreciation expense	-	-	20	105	123	-	248
Disposals	-	-	(43)	(5)	(36)	-	(84)
Balance at 30 September 2002	-	-	217	2 347	1 081	-	3 645
Net Book Value:							
As at 30 June 2002	5 142	18 043	258	1 619	783	21	25 886
As at 30 September 2002	4 962	18 601	238	1 513	673	21	26 008

17. Borrowings	1.07.02 to	
	30.09.02	2002
Repayment details during the reporting period were:	\$'000	\$'000
Opening balance	7 532	12 260
Less: Principal repaid to SAFA	-	4 728
Balance Outstanding at 30 September	7 532	7 532
Represented by:		
Current Liability	2 309	2 309
Non-Current Liability	5 223	5 223
Balance Outstanding at 30 September	7 532	7 532
18. Payables and Accrued Expenses		
Current Liabilities:		
Trade creditors and accruals	2 672	719
GST payable	96	333
Employee on-costs	440	646
	3 208	1 698
Non Current Liabilities:		
Employee on-costs	215	281
19. Employee Entitlements and Related Costs		
Current Liabilities:		
Salaries and Wages	480	-
Annual leave	1 216	1 375
Long service leave	267	270
Workers compensation ⁽¹⁾	31	31
Total Current	1 994	1 676
Non-Current Liabilities:		
Long service leave	2 401	2 429
Workers compensation ⁽¹⁾	102	102
Total Non-Current	2 503	2 531
(1)	The 2002 amounts reflect an actuarial assessment of the Department's workers compensation liabilities at 30 June 2002 contained in a report prepared by Taylor Fry Consulting Actuaries and submitted to the Public Sector Occupational Health and Injury Management branch (PSOHIM) of the Department of the Premier and Cabinet. The amounts reflect the Department's experience of claim numbers and payments over the period 1 July 1987 to 30 June 2002. A separate valuation of the liabilities may result in a different assessed liability.	
	The actuarial report conforms to the WorkCover Guidelines for Actuaries, Accounting Standard AASB 1023 Financial Reporting of General Insurance Activities' and Professional Standard PS 300 'Actuarial Reports and Advice on Outstanding Claims in General Insurance' of the Institute of Actuaries of Australia.	
	No actuarial assessment was conducted as at 30 September 2002.	
20. Accumulated Surplus	1.07.02 to	
	30.09.02	2002
	\$'000	\$'000
Balance 1 July	158 457	104 983
Operating surplus	24 040	53 474
Balance at the end of the period	182 497	158 457
21. Asset Revaluation Reserve		
Balance 1 July	913	913
Balance at the end of the period	913	913
22. Notes to the Statement of Cash Flows		
22.1 Reconciliation of Cash		
Closing cash balance as shown in the Statement of Cash Flows is represented by the following balances:		
Department of Industry and Trade operating account and other funds	63 983	34 701
Cash held in bank accounts	2 362	2 640
Treasury imprest accounts	14	14
Cash on hand	2	2
	66 361	37 357

22.2	Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities	1.07.02 to	
		30.09.02	2002
		\$'000	\$'000
	Surplus from ordinary activities	24 040	53 474
	Depreciation	248	1 064
	Written down value of disposed assets	1 185	3 418
	Proceeds from disposal of assets	(1 171)	(3 330)
	Recognition of assets previously expensed	-	(182)
	Change in assets and liabilities:		
	Decrease (Increase) in receivables and financial assistance debtors	3 372	(22 063)
	Increase in payables, employee entitlements and related costs	1 734	503
	Net Cash provided by Operating Activities	29 408	32 884

23. Financial Assistance Commitments

In addition to the payments of assistance described in Note 10, the Department has financial commitments under agreements with various bodies. The payment of funds committed is subject to certain performance criteria being met by these bodies.

	30.09.02	2002
	\$'million	\$'million
Not later than one year	26.3	53.6
Later than one year but not later than three years	53.5	58.6
Later than three years but not later than eight years	22.1	22.3
Funds Committed at the end of the period	101.9	134.5

24. Lease Commitments

At the end of each reporting period, the Department had the following obligations under non-cancellable operating leases. The Department has various operating lease arrangements for the use of property that generally provide for lease payments in advance. Rental provisions provide for rental adjustments by negotiation or in accordance with movements in the CPI. Generally options exist to renew the leases at the expiration of the term of the leases. These obligations have not been recognised as liabilities in the Financial Statements.

	30.09.02	2002
	\$'000	\$'000
Not later than one year	1 568	2 024
Later than one year but not later than five years	4 084	4 084
Later than five years	1 645	1 645
	7 297	7 753

25. Employee Remuneration

Based on employment contracts as at 30 September 2002, there will be 34 (25) employees who will receive remuneration in excess of \$100 000 for the 2002-03 financial year. All these employees were transferred to the Department for Business Manufacturing and Trade on 1 October 2002.

For the period ended 30 September 2002, total remuneration received and receivable by these employees was \$1.1 million (\$3.5 million).

26. Auditors' Remuneration

Amounts due and receivable by the Auditor-General's Department for the audit of the Department for the reporting period total \$36 000 (\$154 000).

27. Interest and Credit Risk Exposure

The Department's maximum exposure to credit risk at reporting date in relation to each class of recognised assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Department has no significant exposure to any concentrations of credit risk.

The Department recognises Trade Payables as they are incurred and recognises Accrued Expenses for goods and services supplied that have not been paid for. Trade Payables are normally settled on 30 day terms with no exposure to interest rate risk.

Trade Debtors are recognised at the time the debt is incurred with terms set at 30 days. There is no exposure to interest rate risk on Trade Debtors and credit risk is negligible. By definition, prepayments do not represent an exposure to interest rate risk.

In relation to loans provided to external parties, the credit risk is limited to the carrying amount of the assets in the Statement of Financial Position. However, conditions relating to some forms of assistance provide that in certain circumstances, loans can be reduced or forgiven.

The following table provides information relating to Interest Rate Risk for recognised Financial Assets and Financial Liabilities:

27. Interest and Credit Risk Exposure (continued)

Financial Instrument	Weighted Average Effective Interest Rate Percent	As at 30 September 2002 Fixed Interest Maturing in				Non- Interest Bearing \$'000	Total \$'000
		Floating Interest \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000		
Financial Assets:							
Cash on hand and on deposit	4.59	66 361	-	-	-	-	66 361
Receivables	-	-	-	-	-	1 815	1 815
Financial assistance debtors:							
99 year loans	-	-	-	-	-	40 825	40 825
Interest free loans	-	-	-	-	-	66 462	66 462
Interest bearing loans	5.6	-	519	643	443	-	1 605
		<u>66 361</u>	<u>519</u>	<u>643</u>	<u>443</u>	<u>109 102</u>	177 068
Financial Liabilities:							
Borrowings	11.74	-	2 309	5 223	-	-	7 532
Payables	-	-	-	-	-	3 291	3 291
		<u>-</u>	<u>2 309</u>	<u>5 223</u>	<u>-</u>	<u>3 291</u>	10 823

Financial Instrument	Weighted Average Effective Interest Rate Percent	2002 Fixed Interest Maturing in				Non- Interest Bearing \$'000	Total \$'000
		Floating Interest \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000		
Financial Assets:							
Cash on hand and on deposit	4.34	37 357	-	-	-	-	37 357
Receivables	-	-	-	-	-	5 713	5 713
Financial assistance debtors:							
99 year loans	-	-	-	-	-	38 569	38 569
Interest free loans	-	-	-	-	-	68 192	68 192
Interest bearing loans	5.60	-	524	650	442	-	1 616
		<u>37 357</u>	<u>524</u>	<u>650</u>	<u>442</u>	<u>112 474</u>	<u>151 447</u>
Financial Liabilities:							
Borrowings	11.74	-	2 309	5 223	-	-	7 532
Payables	-	-	-	-	-	1 979	1 979
		<u>-</u>	<u>2 309</u>	<u>5 223</u>	<u>-</u>	<u>1 979</u>	<u>9 511</u>

28. Contingent Liabilities

28.1 Guarantees granted in respect of borrowing arrangements that were effected through the Industry Incentives and Assistance Fund (IIAF) are provided on the approval of the Treasurer pursuant to the terms of the *Industries Development Act 1941*. That approval provides, inter alia, that no such guarantees should be executed except on the recommendation of the Industries Development Committee.

In addition, certain guarantees and indemnities have been provided by the Minister for Industry, Investment and Trade as part of various Industry Assistance packages.

28.2 Non Quantifiable Contingent Liabilities

The AustralAsia Railway Corporation (the Corporation), the Northern Territory and South Australian Governments and Asia Pacific Transport Pty Ltd have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway on a build, own, operate, transfer-back (BOOT) basis.

Both the SA and NT Governments guarantee the obligations of the Corporation. This guarantee is a joint guarantee but SA and the NT each accept responsibility for breach of an indemnity that is caused by its act or omission. Where the event giving rise to a Corporation obligation is solely caused by one jurisdiction, that jurisdiction accepts sole responsibility. If both the SA and NT caused the event, then each accepts responsibility to the extent to which it caused the event.

For other Corporation obligations, SA and the NT accept liability for events occurring within the geographical area of its jurisdiction. Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title claims, undisclosed interests in the corridor, environmental contamination, heritage and sacred sites, and environmental assessment processes.

The project documents provide for the early termination of the concession arrangement by Asia Pacific. In certain circumstances that would give rise to the payment of an early termination amount. The amount includes all debt and debt break costs for the project, certain agreed break costs for the project, certain agreed break costs for third party contractors and payments to equity. For all of these events the cure is within the control of either the Corporation or the Governments

While the Department of Industry and Trade is not a signatory to these agreements, the SA Government has assigned responsibility for these agreements to the Department. If a subsequent event were triggered such that the SA Government had to honour a commitment under the agreement that commitment would have to be funded by the SA Government and the payment would be made through the Department.

The prospect of any one of the contingent liabilities arising is considered to be extremely remote.

SOUTH AUSTRALIAN MOTOR SPORT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Motor Sport Board was established pursuant to the *South Australian Motor Sport Act 1984*.

Functions

The functions of the Board include:

- entering into agreements on behalf of the State under which motor sport events, whether promoted by the Board or by some other person approved by the Minister, are held in the State;
- undertaking on behalf of the State the promotion of motor sport events;
- establishing a temporary motor racing circuit and conducting and managing motor racing events promoted by the Board;
- providing advisory, consultancy, management or other services on the conduct of sporting, entertainment or other special events or projects, whether within or outside the State;
- undertaking such other functions as the Minister may from time to time approve.

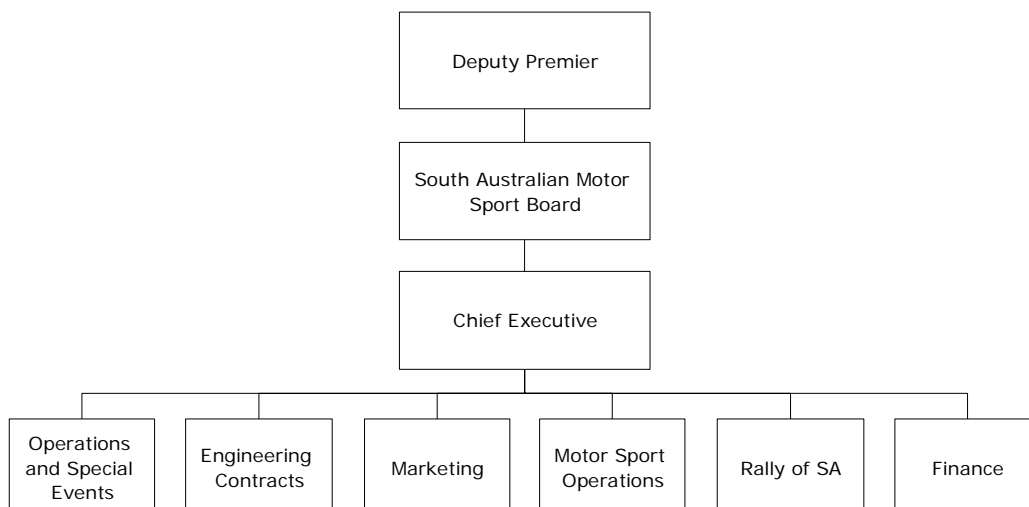
The Board comprises no more than nine members (seven members as at 30 June 2003) appointed by the Governor and is subject to the general control and direction of the Deputy Premier.

The Board has the right to stage a motor sport event for a fixed period of five years, which commenced in 1999. The option to extend the contract for a further five years was exercised during 2001 and now concludes in 2008. Pursuant to a Naming Rights Sponsorship Agreement, the event is known as the 'Clipsal 500 Adelaide'.

In addition, pursuant to a permit issued by the Confederation of Australian Motor Sport, the Board stages the 'Coopers Pale Ale Rally of South Australia'.

Structure

The structure of the Board is illustrated in the following organisation chart:



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 18(3) of the *South Australian Motor Sport Act 1984* provides for the Auditor-General to audit the accounts of the Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- payroll
- accounts payable
- revenue
- non-current assets
- contract management practices.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. Responses to the management letter were considered to be satisfactory. Major matters raised by Audit with the Board and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

The Independent Audit Report for the Board included the following qualification.

Qualification

As detailed in Note 2.2 to the financial report, the South Australian Motor Sport Board has determined that capital grants received in 1998-99 and 1999-2000 should be amortised over the initial fixed five year race staging period while subsequent capital grants received and the loan forgiven in 2001-02 should be amortised over a period of five years. The grants and loans have been recognised as a Deferred State Government Grant - Capital liability.

The Board has based its determination on the application of International Accounting standard IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

As a result, of the total of \$6.70 million received by way of capital grants and \$2.25 million by way of forgiven loan funds, only \$6.97 million has been recognised as revenue with the remaining \$1.98 million being recognised as a liability.

Accounting Policy Statement APS 11 'Contributions' requires that grants be recognised as revenues when received. Also, Accounting Standard AASB 1004 'Revenue' requires the gross amount of a liability forgiven by a credit provider be recognised by the borrower as revenue.

As a result, the Board has recorded an operating surplus for the reporting period of \$81 000 compared to an operating deficit of \$1.314 million had there been compliance with APS 11 'Contributions' and AASB 1004 'Revenue'.

Qualified Audit Opinion

In my opinion, except for the effect on the financial report of the matters referred to in the qualification paragraphs, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Motor Sport Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the South Australian Motor Sport Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Board have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

The general control environment of the Board was considered satisfactory. Notwithstanding this assessment the audit highlighted some areas where it was considered that there was scope to improve aspects of the Board's financial operations including:

- documentation of accounting policies and procedures;
- risk management practices relating to matters not specific to race events conducted by the Board; and
- documentation of general procurement policies and procedures.

These matters were raised with the Board and a satisfactory response, including action proposed, was received.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 \$'000	2002 \$'000	Percentage Change
OPERATING REVENUE			
Hospitality and sponsorship	5 910	5 501	7
Ticket sales	4 495	3 731	20
Amortisation of capital grants	1 845	1 755	5
State Government grants	1 645	1 500	10
Catering and merchandise	1 549	1 264	23
Other	347	400	(13)
Total Operating Revenue	15 791	14 151	12
OPERATING EXPENDITURE			
Circuit construction	6 111	5 397	13
Event staging and contracts	2 268	2 098	8
Marketing, advertising and media	1 214	1 386	(12)
Depreciation and amortisation	1 746	1 655	6
Other	4 371	3 592	22
Total Operating Expenses	15 710	14 128	11
Surplus (Deficit)	81	23	252
Net Cash Flows	(167)	(196)	15

	2003 \$'000	2002 \$'000	Percentage Change
ASSETS			
Current assets	1 103	1 580	(30)
Non-current assets	3 359	4 688	(28)
Total Assets	4 462	6 268	(29)
LIABILITIES			
Current liabilities	2 480	4 099	(39)
Non-current liabilities	1 356	1 624	(17)
Total Liabilities	3 836	5 723	(33)
EQUITY	626	545	15

Statement of Financial Performance

Operating Revenues

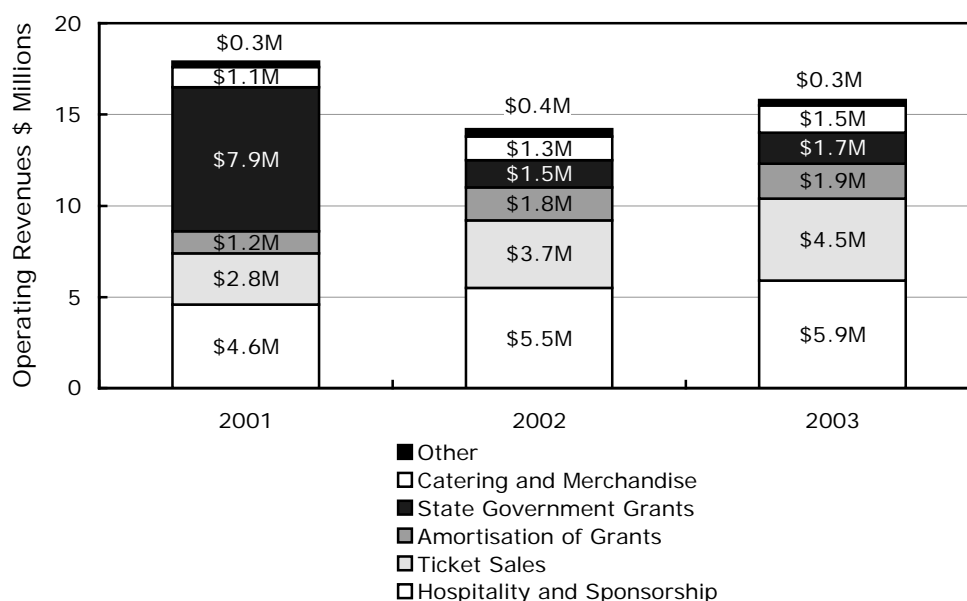
The Statement of Financial Performance of the Board for the period ended 30 June 2003 records an Operating Surplus of \$81 000 (\$23 000).

As explained in Notes 2.1 and 2.2 to the Financial Statements, the Board has applied an International Accounting Standard rather than the mandatory Accounting Policy Statement of the Treasurer and an applicable Accounting Standard, in relation to the financial accounting and reporting treatment of \$6.7 million recorded by way of capital grants since 1998-99 and \$2.25 million by way of forgiven loan funds in 2001-02. The application of the Accounting Policy Statement APS 11 'Contributions' and Accounting Standard AASB 1004 'Revenue', rather than the International Accounting Standard, would have resulted in the Board recording an operating deficit of \$1.314 million (operating surplus of \$968 000).

Consequently the Independent Audit Report for 2002-03 has been qualified in respect of these matters (refer to commentary provided under the heading 'Audit Opinions- Audit of Financial Statements'). The financial statements of the Board for prior years were qualified on the same basis.

Total revenue from operations increased by \$1.6 million (12 percent) to \$15.8 million. Revenue from all sources excluding State Government Grants and Amortisation of Capital Grants increased by 13 percent from \$10.9 million to \$12.3 million. Notably, revenue from ticket sales increased by \$764 000 due primarily to increased attendance for the Clipsal 500. The 2002-03 event ran for four days, compared to three days in 2001-02. Revenues from the State Government (State Government Grants and Amortisation of Capital Grants) increased by 7 percent from \$3.3 million to \$3.5 million.

A structural analysis of operating revenues for the Board for the three years to 2003 is presented in the following chart. Comparative information for the 2000 year is not available.

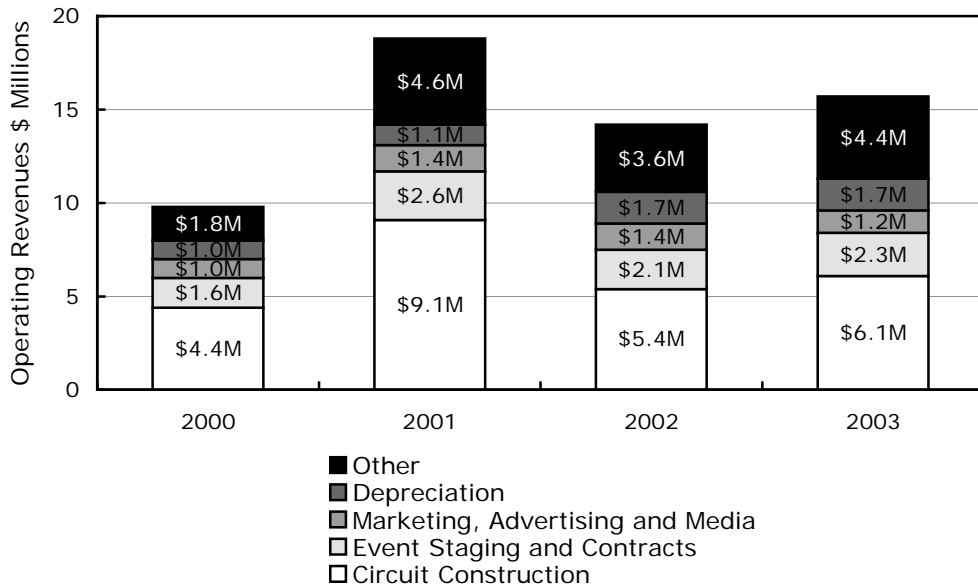


The chart illustrates that excluding State Government Grants, revenues from operations have increased each year since 2001. The high level of State Government Grants in 2001 reflect support for capital and operating requirements associated with staging 'The Race of 1000 years'.

Operating Expenses

Total expenses from operations increased by \$1.6 million (11 percent) to \$15.7 million. Notably, Circuit Construction expenses increased by \$714 000 (13 percent) from \$5.4 million to \$6.1 million due primarily to changes made to the circuit and facilities for the 2003 Clipsal 500 event.

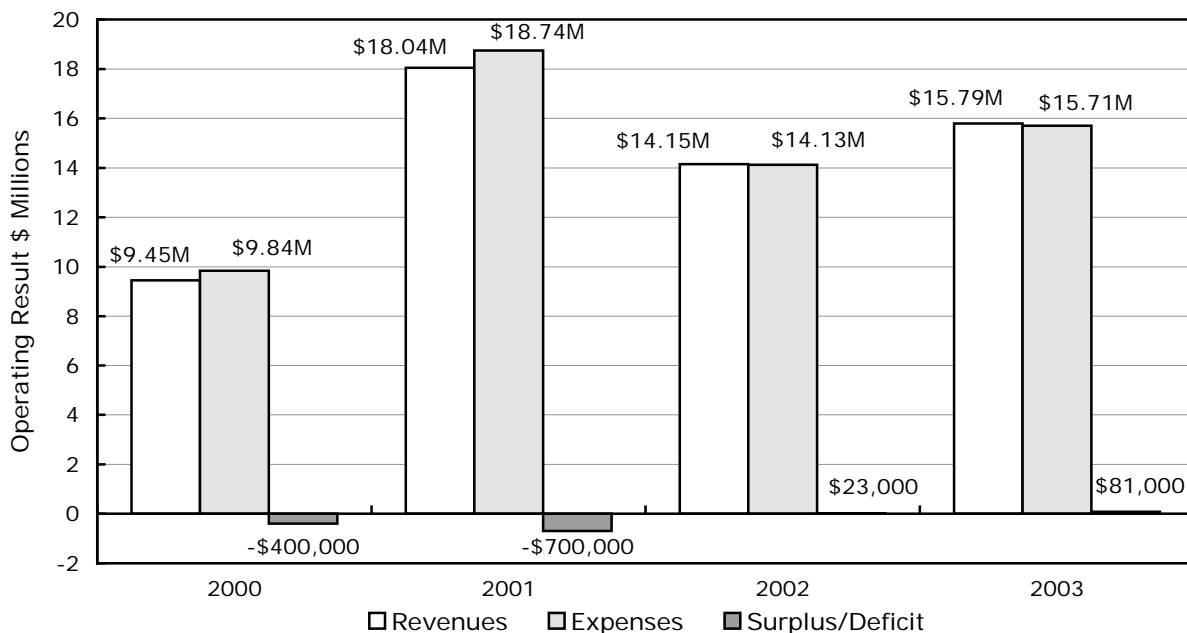
For the four years to 2003, a structural analysis of the main operating expense items for the Board is shown in the following chart.



The chart demonstrates steady growth for most expense categories over the past four years with the exception of 2001. Expenses for 2001 were increased by costs associated with conducting 'The Race of 1000 years'.

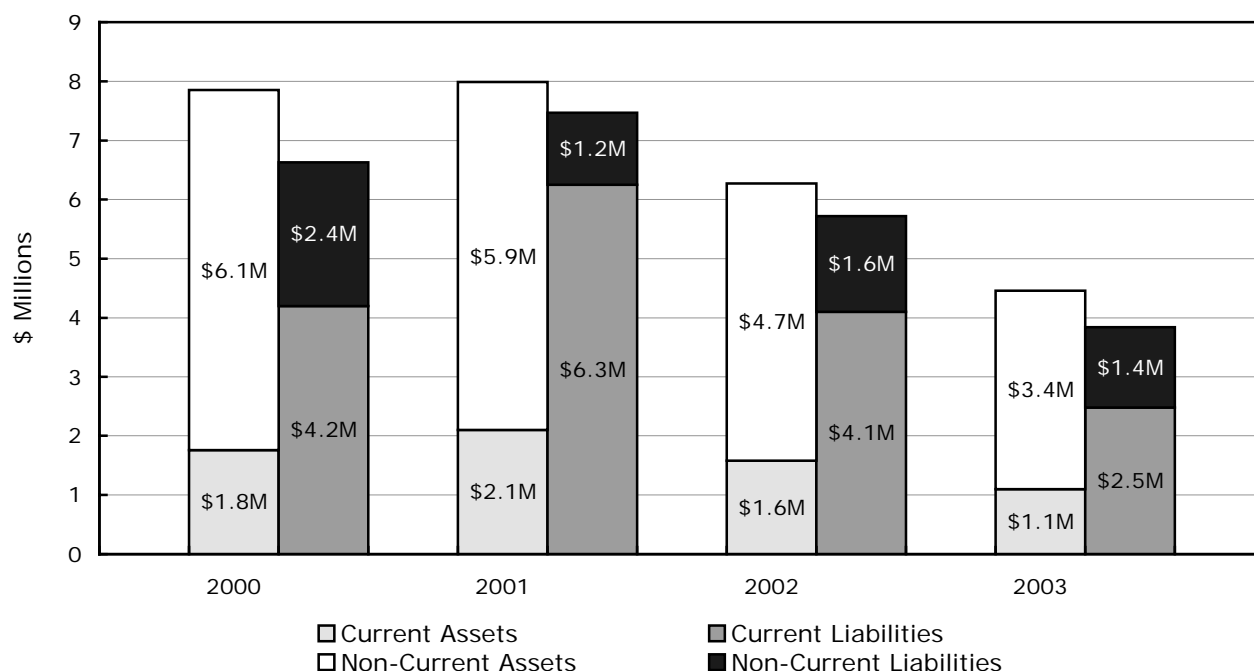
Operating Result

For the four years to 2003 the following chart shows the operating revenues, operating expenses and surpluses/deficits. After recording deficits in the preceding two years, the Board achieved surpluses for 2002 and 2003. The impact of the accounting policies adopted by the board on the reported surplus is reflected in the qualified independent audit report. Note 2.2 discusses the impact of this accounting policy.



Statement of Financial Position

The structural analysis of the Board's Statement of Financial Position shows a gradual decrease in both assets and liabilities over the period of review. The chart highlights that for the period of review current liabilities have consistently exceeded current assets which demonstrates a shortfall in working capital. Further analysis and commentary of the Board's cash position is provided under the analysis of the Board's 'Statement of Cash Flows'.



Statement of Cash Flows

The analysis of cash flows highlights that operations of the Board and conduct of events does not generate a positive cash flow and that the Board is reliant upon support from the SA Government for its ongoing operations. The level of support provided by the Government combined with cash flows from Board operations have not met Board cash outflows and the Board has used cash holdings to meet this shortfall.

	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000
Net Cash Flows				
Operations	(200)	(193)	480	(531)
Investing	33	(3)	156	(1 260)
Financing	-	-	-	-
Change in Cash	(167)	(196)	636	(1 791)
Cash at 30 June	185	352	548	(88)

Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Ticket sales		4 495	3 731
Hospitality and sponsorship		5 910	5 501
State Government grants	1	1 645	1 500
Catering and merchandise		1 549	1 264
Entry fees		135	199
Interest		102	82
Amortisation of capital grants	1,2,1,2,2,12	1 845	1 755
Asset hire		14	14
Other		96	105
Total Revenues		15 791	14 151
EXPENSES FROM ORDINARY ACTIVITIES:			
Circuit construction		6 111	5 397
Hospitality, sponsorship and ticketing costs		982	933
Catering and merchandise costs		826	723
Event staging and contracts		2 268	2 098
Non motor sport entertainment		410	280
Security and ground staff		705	568
Salaries, wages and related payments	3	758	699
Administration		434	389
Provision for doubtful debts		255	-
Marketing, advertising and media		1 214	1 386
Depreciation and amortisation		1 746	1 655
Loss on disposal of fixed assets	2.5	1	-
Total Expenses		15 710	14 128
OPERATING SURPLUS (DEFICIT)		81	23
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		81	23

Statement of Financial Position as at 30 June 2003

	Note	2003 \$'000	2002 \$'000
CURRENT ASSETS:			
Cash	15.1	185	426
Receivables	5	880	1 139
Other	6	38	15
Total Current Assets		1 103	1 580
NON-CURRENT ASSETS:			
Concrete safety barriers, racing infrastructure, plant and equipment	7	3 359	4 648
Establishment costs	8	-	40
Total Non-Current Assets		3 359	4 688
Total Assets		4 462	6 268
CURRENT LIABILITIES:			
Payables	9	1 793	2 215
Borrowings	1,10	-	74
Employee entitlements and related provisions	11	57	55
Deferred State Government grant - Capital	12	630	1 755
Total Current Liabilities		2 480	4 099
NON-CURRENT LIABILITIES:			
Employee entitlements and related provisions	11	6	4
Deferred State Government grant - Capital	12	1 350	1 620
Total Non-Current Liabilities		1 356	1 624
Total Liabilities		3 836	5 723
NET ASSETS		626	545
EQUITY:			
Accumulated surplus		626	545
TOTAL EQUITY		626	545
Contingent Liabilities	14		

**Statement of Cash Flows
for the year ended 30 June 2003**

		2003	2002
		Inflows	Inflows
		(Outflows)	(Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and sponsors		12 179	11 107
Goods and Services tax receipts		1 279	1 128
Payments to suppliers and employees		(14 126)	(12 994)
Goods and Services tax payments		(1 666)	(1 213)
Refunds of Goods and Services Tax		387	197
Interest received		102	82
State Government contributions		1 645	1 500
Net Cash used in Operating Activities	15.2	(200)	(193)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for racing infrastructure, plant and equipment		(400)	(443)
Payments for establishment costs		(21)	(10)
Proceeds on disposal of assets		4	-
State Government contributions		450	450
Net Cash provided by (used in) Investing Activities		33	(3)
NET DECREASE IN CASH HELD		(167)	(196)
CASH AT 1 JULY		352	548
CASH AT 30 JUNE	15.1	185	352

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Organisational Structure, Objectives and Funding

The South Australian Motor Sport Board was established pursuant to the *South Australian Motor Sport Act 1984*.

The principal objectives of the Board are to:

- enter into agreements on behalf of the State under which motor sport events, whether promoted by the Board or by some person approved by the Minister, are held in the State;
- undertake on behalf of the State the promotion of motor sport events;
- establish a temporary motor racing circuit and conduct and manage motor racing events promoted by the Board;
- provide advisory consultancy, management or other services on the conduct of sporting, entertainment or other special events or projects, whether within or outside the State.

The Board has the right to stage a motor sport event for a period of 10 years concluding in 2008. Pursuant thereto the event is known as the 'Clipsal 500 Adelaide'.

Pursuant to a permit issued by the Confederation of Australian Motor Sport, the Board stages the Coopers Pale Ale Rally of South Australia.

The Board received funding from the State Government of \$1 645 000 for operating activities and \$450 000 for capital in the year. The State Government received signage and other promotional benefits from the event under the 'Sensational Adelaide' logo.

2. Statement of Significant Accounting Policies**2.1 Basis of Accounting**

The Financial Statements have been prepared as a general purpose financial report in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), except as described below in relation to the entity's financial accounting and reporting treatment of the Capital Grant funds provided by the State Government and the financial accounting and reporting treatment of the loan forgiven in November 2001.

The Financial Statements have also been prepared in accordance with the historical cost convention and do not take into account changing money values except where it is specifically stated.

2.2 Amortisation of State Government Grant - Capital

The State Government has since 1999 provided a total of \$6.700 million for race staging capital. In addition, in November 2001 Cabinet forgave the \$2.250 million loan granted in June 2001.

In accordance with International Accounting Standard IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', grants received in 1998-99 and 1999-2000 are being amortised over the initial fixed five year period of the race staging contract whilst the grants subsequently received and the forgiven loan are being amortised over a period of five years. The grants and loan have been recognised as a deferred State Government Capital Grant liability.

The Treasurer's Accounting Policy Statement APS 11 'Contributions' requires that all non-reciprocal transfers be brought to account as revenue in the period in which they are received. The Board believes that application of this policy would incorrectly report the trading result. If APS 11 had been applied, the result for the reporting period would have been as follows:

	2003		2002	
	APS 11	Board	APS 11	Board
	\$'000	\$'000	\$'000	\$'000
Revenue - State Government Grant - Capital	450	1 395	450	1 305
Revenue - Forgiven loan	-	450	2 250	450
Operating Surplus (Deficit)	(1 341)	81	968	23
Assets	4 462	4 462	6 203	6 203
Liabilities	1 856	3 836	2 283	5 658
Equity	2 606	626	3 920	545

Therefore the application of APS 11 would result in an operating deficit for the year of \$1 314 000. The application of IAS 20 results in an operating surplus of \$81 000 which the Board believes to be a true reflection of the result for the year.

2.3 Revenue Recognition

Except as described in Note 2.2 above, revenues from Ordinary Activities are recorded in the Statement of Financial Performance at the time they are earned or at the time control passes to the Board. Interest revenues are recognised as they accrue.

2.4 Non-Current Assets

The Board does not own any land or permanent buildings.

All non-current assets controlled by the Board are reported in the Statement of Financial Position. The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Board. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

2.4 Non-Current Assets (continued)

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets at their fair value at the date of acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

In accordance with Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets', specific assets or classes of assets which have an individual or total value greater than \$1 million at the time of acquisition are required to be revalued every three years. In June 2001 the concrete safety barriers were valued based on deprival value. The difference between the valuation and the carrying amount of the assets was not considered to be material and therefore no adjustment has been made in the Statement of Financial Position.

2.5 Depreciation and Amortisation

Depreciation is calculated on a straight line basis to write off the assets over their useful economic lives.

Racing Infrastructure, Plant and Equipment, excluding Debris Fencing, useful lives range from 1-10 years. Management fees considered to have economic benefits extending beyond a financial year are capitalised and written off over two years. Amounts previously capitalised totalling \$1 240 000 have been fully depreciated. These amounts have been written off as at 30 June 2003.

Concrete safety barriers and debris fencing useful life is determined by reference to their likely rate of deterioration, namely 20 years. This is supported by the independent valuation of concrete barriers obtained by the Board as reported in Note 2.4.

Establishment costs are amortised over periods in a manner which reflects the consumption of their future economic benefits. The Board has determined that the balance be written off during the current year.

2.6 Recoverable Amounts of Non-Current Assets

All non-current assets are reviewed at least annually to determine whether their carrying amounts require write-down to recoverable amount.

2.7 Principles of Consolidation

There were no controlled entities during the reporting period.

2.8 Income Tax

The entity is exempt from income tax.

2.9 Leased Assets

The entity has no finance leases.

2.10 Employee Entitlements

Salaries, Wages and Annual Leave

Liabilities for unpaid salaries, wages and annual leave at the reporting date are based on current pay rates and employees' services to that date. Liabilities for employment on-costs such as superannuation contributions and payroll tax are calculated in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

Long Service Leave

Provision has been made for employee entitlements to long service leave at 30 June 2003. The provision has been calculated at nominal amounts based on current pay rates using a benchmark of eight years service as a shorthand estimation of long service leave liability in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No liability for sick leave was recognised in the financial report as sick leave taken by employees is considered to be taken from the current year's accrual.

2.11 Cash on Hand and on Deposit

For purposes of the Statement of Cash Flows, cash includes cash deposits, which are used in the cash management function on a day to day basis. Interest revenues are recognised as they accrue. The average interest rate for the reporting period was 4.1 percent (3.7 percent).

2.12 Financial Instruments

The Board's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2003, are as follows:

Financial Assets

Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.

Cash comprises cash on hand and at bank and deposits at call. Cash is recorded at nominal amounts. Interest on cash is credited to revenue as it accrues.

Receivables are recognised at the nominal amounts due less provision for bad or doubtful debts (maximum credit risk). Included in trade debtors is an amount of \$255 000 owing by Panoz Motorsport Australia recovery of which is subject to legal action. The Board has made a full provision against this debt.

Credit terms, other than those specified in contractual agreements, are net 14 days.

Financial Liabilities

Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.

Payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. With the exception of employee on-costs, payables are normally settled within 30 days. It is policy to effect early payment where a discount can be achieved.

Borrowings are recognised at their principal amounts. Interest is expensed as it accrues.

Interest Rate Risk

The Board's only exposure to interest rate risk relates to cash. The average interest rate in relation to cash is 4.1 percent. All other Financial Assets and Financial Liabilities of the Board have no exposure to interest rate risk.

Credit Risk

The Board does not have any significant credit risk exposure to any single creditor.

The carrying amount of financial assets recorded in the Financial Statements, net of provisions for doubtful debts, represent the Board's maximum exposure to credit risk.

Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the Financial Statements represent their respective net fair values.

2.13 Goods and Services Tax

In accordance with the requirements of Urgent Issues Group Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the taxation authority, is recognised as part of the cost of acquisition of an asset or, as part of an item of expense;
- receivables and payables are stated with the amount of GST included.

The net GST receivable from the taxation authority is included as part of receivables in the Statement of Financial Position.

2.14 Economic Dependency

The ongoing activities of the Board in promoting and staging motor sport events within South Australia are dependent on the ongoing financial support by the South Australian Government.

3. Salaries, Wages and Related Payments

Salaries, wages and related payments comprise:

Salaries, wages, annual and sick leave	683	615
Long service leave	6	4
Superannuation (Note 4)	57	47
Other employee on-costs	12	33

Total

2003	2002
\$'000	\$'000
683	615
6	4
57	47
12	33
758	699
7	8.6

Total number of full time equivalent employees at reporting date was

4. Superannuation

The superannuation costs included in the Financial Statements relate to the Commonwealth Government's Superannuation guarantee legislation. The payments of \$57 000 (\$47 000) have been made to an externally managed fund.

5. Receivables

Current:

Trade debtors	610	705
Amount owing by BASS for funds held in trust (refer Note 9)	406	422
Allowance for doubtful debts	(255)	-
Non-trade amounts:		
Unrelated parties	119	12
	880	1 139

6. Other Assets

Current:

Prepayments	38	15
	38	15

7. Racing Infrastructure, Plant and Equipment

Concrete Safety Barriers:

Gross carrying amount:

Balance at 1 July	1 465	1 459
Additions	-	6
Disposals	(7)	-
Balance at 30 June	1 458	1 465

7. Racing Infrastructure, Plant and Equipment (continued)	2003	2002
Accumulated Depreciation:	\$'000	\$'000
Balance at 1 July	(505)	(432)
Depreciation expense	(72)	(73)
Disposals	6	-
Balance at 30 June	(571)	(505)
Net Carrying Amount	887	960
Other Racing Infrastructure, Plant and Equipment:		
Gross carrying amount:		
Balance at 1 July	8 581	8 144
Additions	400	437
Disposals and write off of irrecoverable amounts	(1 243)	-
Balance at 30 June	7 738	8 581
Accumulated Depreciation:		
Balance at 1 July	(4 893)	(3 456)
Depreciation expense	(1 613)	(1 437)
Disposals and write off of irrecoverable amounts	1 240	-
Balance at 30 June	(5 266)	(4 893)
Net Carrying Amount	2 472	3 688
Total Concrete Barriers, Racing Infrastructure, Plant and Equipment	3 359	4 648
8. Establishment Costs		
Gross carrying amount:		
Balance at 1 July	358	348
Additions	21	10
Balance at 30 June	379	358
Accumulated amortisation		
Balance at 1 July	(318)	(173)
Amortisation expense	(61)	(145)
Balance at 30 June	(379)	(318)
Net Carrying Amount	-	40
9. Payables		
Current:		
Trade creditors	754	1 544
Other creditors and accruals	430	117
Funds held in trust ⁽ⁱ⁾	609	554
	1 793	2 215
(i) Advance ticket sales for Year 2004 event.		
10. Borrowings		
Current:		
Unsecured:		
Bank overdraft (Interest bearing)	-	74
	-	74
11. Employee Benefits and Related On-Cost Liabilities		
Annual leave		
Included in other creditors - Current (Note 9)	9	8
Provision for employee benefits - Current	53	55
	62	63
Long service leave		
Provision for employee benefits - Current	4	-
Provision for employee benefits - Non-current	6	4
	10	4
Aggregate Employee Benefit and Related On-Cost Liabilities	72	67
12. Deferred State Government Grant - Capital		
Deferred State Government Grant - Capital	8 950	8 500
Less: Accumulated amortisation	6 970	5 125
	1 980	3 375
Reconciled to:		
Current	630	1 755
Non-current	1 350	1 620
	1 980	3 375
13. Accumulated Surplus		
Accumulated surplus at 1 July	545	522
Operating surplus	81	23
Accumulated Surplus at 30 June	626	545

14. Contingent Liabilities

Contingent obligations are items in the nature of liabilities, which at the reporting date, are not recognised in the Statement of Financial Position because they have been assessed as being dependent on certain events taking place before a present obligation for the Board to make payments in respect of them will arise.

The Board is currently contesting a claim concerning the staging of 'The Race of 1000 Years'. It is not possible to estimate the amounts payable, if any, with respect to this claim.

15. Notes to the Statement of Cash Flows**15.1 Reconciliation of Cash**

	2003 \$'000	2002 \$'000
Cash on hand	1	2
Cash at bank	184	424
	185	426
Less: Bank overdraft (unsecured)	-	(74)
	185	352

15.2 Reconciliation of Net Cash (used in) provided by Operating Activities to Operating Surplus (Deficit)

Operating surplus (deficit)	81	23
Adjustments from non-cash income and expense items:		
Depreciation and amortisation	1 746	1 655
Amortisation of State Government grant - Capital	(1 845)	(1 755)
Transfers to (from) provisions:		
Employee entitlements	5	17
Doubtful debts	255	(29)
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Receivables	4	420
Prepayments	(23)	4
Increase (Decrease) in liabilities:		
Payables	(423)	(528)
Net Cash used in Operating Activities	(200)	(193)

16. Financing Arrangements

The State Government pledges financial support for the entity.

17. Employee Remuneration

The number of officers who received or were due to receive total remuneration of \$100 000 or more:

	2003 Number of Employees	2002 Number of Employees
\$100 000 - \$110 000	1	-
\$160 000 - \$170 000	-	1
\$180 000 - \$190 000	1	-

The total remuneration (including superannuation and motor vehicles) paid amounted to \$297 000 (\$163 000).

18. Auditors' Remuneration

Amounts due and receivable by the Auditor-General's Department for the audit of the Board for the reporting period total \$18 000 (\$18 000).

19. Related Parties**19.1 Directors**

The *South Australian Motor Sport Act 1984* requires two members to be nominated by the Corporation of the City of Adelaide, and one member to be nominated by the Confederation of Australian Motor Sport. The following persons held the position of director during the reporting period:

R Cook Chairman
 J Patten Deputy Chairman (Resigned 9 September 2002)
 G Boulton Deputy Chairman (Appointed 10 September 2002)
 J Brine (Appointed 17 October 2002. Resigned 2 May 2003)
 M Brock
 A Ford
 R Hayward (Resigned 9 September 2002)
 T Schenken (Appointed 18 July 2002)
 C Smerdon
 A Taylor (Resigned 1 May 2003)
 J Turbill

19.2 Directors' Loans

There are no loans to directors.

19.3 Other Director Transactions

Directors of the economic entity and directors of its related parties, or their director related entities, conduct transactions with entities within the economic entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arms length in similar circumstances. These transactions include the following and have been quantified below where transactions are considered likely to be of interest to the users of these financial statements:

T Schenken	CAMS Ltd	\$106 456	License and permit fees and insurance
T Schenken	CAMS Ltd	\$2 500	Sponsorship of CAMS Awards
R Hayward, A Taylor & J Brine	Adelaide City Council	\$153 545	Sponsorship revenue and signage
R Hayward, A Taylor & J Brine	Adelaide City Council	\$52 885	Circuit construction costs
R Hayward, A Taylor & J Brine	Adelaide City Council	\$8 347	Operations and support event costs

All corporate facilities purchased by directors or by related entities are at arms-length rates.

20. Remuneration of Directors of the Board

The number of Directors who received, or were due to receive, remuneration (including superannuation) were:

	2003	2002
	Number of	Number of
	Directors	Directors
\$1 - \$10 000	6	5
\$10 001 - \$20 000	5	6

The total remuneration of the Directors was \$95 000 (\$93 000).

21. Consultants

There were no consultants engaged where individual amounts exceeded \$10 000.

MINISTER FOR EDUCATION AND CHILDREN'S SERVICES

PORTFOLIO – EDUCATION AND CHILDREN'S SERVICES

INTRODUCTION

This section of this Part of the Report contains the financial statements of, and comments concerning, the operations of those agencies under the direction and control of the following Minister, namely:

- Minister for Education and Children's Services

The agency included herein relating to the portfolio of Education and Children's Services is the Department of Education and Children's Services

DEPARTMENT OF EDUCATION AND CHILDREN'S SERVICES

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*. The Department is responsible to the Minister for Education and Children's Services.

Functions

The functions of the Department are to:

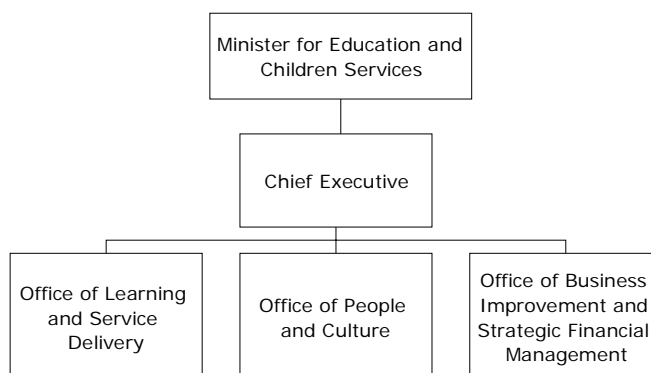
- ensure the best possible foundation for the development of all children's physical, emotional, social and intellectual needs that will give them the best opportunity for a successful future;
- ensure that every learner obtains the support necessary to maximise their potential within the State's public education system;
- ensure that service delivery, curriculum and administrative processes further the goal of achieving a socially inclusive society where all people feel valued, their differences are respected, and their basic needs, both physical and emotional, are met so that as members of society they are empowered in their participation and contribution;
- create safe, supportive and stimulating care and learning environments for all children, students and educators that encourage and foster participation, innovation and creativity;
- create a culture that demonstrates leadership in governance and is collaborative, innovative and accountable to all its stakeholders;
- enhance the skills and capacity of the educational workforce in recognition of the importance of the value all employees have in building a strong and viable public education system for South Australia.

The Department is also responsible for some administrative items. Funds are appropriated to the Minister for Education and Children's Services and are disbursed at the direction of the Minister. The principal activities include payments to:

- the Passenger Transport Board for the purposes of student travel;
- SSABSA (the Senior Secondary Assessment Board of South Australia) as a contribution to operating expenses;
- the State Government contribution to the operations of non-government schools, organisations and services to students with disabilities;
- the Commonwealth Government contribution to the operations of non-government schools, organisations and services to students with disabilities.

Structure

The structure of the Department is illustrated in the following organisation chart.



Changes to Functions and Structure

With effect from 1 July 2002 the name of the Department was changed from the Department of Education, Training and Employment to the Department of Education and Children's Services. In addition a new administrative unit titled the Department of Employment, Further Education, Science and Small Business, subsequently renamed the Department of Further Education, Employment, Science and Technology (DFEEST) was established on 1 July 2002 that comprised a number of former units within the Department of Education, Training and Employment (DECS).

The Department relinquished responsibility for Technical and Further Education, Office of Vocational Education and Training, TAFEBizSA and the employment component of Office of Employment and Youth to DFEEST, effective 1 July 2002.

The Department also relinquished responsibility for Youth Policy, Youth Programs, Active8, Ausyouth and YouthPlus in the Office of Employment and Youth to the Department of Human Services (DHS), effective 1 July 2002.

In relation to DECS and DFEEST, opening balances and operating expenses and revenues incurred by DECS and on behalf of DFEEST were adjusted based on a fair and equitable allocation process agreed by both agencies.

Opening balance adjustments were as follows:

	DFEEST \$/million	DHS \$/million	Total \$/million
Assets	493.4	-	493.4
Liabilities	69.6	0.4	70.0
Net Assets (Liabilities)	423.8	(0.4)	423.4

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Department for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- expenditure including accounts payable, salaries and wages and leave management systems;
- non-current assets, including the adequacy of asset register maintenance;
- revenue;
- general ledger;
- procurement practices.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Department and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

Qualification

As disclosed in Note 2 (c) to the Financial Statements, the Consolidated Financial Statements incorporates the activities of the Corporate Department and Government Schools but excludes funds separately generated by other non-corporate operational units which are considered to be immaterial.

While I am not required to act as the independent auditor of Government Schools, their financial statements are subject to audit by private sector auditors in accordance with the Education Act 1972.

The consolidated financial statements have been prepared from the financial accounts of the Department of Education and Children's Services and the audited financial statements of Government Schools.

As I have been unable to obtain sufficient appropriate audit evidence in respect to the financial statements of Government Schools, I am unable and do not express an opinion on the consolidated financial statements.

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matter referred to in the qualification paragraph the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable accounting standards, other mandatory professional reporting requirements in Australia, the financial position of the Department of Education and Children's Services as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Emphasis of Matter

Without qualification to the opinion expressed above, attention is drawn to the disclosures in Note 2(b) to the financial statements concerning the Restructuring of Administrative Arrangements. The note discloses that for the purpose of determining opening balances of the Assets and Liabilities as at 1 July 2002 for the Department of Further Education, Employment, Science and Technology and operating expenses and revenue incurred by Department of Education and Children's Services on behalf of Department of Further Education, Employment, Science and Technology, an allocation process was utilised.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department of Education and Children's Services in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities except for the matters outlined under 'Significant Matters Raised with Agencies' is sufficient to provide reasonable assurance that the financial transactions of the Department of Education and Children's Services have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Salaries and wages

The audit identified certain instances of non-compliance with generally accepted internal control procedures and Departmental policies. Specific issues arising from the review included the:

- need to ensure that payments were only made to bona fide employees;
- a lack of segregation of duties regarding post processing checks, to ensure that only authorised data has been processed.

The Departmental response indicated that appropriate action would be taken to address the matters raised.

IT Management and Control

Over the past year, Audit has maintained a focus on IT Governance and Management Control matters at a whole of government and Agency level and has undertaken a number of specific reviews.

Review of School Administration System (EDSAS)

The Department's Education School Administration System (EDSAS) was reviewed. EDSAS is used to manage school staff and student records, financials, and profiling capabilities within individual schools and also provides a reporting capability for the Department's Head Office. Management of the system with respect to its development and overall support is coordinated through the Head Office. The system is used throughout approximately six hundred schools and contributes substantially to the achievement of educational outcomes within the South Australian education sector.

In relation to the review, the Head Office areas of coverage included strategic planning, policies and procedures, change management and release management processes, and training and support arrangements. Regarding the schools, areas covered included the maintenance of school census information, management and operation of the finance module within EDSAS and the management of the EDSAS supporting infrastructure. Ten schools were reviewed.

Many issues raised with schools were common and related to IT security and management, disaster recovery and business continuity procedures, training, formal policy and procedural documentation and certain aspects of financial management.

In regard to Head Office, matters raised addressed key aspects of training, policies and procedures and strategic management of EDSAS. It was considered that Head Office needed to take into account the possible effects that these issues may have on the operations within the schools.

Audit formally conveyed relevant findings of the reviews to the Department and the selected schools and has received responses.

Human Resource Management System (HRMS)

Previous years Reports have included comment concerning the Department's progress regarding the development of a human resource management system.

Cabinet approved the development in October 2000, at an estimated cost of approximately \$16 million. A joint development contract between the Department and Concept Systems International was signed in October 2001.

During the year, Audit raised certain matters in respect of the project development, including issues relating to funding and costs and project management and reporting. The Department responded advising actions to improve project management and control.

In June 2003, the Department further conveyed that it had commenced a review into the overall position status of the development. When completed the results would enable an update to be provided to the responsible Minister.

At the time of preparation of this Report, the Department was in the process of finalising its review report and update to be provided to the Minister.

Concluding Comment

I intend to report on the issues arising from the aforementioned reviews to Parliament, together with outcomes from certain other agency reviews, in the latter part of 2003.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

A comparative analysis with prior periods has not been performed due to restructuring arrangements effective from 1 July 2002. In addition the following commentary relates to the Department only as an audit opinion has not been expressed on the consolidated financial statements.

Statement of Financial Performance (DECS)**Operating Revenues**

Commonwealth grants for the current year comprised recurrent grants \$179 million and capital grants \$8 million. Recurrent grants included grants associated with education and training \$149 million and family day care and administration \$37 million.

Other revenues were \$27 million and included proceeds from the sale of non-current assets \$10 million.

Operating Expenses*Employment Expenses*

Employment expenses were \$1.2 billion and represented 74 percent of total operating expenditure.

Supplies and Services

Included in supplies and services expenditure, \$257 million, is an amount of \$83 million relating to minor works maintenance and equipment. The principal component of this amount relates to expenditure on schools. Expenditure associated with the risk fund was \$11 million.

Grants and Subsidies

Expenditure relating to grants and subsidies of \$100 million includes grants to preschools and primary schools of \$95 million (\$128 million). Included in grants and subsidies expenditure for 2002-03 were the following:

	2002-03	2001-02	Variance
	\$'000	\$'000	\$'000
Grants paid to schools and units	86 761	118 915	(32 154)
Grants paid to preschools	8 164	9 542	(1 378)
Total	94 925	128 457	(33 532)

The reduction in grants paid is principally a result of the following:

- **Site Funded Works**
 Previously the Department incurred expenses associated with site funded works and later recovered these costs from schools through its sundry debtors system.
 In 2002-03 the Department changed its funding method for site funded works and recovered costs associated with these works from the net P21 grant payable to schools.
- **Asset Management Fund**
 During 2002-03 the Department conducted a review of its allocation of funding with respect to its Asset Management programs. As a result of this review funding for 2002-03 has been carried forward to 2003-04.

Revenues from State Government

Revenues from the State Government were \$1.4 billion.

Statement of Financial Position (DECS)**Non-Current Assets***Property, Plant and Equipment*

The written down value of property, plant and equipment is \$1.6 billion (refer Note 19). Reflected in this was land \$459 million and buildings \$1.1 billion. Note 2(l) to the financial statements states the valuation methodology with respect to buildings and improvements. The note also indicates the reasons for the non-inclusion of certain improvements.

Liabilities

Employee Benefits

The aggregate employee benefit liability and related on-costs included in the financial statements was \$458 million, with the principal component being a provision of \$291 million for long service leave refer Notes 20 and 22). At 30 June 2003 the benchmark for calculating long service leave was lowered from 11 years to 10 years. Note 2(f) to the financial statements details the effect of this change in estimation.

At 30 June 2003, the Department's employee benefit liability related to the following employees (FTE) by category:

	FTE
Education Act	13 119
Ancillary	3 797
Public Servants	1 449
Children's Services Act	901
Total	19 266

Statement of Cash Flows (DECS)

The following table summarises the net cash flows for the current year.

	2003 \$/million
Net Cash Flows	
Cash at 1 July	79.4
Operations	67.2
Investing	(22.7)
Financing	(0.6)
Change in Cash	43.9
Cash transferred to DFEEST	(16.9)
Cash at 30 June	106.4

Reflected in the cash balance for 30 June is an increase for accrual appropriation and changes in the method of paying for capital works under the asset management strategy. Funds committed to this strategy are no longer placed in school bank accounts in advance.

Administered Items

The Department is responsible for the administration of specific funds on behalf of the Minister for Education, and Children's Services. The State funds that have been appropriated to the Minister are disbursed at the discretion of the Minister.

During 2002-03, transfer payments totalling \$435 million (\$405 million) were disbursed by the Department on the Minister's behalf. The principal areas are as follows:

- Non-Government Schools
- State Assistance including Transport Concessions and grant contribution to SSABSA.

Assistance from State funds totalling \$92.9 million (\$87.2 million) was paid to non-government schools during 2002-03. Of this amount \$1 million (\$900 000) was paid to non-government special schools.

State funding of non-government schools (excluding special schools) is based on two components. These are the 'needs' of the school and their students and the average annual enrolment (per capita).

The 'needs' based funding is determined by the Advisory Committee on Non-Government schools. This is in accordance with the schools entitlement to any or all of the eight approved needs elements. The eight need elements that a school is funded on are:

- special need students
- school card
- non-English speaking background/Aboriginality
- fee remission
- boarding
- isolation of schools
- interest subsidy
- index of disadvantage.

Commonwealth Assistance

In addition to State funds provided for non-government schools, an amount of \$302 million (\$279 million) was distributed to non-government schools in 2003 from funds provided by the Commonwealth.

From 2001, funding for non-government schools is based on the Socio-economic Status (SES) of non-government school communities. The new SES funding arrangement has resulted in increased Commonwealth Assistance to non-government schools.

General Recurrent	2003	2002
	\$'000	\$'000
Non-systemic ¹	68 502	73 402
Catholic systemic ²	171 983	148 403
Other	51 026	46 010
	291 511	267 815
Other grants	6 936	7 463
National equity program	3 925	4 143
	302 372	279 421

1 Non-systemic payments are made directly to the school.

2 Catholic systemic payments are made to the Catholic Education Office for disbursement to schools.

An amount of \$6.9 million (\$6.5 million) of Commonwealth Assistance was provided to assist with the running of non-government special schools.

Transport Concessions

The Department makes payments on behalf of the Minister to the Passenger Transport Board (PTB). These payments are for student travel subsidies on metropolitan and country transport services, eg bus, train.

The transport concessions for 2002-03 were \$14.8 million (\$13.8 million). The PTB received \$13 million (\$12 million) for metropolitan travel concessions and \$1.8 million (\$1.8 million) for country travel concessions.

Special Schools

Special schools received State and Commonwealth funding totalling \$13.4 million (\$12.8 million). These figures include funding for non-government special schools.

SSABSA

The Senior Secondary Assessment Board of South Australia (SSABSA) receives an operating grant from the State Government, which is part of the Minister's miscellaneous budget. In 2001-02 the approved appropriation for SSABSA was \$9.7 million (\$10 million).

FURTHER COMMENTARY ON OPERATIONS

Risk Management

The Financial Management Framework requires agencies to take full responsibility for managing any risk exposures to their operations. Whilst the Department has an annual Agreement with the South Australian Government Captive Insurance Corporation (SAICORP), the Department still retains a significant degree of risk in relation to levels of excess for specific types of claims. In accordance with the Financial Management Framework directive, and in response to potential losses not covered by SAICORP, the Department maintains a number of specific risk management budget lines.

During 2002-03, risk management expenditure totalled \$32.8 million (\$31.6 million). Of this amount:

- \$8.7 million (\$9.2 million) was paid to fund repair work for damage caused to schools by out of hours vandalism and theft;
- \$2.8 million (\$3.1 million) was paid as Temporary Relieving Teacher supplementation beyond school entitlements;
- \$3.1 million (\$3.1 million) was paid to cover costs of unplanned major plant and equipment failure;
- \$2.7 million (\$2 million) was paid for emergency school accommodation;
- \$3.6 million (\$3.5 million) was paid to fund the replacement of Department material and equipment as a result of fire.

The Department has an outstanding liability for fire claims yet to be finalised estimated to be \$384 000 as at 30 June 2003.

Capital Operations

Capital works projects undertaken by the Department during the period included:

Works in Progress Carried Forward

Playford Primary School

- Estimated total cost: \$6.1 million.
- Total cost to June 2003: \$5.2 million*.

This is a joint project with the Catholic Education Office, and has involved the establishment of a new school at Playford. Capital costs incurred during the period totalled approximately \$1.98 million. Stage 3 of this project was completed during the period with Stage 4 involving site works including the provision of pedestrian and vehicle accesses.

Stirling East Primary School

- Estimated total cost: \$3.2 million.
- Total cost to June 2003: \$935 000*.

The project is the redevelopment and upgrading of the school through the replacement and refurbishment of existing facilities. This project is currently in construction stage.

Mawson Lakes School

- Estimated total cost: \$7.6 million.
- Total cost to June 2003: \$5.2 million*.

This project involves the construction of new facilities to support the delivery of primary services to the newly developing area. Completion of this project is estimated to be October 2003. Capital costs incurred during the period totalled \$4.7 million.

Elsie Ey Preschool

- Estimated total cost: \$1.2 million.
- Total cost to June 2003: \$1.1 million*.

This project is the provision of a new facility in association with Hewett Primary School. Capital costs incurred during the period totalled \$972 000.

Loxton High School

- Estimated total cost: \$3.9 million.
- Total cost to June 2003: \$951 000.

This project is the redevelopment and upgrade of the school through the provision of new accommodation (administration, resource centre, science/arts) and the refurbishment of existing facilities. Capital costs incurred during the period were \$566 000.

Completed Works

Capital works projects completed by the Department during 2002-03 included:

Australian Science and Mathematics School

- Estimated total cost: \$14 million.
- Total cost to June 2003: \$13.4 million*.

This project involved the establishment of the Australian Science and Mathematics School at Flinders University of South Australia. The facilities included the construction of three laboratories, a gymnasium, lecture theatre and classrooms.

Oak Valley Aboriginal School

- Estimated total cost: \$1.5 million.
- Total cost to June 2003: \$1.8 million.

This project involved the construction of teaching and support facilities to establish a school at the site and the provision of a child care facility.

Moonta Area School

- Estimated total cost: \$3.9 million.
- Total cost to June 2003: \$2 million*.

This project involved the redevelopment and upgrade of the school including the rationalisation of facilities and replacement of buildings.

* Balance quoted may exclude amounts expensed under the Department's capitalisation policy.

Statement of Financial Performance for the year ended 30 June 2003

		DECS Consolidated 2003 \$'000	2003 \$'000	DETE 2002 \$'000
OPERATING EXPENSES FROM ORDINARY ACTIVITIES:	Note			
Employee expenses	4	1 216 065	1 239 585	1 390 492
Supplies and services	5	256 948	420 333	383 513
Grants and subsidies	6	100 105	13 344	153 134
Depreciation	7	50 691	51 168	63 867
Borrowing costs		587	592	592
Other expenses	8,13	12 637	15 601	13 635
Total Expenses		1 637 033	1 740 623	2 005 233
OPERATING REVENUES FROM ORDINARY ACTIVITIES:				
Commonwealth grants	9	186 899	186 899	273 344
Student and other fees and charges	10	18 656	69 848	83 595
Other grants and contributions		11 932	35 930	17 324
Interest and investment income		5 407	12 928	3 619
Share of net profits (losses) from investments		-	-	299
Other revenues	11,13	27 017	65 815	92 512
Total Revenues		249 911	371 420	470 693
NET COST OF SERVICES		1 387 122	1 369 203	1 534 540
REVENUES FROM STATE GOVERNMENT:				
Recurrent appropriations	12	1 277 812	1 277 812	1 400 173
Capital appropriations	12	73 378	73 378	91 995
Accrual appropriations	12	17 185	17 185	2 730
Total Government Revenues		1 368 375	1 368 375	1 494 898
DEFICIT FOR THE YEAR BEFORE RESTRUCTURING		(18 747)	(828)	(39 642)
NET EXPENSE FROM RESTRUCTURING	14	(423 408)	(423 408)	-
DEFICIT FOR THE YEAR AFTER RESTRUCTURING		(442 155)	(424 236)	(39 642)
Net (decrease) increase in asset revaluation reserve		(11 295)	(11 295)	163 077
Net increase (decrease) on recognition of assets	2(c)	-	233 763	-
TOTAL VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		(11 295)	222 468	163 077
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER	26	(453 450)	(201 768)	123 435

Statement of Financial Position as at 30 June 2003

		DECS Consolidated	DETE
		2003	2002
		\$'000	\$'000
CURRENT ASSETS:	Note		
Cash on hand, at bank and on deposit	15	106 391	265 286
Receivables	16	20 130	20 422
Investments	17	-	7 079
Other	18	3 036	4 366
Total Current Assets		129 557	297 153
NON-CURRENT ASSETS:			
Receivables	16	3 835	1 538
Investments	17	30	880
Property, plant and equipment	19	1 603 081	1 693 892
Other	18	-	82
Total Non-Current Assets		1 606 946	1 696 392
Total Assets		1 736 503	2 222 880
CURRENT LIABILITIES:			
Payables	20	44 838	41 643
Interest-bearing liabilities	21	1 229	1 049
Employee benefits	22	134 028	134 144
Other	23	6 824	8 056
Total Current Liabilities		186 919	184 892
NON-CURRENT LIABILITIES:			
Payables	20	14 085	16 094
Interest-bearing liabilities	21	5 225	6 127
Employee benefits	22	297 831	298 465
Other	23	1 394	5 236
Total Non-Current Liabilities		318 535	325 922
Total Liabilities		505 454	510 814
NET ASSETS		1 231 049	1 482 731
EQUITY:			
Accumulated surplus	26	1 023 142	1 274 824
Asset revaluation reserve	26	203 444	203 444
Contributed equity	26	4 463	4 463
TOTAL EQUITY		1 231 049	1 482 731
Commitments	27, 28		
Contingent Obligations	29		

Statement of Cash Flows for the year ended 30 June 2003

		DECS 2003 Inflows (Outflows) \$'000	Consolidated 2003 Inflows (Outflows) \$'000	DETE 2002 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:				
PAYMENTS:	Note			
Employee expenses		(1 174 152)	(1 197 219)	(1 354 049)
Supplies and services		(290 561)	(456 261)	(436 088)
Grants paid		(100 105)	(13 344)	(150 986)
Borrowing costs		(1 333)	(1 338)	(115)
		(1 566 151)	(1 668 162)	(1 941 238)
RECEIPTS:				
Commonwealth grants		186 899	186 899	273 344
Student and other fees and charges		18 673	72 869	86 029
Other grants and contributions received		11 932	35 930	17 325
Interest received		5 130	12 651	11 444
GST refunds from the ATO		26 307	24 928	32 012
Other receipts		16 071	57 130	67 369
		265 012	390 407	487 523
CASH FLOWS FROM GOVERNMENT:				
Recurrent appropriations		1 277 812	1 277 812	1 402 903
Capital appropriations		73 378	73 378	91 995
Accrual appropriations		17 185	17 185	-
		1 368 375	1 368 375	1 494 898
Net Cash provided by Operating Activities	30	67 236	90 620	41 183
CASH FLOWS FROM INVESTING ACTIVITIES:				
PAYMENTS FOR:				
Payments for investments		-	(7 162)	-
Purchase of non-current assets		(33 192)	(47 817)	(40 940)
Loans advanced		(15)	(104)	(304)
Loans repaid		-	(85)	-
Overdraft repayment		(2 141)	(2 076)	-
PROCEEDS FROM:				
Sales of non-current assets		10 190	10 190	7 765
Repayments of loans		2 404	-	-
Net Cash used in Investing Activities		(22 754)	(47 054)	(33 479)
CASH FLOWS FROM FINANCING ACTIVITIES:				
PROCEEDS FROM/PAYMENTS FOR:				
(Repayments) Borrowings to Department of Treasury and Finance		(616)	(577)	20
Net Cash (used in) provided by Financing Activities		(616)	(577)	20
NET INCREASE IN CASH HELD		43 866	42 989	7 724
CASH AT 1 JULY		79 441	239 213	71 717
CASH TRANSFERRED TO DFEEST		(16 916)	(16 916)	-
CASH AT 30 JUNE	15	106 391	265 286	79 441

Output Class and Output Schedule Department's Expenses and Revenues for the year ended 30 June 2003

Output Class (Refer Note 3):	Education and Training		2003				Regulatory & Licensg Svc for Child Care
	Pre-School	R-12	Planning & Support for Child Care Centres	Family Day Care Admin. & Monitorg	Out of School - hours	Occasionl Care	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
EXPENSES:							
Employee expenses	77 878	1 117 467	884	8 575	418	1 282	700
Supplies and services	9 245	215 319	8	30 162	243	127	161
Grants and subsidies	7 106	91 447	587	35	542	92	3
Depreciation	65	50 612	-	8	1	1	-
Borrowing costs	-	587	-	-	-	-	-
Other expenses	2 026	9 306	162	255	103	-	-
Total Cost of Services	96 320	1 484 738	1 641	39 035	1 307	1 502	864
REVENUES:							
Commonwealth grants	42	148 827	84	37 288	-	297	219
Student and other fees and charges	356	16 835	49	980	58	323	20
Other grants and contributions	943	10 829	-	-	-	-	-
Interest income	810	4 200	67	67	-	-	-
Share of net profits from investments	-	-	-	-	-	-	-
Other revenues	2 340	23 469	150	170	8	5	7
Appropriations	91 809	1 262 383	1 291	-	1 241	877	618
Total Revenues	96 300	1 466 543	1 641	38 505	1 307	1 502	864
DEFICIT FOR THE YEAR	(20)	(18 195)	-	(530)	-	-	-

Output Class and Output Schedule Department's Expenses and Revenues for the year ended 30 June 2003 (continued)

Output Class (Refer Note 3):	Coordination and Advice		2003 Total \$'000
	Policy Advice & Support \$'000	Legislatve Dvlpmt & Review \$'000	
EXPENSES:			
Employee expenses	8 660	201	1 216 065
Supplies and services	1 641	42	256 948
Grants and subsidies	292	1	100 105
Depreciation	4	-	50 691
Borrowing costs	-	-	587
Other expenses	785	-	12 637
Total Cost of Services	11 382	244	1 637 033
REVENUES:			
Commonwealth grants	142	-	186 899
Student and other fees and charges	35	-	18 656
Other grants and contributions	160	-	11 932
Interest income	263	-	5 407
Share of net profits from investments	-	-	-
Other revenues	860	8	27 017
Appropriations	9 920	236	1 368 375
Total Revenues	11 380	244	1 618 286
DEFICIT FOR THE YEAR	(2)	-	(18 747)
Net Expense from Restructure			(423 408)
DEFICIT FOR THE YEAR AFTER RESTRUCTURING			(442 155)

An Output Class and Output Schedule of the Department's Assets and Liabilities has not been produced, as that information is not readily available.

**Schedule of Administered Expenses and Revenues
for the year ended 30 June 2003**

	2003	2002
	\$'000	\$'000
ADMINISTERED EXPENSES:		
Employee expenses	1 456	1 210
Supplies and services	304	334
Depreciation	7	2
Interest on borrowings	608	580
Transfer payments:		
Multicultural grants	1 144	1 187
Non-Government Schools	394 537	366 584
Special Schools	13 387	12 834
Other organisations	1 168	830
SSABSA	9 669	10 006
Transport concessions	14 835	13 779
Other	8	-
Total	437 123	407 346
ADMINISTERED REVENUES:		
Commonwealth grants	313 583	290 057
Interest	637	627
Other revenues	123 002	116 635
Total	437 222	407 319
INCREASE (DECREASE) IN NET ADMINISTERED ASSETS	99	(27)

**Schedule of Administered Assets and Liabilities
as at 30 June 2003**

	2003	2002
	\$'000	\$'000
CURRENT ASSETS:		
Cash assets	407	483
Receivables	1 962	2 672
Total Current Assets	2 369	3 155
NON-CURRENT ASSETS:		
Receivables	5 726	6 600
Plant and equipment	24	26
Total Non-Current Assets	5 750	6 626
Total Assets	8 119	9 781
CURRENT LIABILITIES:		
Payables	420	181
Borrowings	1 500	1 500
Total Current Liabilities	1 920	1 681
NON-CURRENT LIABILITIES:		
Borrowings	5 960	7 960
Total Non-Current Liabilities	5 960	7 960
Total Liabilities	7 880	9 641
NET ASSETS	239	140

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

This is the first general purpose financial report for the Department of Education and Children's Services consolidating the corporate department and government schools. With effect from 1 July 2002 the Department of Education, Training and Employment changed its name to the Department of Education and Children's Services. In addition a new administrative unit titled the Department of Employment, Further Education, Science and Small Business (DEFESSB) was established on 1 July 2002 that comprised a number of former units within the Department of Education, Training and Employment. In October 2002 DEFESSB changed its name to the Department of Further Education, Employment, Science and Technology (DFEEST), and will now be referred to by that name.

1. Strategic Context and Financial Arrangement

(a) Strategic Context and Key Directions

The Department of Education and Children's Services operates within the:

- *Education Act 1972* and the Regulations under the *Education Act 1972*;
- *Children's Services Act 1985* and the Children's Services Regulations 1985;
- *Public Sector Management Act 1995*.

The Department's vision is for a world-class public education system and children's services founded on fairness, equitable access and accountability, and achieved in partnership with the community and business.

The mission of the department is to provide high quality teaching and child care services within an integrated, responsive and supportive learning organisation, which strives for continuous improvement in service and performance.

The Department's key directions are summarised below:

- (i) *Best Start For All*
Ensure the best possible foundation for the development of all children's physical, emotional, social and intellectual needs that will give them the best opportunity for a successful future.
- (ii) *Learner Progression*
Ensure that every learner obtains the support necessary to maximise their potential within the State's public education system.
- (iii) *Social Inclusion*
Ensure that service delivery, curriculum and administrative processes further the goal of achieving a socially inclusive society where all people feel valued, their differences are respected, and their basic needs, both physical and emotional, are met so that as members of society they are empowered in their participation and contribution.
- (iv) *Creating Safer Learning and Care Environments*
Create safe, supportive and stimulating care and learning environments for all children, students and educators that encourage and foster participation, innovation and creativity.
- (v) *Excellence in Governance*
Create a culture that demonstrates leadership in governance and is collaborative, innovative and accountable to all its stakeholders.
- (vi) *Building Professional Capacity*
Enhance the skills and capacity of the educational workforce in recognition of the importance of the value all employees have in building a strong and viable public education system for South Australia.

(b) Financial Arrangements

The Department is predominantly funded by State Government appropriations supplemented by some Commonwealth grants. In addition some revenues are generated on a sales or fee for service basis. These include:

- sale of curriculum material;
- student fees and charges;
- hire of facilities and equipment.

The financial activities of the Department are primarily conducted through a Special Deposit Account with the Department of Treasury and Finance pursuant to Section 8 of the *Public Finance and Audit Act 1987*. The Special Deposit Account is used for funds provided by State Government appropriation, Commonwealth grants and revenues from fees and charges.

(c) Administered Funds

The Department is responsible for the administration of specific funds which are not recorded in the Department's Statement of Financial Performance or Statement of Financial Position, as the Department does not have control over how these funds are to be spent and operates in the capacity as an agent responsible for the administration of the transfer process to third parties on behalf of the Minister for Education and Children's Services. Administered revenues, expenses, assets and liabilities are detailed separately within these statements (refer to the Schedule of Administered Expenses and Revenues and the Schedule of Administered Assets and Liabilities).

The main administered funds are:

- (i) *Minister for Education and Children's Services - Payments*
Funds are appropriated to the Minister for Education and Children's Services and are disbursed at the discretion of the Minister. The principal payments are:
 - to the Passenger Transport Board for the purposes of student travel;
 - to SSABSA (the Senior Secondary Assessment Board of South Australia) as a contribution to operating expenses;

- (i) *Minister for Education and Children's Services – Payments (continued)*
- the State Government contribution to the operations of non-government schools, organisations and services to students with disabilities;
 - the Commonwealth Government contribution to the operations of non-government schools, organisations and services to students with disabilities.
- (ii) *Minister's Salary and Allowances*
The Minister's salary and allowances are funded by Special Acts Appropriation, therefore the Department has no control over this part of the annual appropriation.
- (iii) *Minister's Borrowings*
The Minister for Education and Children's Services is liable for funds borrowed from the Department of Treasury and Finance. The funds were loaned to the Department and various schools by the Minister to undertake capital works projects.

(d) Trust Funds

At 30 June 2002 the Department held monies in a trustee capacity for various trusts which were excluded from the financial statements as the Department could not use them for the achievement of its objectives. With the restructuring of administrative arrangements on 1 July 2002, the Department transferred these trust accounts to the Department of Further Education, Employment, Science and Technology for no consideration. The balance at 1 July 2002 was \$1 million.

2. Significant Accounting Policies

(a) Basis of Accounting

The financial statements have been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, Urgent Issues Group Consensus Views, the Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*.

The financial statements, including administered funds, have been prepared on the accrual basis of accounting and in accordance with the historical cost convention, except as otherwise stated.

(b) Restructuring of Administrative Arrangements

With effect from 1 July 2002 the Department of Education, Training and Employment changed its name to the Department of Education and Children's Services. In addition a new administrative unit titled the Department of Employment, Further Education, Science and Small Business (DEFESSB) was established on 1 July 2002 that comprised a number of former units within the Department of Education, Training and Employment. In October 2002, DEFESSB changed its name to the Department of Further Education, Employment, Science and Technology (DFEEST) and will now be referred to by that name.

The Department relinquished responsibility for Technical and Further Education, Office of Vocational Education and Training, TAFEbizSA and the employment component of Office of Employment and Youth to DFEEST, effective 1 July 2002.

The Department also relinquished responsibility for Youth Policy, Youth Programs, Active8, Ausyouth and YouthPlus in the Office of Employment and Youth to the Department of Human Services (DHS), effective 1 July 2002.

In relation to DECS and DFEEST, opening balances and operating expenses and revenue incurred by DECS and on behalf of DFEEST were adjusted based on a fair and equitable allocation process agreed by both agencies. This process involved the establishment of a Joint Steering Committee to oversee the process and establishment of several Functional Reference Organisational Groups who determined the appropriate percentage splits to be applied to each functional activity. The summary of these splits assisted in developing the 2002-03 portfolio budgets of each agency and had been agreed to be used by both agencies in relation to the determination of opening balances and allocation of 'corporate' expenses and revenues.

The net revenues/(expenses) from restructuring of administrative arrangements are disclosed at Note 14.

As a result of the restructure, the output classes and outputs for this financial year have been adjusted.

(c) Principles of Consolidation

The Department of Education and Children's Services economic entity comprises:

- the corporate department including its operational units;
- government schools (including school councils, canteens, out of school hours care and vacation care programs);
- other non-corporate operational units viz:
 - preschools;
 - long day care centres (those referred to as 'Bowen Funded Centres' only);
 - neighbourhood houses;
 - toy libraries;
 - child parent centres.

The financial statements for 2002-03 include:

Consolidated, which incorporate the activities of the corporate department and government schools but exclude funds separately generated by the other non-corporate operational units. As a consequence, the financial statements treat any transactions with these units as transactions with third parties. All material transactions between the department and schools have been eliminated, as required by Australian Accounting Standards.

(c) Principles of Consolidation (continued)

DECS, which incorporates the activities of the corporate department but excludes funds separately generated by government schools and the other non-corporate operational units. As a consequence, the DECS financial statements treats any transactions with these sites as transactions with third parties. The amounts reported in the DECS financial statements do include material expenses paid on behalf of schools and preschools (ie salaries and wages, salary related oncosts and utilities expenses), and major assets and liabilities (ie land and buildings, employee benefits).

Financial data was collected from government schools for the school year ended 31 December 2002 for the purpose of consolidating it with data from State Office. Further work is continuing with government schools on a number of issues including verifying the identification and valuation of assets in accordance with current Accounting Policy Statements issued by the Department of Treasury and Finance. It is not intended that data for non-corporate operational units be included in the financial statements as it is not considered material.

This is the first year that government schools financial data has been consolidated with State Office, which has resulted in an initial recognition of \$233 763 000 net assets.

For the 2001-02 financial year, the activities of the corporate department and TAFE institutes were consolidated (including the activities of the operational units listed in Note 2(b) Restructuring of Administrative Arrangements). The activities of government schools were not included in the consolidated report, but disclosed as a separate note to the accounts.

The following policies relate to DECS only.

(d) Comparatives

Comparative figures for the 2001-02 financial year are the activities of the corporate department (DETE), TAFE institutes, and the other operational units listed in Note 2(b) Restructuring of administrative arrangements. Government schools are not included.

The actuals for 2002-03 do not include the TAFE institutes and the other operational units listed in Note 2(b) Restructuring of administrative arrangements, however do include government schools.

(e) Income Recognition

Appropriations, grants, donations, gifts and bequests, and other contributions are recognised as revenues when the Department obtains control. Control is normally obtained upon their receipt.

Where contributions, recognised as revenues during the reporting period, were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the amounts pertaining to those undischarged conditions are disclosed in Note 9(a).

Revenues in respect of sales and student and other fees and charges are billed and recognised when the services have been rendered or goods despatched.

(f) Employee Benefits and Employment Related Expenses

Provisions have been established for the Department's liability for various employee benefits arising from services rendered by employees to balance date in accordance with Accounting Standard AASB 1028, 'Employee Benefits'. Employee benefits include entitlements to wages and salaries, long service leave, annual leave and superannuation.

In prior years, non-attendance days were accrued annually for employees engaged under the *Technical and Further Education Act 1975*. These employees were transferred to the Department of Employment, Further Education, Science and Small Business effective 1 July 2002.

Employment related expenses include on-costs such as payroll tax on employee entitlements together with the workers' compensation insurance premium.

Employment on-costs relating to employee benefits owing are recognised as liabilities in the Statement of Financial Position. Employee benefits and employment related on-costs accruing during the reporting period are treated as an expense in the Statement of Financial Performance.

(i) Employee Benefits**(a) Salaries, Wages and Annual Leave**

Liabilities for salaries, wages, and annual leave are recognised, and are measured at their nominal amounts in respect of employees' services up to that date.

The annual leave entitlement is calculated by multiplying each employee's entitlement by their nominal rate current at the reporting date. Where leave loadings are paid, they are included in the calculation.

(b) Long Service Leave

Long service leave is recognised on a pro-rata basis in respect of services provided by employees up to the reporting date. In calculating long service leave entitlements the Department takes into account, as a benchmark, an actuarial assessment prepared by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector. This benchmark is the number of years of service that produces a value equal to the actuarially calculated net present value.

Long service leave liability entitlements have been calculated using a Department of Education and Children's Services specific benchmark of ten years, advised by the Department of Treasury and Finance, based on current salaries and wages.

- (b) Long Service Leave (continued)
In 2001-02 long service leave entitlements were calculated using a benchmark of eleven years as advised by the Department of Treasury and Finance. The effect of this change was to increase long service leave expense and associated employer superannuation and other employment related expenses by \$4.4 million in 2002-03.
 - (c) Superannuation
The Department makes contributions to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the Superannuation Funds. The liability outstanding at balance date relates to any contribution due but not yet paid to the superannuation schemes.
 - (d) Sick Leave
Sick leave is not provided for in the financial report as it is non-vesting. However, entitlements are accumulated and any sick leave is considered to be taken from the employees' current entitlement.
 - (e) Workers Compensation
To reflect the liability for outstanding (unsettled) workers compensation claims a provision is raised. The amount of the provision is based on an actuarial assessment prepared for the Department for Administrative and Information Services, Occupational Health and Injury Management Branch.

Lump sum payments and legal costs are a liability of the Department for Administrative and Information Services and therefore are not a liability of the Department.
- (ii) **Employment Related Expenses**
- (a) Fringe Benefits Tax
The Commonwealth Government levies a tax on certain non-cash salary related benefits afforded to employees. Any unpaid fringe benefits tax at period end is shown as a liability in the Statement of Financial Position.
 - (b) Payroll Tax
Payroll tax is a state tax levied on total gross salary paid plus (non-cash) benefits and employer superannuation contributions. The estimated amount of payroll tax payable in respect of employee entitlement liabilities is also shown as a liability in the Statement of Financial Position. Any increase or decrease in the level of required payroll tax provision is charged as an increase or decrease in the payroll tax expense in the Statement of Financial Performance. The payroll tax liability is only payable when the employee entitlements are paid.
 - (c) WorkCover Premium
This expense is calculated at a percentage rate applied to gross salaries as determined by WorkCover Corporation. This expense is a charge in the Statement of Financial Performance and any unremitted amounts to WorkCover Corporation are expressed as a liability in the Statement of Financial Position.
- (g) **Repairs and Maintenance**
Generally repairs and maintenance costs are expensed as incurred. However, repairs and maintenance are recognised as increases in assets (ie capitalised) if expenditure results in:
- (i) an effective increase in the future economic benefits that are expected to be derived from using the asset and the increase in future benefits will be utilised; and/or
 - (ii) an effective increase in the quality of the services provided by the asset beyond that previously determined; and/or
 - (iii) an effective extension to the asset's useful life as a result of the expenditure.
- (h) **Receivables**
Receivables in respect of fees and charges are due for settlement within 30 days and are recorded at their recoverable amount. At the end of each reporting period the receivable balances are reviewed and a provision is raised in respect of any balance where recovery is considered doubtful.
- (i) **Allowance for Doubtful Debts**
The allowance for doubtful debts is established based on a review of outstanding amounts at year end. Bad debts are written off when they are identified as irrecoverable.
- (j) **Inventory**
Inventories are measured as the lower of cost (as determined by the latest purchase price) and net realisable value.
- (k) **Leases**
The Department has entered into a number of operating lease agreements, as lessee, for buildings and other facilities where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases. Equal instalments of the lease payments are charged to the Statement of Financial Performance over the lease term as this is representative of the pattern of benefits to be derived from the leased property. Details of leased assets are being collected as part of the Asset Management Planning process that is currently being undertaken for all sites. This information will enable the register of operating leases to be updated to reflect all non-cancellable lease agreements.

Details of commitments of current known material non-cancellable operating leases are disclosed at Note 27. Leases entered into by government schools are not known at this time.

(1) Property, Plant and Equipment

The Statement of Financial Position includes all property, plant and equipment controlled by the Department.

All classes of physical non-current assets with fair values at the time of acquisition equal to or greater than \$1 million and estimated useful lives equal to or greater than five years are to be revalued at intervals not exceeding three years. The relevant classes are shown as revalued amounts in the Statement of Financial Position.

In accordance with Accounting Policy Statement No. 3 'Valuation of Non-Current Assets' issued by the Department of Treasury and Finance, the department has elected to measure each class of non-current asset on the fair value basis as required by Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' (paragraph 5.1 (b)).

The Department has decided that application of the fair value basis will not result in values that are materially different from the values determined on a deprival value basis as applied in previous accounting periods.

As each class of asset is revalued, the revaluation will be undertaken on a fair value basis so that all non-current assets should be valued on a fair basis by 30 June 2005.

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

Conversely, where assets are revalued to market value, and not by reference to current prices for assets newer than those being revalued, any balances of accumulated depreciation existing at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are increased or decreased by the revaluation increments or decrements.

The recoverable amount test has not been applied as the Department is a not-for-profit entity whose service potential is not related to the ability to generate net cash inflows.

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

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

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Property, plant and equipment donated, gifted or bequeathed is recorded as an asset at its fair value at the time control passes to the Department. Assets received in this way are disclosed as revenue in the Statement of Financial Performance.

Land

Land is recorded on the basis of best use market value obtained from the South Australian Valuer-General as at 1 January 2002. Land purchased after this date is recorded at cost.

Buildings and Improvements

Information was obtained from the Building and Land Asset Management System (BLAMS), maintained by the Department for Administrative and Information Services. Buildings and improvements are valued at current replacement cost less accumulated depreciation. Replacement costs have been established by reference to Quantity Surveyors estimates and updated through the application of a relevant building index. The valuations for buildings are current as at 31 March 2002, paved areas are current as at 31 March 2001 and swimming pools are current as at 31 March 2003. The building data provided in the statements relates specifically to buildings, paved areas and swimming pools. The building data excludes fencing, landscaping, infrastructure, pergolas, playground equipment and sheds because they either cannot be reliably measured or no information is centrally recorded.

Buildings under construction are reported as work in progress and are valued at cost.

Work has been undertaken by the Department to develop Asset Management Plans for all sites. This process includes the identification of under-utilised space. Asset Management Plans have been completed for all sites and where applicable this information has been used to revalue buildings to account for under-utilised space at these sites.

Where buildings and improvements are destroyed by fire during the year, the written down value of the buildings and improvements is treated as an expense in the Statement of Financial Performance.

Library Collection

The base value of the library collection is reported at valuation. The valuation for collections within administrative sites of the Department was carried out as at 30 June 2002 by VALCORP Aust Pty Ltd, and is on the basis of written down current cost. Purchases made subsequent to this date are recorded at cost less accumulated depreciation.

Buses

Buses are recorded at current replacement cost as at 30 June 2002 less accumulated depreciation. Buses purchased after this date are recorded at cost.

Plant and Equipment

Items within administrative sites of the Department acquired prior to 1 July 1997 are recorded at current replacement cost less accumulated depreciation. Items acquired after 1 July 1997 are recorded at historical cost less accumulated depreciation. Only individual items costing \$5 000 or more are capitalised and recorded in the Statement of Financial Position. Items under \$5 000 are recorded in the Statement of Financial Performance as an expense in the accounting period in which they are acquired.

(m) Depreciation of Non-Current Assets

Non-current assets with an acquisition cost individually equal to or greater than \$5 000 are systematically depreciated using the straight line method of depreciation over their useful lives. This method is considered to reflect the consumption of their service potential. Depreciation rates are reviewed annually within the Department.

Major depreciation periods are:	Years
Improvements:	
Buildings:	
Transportables	30 - 50
Fixed construction	40 - 106
Swimming pools	25 - 30
Paved areas	15 - 45
Computing and communication equipment	3 - 7
Telephone systems	7 - 15
Office furniture and equipment	5 - 20
Buses	12 - 20
Other plant and equipment	7 - 40

(n) Payables

These amounts represent liabilities for goods and services provided to the Department prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Loans

(i) Borrowings

Loans are recognised upon receipt of the money and are carried at their principal amounts. Interest is accrued over the period it becomes due and is recorded as part of payables.

The loan obligation is to the Minister for Education and Children's Services for amounts borrowed for capital works at school sites. The loan is repayable over the next six years. Interest is payable quarterly in arrears and the rate is floating.

(ii) Loan Receivables

Loans are recognised upon payment of the money and are carried at their principal amounts. Interest is accrued over the period it becomes due and is recorded as part of current receivables.

The loans are receivable in varying instalments over the next seventeen years. The interest rates are fixed at between 0 percent and 14.64 percent.

(p) Provision for Fire Claims/Vicarious Liability

To reflect the liability for outstanding (unsettled) vicarious liability claims a provision is raised. The amount of the provision is based on an actuarial assessment prepared by SAICORP. Provisions for outstanding fire claims yet to be settled as at balance date are also reported, as required by Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'. This provision is between the Corporate department and government schools, therefore is eliminated on consolidation.

(q) Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expenses; and
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of the cash flows arising from investing or financing activities, which are recoverable from, or payable to, the Australian Taxation Office have however been classified as operating cash flows.

(r) Rounding

All amounts are rounded to the nearest thousand dollars.

3. Output Classes and Outputs

The output classes and outputs presented in this report are:

Output Class 1: Education

The provision of preschool and Reception to Year 12 education.

- Output 1.1* *Delivery of PreSchool Education*
Provision of early childhood education through preschools and child-parent centres and the purchase (coordination, policy, planning, curriculum, quality regulation and funding) of preschool positions through independent community organisations.
- Output 1.2* *Reception to Year 12*
Delivery of R-12 educational programs at the local level incorporating the aggregate global budget.

Output Class 2: Childcare

The provision of a flexible range of high quality programs and services which meet the changing needs of families and enhance children's development in the critical early years.

- Output 2.1* *Planning and Support for Child Care Centres*
Provision of statewide policy and planning in order to influence the development for new services, curriculum materials, industry development, support and information to parents and staff working in child care centres.
- Output 2.2* *Family Day Care Administration and Monitoring*
Provision of support for care providers of approved child care in their homes, and the planning and coordination of home-based care as the single sponsor; involves the recruitment and training of care providers, payment of care providers, matching families with care providers, and monitoring quality of care against national standards.
- Output 2.3* *Out of School Hours Care*
Provision of policy support and training for school councils and other sponsor organisations in delivering out of school-hours and vacation care to children from 5 to 15 years of age.
- Output 2.4* *Occasional Care*
Provision of policy, revenue allocation, planning and development for new services, and staff and facilities to support occasional care for the majority provided through DECS preschools.
- Output 2.5* *Regulatory and Licensing Services for Child Care*
Provision of registration and licensing for child care services, including child care centres, FDC investigations, and OSHC validations.

Output Class 3: Coordination and Advice

Coordination of whole-of-government initiatives or services as well as policy advice and development for and on behalf of the Minister.

- Output 3.1* *Policy Advice and Support*
Policy advice and development for and on behalf of the Minister; responses to ministerial questions, briefings, speech notes, decision support and other support as determined; representation of the Minister on State and national groups and committees.
- Output 3.2* *Legislative Development and Review*
Development and review of legislation and associated advice to the Minister.

Changes in Outputs

As a result of the restructuring of administrative arrangements on 1 July 2002, the Output Classes and Outputs have been affected in the following manner:

- Output Class* Education and Training is now Education.
- Output* Vocational Education and Training transferred to DFEEST.
- Output* Regulatory Services for the Vocational Education and Training Sector transferred to DFEEST.
- Output Class* Employment Services transferred to DFEEST.
- Output Class* Youth Services transferred to DHS.

4. Employee Expenses

	DECS 2003 \$'000	Consolidated 2003 \$'000	DETE 2002 \$'000
Salaries and wages (including annual leave)	967 218	987 274	1 083 995
Superannuation	115 923	116 931	117 796
Payroll tax	64 114	66 340	71 787
Workers compensation	21 505	21 510	13 040
Long service leave	45 098	45 240	55 949
Targeted voluntary separation payments	-	-	44 168
Other employee related costs	2 207	2 290	3 757
	1 216 065	1 239 585	1 390 492

5. Supplies and Services	DECS	Consolidated	DETE
	2003	2003	2002
	\$'000	\$'000	\$'000
Minor works, maintenance and equipment	83 163	100 169	87 076
Computer communications	9 149	9 695	28 801
Utilities	21 919	23 319	25 197
Cleaning	6 180	23 578	15 732
Fees - Contractors, consultants and other outsourced services	13 331	13 820	24 578
Child care assistance, school card and other allowances	33 836	33 836	32 820
Non-government VET provider services	-	-	30 876
Vehicle and travelling expenses	19 848	20 667	25 920
Telecommunications	15 254	16 150	18 527
Printing, postage and consumables	6 902	48 618	22 877
Trainee reimbursements	10	10	5 210
Bus contractors	13 875	13 875	12 105
Rentals and leases	14 053	15 248	15 053
Other	19 428	101 348	38 741
	256 948	420 333	383 513

Consultancy Fees

The Department engaged consultants during the period and incurred expenses of \$21 000 (\$206 000).

6. Grants and Subsidies

Major grants and subsidies comprise:

Grants paid to schools and units*	86 761	-	118 915
Grants paid to preschools*	8 164	8 164	9 542
Grants paid to other organisations	5 180	5 180	24 677
	100 105	13 344	153 134

* Reduction in grant funding primarily because of improved targeting of maintenance funding and consequential carry over in 2003-04 and, changes in accounting arrangements for recovery of payments from schools by an offset against grant payments rather than invoicing.

7. Depreciation

Depreciation expense for the reporting period was charged in respect of:	DECS	Consolidated	DETE
	2003	2003	2002
	\$'000	\$'000	\$'000
Buildings and improvements	47 620	47 637	59 452
Computing, communication equipment, furniture and equipment	588	925	2 534
Buses	2 046	2 064	1 560
Other	437	542	321
	50 691	51 168	63 867

8. Other Expenses

Auditors' remuneration - Auditing services*	813	821	1 063
Allowance for doubtful debts and debt write-offs	445	3 401	205
Recognition of prior year contributed equity	4 463	4 463	-
Reduction in value of non-current assets	393	393	6 750
Loss on sale of investments	-	-	140
Written down value of assets on disposal	6 523	6 523	5 477
	12 637	15 601	13 635

* Includes payments to the Auditor-General (\$446 000) and other private auditors (\$374 000) for non-corporate work. The Auditor-General's provided no other services and received no other benefits.

9. Commonwealth Grants

Recurrent Grants:

General purpose	114 835	114 835	175 048
Specific purpose	63 949	63 949	63 544
	178 784	178 784	238 592

Capital Grants:

General purpose	8 115	8 115	34 752
Specific purpose	-	-	-
	8 115	8 115	34 752

Total Commonwealth Grants

	186 899	186 899	273 344
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(a) Conditions Over Revenue

The following revenues were recognised for the year ended 30 June 2003 with the condition that they be expended in a particular manner, but had yet to be applied in that manner at 30 June 2003.

	Opening Balance	Revenue for Period	Expenses for Period	Closing Balance
	1.7.02	for Period	for Period	30.6.03
	\$'000	\$'000	\$'000	\$'000
Commonwealth Grants for:				
Primary and secondary education	6 867	32 186	(35 466)	3 587
Child care services	327	38 551	(37 893)	985
	7 194	70 737	(73 359)	4 572

10. Student and Other Fees and Charges	DECS 2003 \$'000	Consolidated 2003 \$'000	DETE 2002 \$'000
Sales/Fee-service revenue	3 943	4 124	35 336
Student enrolment fees and charges	1 542	57 740	31 833
Other user fees and charges	13 171	7 984	16 426
	18 656	69 848	83 595
11. Other Revenues			
Targeted voluntary separation package recoveries	-	-	44 168
Assets recognised for the first time	806	806	15 664
Proceeds from sales of non-current assets	10 190	10 190	7 782
Sundry revenue	16 021	54 819	24 898
	27 017	65 815	92 512
12. Revenues from State Government			
(a) Recurrent appropriation	1 400 804	1 400 804	1 807 519
Less: Appropriations not recognised in the Operating Statement: Administered items - Refer Note 12(d)	122 992	122 992	407 346
	1 277 812	1 277 812	1 400 173
(b) Capital appropriation	73 378	73 378	91 995
(c) Accrual appropriation	17 185	17 185	2 730
Total Government Revenues	1 368 375	1 368 375	1 494 898
(d) Transfer Payments			
The Department is responsible for transfer of payments to eligible beneficiaries consistent with instructions from the Minister for Education and Children's Services. The Department does not control how these funds are to be spent and acts only as an agent responsible for the administration of the transfer proceeds to the third parties. During the reporting period, the Department received and transferred \$434.7 million (\$407.3 million). (Refer Note 1(c) Administered Funds). The decrease in appropriation from State Government is due to Commonwealth funding now being received directly from the Commonwealth.			
13. Net Gain (Loss) on Disposal of Non-Current Assets			
	DECS 2003 \$'000	Consolidated 2003 \$'000	DETE 2002 \$'000
Proceeds from disposal	10 190	10 190	7 782
Less: Written down value	6 523	6 523	5 477
Gain (Loss) on disposal	3 667	3 667	2 305
14. Net Revenues (Expenses) from Restructuring of Administrative Arrangements			
The net revenues/expenses relating to the restructuring of administrative arrangements are as follows:		Note	2003 \$'000
Department of Further Education, Employment, Science and Technology: Technical and Further Education Office of Vocational Education and Training TAFEBizSA Office of Employment and Youth (Employment issues and initiatives)		(a)	(423 870)
Department of Human Services: Office of Employment and Youth (Youth Policy, Youth Programs, <i>Active8</i> , <i>Ausyouth</i> and <i>YouthPlus</i>)		(b)	462
			(423 408)
(a) During the 2002-03 financial year, the Department relinquished responsibility for Technical and Further Education, Office of Vocational Education and Training, TAFEBizSA and the employment component of the Office of Employment and Youth to the Department of Further Education, Employment, Science and Technology, effective 1 July 2002. The following assets and liabilities were transferred:			
Assets:			2003 \$'000
Cash			(16 916)
Receivables			(8 357)
Investments			(974)
Property, plant and equipment			(464 636)
Other			(2 542)
Liabilities:			
Payables			19 186
Interest-bearing liabilities			499
Employee benefits			45 851
Other			4 019
			(423 870)

Education and Children's Services

- (b) During the 2002-03 financial year the Department relinquished responsibility for Youth Policy, Youth Programs, *Active8*, *Ausyouth* and *YouthPlus* in the Office of Employment and Youth to the Department of Human Services, effective 1 July 2002. The following assets and liabilities were transferred:

	2003
Assets:	\$'000
Receivables	(8)
Liabilities:	
Payables	115
Employee benefits	355
	462

15. Cash on Hand, at Bank and on Deposit	DECS	Consolidated	DETE
	2003	2003	2002
	\$'000	\$'000	\$'000
Special Deposit Account with Department of Treasury and Finance	25 825	25 825	11 647
Accrual Appropriation Excess Fund Special Deposit Account with the Department of Treasury and Finance	79 808	79 808	65 783
Cash at bank - SA School Investment Fund (SASIF)	-	150 451	-
Cash at bank and on hand	453	8 897	1 711
Section 21 Deposit Accounts	305	305	300
	106 391	265 286	79 441

The Special Deposit Accounts are bearing floating interest rates determined as follows:

- that portion applying to the level of debt owing to the Department of Treasury and Finance is determined by the applicable common public sector interest rate.
- the remainder is determined by the applicable 90 day bank bill rate.

16. Receivables	DECS	Consolidated	DETE
	2003	2003	2002
	\$'000	\$'000	\$'000
Current:			
Fees and charges and other receivables	15 610	17 825	21 568
Less: Allowance for doubtful debts	1 254	3 532	1 438
	14 356	14 293	20 130
GST recoverable from the ATO	4 350	5 729	5 796
Loan receivables	310	64	331
Lease receivables	778	-	2 082
Other receivables	336	336	173
	20 130	20 422	28 512
Non-Current:			
Workers Compensation receivable	1 498	1 498	1 364
Lease receivables	147	-	928
Loan receivables	2 190	40	2 473
	3 835	1 538	4 765

17. Investments			
Current:			
Term deposits	-	7 079	-
Non-Current:			
Term deposits	-	850	-
Shares in subsidiary	-	-	972
Shares in Ngapartji Pty Ltd	30	30	375
Other	-	-	1
	30	880	1 348

Ngapartji Pty Ltd (Ngapartji)

The Minister for Education and Children's Services is the owner of \$1 'A' class share in Ngapartji issued at par. In addition, the Minister owns 375 \$1 'B' class (non-voting) shares issued at a premium of \$999 per share. Ngapartji closed in March 2003. It is expected that there will be a small amount available for distribution to shareholders.

18. Other Current Assets	DECS	Consolidated	DETE
	2003	2003	2002
	\$'000	\$'000	\$'000
Current:			
Prepayments	2 723	3 245	4 415
Inventories	313	1 046	1 323
Other	-	75	-
	3 036	4 366	5 738
Non-Current:			
Other	-	82	-
	-	82	-

19. Property, Plant and Equipment	DECS 2003			Consolidated 2003
	Cost or Valuation \$'000	Accumulated Depreciation \$'000	Written Down Value \$'000	Written Down Value \$'000
Land at valuation*	456 214	-	456 214	456 214
Land at cost	2 981	-	2 981	3 077
Buildings and improvements at valuation*	2 694 199	1 634 233	1 059 966	1 059 966
Buildings and improvements at cost	51 739	1 365	50 374	61 225
Computing, communication equipment, furniture and equipment at valuation*	3 646	3 022	624	624
Computing, communication equipment, furniture and equipment at cost	3 434	2 165	1 269	67 500
Buses at valuation*	48 167	33 125	15 042	15 042
Buses at cost	934	-	934	3 111
Construction work in progress at cost	13 174	-	13 174	13 174
Other (libraries, toys and security) at valuation*	2 194	1 203	991	991
Other (libraries, toys and security) at cost	3 054	1 542	1 512	12 968
	3 279 736	1 676 655	1 603 081	1 693 892

	2002		
	Cost or Valuation \$'000	Accumulated Depreciation \$'000	Written Down Value \$'000
Land at valuation*	501 859	-	501 859
Land at cost	1 233	-	1 233
Buildings and improvements at valuation*	3 304 777	1 869 121	1 435 656
Buildings and improvements at cost	90 394	1 760	88 634
Computing, communication equipment, furniture and equipment at valuation*	3 748	2 953	795
Computing, communication equipment, furniture and equipment at cost	37 330	20 570	16 760
Buses at valuation*	49 689	30 149	19 540
Buses at cost	-	-	-
Construction work in progress at cost	10 557	-	10 557
Other (libraries, toys and security) at valuation*	27 249	972	26 277
Other (libraries, toys and security) at cost	3 001	1 236	1 765
	4 029 837	1 926 761	2 103 076

DECS

* Valuations of land were performed at 1 January 2002 by the Valuer-General, buildings and improvements by the Department for Administrative and Information Services and libraries at 30 June 2002 by VALCORP Aust Pty Ltd. Valuations of computing and communication equipment, furniture and equipment, and buses are based on current replacement cost in accordance with Department of Treasury and Finance policy on valuations of non-current assets.

Schools - non-current assets are recorded at cost.

Reconciliations (DECS)

Reconciliations of the carrying amount of each class of land, buildings and improvements, plant and equipment and other non-current assets at the beginning and end of the current financial year are set out below:

	Carrying Amount 1.7.02 \$'000	Transfers to other Agencies \$'000	2003		Transfer to (from) WIP \$'000
			Additions \$'000	Disposals \$'000	
Land at valuation	501 859	40 412	-	5 233	-
Land at cost	1 233	-	1 748	-	-
Buildings and improvements at valuation	1 435 656	319 054	9	1 006	-
Buildings and improvements at cost	88 634	63 801	865	-	25 370
Computing, communication equipment, furniture and equipment at valuation	795	-	-	-	-
Computing, communication equipment, furniture and equipment at cost	16 760	15 605	276	-	-
Buses at valuation	19 540	-	-	279	-
Buses at cost	-	-	934	-	-
Construction work in progress at cost	10 556	512	28 500	-	(25 370)
Other (libraries, toys and security) at valuation	26 277	25 254	-	-	-
Other (libraries, toys and security) at cost	1 765	-	53	-	-
Total	2 103 075	464 638	32 385	6 518	-

Reconciliations (DECS) (continued)

	Net Revaluation Increment (Decrement) \$'000	Other Movements \$'000	Depreciation \$'000	Carrying Amount 30.6.03 \$'000
Land at valuation	-	-	-	456 214
Land at cost	-	-	-	2 981
Buildings and improvements at valuation	(9 118)	557	47 078	1 059 966
Buildings and improvements at cost	-	(153)	541	50 374
Computing, communication equipment, furniture and equipment at valuation	(43)	-	128	624
Computing, communication equipment, furniture and equipment at cost	-	296	458	1 269
Buses at valuation	(2 176)	-	2 043	15 042
Buses at cost	-	-	-	934
Construction work in progress at cost	-	-	-	13 174
Other (libraries, toys and security) at valuation	-	100	132	991
Other (libraries, toys and security) at cost	-	-	306	1 512
Total	(11 337)	800	50 686	1 603 081

	Carrying Amount 1.7.01 \$'000	Transfers to Other Agencies \$'000	2002 Additions \$'000	Disposals \$'000	Transfer to (from) WIP \$'000
Land at valuation	397 752	-	42	3 506	-
Land at cost	2 596	-	1 233	-	-
Buildings and improvements at valuation	1 297 635	-	3 729	1 477	-
Buildings and improvements at cost	162 629	-	334	-	54 458
Computing, communication equipment, furniture and equipment at valuation	953	-	-	-	-
Computing, communication equipment, furniture and equipment at cost	16 776	-	2 511	217	-
Buses at valuation	18 007	-	-	278	-
Buses at cost	880	-	-	-	-
Construction work in progress at cost	34 755	-	30 259	-	(54 458)
Other (libraries, toys and security) at valuation	28 314	-	522	-	-
Other (libraries, toys and security) at cost	1 990	-	131	-	-
Total	1 962 287	-	38 761	5 478	-

	Net Revaluation Increment (Decrement) \$'000	Other Movements \$'000	Depreciation \$'000	Carrying Amount 30.6.02 \$'000
Land at valuation	106 251	1 320	-	501 859
Land at cost	-	(2 596)	-	1 233
Buildings and improvements at valuation	53 919	139 668	57 818	1 435 656
Buildings and improvements at cost	-	(127 155)	1 632	88 634
Computing, communication equipment, furniture and equipment at valuation	-	1	159	795
Computing, communication equipment, furniture and equipment at cost	-	66	2 376	16 760
Buses at valuation	2 493	812	1 494	19 540
Buses at cost	-	(812)	68	-
Construction work in progress at cost	-	-	-	10 556
Other (libraries, toys and security) at valuation	(2 595)	56	20	26 277
Other (libraries, toys and security) at cost	-	(56)	300	1 765
Total	160 068	11 304	63 867	2 103 075

20. Payables	DECS 2003 \$'000	Consolidated 2003 \$'000	DETE 2002 \$'000
Current:			
Trade creditors	28 497	22 880	46 884
Accruals	4 396	6 494	3 282
On-costs on employee benefits	11 945	12 269	12 776
Other	-	-	110
	44 838	41 643	63 052
Non-Current:			
On-costs on employee benefits	14 085	14 085	14 554
Lease payables	-	2 009	-
	14 085	16 094	14 554

21. Interest bearing Liabilities	DECS	Consolidated	DETE	
	2003	2003	2002	
Current:	\$'000	\$'000	\$'000	
Loans	1 200	1 020	1 200	
Overdraft	29	29	2 170	
	1 229	1 049	3 370	
Non-Current:				
Loans	5 104	6 006	5 720	
Advances	121	121	620	
	5 225	6 127	6 340	
22. Employee Benefits				
Current:				
Annual leave	53 006	53 014	55 693	
Accrued salaries and wages	30 326	30 342	29 708	
Long service leave	26 983	27 077	26 694	
Workers Compensation provision	13 183	13 183	13 567	
Non-attendance days	-	-	3 311	
Employer superannuation contributions	10 530	10 528	10 160	
	134 028	134 144	139 133	
Non-Current:				
Long service leave	235 867	236 501	245 128	
Workers compensation provision	50 530	50 530	43 105	
Employer superannuation contributions	11 434	11 434	10 540	
	297 831	298 465	298 773	
The aggregate employee benefit liability and related on-costs recognised and included in the financial statements is as follows:				
Current	145 973	146 413	151 909	
Non-current	311 916	312 550	313 327	
	457 889	458 963	465 236	
23. Other Liabilities				
Current:				
Deposits	4 700	4 744	7 524	
Provision for fire claims	384	-	6 059	
Unearned revenue	509	508	1 718	
Other liabilities	1 231	2 804	2 064	
	6 824	8 056	17 365	
Non-Current:				
Deposits	-	3 750	265	
Other liabilities	1 394	1 486	-	
	1 394	5 236	265	
24. Remuneration of Employees	2003	Total	2002	Total
The number of employees whose remuneration received or receivable exceeded \$100 000 for this period are grouped within the following bands:	Number of Executives*	Number of Employees	Number of Executives*	Number of Employees
\$100 000 - \$109 999	4	69	12	74
\$110 000 - \$119 999	10	47	6	18
\$120 000 - \$129 999	4	10	4	12
\$130 000 - \$139 999	5	9	2	3
\$140 000 - \$149 999	2	3	5	5
\$150 000 - \$159 999	3	3	1	2
\$160 000 - \$169 999	-	1	6	6
\$170 000 - \$179 999	-	-	1	1
\$180 000 - \$189 999	2	2	-	-
\$190 000 - \$199 999	2	2	-	-
\$200 000 - \$209 999	1	1	-	-
\$210 000 - \$219 999	-	-	1	1
\$230 000 - \$239 999	1	1	-	-
\$240 000 - \$249 999	-	-	1	1
\$260 000 - \$269 999	1	1	-	-
	35	149	39	123

Total remuneration received or due and receivable by the above employees was \$17.5 million (\$14.4 million) which is included in employee expenses. This number of employees includes 10 (6) who received country incentive payments. The remuneration includes salary, employer's superannuation costs, use of motor vehicle in accordance with prescribed conditions and associated fringe benefits tax, but does not include any amounts payable due to retirement under the Targeted Voluntary Separation Package (TVSP) Scheme. There was no TVSP impact on employee numbers for 2003 or 2002. There were however, 4 persons retired at over the \$100 000 remuneration level.

* Based on the Department's Executive Organisation Structure.

25. Targeted Voluntary Separation Packages (TVSPs)	2003	2002
TVSPs paid to employees for the reporting period were:	\$'000	\$'000
TVSP payments (included in employee expenses)	-	44 168
Recovered/recoverable from the Department of the Premier and Cabinet in respect of TVSPs	-	44 168
Annual and long service leave accrued over the period of employment paid to employees who received TVSPs	-	12 795

The number of employees paid TVSPs during the reporting period totalled nil (542).

26. Equity	DECS	Consolidated	DETE
	2003	2003	2002
	\$'000	\$'000	\$'000
Accumulated Surplus:			
Balance at 1 July	1 465 289	1 465 289	1 504 931
Prior period adjustment	8	8	-
Adjustment for school assets brought to account for first time	-	233 763	-
Surplus (Deficit) for the year	(442 155)	(424 236)	(39 642)
Balance at 30 June	1 023 142	1 274 824	1 465 289
Asset Revaluation Reserve:			
Balance at 1 July	214 739	214 739	51 662
Increase (Decrease) as a result of revaluations	(11 295)	(11 295)	163 077
Balance at 30 June	203 444	203 444	214 739
Contributed Equity:			
Balance at 1 July	-	-	-
Adjustment for the year*	4 463	4 463	-
Balance at 30 June	4 463	4 463	-
Total Equity	1 231 049	1 482 731	1 680 028

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets. This accords with the Department policy on the revaluation of property, plant and equipment as discussed in Note 2.

* In the previous year additional funds were provided to the Department as equity funding to cover future payments for long service leave for service already provided by employees.

27. Operating Leases - Lessee	DECS		
	Minimum	DECS	
	Lease	Commitments	DETE
	Payments	2003	2002
	2003	2003	2002
	\$'000	\$'000	\$'000
At the reporting date, the Department had the following obligations as lessee under non-cancellable operating leases. These are not recognised as liabilities in the Statement of Financial Position.			
Payable no later than one year	6 626	6 696	1 289
Payable later than one year and not later than five years	16 567	16 646	1 258
Payable later than five years	792	792	326
	23 985	24 134	2 873
GST included in operating lease commitments	2 082	2 096	205

The Department has entered into a number of operating leases for the provision of office accommodation and facilities used for the delivery of educational services. Office accommodation is leased from Real Estate Management unit of the Department for Administrative and Information Services. The leases are non-cancellable and for varied terms. The property leases include both cancellable and non-cancellable leases and are for varied terms. Contingent rentals are based upon changes in market rental rates, the Consumer Price Index or a specified rate of increase in the rental payments. Options exist to renew the leases at the end of the lease term. Some leases have no option to renew.

28. Capital Budget Commitments	DECS	Consolidated	DETE
At the end of the reporting period the Department had the following capital budget commitments.	2003	2003	2002
These amounts are due for payment:	\$'000	\$'000	\$'000
Not later than one year	47 732	47 732	48 920
Later than one year and not later than five years	56 445	56 445	44 347
Later than five years	-	-	-
Total (including GST)	104 177	104 177	93 267
GST included in capital budget commitments	9 470	9 470	8 479

29. Contingent Obligations
The Department has items which meet the definition of liabilities but have not been recognised because they cannot be measured reliably. These items are set out as follows:

- The Department has received advice from the Crown Solicitor that Temporary Relieving Teachers (TRTs), Hourly Paid Instructors (HPIs), Bus Drivers and other casual employees are eligible for long service leave pursuant to section 71(2) of the *Public Sector Management Act 1995*. The effect of this has not been quantified, however, the Department recognises that it does have a liability to provide for long service leave for TRTs, HPIs and other casual employees applicable from 1 January 1978; bus drivers applicable from 1 January 1994. Payments for long service leave to these employees in 2002-03 totalled \$227 000 (\$275 000).

30. Reconciliation of Net Cash provided by Operating Activities to Net Cost of Services	DECS	Consolidated	DETE
	2003	2003	2002
	\$'000	\$'000	\$'000
Net cash provided by operating activities	67 236	90 620	41 183
Depreciation	(50 691)	(51 168)	(63 867)
Bad and doubtful debts	(445)	(3 401)	(205)
Investments - Share of operating profits (losses)	(345)	(345)	299
Net assets recognised for the first time	806	806	15 664
Decrement in value of assets	(48)	(48)	(6 849)
Contributed equity recognition	(4 463)	(4 463)	-
Gain (loss) on sale of assets	3 671	3 671	2 305
Increase in employee entitlements	(40 159)	(40 290)	(35 134)
Increase (Decrease) in receivables	1 888	(936)	(5 901)
Increase (Decrease) in other current assets	(160)	1 096	588
Decrease (Increase) in payables	5 374	(97)	12 397
(Decrease) Increase in other liabilities	(1 411)	3 727	(3 502)
Government appropriation	(1 368 375)	(1 368 375)	(1 494 898)
Other movements in non-current assets	-	-	3 380
Net Cost of Services	(1 387 122)	(1 369 203)	(1 534 540)

31. Financial Instruments

(a) Accounting policies and Terms and Conditions Affecting Future Cash Flows

Financial Assets

Cash deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues. Interest is earned on the daily balance at rates based on the applicable common public sector interest rate. Interest is paid on a monthly basis.

Trade accounts receivables are generally settled within 30 days and are carried at amounts due. Credit terms are net 30 days. A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

Loans are recognised at the amounts lent. Collectability of amounts outstanding is reviewed at balance date. Provision is made for bad and doubtful loans where collection of the loan or part thereof is judged to be less rather than likely. Interest is credited to revenue as it accrues. No security is generally required. Principal is repaid in full at maturity. Interest rates are fixed. Interest payments are due on the day of the scheduled agreed terms of payment.

Financial Liabilities

Trade accounts payable, including accruals not yet billed, are recognised when the Department becomes obliged to make future payments as a result of a purchase of assets or services at their nominal amounts. Trade accounts payable are generally settled within 30 days.

Borrowings are recognised when issued at the amount of the net proceeds due and carried at cost until settled. Interest is recognised as an expense when it is due.

All Assets and Liabilities are unsecured.

(b) Credit Risk Exposures

The credit risk on financial assets of the Department which have been recognised in the Statement of Financial Position is generally the carrying amount, net of any provision for doubtful debts.

(c) Interest Rate Risk Exposures

The Department's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out as follows:

DECS	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest		Non-Bearing Interest	2003 Total \$'000	2002 Total \$'000
			1 to 5 years	more than 5 years			
	Percent	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:							
Cash and deposits	4.75	106 078	-	-	313	106 391	79 441
Receivables	-	-	-	-	20 541	20 541	29 546
Other assets	-	-	-	-	3 035	3 035	5 738
Loans	7.19	-	83	2 240	1 102	3 425	3 732
		106 078	83	2 240	24 991	133 392	118 457
Financial Liabilities:							
Trade and other creditors	-	-	-	-	32 893	32 893	50 276
Loans	9.26	6 332	-	-	121	6 453	9 710
Other liabilities	-	-	-	-	8 219	8 219	9 507
		6 332	-	-	41 233	47 565	69 493
Net Financial Assets (Liabilities)		99 746	83	2 240	(16 242)	85 827	48 964

(c) **Interest Rate Risk Exposures (continued)**

Consolidated	Weighted Average Interest Rate Percent	Floating Interest Rate \$'000	Fixed Interest Maturing in		Non- Interest Bearing \$'000	2003 Total \$'000
			1 to 5 years \$'000	more than 5 years \$'000		
Financial Assets:						
Cash and deposits	4.65	264 884	-	-	403	265 287
Receivables	-	-	-	-	21 856	21 856
Other assets	-	-	-	-	4 448	4 448
Loans	-	-	-	-	104	104
		<u>264 884</u>	<u>-</u>	<u>-</u>	<u>26 811</u>	<u>291 695</u>
Financial Liabilities:						
Trade and other creditors	-	-	-	-	31 383	31 383
Loans	10.93	7 055	-	-	121	7 176
Other liabilities	-	-	-	-	13 297	13 297
		<u>7 055</u>	<u>-</u>	<u>-</u>	<u>44 801</u>	<u>51 856</u>
Net Financial Assets (Liabilities)		<u>257 829</u>	<u>-</u>	<u>-</u>	<u>(17 989)</u>	<u>239 839</u>

(d) **Net Fair Value of Financial Assets and Financial Liabilities**

The net fair value of financial assets and financial liabilities of the Department approximates their carrying value.

MINISTER FOR ENVIRONMENT AND CONSERVATION; MINISTER FOR THE RIVER MURRAY

PORTFOLIO – ENVIRONMENT AND CONSERVATION AND THE RIVER MURRAY

INTRODUCTION

This section of this Part of the Report contains the financial statements of, and comments concerning, the operations of those agencies under the direction and control of the Minister, namely:

- Minister for Environment and Conservation
- Minister for the River Murray

The agencies included herein relating to the portfolio of Environment and Conservation and the River Murray are:

- Catchment Water Management Boards:
 - Northern Adelaide and Barossa Catchment Water Management Board
 - Onkaparinga Catchment Water Management Board
 - Patawalonga Catchment Water Management Board
 - River Murray Catchment Water Management Board
 - South East Catchment Water Management Board
 - Torrens Catchment Water Management Board
- Environment and Heritage — Department for
- Environment Protection Authority
- Water, Land and Biodiversity Conservation — Department of

CATCHMENT WATER MANAGEMENT BOARDS

STRUCTURE OF THIS SECTION OF THE REPORT

A number of Catchment Water Management Boards have been established under the *Water Resources Act 1997*.

To provide an understanding, and to assist with readability, this section of the Report has been structured with an Introduction followed by commentary with respect to each of the established Catchment Water Management Boards as at 30 June 2003.

Functions

The objective of the *Water Resources Act 1997* is to establish a system for the use and management of the water resources of the State:

- (a) *that ensures that the use and management of those resources sustain the physical, economic and social well being of the people of the State and facilitate the economic development of the State while –*
 - (i) *ensuring that those resources are able to meet the reasonably foreseeable needs of future generations;*
 - (ii) *protecting the ecosystems (including their biological diversity) that depend on those resources;*
- (b) *requiring the use of caution and other safeguards to reduce to a minimum the detrimental effects of that use and management.*

As part of that system, the Act provides for the establishment of Catchment Water Management Boards, whose functions include:

- preparing and implementing catchment water management plans;
- providing advice to the Minister for Water Resources and councils in relation to the management of water resources in the Board's area;
- promoting public awareness of the importance of the proper management of water resources in the Board's area.

Each Board is a separate body corporate and an instrumentality of the Crown, and is subject to control and direction by the Minister.

The Act requires each Board to prepare a draft catchment water management plan in relation to the water resources of its catchment area. The Act then requires the Minister to adopt the plan upon consultation with various bodies including:

- the Board;
- each of the constituent councils;
- the Local Government Association;
- the South Australian Water Corporation where the Corporation discharges water into a watercourse or lake catchment area of the Board.

In relation to the implementation of catchment water management plans, contributions are made towards the costs of the Board's operations in the form of levies on:

- water licences to take water from prescribed water courses, and/or;
- rateable land in the area of the Board.

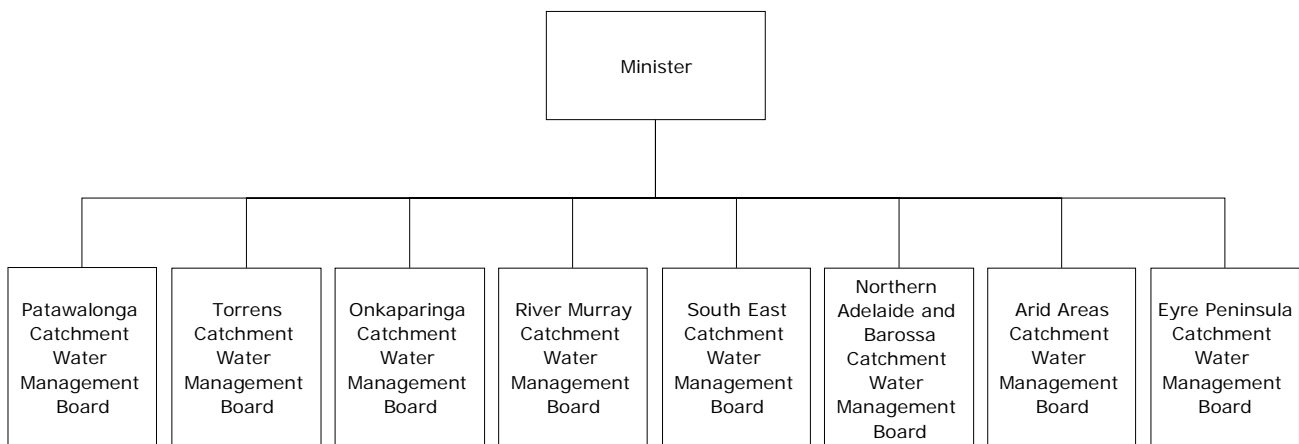
Establishment of Boards

As at 30 June 2003, eight Catchment Water Management Boards have been established for the following catchment areas:

- Arid Areas
- Eyre Peninsula
- Northern Adelaide and Barossa
- Onkaparinga
- Patawalonga
- River Murray
- South East
- Torrens

Structure

The following diagram depicts the reporting relationships of the Board:



For the purpose of administrative support and cost effectiveness, the Patawalonga Catchment Water Management Board and the Torrens Catchment Water Management Board have agreed to share common office accommodation and administrative support systems.

Each Board proclaimed under the Act is a separate reporting entity; as a consequence, separate financial statements are prepared for each Board.

The financial statements of six of the eight Boards (ie Northern Adelaide and Barossa, Onkaparinga, Patawalonga, River Murray, South East and the Torrens) have been included in this Report. With respect to the remaining Boards (ie Arid Areas and Eyre Peninsula) a brief summary of their operating activity is provided hereafter.

Arid Areas Catchment Water Management Board

The Arid Areas Catchment Water Management Board was established in May 2000. At the time of preparing this report, the financial report of the Board had not been audited.

Eyre Peninsula Catchment Water Management Board

The Eyre Peninsula Catchment Water Management Board was established in March 2001. At the time of preparing this report, the financial report of the Board had not been completed.

Significant Issues Arising from Audit of the Boards

Audit identified that the delegations for authorities for expenditure of the Boards were not approved by the Minister as required by subsection 66(1)(b) of the *Water Resources Act 1997*.

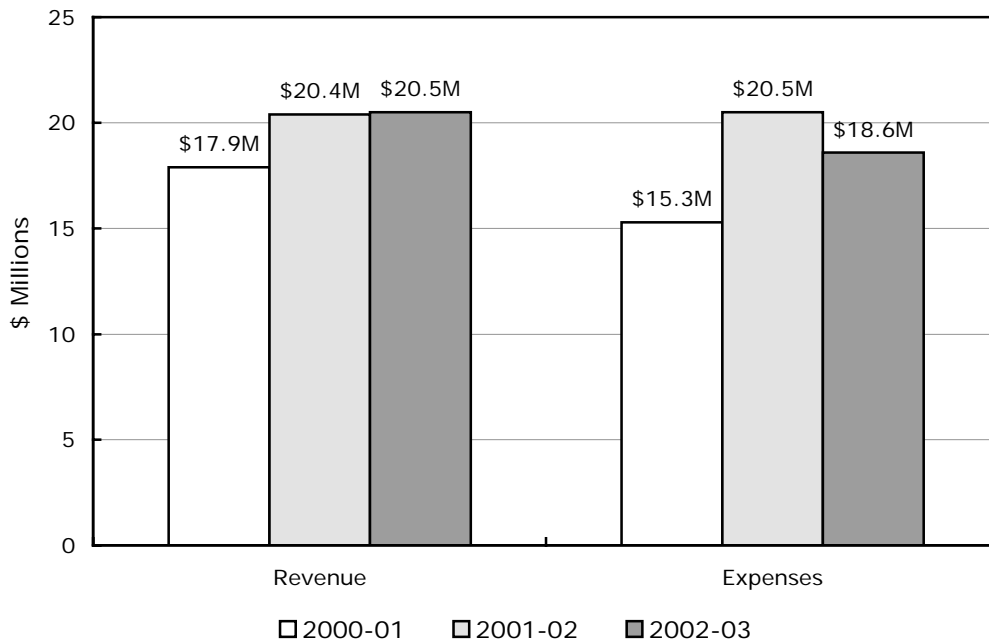
The Boards have jointly sought advice from the Crown Solicitor to clarify whether the delegations require the approval of the Minister.

A response from the Crown Solicitor was not received at the time of preparing this Report.

Financial Activity

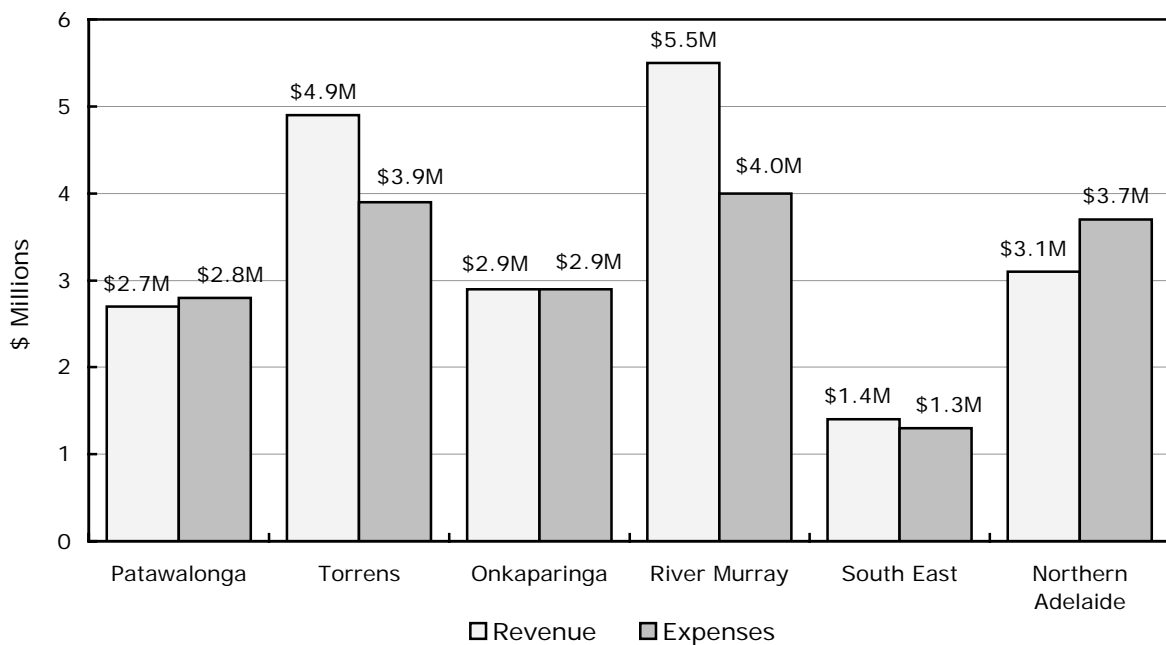
Total Revenues and Expenses

The following chart shows the total revenues and expenses of the Catchment Water Management Boards excluding Arid Areas and Eyre Peninsula in 2000-01, 2001-02 and 2002-03.



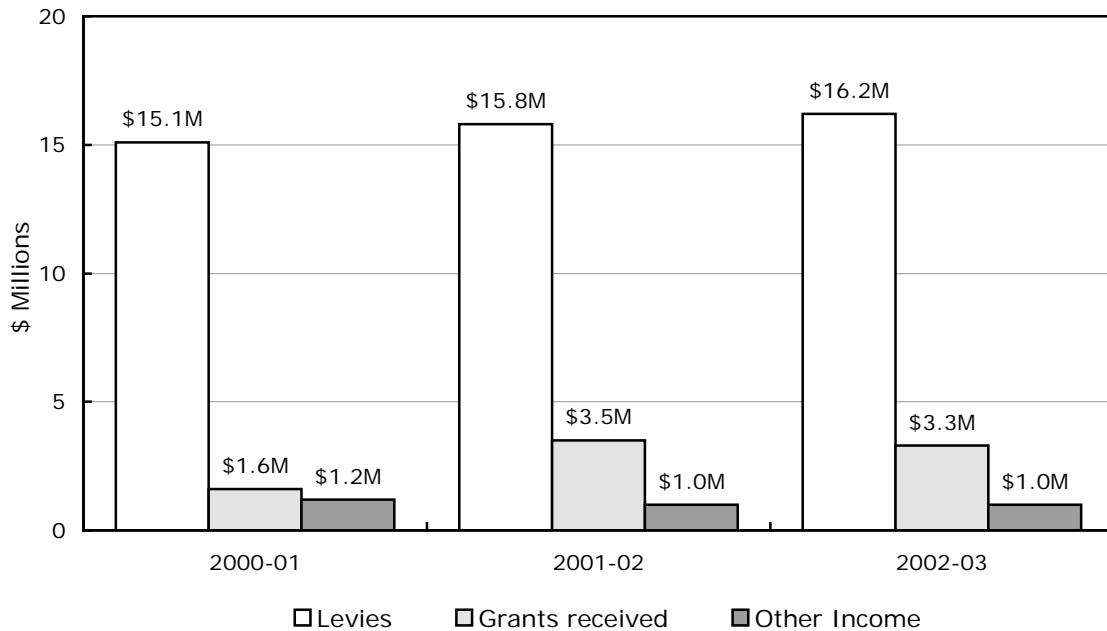
The chart highlights a decrease in expenses for 2002-03 and reflects the variability of outlays from year to year as a result of periodic outlays on various construction projects.

The following shows the relative activity of the major boards for 2002-03.



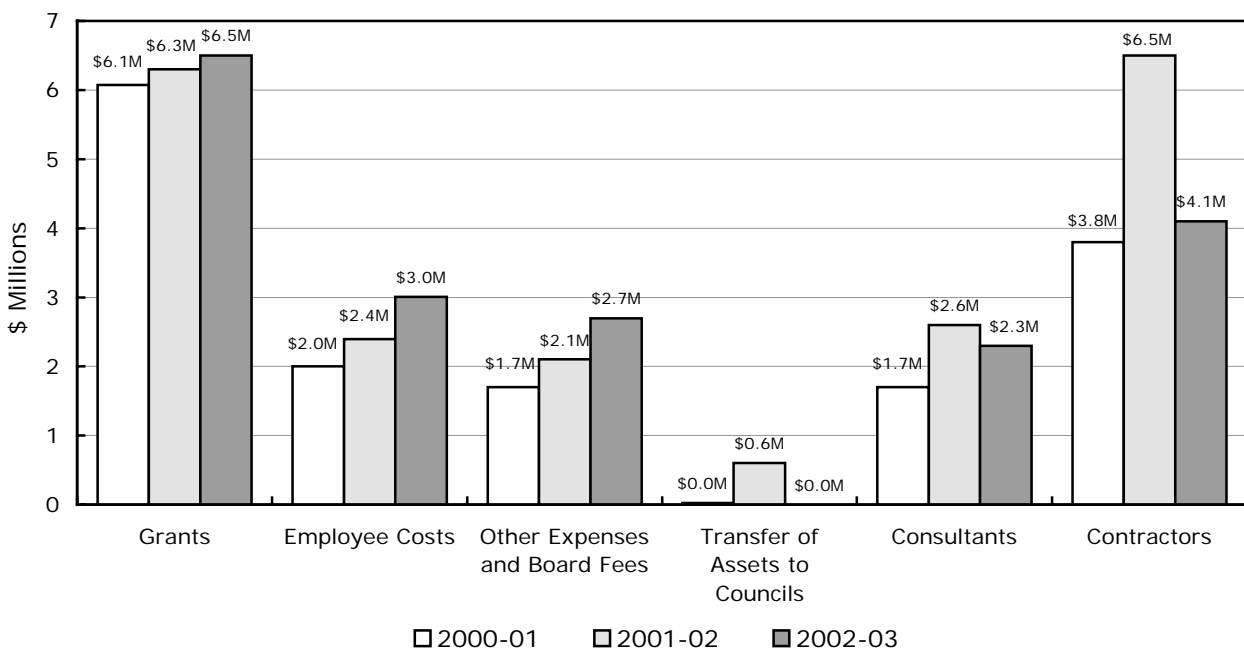
Major Revenues

The following chart highlights that the majority of revenues are raised through various water based levies and council contributions. In 2002-03 the revenue from this source totalled \$ 16.2 million of total revenues of \$20.5 million for all boards excluding Arid Areas and Eyre Peninsula. The other main source of revenue is grants which are mainly received from the National Heritage Trust and the South Australian Water Corporation.



Major Expenses

The following chart highlights that grants represent a major expense for all boards. The chart excludes Arid Areas and Eyre Peninsula. Although employee costs are a relatively low proportion of expenses they have been increasing. It is evident that boards make significant use of contractors and consultants in providing their services.



NORTHERN ADELAIDE AND BAROSSA CATCHMENT WATER MANAGEMENT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Northern Adelaide and Barossa Catchment Water Management Board was established on 24 December 1997 pursuant to the *Water Resources Act 1997* (the Act).

Functions

The functions of the Board are as follows:

- To prepare and implement a comprehensive Catchment Water Management Plan.
- To provide advice to the Minister and constituent councils regarding the management of water resources within the Board's area.
- To promote public awareness of the importance of proper management and sustainable use of the water resources within the Board's area.

Structure

The Board is responsible to the Minister and is supported by the Chief Executive Officer and officers in implementing its Catchment Water Management Plan.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 74(2) of the *Water Resources Act 1997* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- budgetary control and management reporting
- accounts payable
- payroll
- revenue, including council contributions and grant funding
- grant administration.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The response to the management letter was considered to be satisfactory.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Northern Adelaide and Barossa Catchment Water Management Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Northern Adelaide and Barossa Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient, except for the matter outlined under Significant Matters Raised with Agencies, to provide reasonable assurance that the financial transactions of the Northern Adelaide and Barossa Catchment Water Management Board have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

The interim audit of the Board included review of the delegations of authority for expenditure of monies. The review identified that the delegations of authority to Board employees were not approved by the Minister as is required by subsection 66(1)(b) of the *Water Resources Act 1997*. This finding was communicated to the Board who indicated they, along with other Catchment Water Management Boards, would seek clarification from the Crown Solicitor. A response was not received from the Crown Solicitor at the time of preparing this Report.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

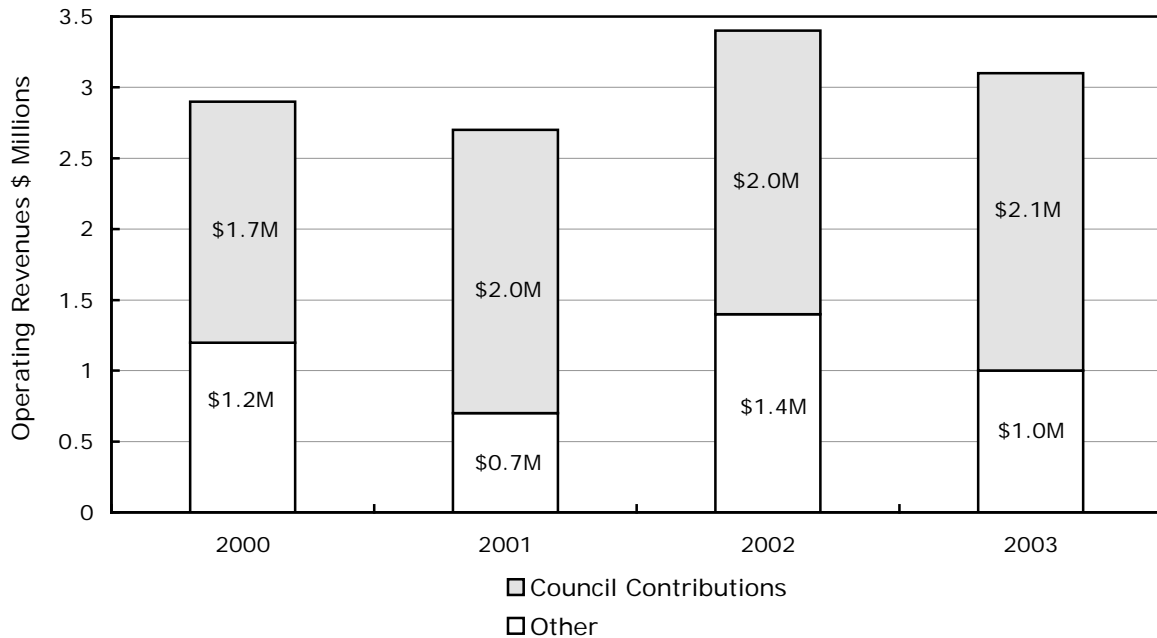
	2003 \$'million	2002 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Council contributions	2.1	2.0	5
Other	1.0	1.4	(29)
Total Operating Revenue	3.1	3.4	(9)
<i>OPERATING EXPENDITURE</i>			
Grants and subsidies	2.2	1.2	83
Other expenses	1.5	1.5	0
Total Operating Expenses	3.7	2.7	37
Surplus (Deficit)	(0.6)	0.7	(186)
Net Cash Flows from Operations	(0.7)	0.6	(217)
<i>ASSETS</i>			
Current assets	1.7	2.5	(32)
Non-current assets	0	0	0
Total Assets	1.7	2.5	(32)
<i>LIABILITIES</i>			
Current liabilities	0.3	0.5	(40)
Non-current liabilities	0	0	0
Total Liabilities	0.3	0.5	(40)
<i>EQUITY</i>	1.4	2.0	(30)

Statement of Financial Performance

Operating Revenues

Contributions from constituent councils comprised 68 percent (59 percent) of the Board's operating revenues for the year. Other operating revenues includes grants, prescribed area levies and interest on bank deposits.

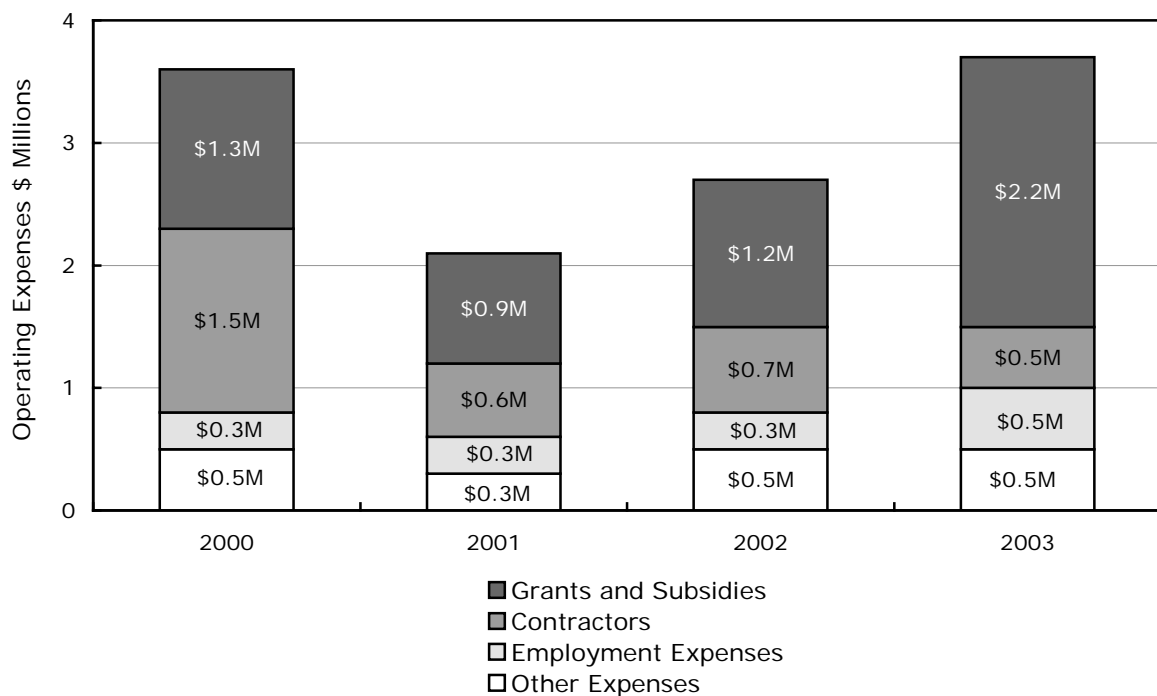
A structural analysis of operating revenues for the Board for the last four years is presented in the following chart.



Operating Expenses

Grants and subsidies provided mainly to councils to undertake water catchment projects have increased significantly in recent years while payments to contractors have decreased.

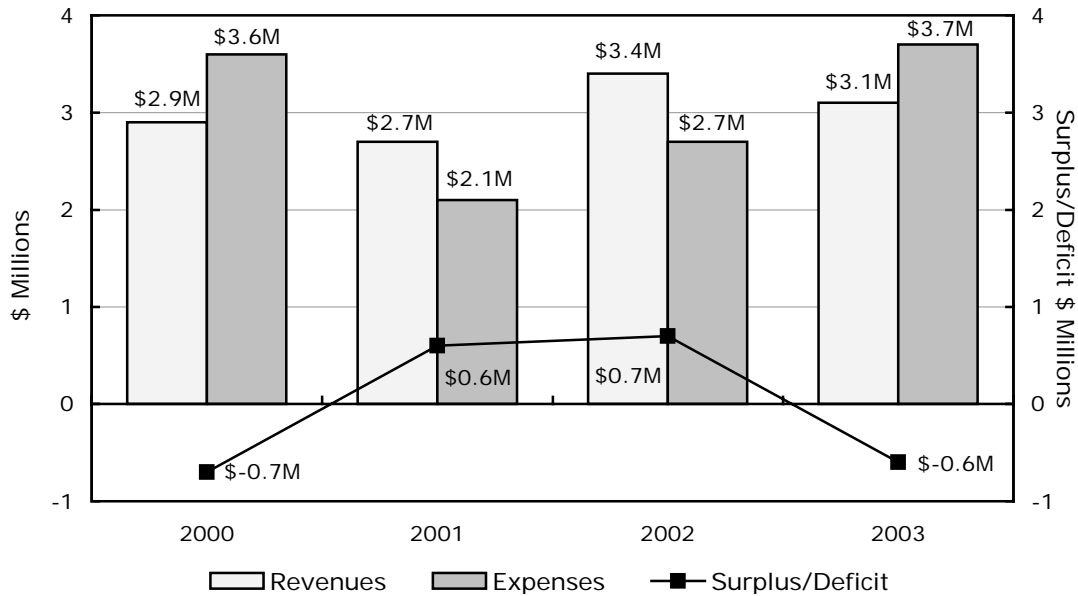
Employee benefits expense increased in 2002-03 due to the employment of additional staff. A structural analysis of the main operating expense items for the Board is shown in the following chart.



Operating Result

In accordance with the provisions of the *Water Resources Act 1997*, the Board receives contributions from Councils and water based levies from licensed water users within the prescribed area. The amount contributed by Councils is based upon the annual estimated expenditure of the Board as detailed in its catchment water management plan, less the funds obtained from other sources including grants and water based levies. As a result, the revenues of the Board are usually equivalent to its expenditure resulting in low surpluses/deficits. Delays in implementing catchment projects affects the level of surpluses/deficits.

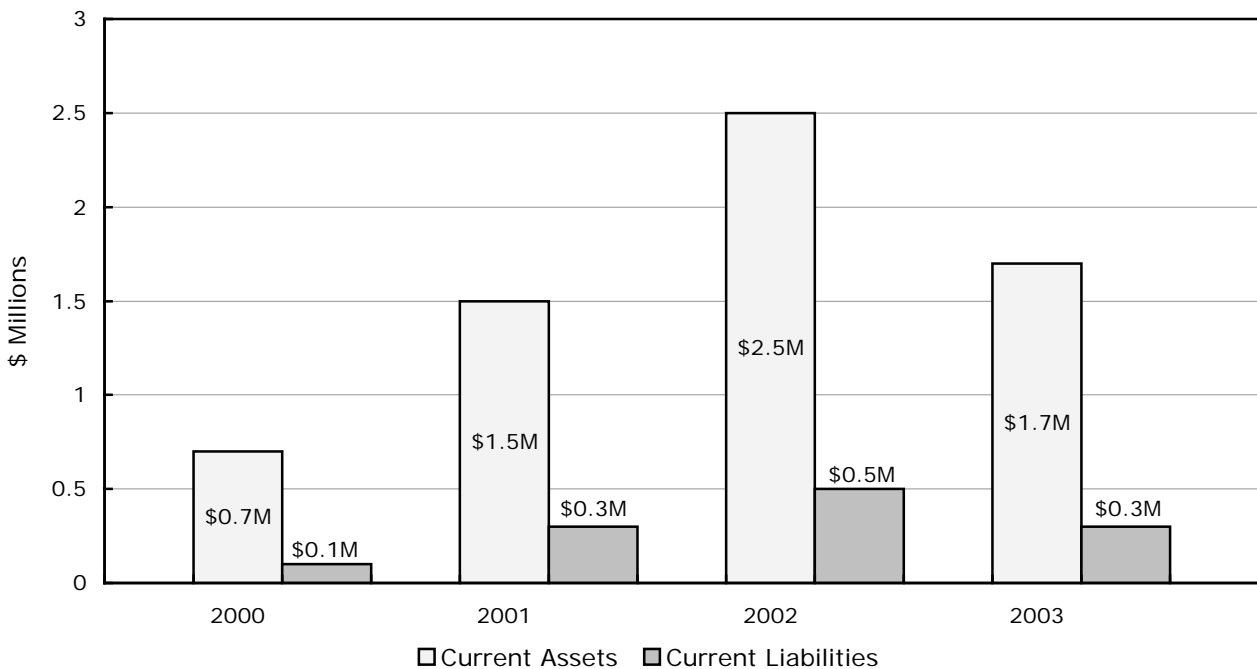
The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2003.



Statement of Financial Position

The Board has significant cash assets to cover its small liabilities. The Board has both insignificant non-current assets and non-current liabilities.

A structural analysis of assets and liabilities for four years to 2003 is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the current year and the preceding three years.

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Net Cash Flows				
Operations	(0.7)	0.6	0.8	(0.7)
Investing	0	0	0	0
Financing	0	0	0	0
Change in Cash	(0.7)	0.6	0.8	(0.7)
Cash at 30 June	1.3	2.0	1.4	0.6

The analysis of cash flows shows that the Board accumulated cash up to 2002-03 when there was a significant increase in grants and subsidies paid mainly to councils to undertake water catchment projects.

Several catchment projects involving contracts and grants to the value of \$2.6 million were committed at 30 June 2003.

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Council contributions	1.3	2 134	2 044
Other contributions and grants		501	924
Prescribed area levies		308	324
Interest received		89	58
Other income		86	40
Total Revenues		3 118	3 390
EXPENSES FROM ORDINARY ACTIVITIES:			
Grants and subsidies		2 205	1 167
Contractors	3	517	655
Employee benefits	2.4	455	328
Other expenses		268	239
Consultants		203	242
Board fees and expenses	13	54	42
Depreciation	2.3,5	9	21
Total Expenses		3 711	2 694
(DEFICIT) SURPLUS FROM ORDINARY ACTIVITIES		(593)	696
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		(593)	696

Northern Adelaide and Barossa Catchment Water Management Board

Statement of Financial Position as at 30 June 2003

	Note	2003	2002
		\$'000	\$'000
CURRENT ASSETS:			
Cash assets		1 268	1 955
Receivables	2.6	358	509
Prepayments		5	17
Total Current Assets		1 631	2 481
NON-CURRENT ASSETS:			
Plant and equipment	4	28	17
Total Non-Current Assets		28	17
Total Assets		1 659	2 498
CURRENT LIABILITIES:			
Payables	2.7,6	244	513
Provisions	7.1	31	18
Total Current Liabilities		275	531
NON-CURRENT LIABILITIES:			
Provisions	7.2	20	10
Total Non-Current Liabilities		20	10
Total Liabilities		295	541
NET ASSETS		1 364	1 957
EQUITY:			
Accumulated surplus	8	1 364	1 957
TOTAL EQUITY		1 364	1 957
Commitments	9		
Contingent Liabilities	10		

**Statement of Cash Flows
for year ended 30 June 2003**

		2003	2002
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
INFLOWS:	Note		
Council contributions		2 283	1 877
Prescribed area levies		311	315
Interest received		88	57
Other contributions and grants received		573	858
Other income received		67	34
GST received from Australian Taxation Office		218	103
OUTFLOWS:			
Payments to suppliers, service providers, grantees and employees		(3 898)	(2 392)
GST paid		(308)	(231)
Net Cash (used in) provided by Operating Activities	11.2	(666)	621
CASH FLOWS FROM INVESTING ACTIVITIES:			
OUTFLOWS:			
Payments for plant and equipment		(21)	-
Net Cash used in Investing Activities		(21)	-
NET (DECREASE) INCREASE IN CASH HELD		(687)	621
CASH AT 1 JULY		1 955	1 334
CASH AT 30 JUNE	11.1	1 268	1 955

Northern Adelaide and Barossa Catchment Water Management Board

**Output Class Schedule of Board's Expenses
for the year ended 30 June 2003**

Outputs (refer Note 2.9)	2003				
	1	2	3	4	5
	\$'000	\$'000	\$'000	\$'000	\$'000
Grants and subsidies	915	179	237	61	342
Contractors	68	14	9	84	194
Employee benefits	68	45	71	50	86
Other expenses	63	22	30	21	92
Consultants	32	1	24	7	15
Board fees and expenses	15	5	6	6	14
Depreciation	2	1	1	1	2
	1 163	267	378	230	745

Outputs (refer Note 2.9)				2003	2002
	6	7	8	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Grants and subsidies	121	145	205	2 205	1 167
Contractors	62	48	38	517	655
Employee benefits	53	35	47	455	328
Other expenses	15	17	8	268	239
Consultants	54	67	3	203	242
Board fees and expenses	3	3	2	54	42
Depreciation	1	1	-	9	21
	309	316	303	3 711	2 694

Revenues from Ordinary Activities have not been distributed to Output Classes as they do not relate to any particular Class.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

1.1 Establishment of Board

The Northern Adelaide and Barossa Catchment Water Management Board (the Board) was established on 24 December 1997 pursuant to the *Water Resources Act 1997*.

The Board commenced operation under an Initial Plan in 1998. The then Minister for Water Resources adopted a new Catchment Water Management Plan (the Plan) for July 2001 to June 2006 on 22 March 2001. The Plan was reviewed during 2002-03, resulting in the new Minister for Environment and Conservation adopting amendments to the Plan's three year projected income and expenditure for the financial years 2003-04 to 2005-06.

1.2 Functions of the Board

The functions of the Board are:

- to prepare and implement a comprehensive Catchment Water Management Plan;
- provision of advice to the Minister for Environment and Conservation and constituent councils regarding water resources management in the Board's area;
- promotion of public awareness of the importance of proper management and sustainable use of the water resources within the Board's area; and
- other functions as are assigned to the Board under the Act or any other Act.

1.3 Sources of Funding

In accordance with the provisions of the *Water Resources Act 1997*, the Board received contributions from councils within the proclaimed catchment area. The amount to be contributed by councils was based upon the estimated expenditure of the Board (as contained in the Catchment Water Management Plan) for the financial year, less the amount of any other funds available to the Board.

Councils are required to impose a separate levy on rateable land in the catchment areas of the Board in order to recover the contributions made to the Board.

Contributions payable by certain Councils to the Board have been reduced by the amount of rebates or remissions granted by Councils in accordance with section 136 of the *Water Resources Act 1997* and Division 5, Part 1 of the *Local Government Act 1999*.

In accordance with the provisions of the Act, a water-based levy was declared in the Government Gazette on 20 June 2002.

The levy is set at the following rate according to whether the allocation is determined on a volumetric basis or an irrigation equivalent basis; where the water allocation on the license is specified:

- as an annual volume in kilolitres for the Northern Adelaide Plains prescribed area, 0.5 cents per kilolitre on use and 0.5 cents per kilolitre on allocation;
- as an annual volume in kilolitres for the Barossa prescribed area, 1.0 cent per kilolitre on allocation or in Irrigation Equivalents, \$10 or \$50 per hectare Irrigation Equivalent (IE) or part thereof, depending on crop type.

The water-based levy is collected by the Department of Water, Land and Biodiversity Conservation and forwarded to the Board.

2. Statement of Significant Accounting Policies

2.1 General

The following is a summary of the significant accounting policies adopted by the Board in the preparation of the general purpose financial report.

The general purpose financial report has been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, Treasurer's Accounting Policy Statements, Treasurer's Instructions, the *Public Finance and Audit Act 1987*, *Water Resources Act 1997* and other mandatory reporting requirements.

The accrual accounting basis has been used for the preparation of the Financial Statements whereby items are brought to account as they are earned or incurred and included in the statements for the accounting periods to which they relate.

The accounts are prepared on the basis of historical cost and are not adjusted to take account of changing money values or current valuations of non-current assets unless otherwise disclosed in these notes.

2.2 Income Recognition

Contributions from constituent councils are recognised as income following determination of the share of each council by the Minister and publication of those amounts in the Government Gazette. Contributions are required to be paid on a quarterly basis to the Board.

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Northern Adelaide and Barossa Catchment Water Management Board

2.2 Income Recognition (continued)

Income from grants and other contributions is recognised following completion of formal documentation between the grantor and the Board.

Other income is recognised when the service has been performed.

All income relates to the operating activities of the Board.

2.3 Non-Current Assets

Depreciation

Depreciation is provided on a straight line basis to write-off the net cost or revalued amount of all plant and equipment over their expected useful lives. Estimates of remaining useful lives are made on a regular basis for all assets, with annual assessments for major items. The expected useful lives are as follows:

	Years
Display systems	3
Computer equipment	5
Office equipment	8
Furniture and fittings	8

Leasehold improvements (fittings) are amortised over the life of the lease.

Assets costing less than \$300 have been included in expenditure in the year of acquisition.

2.4 Employee Benefits

Employer Superannuation

The Board contributed \$40 000 (\$32 000) to superannuation schemes in respect of its employees for the financial year. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability at balance date relates to any contribution due but not yet paid to the superannuation schemes.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision is calculated at nominal amounts based on current salary rates. On-costs have been included in the provision in accordance with Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No provision has been made for sick leave. As sick leave taken by employees is considered to be taken from the current year's accrual, no liability is recognised.

Long Service Leave

The benchmark used for determining long service leave liability is seven years in accordance with Accounting Policy Statement APS 9 'Employee Benefits' issued by the Department of Treasury and Finance. The provision includes entitlements for one employee in recognition of prior service with other government departments.

Workers Compensation

The Board is registered with WorkCover as an exempt employer. The Department of Water, Land and Biodiversity Conservation is responsible for payment of workers compensation claims through a Service Level Agreement signed in September 2001. There were no claims arising under the *Workers Rehabilitation and Compensation Act 1986* and no provision for claims liability has been made at year end based upon previous claims history.

2.5 Leases

The Board has no financial leases.

The Board has entered into operating lease agreements for premises, vehicles, office equipment and computer equipment where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Lease payments are included as expenditure in equal instalments over the accounting periods covered by the lease terms.

Total expenditure on operating leases in the financial year was \$85 000 (\$67 000).

2.6 Receivables

Income receivable on investment of surplus funds is accrued in accordance with the terms and conditions applicable to funds held at the Department of Treasury and Finance in a Section 21 Deposit Account.

2.7 Payables

Trade Creditors

These amounts represent liabilities for goods and services provided to the Board prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Other Payables

These amounts represent unpaid board fees and direct overheads at balance date.

2.8 Credit Risk Exposure

The credit risk on financial assets of the Board, which have been recognised in the Statement of Financial Position, is generally the carrying amount.

Northern Adelaide and Barossa Catchment Water Management Board

2.9 Output Classes of the Board

Outputs are defined as goods or services produced, provided to or acquired for external customers. The Board has defined eight goals in its catchment plan that will ensure sustainable water use and healthy catchments. Each goal requires a range of outputs or services to be provided if the Board is to deliver the outcomes sought by the community and contained within the catchment plan. The identity and description of each goal (or output class) of the Board during the year ended 2003 is summarised below (refer to the Output Class Schedule of Board's Expenses).

Goal 1 Improve Water Quality

Water quality is an important component in the management of catchments used to harvest public water supplies and in maintaining the health of aquatic ecosystems, rivers and Gulf St. Vincent. The rapid expansion in horticultural and residential development in the catchment over the last forty years has resulted in significant manipulation of the natural surface and underground water regimes in the catchment. The outputs from this goal include restoration of priority riparian areas; improvement in urban stormwater quality and minimising development impacts on water resources.

Goal 2 Sustainable Water Use

The surface and underground waters of the catchment are extensively developed, with irrigation being the largest water consumer. Exploitation of this water has led to a decline in the availability and quality of surface water, as well as falling underground water levels. The aim of this goal is to redress adverse impacts through initiatives that promote the sustainable use of land and water resources.

Goal 3 Support Innovative Water Use

Sustainable water management requires the efficient use of traditional water sources such as underground water and surface water, as well as the use of alternative water resources such as stormwater and treated wastewater. The desired outcome from this goal is the development and implementation of regional plans for stormwater and wastewater reuse.

Goal 4 Improve Catchment Biodiversity

There has been a significant loss of biodiversity and fragmentation of habitats within the region through various pressures. The major threats to aquatic habitat include altered flows, physical changes to watercourse morphology and poor water quality. Outputs under this goal include restored terrestrial vegetation; improved urban stormwater management; better management of dams, and environmental water flow requirements determined for major watercourses.

Goal 5 Adoption of Catchment Care

The Board is taking a leadership role in raising community awareness of best catchment management practices through coordination, developing partnerships with a range of interest groups and by community education and promotional activities. In order to deliver effective programs and projects, the Board intends to maintain and strengthen existing partnerships, as well as develop new partnerships across the catchment.

Goal 6 Integrate Land and Water Management

Beneficial change in the condition of the catchment can be achieved if land and water management policies, programs and practices are appropriate to catchment conditions and are effectively integrated. The Board seeks to work cooperatively with state government agencies and local government. The Board's main influence will be through its ability to coordinate and resource activities, advocate for change, and educate and raise awareness of catchment issues.

Goal 7 Monitor Catchment Health

The measurement of physical, chemical and biological parameters is necessary to assess the quantity and quality of the water resources of the catchment and the health of its water dependent ecosystems. At present there are a number of knowledge gaps regarding the existing conditions of the catchment, which need to be addressed. The desired outcomes are increased awareness and participation in best practice catchment management, and increased knowledge of the state of the catchment.

Goal 8 Coordinated Floodplain Management

The impacts of flooding have resulted from a lack of coordination, as the management of floods and the floodplain has largely occurred on an ad-hoc basis. The Board will focus its contribution to floodplain management of what are largely rural rivers and is adopting the role of facilitator to bring about action to mitigate flood hazard.

2.10 Accounting for Goods and Services Tax (GST)

In accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Tax Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash Flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the Australian Tax Office have been classified as operating cash flows.

Northern Adelaide and Barossa Catchment Water Management Board

2.11 Rounding

All amounts are rounded to the nearest thousand dollars.

3. Contractors

Contractors have been used to implement the Board's program of activities including installation of wetlands, watercourse rehabilitation, monitoring of water quality and production of community education material.

4. Plant and Equipment

	2003		2002	
	\$'000	\$'000	\$'000	\$'000
Display systems at cost	6		6	
Less: Accumulated depreciation	5		4	
		1		2
Furniture and fittings at cost	15		19	
Less: Accumulated depreciation	6		15	
		9		4
Computer equipment at cost	22		19	
Less: Accumulated depreciation	19		18	
		3		1
Office equipment at cost	22		14	
Less: Accumulated depreciation	8		7	
		14		7
Office leasehold improvements at cost	21		20	
Less: Accumulated amortisation	20		17	
		1		3
Total Plant and Equipment		28		17

5. Plant and Equipment Movement Schedule

	Carrying	Additions	Disposals	Depreciation	Carrying
	Amount			Expense	Amount
	1.7.02	\$'000	\$'000	\$'000	30.6.03
	\$'000	\$'000	\$'000	\$'000	\$'000
Display systems	2	-	-	(1)	1
Furniture and fittings	4	7	-	(2)	9
Computer equipment	1	3	-	(1)	3
Office equipment	7	10	(1)	(2)	14
Office leasehold improvements	3	1	-	(3)	1
	17	21	(1)	(9)	28

6. Payables

	2003	2002
	\$'000	\$'000
Trade creditors	219	449
Other	25	64
Total	244	513

7. Provisions
7.1 Current Provisions

 Provision for employee benefits:
 Annual leave

31 18

7.2 Non-Current Provisions

 Provision for employee benefits:
 Long service leave

20 10

51 28

8. Accumulated Surplus

Balance at 1 July	1 957	1 261
(Deficit) Surplus from ordinary activities	(593)	696
Balance at 30 June	1 364	1 957

9. Expenditure Commitments
9.1 Lease Commitments

Operating Leases:

Not later than one year 56 65

Later than one year and not later than five years 30 49

Total Operating Lease Commitments (including GST) 86 114

GST included in operating lease commitments 8 11

The operating lease commitments comprise the following:

- a property lease which is non-cancellable. Rental is payable monthly with reviews indexed annually, alternating between market value and CPI indexation. Lease expired March 2003 and lease is currently being negotiated until June 2004.
- a computer lease which is non-cancellable. Rental is payable annually in advance and options exist to renew or cancel the lease at the end of the term of the lease.
- vehicle leases that are non-cancellable. Lease is payable monthly.
- a photocopier lease which is non-cancellable and payable monthly for 2 years.

Northern Adelaide and Barossa Catchment Water Management Board

9.2 Other Expenditure Commitments	2003	2002
	\$'000	\$'000
Not later than one year	1 644	1 344
Later than one year and not later than five years	933	233
Total Other Expenditure Commitments (including GST)	2 577	1 577

GST included in other expenditure commitments	234	143
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Several projects involving contracts and grants have been committed at 30 June 2003. The total commitment is \$2 577 000 for projects including the watercourse management program, works for reducing water pollution, groundwater investigations, greenhouse and horticulture projects at Virginia, integrated management plans including BIPEC, Little Para industry partnership program, Gawler River restoration plan, grants for catchment groups and watercare in schools and Barossa Sustainable farms. This amount is not reflected in the Statement of Financial Performance or Statement of Financial Position for the current financial year.

10. Contingent Liabilities

The Board has no contingent liabilities.

11. Note to the Statement of Cash Flows

11.1 Reconciliation of Cash

For the purposes of the Statement of Cash Flows, the Board considers cash to include cash on hand and in banks and those investments that are able to be converted to cash within two working days.

11.2 Reconciliation of Net Cash (used in) provided by Operating Activities to (Deficit) Surplus from Ordinary Activities	2003	2002
	\$'000	\$'000
(Deficit) Surplus from ordinary activities	(593)	696
Depreciation	9	21
Loss on disposal of plant and equipment	1	1
Decrease (Increase) - Receivables	151	(315)
Decrease (Increase) - Prepayments	12	(3)
(Decrease) Increase - Payables	(269)	222
Increase (Decrease) - Provisions	23	(1)
Net Cash (used in) provided by Operating Activities	(666)	621

12. Auditors' Remuneration

Amount paid or payable to the Auditor-General's Department with respect to the audit of the Board's financial report

17	12
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No other services were provided by the auditors.

13. Remuneration of Board Members

Members of the Northern Adelaide and Barossa Catchment Water Management Board during the financial year were:

Mr Peter Wall: Presiding Member	Mr Stephen Hains
Dr Bruce Eastick	Mrs Pat Harbison
Mr Nick Pezzaniti	Mr Barrie Ormsby
Mrs Lesley Purdom	Mrs Pam Chapman
Mr Ross Dawkins	

Total income received, or due and receivable, by Board Members was \$35 000 (\$27 000). Other expenses of the Board Members were \$19 000 (\$15 000)

The number of Members whose income from the entity falls within the following bands is:

	2003	2002
	Number of	Number of
	Members	Members
\$0 - \$9 999	8	9
\$10 000 - \$19 999	-	1
\$20 000 - \$29 999	1	-

Prescribed benefits given by the Board to prescribed superannuation funds or otherwise in connection with the retirement of Board Members were \$2 000 (\$1 000).

In accordance with the Department of the Premier and Cabinet Circular No. 14, one Board Member (Mrs Pam Chapman) did not receive any remuneration as this Member was an employee of the Government. One Board Member (Mr Stephen Hains) was employed by a constituent council and elected to have his remuneration paid directly to that council.

Related Party Disclosures

Three Board Members have direct affiliations with Local Government Councils from which Council contributions are received by the Board. They are:

Mr Stephen Hains	Employee, City of Salisbury
Mrs Lesley Purdom	Mayor, City of Tea Tree Gully
Mr Ross Dawkins	Councillor, Light Regional Council (until 12.5.03)

Northern Adelaide and Barossa Catchment Water Management Board

Related Party Disclosures (continued)

During the year grants totalling \$886 000 (\$636 000) were approved for the Councils of three Board Members; one employee, a Mayor and one councillor. Schedule 2 clause 10 (10) of the *Water Resources Act 1997* provides that a member of the Board does not have a direct or indirect personal or pecuniary interest in any matter under consideration by the Board simply by being a member of a constituent council. The nature of the grants and conditions attached, were similar to other grants provided to various organisations.

14. Remuneration of Executives

The number of Executive Officers whose normal remuneration from the Northern Adelaide and Barossa Catchment Water Management Boards falls within the following bandwidth:

	2003 Number of Executive	2002 Number of Executive
\$100 000 - \$109 999	-	1
\$110 000 - \$119 999	1	-

15. Financial Instruments

Interest Rate Risk Exposure

The Board's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

	Floating Interest Rate \$'000	2003 Non- Interest Bearing \$'000	Total \$'000	Floating Interest Rate \$'000	2002 Non- Interest Bearing \$'000	Total \$'000
Financial Assets:						
Cash assets	1 268	-	1 268	1 955	-	1 955
Receivables	-	358	358	-	509	509
	1 268	358	1 626	1 955	509	2 464
Weighted average interest rate (percent)	4.65			4.48		
Financial Liabilities:						
Payables	-	244	244	-	513	513
	-	244	244	-	513	513
Weighted average interest rate (percent)	-			-		
Net Financial Assets (Liabilities)	1 268	114	1 382	1 955	(4)	1 951

Reconciliation of Net Financial Assets to Net Assets

	2003 \$'000	2002 \$'000
Net financial assets as above	1 382	1 951
Non-financial assets and liabilities:		
Plant and equipment	28	17
Prepayments	5	17
Provisions	(51)	(28)
Net Assets per Statement of Financial Position	1 364	1 957

Net Fair Value of Financial Assets and Liabilities - On-Statement of Financial Position

The net fair value of cash and equivalents and non-interest bearing monetary financial assets and financial liabilities of the Board approximates their carrying value.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2003		2002	
On-Statement of Financial Position	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
Financial Assets:				
Cash assets	1 268	1 268	1 955	1 955
Receivables	358	358	509	509
Financial Liabilities:				
Payables	(244)	(244)	(513)	(513)
Total	1 382	1 382	1 951	1 951

ONKAPARINGA CATCHMENT WATER MANAGEMENT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Onkaparinga Catchment Water Management Board was established on 24 December 1997 pursuant to the *Water Resources Act 1997*.

Functions

The functions of the Board are as follows:

- prepare and implement a comprehensive Catchment Water Management Plan
- provide advice to the Minister for Environment and Conservation and constituent councils regarding water resources management in the Board's area
- promote public awareness of the importance of proper management and sustainable use of the water resources within the Board's area
- provide other services as assigned to the Board under the Act or any other Act.

Structure

The Board is responsible to the Minister and is supported by the General Manager and officers in implementing its Catchment Water Management Plan.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and section 74(2) of the *Water Resources Act 1997* provides for the Auditor-General to audit the accounts of the Onkaparinga Catchment Water Management Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Onkaparinga Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- budgetary control and management reporting
- accounts payable
- payroll
- revenue, including Council contributions
- project reporting
- grant administration.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager. The response to the management letter was considered to be satisfactory.

AUDIT FINDINGS AND COMMENTS**Audit Opinions****Audit of Financial Statements**

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Onkaparinga Catchment Water Management Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Onkaparinga Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient, except for the matter outlined under Significant Matters Raised with Agencies, to provide reasonable assurance that the financial transactions of the Onkaparinga Catchment Water Management Board have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

The interim audit of the Board included review of the delegations of authority for expenditure of monies. The review identified that the delegations of authority to Board employees were not approved by the Minister as is required by subsection 66(1)(b) of the *Water Resources Act 1997*. This finding was communicated to the Board who indicated, pursuant to a Crown Solicitor opinion on 3 August 2001, that they believe their delegation arrangements were appropriate and authorised but, along with other Catchment Water Management Boards, they would seek clarification from the Crown Solicitor. A response was not received from the Crown Solicitor at the time of preparing this report.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

	2003 \$'million	2002 \$'million	Percentage Change
OPERATING REVENUE			
Council contributions	2.1	2.1	0
Other	0.8	0.7	14
Total Operating Revenue	2.9	2.8	4
OPERATING EXPENDITURE			
Contractors	1.2	1.0	20
Other expenses	1.7	1.9	(11)
Total Operating Expenses	2.9	2.9	0
Surplus (Deficit) *	0	(0.1)	100
Net Cash Flows from Operations	0.1	(0.3)	133

	2003 \$'million	2002 \$'million	Percentage Change
ASSETS			
Current assets	1.3	1.3	0
Non-current assets	0.1	0.1	0
Total Assets	1.4	1.4	0
LIABILITIES			
Current liabilities	0.2	0.2	0
Non-current liabilities	0	0	0
Total Liabilities	0.2	0.2	0
EQUITY	1.2	1.2	0

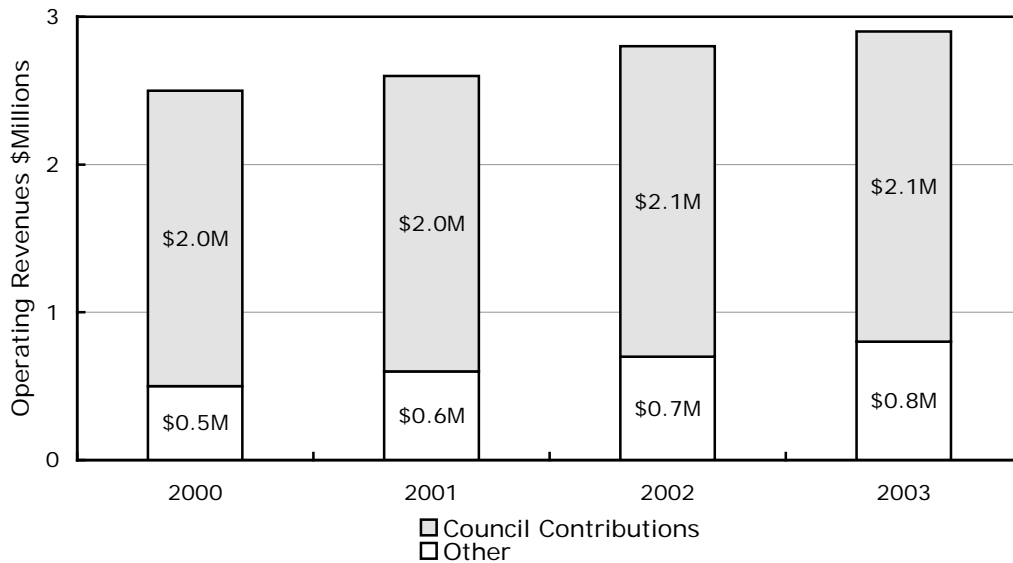
* The surplus/deficit includes some non-operating items.

Statement of Financial Performance

Operating Revenues

Constituent Councils provided contributions of \$2.1 million (\$2.1 million) to the Board in 2002-03. The contributions comprised 72 percent (75 percent) of the Board’s operating revenues for the year. Other operating revenues include grants, water based levies and interest on bank deposits.

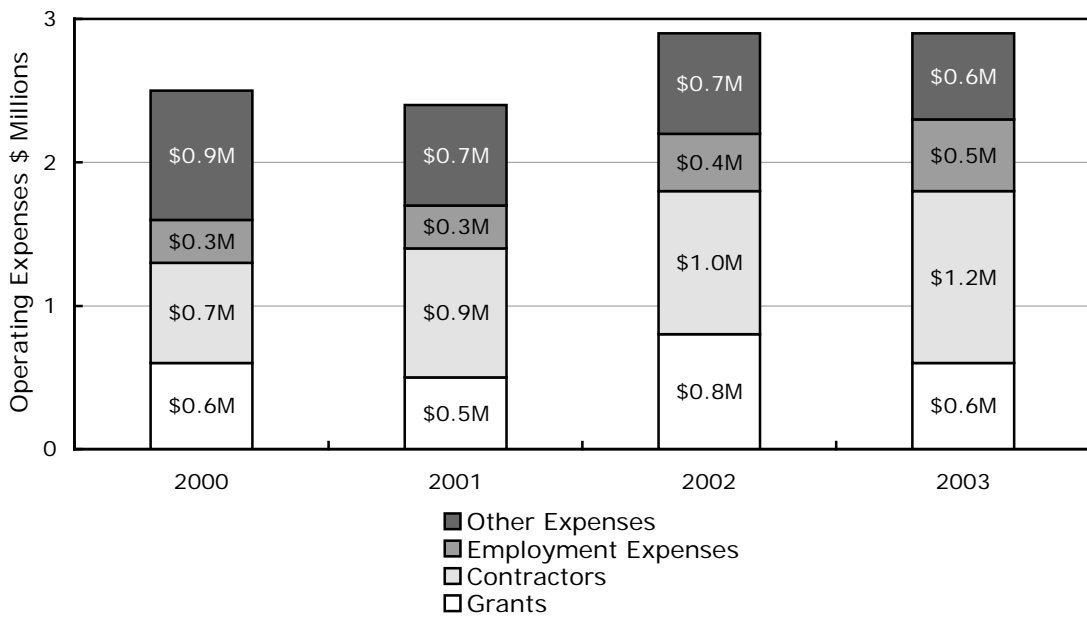
For the four years to 2003 a structural analysis of operating revenues for the Board is presented in the following chart.



Operating Expenses

Contractor expenses of \$1.2 million (\$1 million) comprised 41 percent (34 percent) of the Board’s operating expenses for the year. The Board utilises contractors to undertake rehabilitation work such as erosion and weed control, revegetation work, removal of exotic plant species and monitoring of water quality and hydrometric flow.

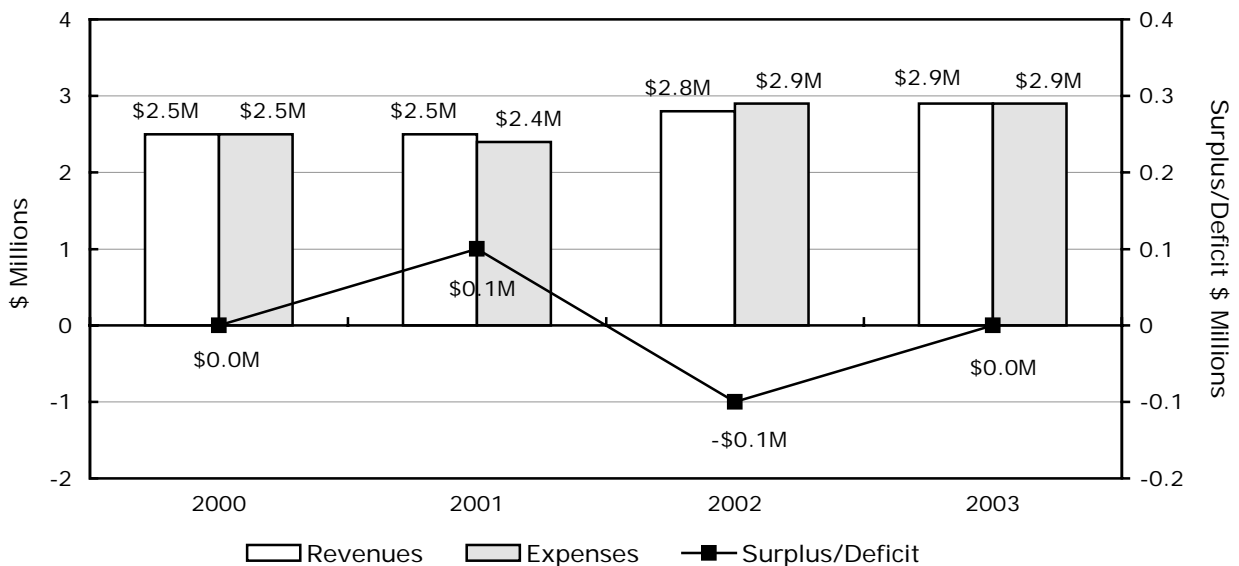
For the four years to 2003 a structural analysis of the main operating expense items for the Board is shown in the following chart.



Operating Result

In accordance with the provisions of the *Water Resources Act 1997*, the Board receives contributions from Councils and water based levies from licensed land owners within the proclaimed catchment area. The amount contributed by Councils is based upon the annual estimated expenditure of the Board as detailed in its catchment water management plans, less the funds obtained from other sources including grants and water based levies. As a result, the revenues of the Board are usually equivalent to its expenditure resulting in low surpluses/deficits.

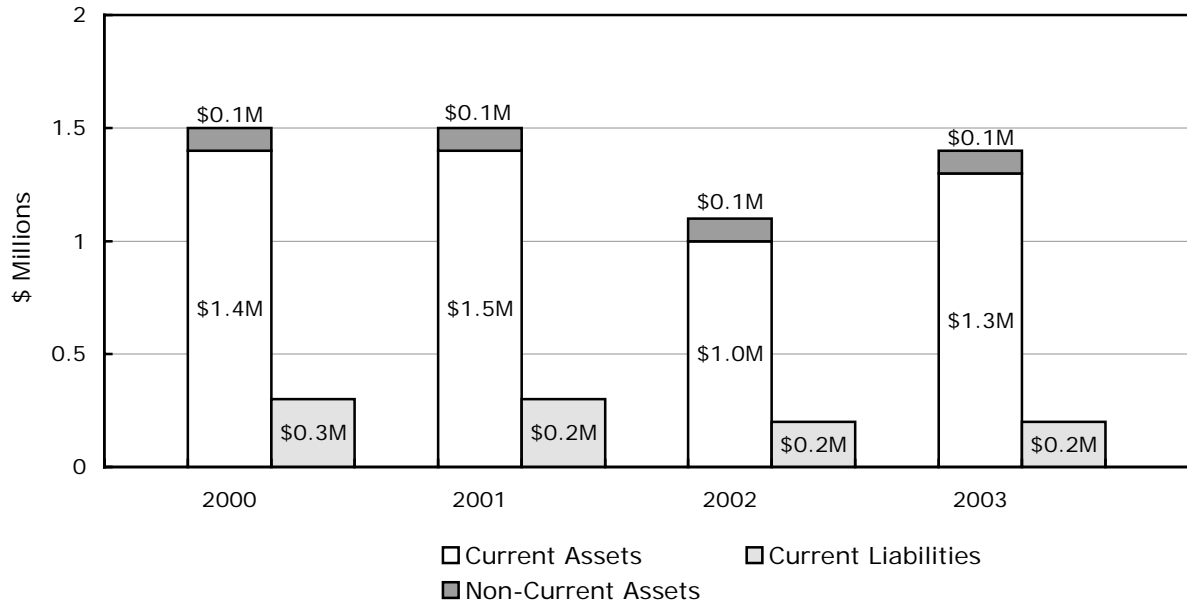
The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2003.



Statement of Financial Position

The Board has significant cash assets to cover its liabilities. The Board has no non-current liabilities.

For the four years to 2003 a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

The analysis of cash flows shows that the Board's cash assets have remained relatively constant over the last four years. The Board has entered into commitments for expenditure of part of this cash as reflected in Note 10 of the financial statements.

Onkaparinga Catchment Water Management Board

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Council contributions	1.3	2 127	2 074
Grants		670	602
Water based levy		48	54
Interest received		55	53
Other income		1	1
Total Revenues		2 901	2 784
EXPENSES FROM ORDINARY ACTIVITIES:			
Contractors	3	1 194	998
Grants and subsidies		630	758
Consultants		330	556
Employee benefits	2.4	499	368
Board fees and expenses	13.1	45	38
Depreciation	2.3,6	14	15
Other expenses		188	195
Total Expenses	4	2 900	2 928
SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES		1	(144)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		1	(144)

**Statement of Financial Position
as at 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
CURRENT ASSETS:			
Cash assets	15.1	1 116	1 021
Receivables	2.6	231	316
Prepayments		1	-
Total Current Assets		1 348	1 337
NON-CURRENT ASSETS:			
Plant and equipment	5,6	59	71
Total Non-Current Assets		59	71
Total Assets		1 407	1 408
CURRENT LIABILITIES:			
Payables	2,7,7	117	142
Provisions	8	47	24
Total Current Liabilities		164	166
Total Liabilities		164	166
NET ASSETS		1 243	1 242
EQUITY:			
Accumulated surplus	9	1 243	1 242
TOTAL EQUITY		1 243	1 242
Commitments	10		
Contingent Liabilities	11		

Onkaparinga Catchment Water Management Board

**Statement of Cash Flows
for year ended 30 June 2003**

		2003	2002
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Inflows:			
Council contributions		2 127	2 074
Grants received		731	536
Water based levy		48	54
Goods and Services Tax receipts		334	319
Interest received		54	54
Other income		1	1
Outflows:			
Payments to suppliers, service providers, grantees and employees		(2 889)	(2 983)
Goods and Services Tax paid		(309)	(318)
Net Cash provided by (used in) Operating Activities	15.2	97	(263)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Inflows:			
Proceeds from sale of plant and equipment		-	2
Outflows:			
Payments for plant and equipment		(2)	(15)
Net Cash used in Investing Activities		(2)	(13)
NET INCREASE (DECREASE) IN CASH HELD		95	(276)
CASH AT 1 JULY		1 021	1 297
CASH AT 30 JUNE	15.1	1 116	1 021

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

1.1 Establishment of the Board

The *Water Resources Act 1997*, came into operation on 2 July 1997 and provides for the management and sustainable use of the State's water resources.

The Onkaparinga Catchment Water Management Board (the Board) was established on 24 December 1997 pursuant to the *Water Resources Act 1997*.

The Onkaparinga Catchment Water Management Plan (the Plan) was adopted by the Minister for Water Resources, pursuant to section 95 of the *Water Resources Act 1997*, on 1 December 2000.

In accordance with the *Water Resources Act 1997*, the Board conducted an annual review of the Plan during the year. The 2002-03 review amended projected income and expenditure for the financial years 2003-04 to 2005-06 and was adopted by the Minister for Environment and Conservation on 22 April 2003.

1.2 Functions of the Board

The functions of the Board are to:

- prepare a comprehensive Catchment Water Management Plan;
- provide advice to the Minister for Environment and Conservation and constituent councils regarding water resources management in the Board's area;
- promote public awareness of the importance of proper management and sustainable use of the water resources within the Board's area;
- provide other services as assigned to the Board under the Act or any other Act.

1.3 Sources of Funding

In accordance with the provisions of the *Water Resources Act 1997*, the Board received contributions from councils and levies from licensed land owners within the proclaimed catchment area. The amount contributed by councils was based upon the estimated expenditure of the Board (as contained in the 2001-02 Annual Review) for the financial year, less the amount of any other funds available to the Board. Land owners were charged a fee based upon water consumption in accordance with their license.

Councils are required to impose a separate levy on rateable land in the catchment areas of the Board in order to recover the contributions made to the Board.

Contributions payable by constituent Councils to the Board have been reduced by the amount of rebates or remissions granted by Councils in accordance with section 136 of the *Water Resources Act 1997* and Division 5 of Part 1 of the *Local Government Act 1999*.

2. Statement of Significant Accounting Policies

2.1 General

The following is a summary of the significant accounting policies adopted by the Board in the preparation of the general purpose financial report.

The general purpose financial report has been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, Treasurer's Accounting Policy Statements, Treasurer's Instructions, the *Public Finance and Audit Act 1987*, *Water Resources Act 1997* and other mandatory reporting requirements.

The Financial Statements have been prepared on an accrual basis whereby items are brought to account as they are earned or incurred and included in the statements for the accounting periods to which they relate.

The accounts are prepared on the basis of historical cost and are not adjusted to take account of changing money values or current valuations of non-current assets unless otherwise disclosed in these Notes.

2.2 Income Recognition

Contributions from constituent councils are recognised as income following determination of the share of each council by the Minister and publication of those amounts in the Government Gazette. Contributions are required to be paid on a quarterly basis to the Board.

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Income from grants is recognised following completion of formal documentation between the grantor and the Board.

Other income is recognised when the service has been performed.

All income relates to the operating activities of the Board.

2.3 Non-Current Assets

Depreciation

Depreciation is provided on a straight line basis to write off the net cost or revalued amount of all plant and equipment assets, over their estimated useful lives. Estimates of remaining useful lives are made on a regular basis for all assets, with annual assessments for major items.

Onkaparinga Catchment Water Management Board

Depreciation (continued)

The expected useful lives are as follows:

	Years
Display equipment	3
Computer equipment	5
Office equipment	8
Office furniture and fittings	20
Water monitoring equipment and gauging stations	25

Assets costing less than \$300 have been included in expenditure in the year of acquisition.

2.4 Employee Benefits*Employer Superannuation*

The Board contributed \$48 000 (\$37 000) in superannuation in respect of its employees for the financial year. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability at balance date relates to any contribution due but not yet paid to the superannuation schemes.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision is calculated at nominal amounts based on current salary rates. On-costs have been included in the provision in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No provision has been made for sick leave. Sick leave taken by employees is considered to be taken from the current year's accrual and, in consequence, no liability is recognised.

Workers Compensation

The Board is registered with WorkCover as an exempt employer and has entered a service level agreement with the Department for Administrative and Information Services to provide insurance cover for work caused injuries.

Long Service Leave

No provision has been made for long service leave as no employee has more than seven years service, which is the benchmark for determining long service leave liability in accordance with Accounting Policy Statement APS 9 'Employee Benefits' issued by the Department of Treasury and Finance.

2.5 Leases

The Board has no financial leases.

The Board has entered operating lease agreements in relation to office premises and printing equipment whereby the lessors effectively retain all of the risks and benefits incidental to ownership of the property held under the operating leases.

Lease payments are included as expenditure in equal instalments over the accounting periods covered by the lease terms.

Total expenditure on operating leases in 2002-03 was \$49 000 (\$44 000).

2.6 Receivables

Income receivable on investment of surplus funds is accrued in accordance with the terms and conditions applicable to funds held at Department of Treasury and Finance in a Section 21 Deposit Account.

2.7 Payables*Trade Creditors*

These amounts represent liabilities for goods and services provided to the Board prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Other Payables

These amounts represent unpaid board fees and other direct overheads at balance date.

2.8 Credit Risk Exposure

The credit risk on financial assets of the Board which have been recognised in the Statement of Financial Position, is generally the carrying amount.

2.9 Accounting for Goods and Services Tax (GST)

In accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense;
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Tax Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash Flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the Australian Tax Office have however been classified as operating cash flows.

Onkaparinga Catchment Water Management Board

2.10 Rounding

All amounts are rounded to the nearest thousand dollars.

3. Contractors

The Board utilised the services of a number of contractors during the year to undertake a variety of on-ground and other works on its behalf in the catchment. These works included riparian rehabilitation such as erosion and weed control, revegetation work, removal of exotic plant species and water quality and hydrometric flow monitoring.

4. Output Class Schedule of Board Operating Expenses for the year ended 30 June 2003

Output Class	1	2	3	4	5	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	Total \$'000	Total \$'000
Contractors	733	269	68	109	15	1 194	998
Grants and subsidies	106	83	15	394	32	630	758
Consultants	246	3	69	3	9	330	556
Employee benefits	157	58	80	165	39	499	368
Board fees and expenses	20	7	4	12	2	45	38
Depreciation	6	2	2	3	1	14	15
Other expenses	56	19	33	64	16	188	195
Total Expenses	1 324	441	271	750	114	2 900	2 928

Revenues from Ordinary Activities have not been distributed to Output Classes as they do not relate to any particular class.

Outputs are defined as goods and services produced, provided to or acquired for external customers.

The identity and description of each Output Class of the Board during 2002-03 are summarised below:

Output 1 Rehabilitation and Management of Water Courses

The Board is implementing a watercourse action program in conjunction with relevant stakeholders including property plans, water for the environment as determined for the Onkaparinga River and coastal streams, riparian restoration works and floodplain mapping.

Output 2 Maintenance and Enhancement of Quality of Surface and Groundwaters

The Board is establishing revegetated buffer zones adjacent to watercourses and promoting best practice design and management of dams. The Board is providing financial assistance to improve the management of septic tank systems and re-use opportunities for treated wastewater are being investigated. Surface groundwater monitoring is being undertaken. Databases are being developed for land use purposes and stormwater systems, and financial contribution is being made to the Adelaide coastal waters study.

Output 3 Sustainable Use of Water

The Board is implementing the approved Water Allocation Plan for the McLaren Vale Prescribed Wells Area. It is also facilitating re-use opportunities and monitoring flows through a network of gauging stations. Database development covering surface groundwater interaction, water balance model and requirements of local manufacturing industries are also being progressed. A progressive survey is being undertaken of location, quantity and quality of groundwater resources. The Board is also working with other Catchment Water Management Boards to define non market values and other economic factors associated with the water resource.

Output 4 An Aware and Committed Community

The Board is pursuing its goal of developing an aware and committed community through effective consultation and educational programs which promote environmental responsibility within the community and involve them in environmental issues. In delivering this goal the Board has a number of ongoing educational programs operating with community organisations, Local Government and industry. It also participates in joint educational programs with other Catchment Boards and Government Agencies. Activities include publications, web site and community involvement programs.

Output 5 Partnerships and Integration between Stakeholders.

The Board contributes to the effective management of State Water Resources in conjunction with all stakeholders. In meeting this requirement, the Board has in place mechanisms to ensure appropriate consultation occurs in the decision making process and that appropriate partnerships are formed to gain maximum benefit from the available economic resources. The Board is also undertaking the permitting of Water Affecting Activities under section 9 of the *Water Resources Act 1997*.

5. Plant and Equipment

	2003		2002	
	\$'000	\$'000	\$'000	\$'000
Office furniture and equipment at cost	105		103	
Less: Accumulated depreciation	57		44	
		48		59
Water monitoring equipment and gauging stations at cost	13		13	
Less: Accumulated depreciation	2		1	
		11		12
Total Plant and Equipment		59		71

Onkaparinga Catchment Water Management Board

6. Asset Movement Schedule	2003 Water			2002 Water		
	Office Furniture & Equipment \$'000	Monitoring & Gauging Stations \$'000	Total \$'000	Office Furniture & Equipment \$'000	Monitoring & Gauging Stations \$'000	Total \$'000
Carrying value at 1 July	59	12	71	72	12	84
Additions	2	-	2	15	-	15
Disposals	-	-	-	(13)	-	(13)
Depreciation expense	(13)	(1)	(14)	(15)	-	(15)
Carrying Value at 30 June	48	11	59	59	12	71

7. Payables	2003 \$'000	2002 \$'000
Trade creditors	89	120
Other payables	28	22
Total	117	142

8. Provisions	2003 \$'000	2002 \$'000
Current Provisions:		
Provision for employee benefits:		
Annual leave	47	24

9. Accumulated Surplus	2003 \$'000	2002 \$'000
Balance at 1 July	1 242	1 386
Add: Surplus (Deficit) from ordinary activities	1	(144)
Balance at 30 June	1 243	1 242

10. Expenditure Commitments	2003 \$'000	2002 \$'000
10.1 Lease Commitments (Excluding GST)		
Operating Lease:		
Not later than one year	56	41
Later than one year and not later than five years	94	18
Aggregate Lease Expenditure Contracted for at Balance Date but not Provided for	150	59

Property lease commitments are non-cancellable with rentals payable monthly in advance for the office and photocopier and quarterly in advance for computer equipment.

Options exist to renew all lease arrangements upon expiry of the respective terms.

10.2 Other Commitments (Excluding GST)	2003 \$'000	2002 \$'000
Several projects in the form of contracts and grants had been committed at 30 June 2003:		
Not later than one year	227	325
Later than one year and not later than five years	90	13
	317	338

Projects include grants to councils, community assistance, riparian rehabilitation, revegetation work, water quality and hydrometrics flows in the catchment. This amount is not reflected in the Statement of Financial Performance or Statement of Financial Position for the current financial year.

The Board had no outstanding contractual commitments for capital works at balance date.

11. Contingent Liabilities	2003 \$'000	2002 \$'000
The Board has no contingent liabilities.		
12. Auditors' Remuneration		
Amount due and receivable by the auditors for auditing the financial report.	11	11

No other services were provided by the auditors.

13. Remuneration of Board Members and Executives	2003 \$'000	2002 \$'000
13.1 Board Members' Remuneration		
Members of the Onkaparinga Catchment Water Management Board during the financial year were:		
Mr Roger Goldsworthy: Presiding Member		
Mrs Anita Aspinall		
Mr Joch Bosworth		
Ms Lynn Chamberlain		
Mr Robert McLennan		
Mr Michael Stafford		
Ms Debra Just		
Mr Cyril Wear		
Mr Deane Michelmore (appointed on 23.1.03)		
Mr David Paschke (appointment concluded on 13.1.03)		

Onkaparinga Catchment Water Management Board

13.1 Board Members' Remuneration (continued)

Total income received, or due and receivable, by Board Members and Members of two catchment management consultative committees was \$34 000 (\$25 000). Other expenses of the Board Members were \$11 000 (\$13 000).

	2003	2002
	Number of	Number of
	Members	Members
The number of Members whose income from the entity falls within the following bands are:		
\$0 - \$9 999	9	8
\$10 000 - \$19 999	1	1

Prescribed benefits given by the Board to prescribed superannuation funds or otherwise in connection with the retirement of Board Members were \$2 000 (\$2 000).

In accordance with the Department of the Premier and Cabinet Circular No. 14, Robert McLennan, as a government employee, did not receive any remuneration from the Board during the year.

Mr Joch Bosworth elected not to receive fees as a Member of the Board.

13.2 Executive Officers' Remuneration

No executive officer of the Board received an income of \$100 000 or more during the year.

14. Related Party Disclosures

Two Board Members have direct affiliations with Local Government Councils from which Council contributions are received by the Board. They are:

Mr David Paschke	Adelaide Hills Council
Ms Debra Just	City of Onkaparinga

During the year grants totalling \$264 000 (\$167 000) were approved for employers (or Councils where Board Members are elected members) of two Board Members. Schedule 2, clause 10(10) of the *Water Resources Act 1997* provides that a member of the Board does not have a direct or indirect personal or pecuniary interest in any matter under consideration by the Board simply by being a member of a constituent council. The nature of the grants and conditions attached, were similar to other grants provided to various organisations.

15. Note to the Statement of Cash Flows

15.1 Reconciliation of Cash

For the purposes of the Statement of Cash Flows, the Board considers cash to include cash on hand and in banks and those investments that are able to be converted to cash within two working days.

15.2 Reconciliation of Net Cash provided by (used in) Operating Activities to Surplus (Deficit) from Ordinary Activities

	2003	2002
	\$'000	\$'000
Surplus (Deficit) from Ordinary Activities	1	(144)
Depreciation	14	15
Loss on sale of plant	-	6
Decrease (Increase) - Receivables - Net of amounts due in relation to asset disposals	85	(64)
(Increase) - Prepayments	(1)	-
(Decrease) - Payables	(25)	(86)
Increase - Provisions	23	10
Net Cash provided by (used in) Operating Activities	97	(263)

16. Financial Instruments

Interest Rate Risk Exposure

The Board's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

	Floating	2003	Total	Floating	2002	Total
	Interest	Non-	Carrying	Interest	Non-	Carrying
	Rate	Interest	Amount	Rate	Interest	Amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:						
Cash assets	1 116	-	1 116	1 021	-	1 021
Receivables	4	228	232	4	312	316
	1 120	228	1 348	1 025	312	1 337
Weighted average interest rate (percent)	4.60			4.17		
Financial Liabilities:						
Payables	-	117	117	-	142	142
	-	117	117	-	142	142
Weighted average interest rate (percent)	-			-		
Net Financial Assets	1 120	111	1 231	1 025	170	1 195

Onkaparinga Catchment Water Management Board

Reconciliation of Net Financial Assets to Net Assets

	2003	2002
	\$'000	\$'000
Net financial assets as above	1 231	1 195
Non-financial assets and liabilities:		
Plant and equipment	59	71
Provisions	(47)	(24)
Net Assets per Statement of Financial Position	1 243	1 242

Net Fair Value of Financial Assets and Liabilities - On-Statement of Financial Position

The net fair value of cash and equivalents and non-interest bearing monetary financial assets and financial liabilities of the Board approximates their carrying value.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2003		2002	
	Carrying	Net Fair	Carrying	Net Fair
On-Statement of Financial Position Financial Instruments	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
Financial Assets:				
Cash assets	1 116	1 116	1 021	1 021
Receivables	232	232	316	316
Financial Liabilities:				
Payables	(117)	(117)	(142)	(142)
	1 231	1 231	1 195	1 195

PATAWALONGA CATCHMENT WATER MANAGEMENT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Patawalonga Catchment Water Management Board (the Board) was established on 7 May 1995 pursuant to the *Catchment Water Management Act 1995*, which was subsumed by the *Water Resources Act 1997*.

Functions

The functions of the Board are as follows:

- To prepare and implement a comprehensive Catchment Water Management Plan.
- To provide advice to the Minister and the constituent councils regarding the management of water resources within the Board's area.
- To promote public awareness of the importance of proper management and sustainable use of the water resources within the Board's area.

Structure

The Board is responsible to the Minister and is supported by the General Manager and officers in implementing its Catchment Water Management Plan.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 74(2) of the *Water Resources Act 1997* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- budgetary control and management reporting
- accounts payable
- payroll
- revenue, including council contributions and grant funding
- grant administration.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager. The response to the management letter was considered to be satisfactory.

AUDIT FINDINGS AND COMMENTS**Audit Opinions*****Audit of Financial Statements***

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Patawalonga Catchment Water Management Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Patawalonga Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient, except for the matter outlined under Significant Matters Raised with Agencies, to provide reasonable assurance that the financial transactions of the Patawalonga Catchment Water Management Board have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

The interim audit of the Board included review of the delegations of authority for expenditure of monies. The review identified that the delegations of authority to Board employees were not approved by the Minister as is required by subsection 66(1)(b) of the *Water Resources Act 1997*. This finding was communicated to the Board who indicated they, along with other Catchment Water Management Boards, would seek clarification from the Crown Solicitor. A response was not received from the Crown Solicitor at the time of preparing this Report.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

	2003 \$'million	2002 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Council contributions	2.3	2.3	0
Other revenues	0.4	0.8	(50)
Total Operating Revenue	2.7	3.1	(13)
<i>OPERATING EXPENDITURE</i>			
Contractors	1.1	2.1	(48)
Other expenses	1.7	1.6	6
Total Operating Expenses	2.8	3.7	(24)
Surplus (Deficit) *	(0.1)	(0.6)	83
Net Cash Flows from Operations	0.8	(0.9)	189
<i>ASSETS</i>			
Current assets	2.0	1.9	5
Non-current assets	2.3	2.4	(4)
Total Assets	4.3	4.3	0
<i>LIABILITIES</i>			
Current liabilities	0.2	0.1	100
Non-current liabilities	0	0	0
Total Liabilities	0.2	0.1	100
<i>EQUITY</i>	4.1	4.2	(2)

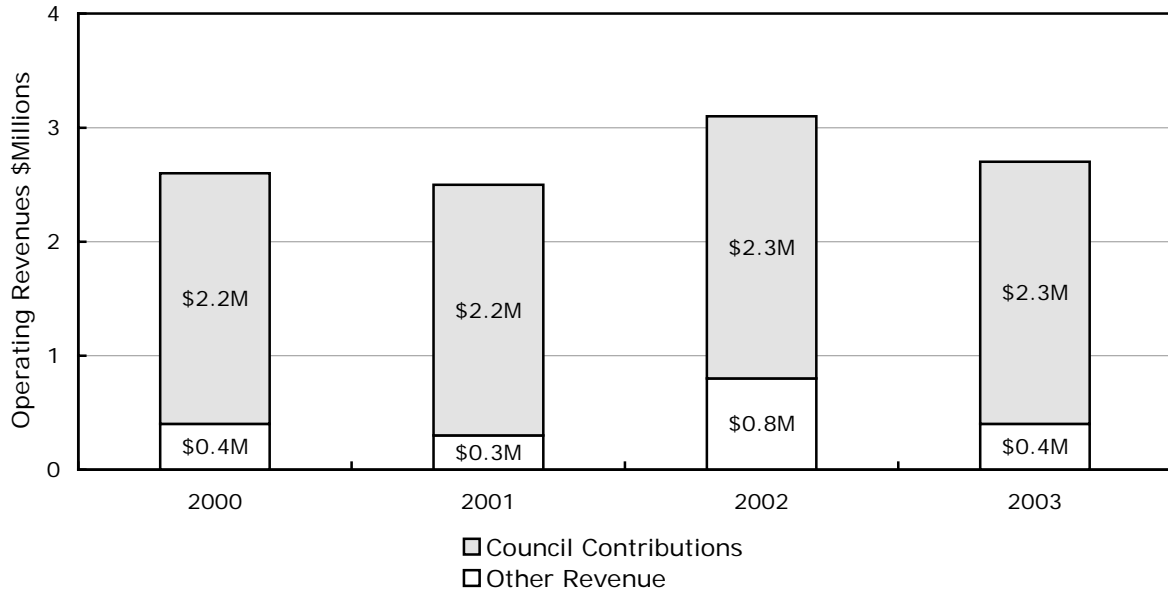
* The surplus/deficit includes some non-operating items.

Statement of Financial Performance

Operating Revenues

Constituent Councils provided contributions of \$2.3 million (\$2.3 million) to the Board in 2002-03. The contributions comprised 85 percent (74 percent) of the Board’s operating revenues for the year. Other operating revenues included grants and interest on bank deposits.

For the four years to 2003 a structural analysis of operating revenues for the Board is presented in the following chart.

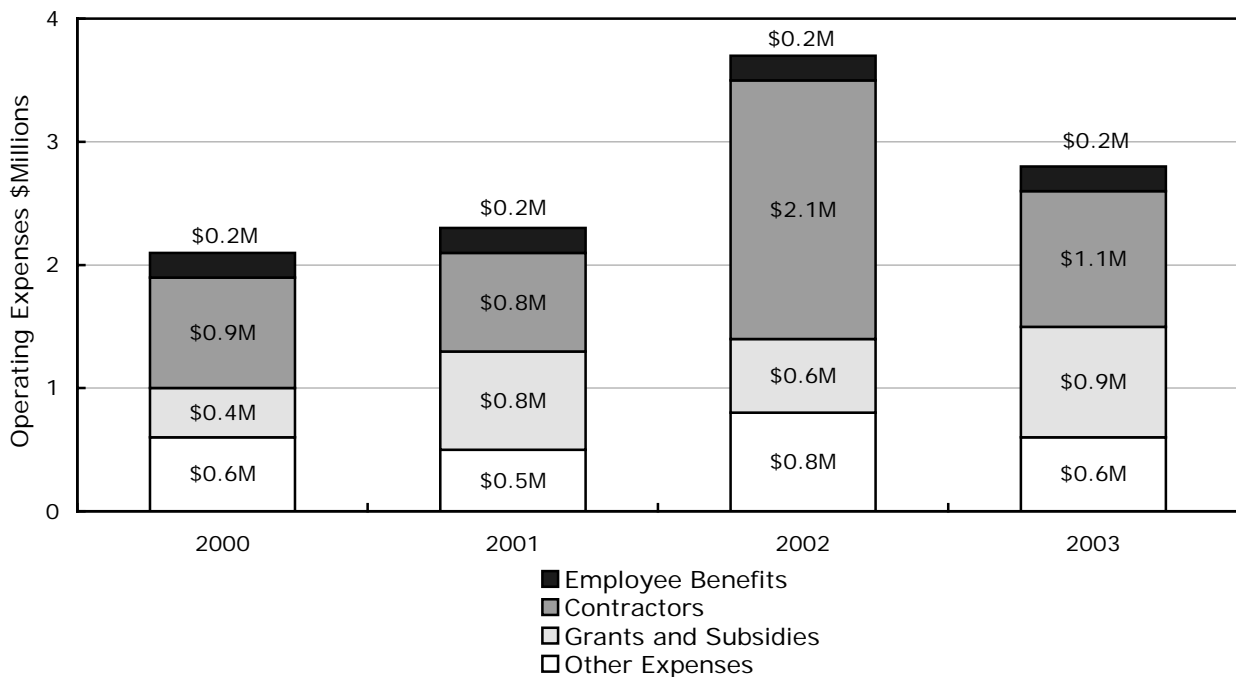


Operating Expenses

Contractor expenses of \$1.1 million (\$2.1 million) comprised 39 percent (57 percent) of the Board’s operating expenses in 2002-03. Contractor expenses were significantly higher in 2001-02 due mainly to the construction of the Morphettville Racecourse Wetland.

Grants and subsidies of \$875 000 (\$560 000) were provided mainly to councils to undertake water catchment projects and are a significant component of the Board’s expenses.

A structural analysis of the main operating expense items for the Board is shown in the following chart.

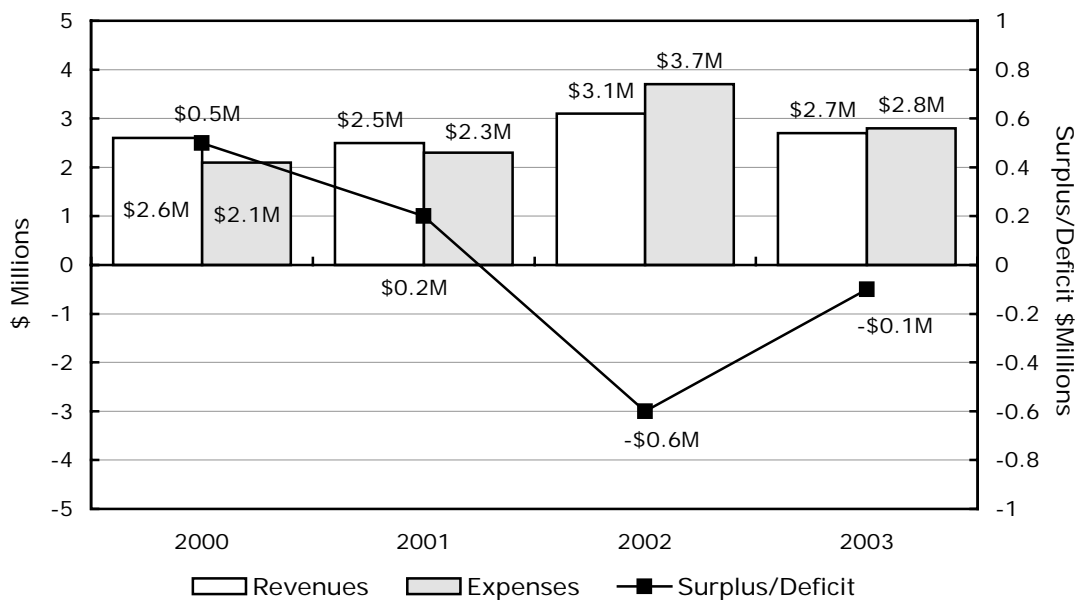


Operating Result

In accordance with the provisions of the *Water Resources Act 1997*, the Board receives contributions from councils within the proclaimed catchment area. The amount contributed by Councils is based upon the annual estimated expenditure of the Board as detailed in its catchment water management plan, less the funds obtained from other sources including grants. As a result, the revenues of the Board are usually equivalent to its expenditure resulting in low surpluses/deficits, unless there are delays in implementing major projects or funds are accumulated to pay for planned major projects.

Operating revenues were marginally higher than operating expenses in 2000 and 2001 resulting in small surpluses. In 2002 the surplus from past years was used for the construction of the Morphettville Racecourse Wetland.

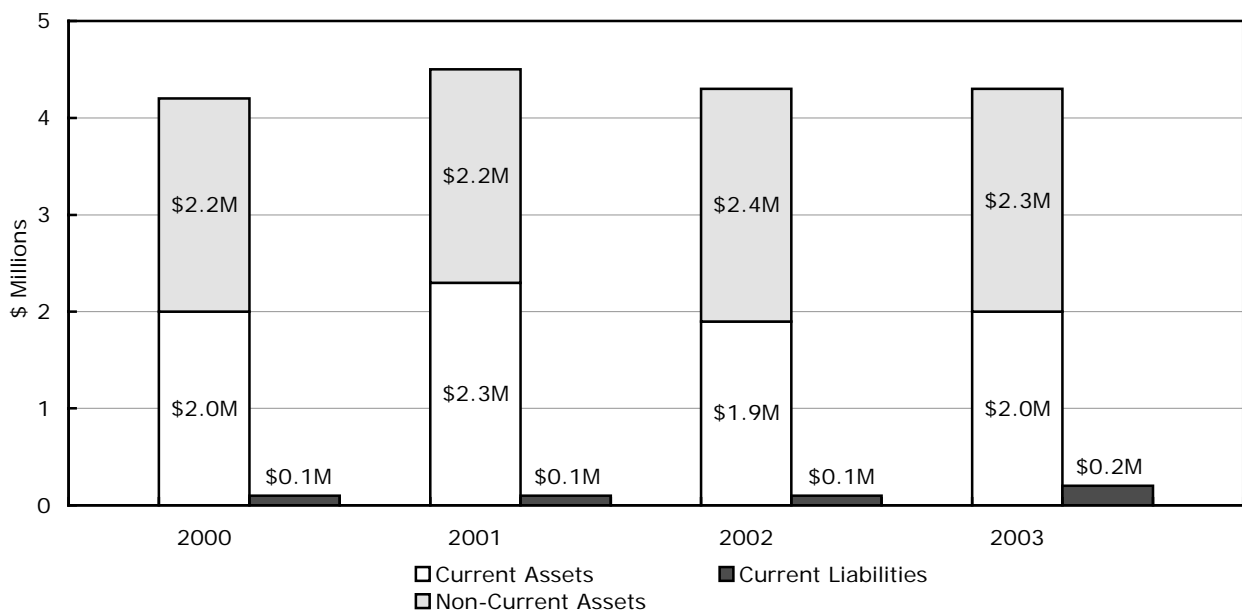
For the four years to 2003 the following chart shows the operating revenues, operating expenses and surpluses/deficits.



Statement of Financial Position

The Board has significant cash assets to cover its small liabilities. The Board has no non-current liabilities.

For the four years to 2003 a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Net Cash Flows				
Operations	0.8	(0.9)	0.4	0.4
Investing	0	(0.1)	(0.1)	(0.2)
Financing	0	0	0	0
Change in Cash	0.8	(1.0)	0.3	0.2
Cash at 30 June	2.0	1.2	2.2	1.9

The analysis of cash flows shows that cash was accumulated up to 2000-01 and spent in 2001-02 on the Morphettville Racecourse Wetland. Cash increased in 2002-03 due to cash received for the Wetland from Transport SA under the Catchment Management Subsidy Scheme which was accrued as a receivable in 2001-02. Expenditure commitments for catchment projects at 30 June 2003 were \$1.5 million.

Patawalonga Catchment Water Management Board

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Council contributions	1.3	2 343	2 297
Other contributions and grants		317	708
Interest received		85	78
Other income		6	21
Total Revenues		2 751	3 104
EXPENSES FROM ORDINARY ACTIVITIES:			
Contractors	3	1 050	2 052
Grants and subsidies		875	560
Consultants		320	467
Employee benefits	2.5	245	211
Write off of work in progress		17	-
Transfers of non-current assets	5	-	141
Other expenses		157	118
Depreciation	2.4,5	125	101
Board fees and expenses		40	46
Total Expenses		2 829	3 696
(DEFICIT) FROM ORDINARY ACTIVITIES		(78)	(592)
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Increase in asset revaluation reserve	9	-	377
Total revenues, expenses and valuation adjustment recognised directly to equity		-	377
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		(78)	(215)

**Statement of Financial Position
as at 30 June 2003**

	Note	2003 \$'000	2002 \$'000
CURRENT ASSETS:			
Cash assets	12.1	1 974	1 209
Receivables	2.7	49	700
Prepayments		-	3
Total Current Assets		2 023	1 912
NON-CURRENT ASSETS:			
Plant, equipment and gross pollutant traps	4,5	2 268	2 189
Work in progress	6	-	206
Total Non-Current Assets		2 268	2 395
Total Assets		4 291	4 307
CURRENT LIABILITIES:			
Payables	2,8,7	171	120
Provisions	8.1	23	25
Total Current Liabilities		194	145
NON-CURRENT LIABILITIES:			
Provisions	8.2	25	12
Total Non-Current Liabilities		25	12
Total Liabilities		219	157
NET ASSETS		4 072	4 150
EQUITY:			
Accumulated surplus	9	3 695	3 773
Asset revaluation reserve	2,4,9	377	377
TOTAL EQUITY		4 072	4 150
Commitments	10		
Contingent Liabilities	11		

Patawalonga Catchment Water Management Board

**Statement of Cash Flows
for year ended 30 June 2003**

		2003	2002
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Inflows:	Note	\$'000	\$'000
Council contributions		2 343	2 297
Good and services tax receipts		275	323
Other contributions and grants received		945	101
Interest received		83	78
Other income received		5	21
Outflows:			
Payments to suppliers, service providers, grantees and employees		(2 628)	(3 384)
Goods and services tax payments on purchases		(242)	(327)
Net Cash provided by (used in) Operating Activities	12.2	781	(891)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Outflows:			
Payments for plant, equipment, gross pollutant traps and work in progress		(16)	(99)
Net Cash used in Investing Activities		(16)	(99)
NET INCREASE (DECREASE) IN CASH HELD		765	(990)
CASH AT 1 JULY		1 209	2 199
CASH AT 30 JUNE	12.1	1 974	1 209

**Output Class Schedule of Board's Expenses
for the year ended 30 June 2003**

Output Class (refer Note 2.10)	2003				
	1	2	3	4	5
	\$'000	\$'000	\$'000	\$'000	\$'000
Contractors	568	127	-	53	115
Grants and subsidies	181	36	63	16	557
Consultants	72	109	2	91	30
Employee benefits	-	-	-	-	-
Write off of work in progress	17	-	-	-	-
Transfers of non-current assets	-	-	-	-	-
Other expenses	2	2	-	3	21
Depreciation	-	-	-	-	-
Board fees and expenses	-	-	-	-	-
	840	274	65	163	723

Output Class (refer Note 2.10)	2003			2002
	6	7	Total	Total
	\$'000	\$'000	\$'000	\$'000
Contractors	149	38	1 050	2 052
Grants and subsidies	-	22	875	560
Consultants	6	10	320	467
Employee benefits	-	245	245	211
Write off of work in progress	-	-	17	-
Transfers of non-current assets	-	-	-	141
Other expenses	2	127	157	118
Depreciation	-	125	125	101
Board fees and expenses	-	40	40	46
	157	607	2 829	3 696

Revenues from Ordinary Activities have not been distributed to Output Classes as they do not relate to any particular class.

Patawalonga Catchment Water Management Board

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

1.1 *Establishment of Board*

The Patawalonga Catchment Water Management Board (the Board) was established on 7 May 1995 pursuant to the *Catchment Water Management Act 1995*, which was subsumed by the *Water Resources Act 1997*.

The Board commenced operation under an Initial Plan in 1995. The Board now operates under its latest Catchment Water Management Plan 2002-2007 (the Plan) which was approved by the Minister for Environment and Conservation in May 2002.

In accordance with the *Water Resources Act 1997*, the Board conducted an annual review of the Plan during the year. The 2002-03 review amended projected income and expenditure for the financial years 2003-04 to 2005-06 and was adopted by the Minister for Environment and Conservation on 24 March 2003.

1.2 *Functions of the Board*

The functions of the Board are:

- to prepare and implement the Patawalonga Catchment Water Management Plan 2002-07;
- to provide advice to the Minister and the constituent councils for the Board's area in relation to the management of the water resources in the Board's area in accordance with the *Water Resources Act 1997*; and
- to promote public awareness of the importance of the proper management of the water resources in the Board's area and of the sustainable use of those resources.

1.3 *Sources of Funding*

In accordance with the provisions of the *Water Resources Act 1997*, the Board received contributions from councils within the proclaimed catchment area. The amount contributed by councils was based upon the estimated expenditure of the Board (as contained in the approved plan) for the financial year, less the amount of any other funds available to the Board.

Councils are required to impose a separate levy on rateable land in the catchment areas of the Board in order to recover the contributions made to the Board.

Contributions payable by constituent Councils to the Board have been reduced by the amount of rebates or remissions granted by Councils in accordance with section 136 of the *Water Resources Act 1997* and Division 5 of Part 1 of the *Local Government Act 1999*.

2. Statement of Significant Accounting Policies

2.1 *General*

The following is a summary of the significant accounting policies adopted by the Board in the preparation of the general purpose financial report.

The general purpose financial report has been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, Treasurer's Accounting Policy Statements, Treasurer's Instructions, the *Public Finance and Audit Act 1987*, *Water Resources Act 1997* and other mandatory reporting requirements.

The Financial Statements have been prepared on an accrual basis whereby items are brought to account as they are earned or incurred and included in the statements for the accounting periods to which they relate.

The accounts are prepared on the basis of historical cost and are not adjusted to take account of changing money values or current valuations of non-current assets unless otherwise disclosed in these notes.

2.2 *Income Recognition*

Contributions from constituent councils are recognised as income following determination of the share of each council by the Minister and publication of those amounts in the Government Gazette. Contributions are required to be paid on a quarterly basis to the Board.

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Income from grants is recognised following completion of formal documentation between the grantor and the Board.

Other income is recognised when the service has been performed.

All income relates to the operating activities of the Board.

2.3 *Allocation of Administrative Overheads*

The Patawalonga and Torrens Catchment Water Management Boards have agreed to share administrative costs on a 40/60 basis.

Patawalonga Catchment Water Management Board

2.4 Non-Current Assets

Depreciation

Depreciation is provided on a straight line basis to write off the net cost or revalued amount of all plant, equipment and gross pollutant traps over their expected useful lives. Estimates of remaining useful lives are made on a regular basis for all assets, with annual assessments for major items. The expected useful lives are as follows:

	Years
Display systems	3
Computer equipment	5
Office equipment	8
Furniture and fittings	20
Gross pollutant traps	25

Leasehold improvements are amortised over the life of the lease.

Assets costing less than \$300 have been included in expenditure in the year of acquisition.

Assets Disclosed at Directors' Valuation

In accordance with Accounting Policy Statement APS 3 'Valuation of Non-Current Assets' issued by the Department of Treasury and Finance, the Board revalued its gross pollutant traps as at 30 June 2002. Current cost has been determined by the Board using the deprival methodology, whereby assets are valued at the replacement cost of procuring similar assets with similar functions and which provide comparable future service potential.

The 30 June 2002 revaluation of gross pollutant traps has resulted in an asset revaluation reserve of \$377 000 being recognised in the financial statements.

2.5 Employee Benefits

Employer Superannuation

The Board contributed \$23 000 (\$19 000) to superannuation schemes in respect of its employees for the financial year. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability at balance date relates to any contribution due but not yet paid to the superannuation schemes.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision is calculated at nominal amounts based on current salary rates. On-costs have been included in the provision in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No provision has been made for sick leave. Sick leave taken by employees is considered to be taken from the current year's accrual and in consequence no liability is recognised.

Long Service Leave

The benchmark used for determining long service leave liability is seven years in accordance with Accounting Policy Statement APS 9 'Employee Benefits' issued by the Department of Treasury and Finance. The provision includes entitlements for three employees, one of which involves recognition of prior service with other government departments.

On-costs have been included in the component of long service leave that will be taken as leave (55 percent of the liability at June 2003) rather than a lump sum. This calculation is based upon an average percentage supplied by the Department of Treasury and Finance for long service leave that will be taken as a lump sum (45 percent).

Workers Compensation

The Board is registered with WorkCover as an exempt employer and has entered a Service Level Agreement with the Department for Administrative and Information Services to provide insurance cover for work caused injuries.

2.6 Leases

The Board has no financial leases.

The Board has entered into operating lease agreements for office premises and computer equipment where the lessors effectively retain all of the risks and benefits incidental to ownership of the property held under the operating leases.

Lease payments are included as expenditure in equal instalments over the accounting periods covered by the lease terms.

Total expenditure on operating leases in 2002-03 was \$38 000 (\$37 000).

2.7 Receivables

Income receivable on investment of surplus funds is accrued in accordance with the terms and conditions applicable to funds held at the Department of Treasury and Finance in a Section 21 Deposit Account.

2.8 Payables

Trade Creditors

These amounts represent liabilities for goods and services provided to the Board prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Patawalonga Catchment Water Management Board

Other Payables

These amounts represent unpaid board fees and direct overheads at balance date.

2.9 Credit Risk Exposure

The credit risk on financial assets of the Board which have been recognised in the Statement of Financial Position, is generally the carrying amount.

2.10 Output Classes of the Board

Outputs are defined as goods or services produced, provided to or acquired for external customers. The Board has identified seven major classes of outputs that it delivers to the community under the Catchment Water Management Plan approved by the Minister in May 2002 for implementation on 1 July 2002. The identity and description of each major output class of the Board during 2002-03 are summarised below (refer to Output Class Schedule of Board's expenses).

Output 1 Improve and Maintain Water Quality

The Board's goal is to improve and maintain water quality in the catchment at a level suitable for safe use by the community including recreation and to sustain ecosystems and reduce impacts on the receiving aquatic environments. This is achieved by assigning environmental values and targets, controlling diffuse pollution in the catchment, developing and maintaining constructed wetlands, eliminating or reducing wastewater discharges and installing and maintaining silt traps and gross pollutant traps.

Output 2 Protect and Restore Aquatic Ecosystems

The goal of protecting and restoring aquatic ecosystems will be achieved through defining water for the environment requirements, reviewing resource use and availability as well as rehabilitating urban and rural watercourses.

Output 3 Ensure Sufficient Water Availability and Use

Ensuring the water resources of the catchment are available to be used to maintain ecosystems and for equitable and economic community use by encouraging viable stormwater aquifer storage and recovery (ASR), effluent reuse opportunities and water conservation practices. Also there will be risk management plans developed and implemented for the catchment's groundwater and surface water resources.

Output 4 Coordinate Floodplain Management

At a catchment scale the Board aims to co-ordinate integrated stormwater and floodplain management.

Output 5 Inform and Involve the Community

A key goal of the Board is to inform and involve the community to take responsibility for catchment management. This is achieved by implementing the Board's communication and community education/awareness strategy, supporting groups and schools in community education and involvement programs, delivering an industry and council stormwater pollution prevention program, supporting rural watercourse assistance and land management programs and facilitating appropriate enforcement and compliance support for the program.

Output 6 Establish Monitoring and Evaluation Systems

To ensure the effectiveness of its programs, the Board has established monitoring and evaluation systems through linking with other relevant existing and proposed data collection activities in the catchment and providing a performance indicator/evaluation database for the Board's programs.

Output 7 Deliver the Board's Progress in an Integrated Manner

The Board aims to deliver its programs in an integrated manner in partnership with all stakeholders taking into account environmental, economic and social considerations. In doing so the Board will support an integrated resources management approach across the catchment, facilitate collaboration with constituent councils to better integrate Council and Board plans and provide professional services to allow the Board to implement its Catchment Plan and meet its statutory requirements.

2.11 Accounting for Goods and Services Tax (GST)

In accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Tax Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash Flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the Australian Tax Office have however been classified as operating cash flows.

2.12 Rounding

All amounts are rounded to the nearest thousand dollars.

Patawalonga Catchment Water Management Board

3. **Contractors**

Contractors have been used to implement the Board's program of activities including installation of wetlands, gross pollutant traps and watercourse rehabilitation, monitoring of water quality and production of community education material. The decrease in expenditure on contractors in 2002-03 is due mainly to the reduction in major construction works.

4. **Plant, Equipment and Gross Pollutant Traps**

	2003		2002	
	\$'000	\$'000	\$'000	\$'000
Display systems at cost	50		50	
Less: Accumulated depreciation	42		41	
		8		9
Furniture and fittings at cost	20		19	
Less: Accumulated depreciation	5		4	
		15		15
Computer equipment at cost	6		6	
Less: Accumulated depreciation	5		5	
		1		1
Office equipment at cost	13		12	
Less: Accumulated depreciation	7		5	
		6		7
Office leasehold improvements at cost	18		18	
Less: Accumulated amortisation	12		10	
		6		8
Gross pollutant traps at cost	202		-	
Gross pollutant traps at directors' valuation	2 736		2 736	
	2938		2 736	
Less: Accumulated depreciation	706		587	
		2 232		2 149
Total Plant, Equipment and Gross Pollutant Traps		2 268		2 189

5. **Plant, Equipment and Gross Pollutant Traps Movement Schedule**

	Carrying Amount		Depreciation Expense	Carrying Amount
	1.7.02	Additions	30.6.03	30.6.03
	\$'000	\$'000	\$'000	\$'000
Display systems	9	-	(1)	8
Furniture and fittings	15	1	(1)	15
Computer equipment	1	-	-	1
Office equipment	7	1	(2)	6
Office leasehold improvements	8	-	(2)	6
Gross pollutant traps	2 149	202	(119)	2 232
	2 189	204	(125)	2 268

Write off of Non-Current Assets

During 2001-02 one gross pollutant trap with a carrying value of \$141 000 was transferred to a council for nil consideration.

6. **Work in Progress**

There were no gross pollutant traps under construction at 30 June 2003 (\$206 000).

7. **Payables**

	2003	2002
	\$'000	\$'000
Trade creditors	158	98
Other payables	13	22
Total	171	120

8. **Provisions**

8.1 **Current Provisions**

Provision for employee benefits:
Annual leave

23 25

8.2 **Non-Current Provisions**

Provision for employee benefits:
Long service leave

25 12

48 37

9. **Accumulated Surplus**

Balance at 1 July

3 773 4 365

Deduct deficit from ordinary activities

78 592

Balance at 30 June

3 695 3 773

Asset Revaluation Reserve

Increment on revaluation of gross pollutant traps

377 377

4 072 4 150

Patawalonga Catchment Water Management Board

10. Expenditure Commitments	2003	2002
10.1 Lease Commitments (excluding GST)	\$'000	\$'000
Operating Leases:		
Not later than one year	33	34
Later than one year and not later than five years	70	153
Aggregate lease expenditure contracted for at balance date but not provided for	103	187

The operating lease commitments comprise the following:

- a property lease which is non-cancellable. Rental is payable monthly with reviews indexed annually, alternating between market value and CPI indexation. Options exist to renew the lease at the end of the current term.
- a computer lease which is non-cancellable. Rental is payable monthly and options exist to renew or cancel the lease at the end of the current term.

10.2 Other Expenditure Commitments (excluding GST)	2003	2002
	\$'000	\$'000
Not later than one year	1 035	1 231
Later than one year and not later than five years	471	40
Aggregate lease expenditure contracted for at balance date but not provided for	1 506	1 271

Approvals have been given for various projects including wetlands, trash racks, rural riparian works, flood studies and grants for pollution prevention and research and development. The value of these projects (\$1.506 million) is not reflected in the Statement of Financial Performance or Statement of Financial Position for the current financial year.

11. Contingent Liabilities
The Board has no contingent liabilities.

12. Note to the Statement of Cash Flows

12.1 Reconciliation of Cash
For the purposes of the Statement of Cash Flows, the Board considers cash to include cash on hand and in banks and those investments that are able to be converted to cash within two working days.

12.2 Reconciliation of Net Cash (used in) provided by Operating Activities to (Deficit) from Ordinary Activities	2003	2002
	\$'000	\$'000
(Deficit) from ordinary activities	(78)	(592)
Depreciation	125	101
Write off of work in progress	17	-
Transfers of non-current assets	-	141
Decrease (Increase) - Receivables - Net of amounts due in relation to asset disposal	651	(609)
Decrease (Increase) - Prepayments	3	(1)
Increase - Payables	51	68
Increase - Provisions	12	1
Net Cash provided by (used in) Operating Activities	781	(891)

13. Auditors' Remuneration
Amount due and receivable by the auditors for auditing the financial report.
No other services were provided by the auditors.

11	11
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14. Remuneration of Board Members and Related Party Disclosure
Members of the Patawalonga Catchment Water Management Board during the financial year were:

Mr Lyndon Parnell: Presiding Member	Mr Peter Norman
Mr Colin Haines	Mr Richard Crabb
Ms Petamary O'Donohue	Mrs Jean Evans
Mr John Phillips	Mrs Nura Redzepagic (resigned 23.1.03)
Mr Robert Clyde	

Total income received, or due and receivable, by Board Members was \$36 000 (\$38 000).

Other expenses of Board Members were \$4 000 (\$8 000).

The number of Members whose income from the entity falls within the following bands is:

	2003	2002
	Number of	Number of
	Members	Members
\$0 - \$9 999	8	9
\$20 000 - \$29 999	1	1

Prescribed benefits given by the Board to prescribed superannuation funds or otherwise in connection with the retirement of Board Members were \$2 000(\$2 000).

Patawalonga Catchment Water Management Board

Related Party Disclosures

One Board Member had direct affiliations with a Local Government Council from which Council contributions are received by the Board. The Member is Mr Richard Crabb, City of Burnside.

During the year grants totalling \$33 000 (\$23 000) were approved for the Council of the Board Member, who is an employee of that Council. Schedule 2 clause 10(10) of the *Water Resources Act 1997* provides that a member of the Board does not have a direct or indirect personal or pecuniary interest in any matter under consideration by the Board simply by being a member of a constituent council. The nature of the grants and conditions attached, were similar to other grants provided to various organisations.

15. Remuneration of Executives

The number of Executive Officers whose remuneration from the Patawalonga and Torrens Catchment Water Management Boards falls within the following bandwidth:
\$120 000 - \$129 999

	2003	2002
	Number of Executive	Number of Executive
	1	1

Remuneration of the Executive Officer was shared with the Torrens Catchment Water Management Board on a 40/60 basis. Refer Note 2.3.

16. Financial Instruments

Interest Rate Risk Exposures

The Board's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

	Floating Interest Rate	2003 Non-Interest Bearing	Total	Floating Interest Rate	2002 Non-Interest Bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:						
Cash assets	1 974	-	1 974	1 209	-	1 209
Receivables	-	49	49	-	700	700
	1 974	49	2 023	1 209	700	1 909
Weighted average interest rate (percent)	4.60			4.40		
Financial Liabilities:						
Payables	-	171	171	-	120	120
	-	171	171	-	120	120
Weighted average interest rate (percent)	-			-		
Net Financial Assets	1 974	(122)	1 852	1 209	580	1 789

Reconciliation of Net Financial Assets to Net Assets

	2003	2002
	\$'000	\$'000
Net financial assets as above	1 852	1 789
Non-financial assets and liabilities:		
Plant, equipment, gross pollutant traps and work in progress	2 268	2 395
Prepayments	-	3
Provisions	(48)	(37)
Net Assets per Statement of Financial Position	4 072	4 150

Net Fair Value of Financial Assets and Liabilities - On-Statement of Financial Position

The net fair value of cash and equivalents and non-interest bearing monetary financial assets and financial liabilities of the Board approximates their carrying value.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2003		2002	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$'000	\$'000	\$'000	\$'000
On-Statement of Financial Position Financial Instruments				
Financial Assets:				
Cash assets	1 974	1 974	1 209	1 209
Receivables	49	49	700	700
Financial Liabilities:				
Payables	(171)	(171)	(120)	(120)
Total	1 852	1 852	1 789	1 789

RIVER MURRAY CATCHMENT WATER MANAGEMENT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The River Murray Catchment Water Management Board was established on the 11 September 1997 under the *Water Resources Act 1997*.

Functions

The functions of the Board are:

- to prepare and implement a comprehensive Catchment Water Management Plan;
- to provide advice to the Minister and constituent councils regarding the management of water resources within the Board's area;
- to promote public awareness of the importance of proper management and sustainable use of water resources within the Board's area.

Structure

The Board is responsible to the Minister and is supported by the General Manager and officers in implementing its Catchment Water Management Plan.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 74(2) of the *Water Resources Act 1997* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the River Murray Catchment Water Management Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the River Murray Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- budgetary control and management reporting
- grant expenditure
- revenue, receipting and banking
- accounts payable
- salaries and wages.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager. Responses to the management letter were considered to be satisfactory. Major matters raised with the Board and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the River Murray Catchment Water Management Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the River Murray Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient, except for the matters outlined under Significant Matters Raised with Agencies, to provide reasonable assurance that the financial transactions of the River Murray Catchment Water Management Board have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Delegations

The interim audit of the Board included review of the delegations of authority for expenditure of monies. The review identified that the delegations of authority to Board employees were not approved by the Minister as is required by subsection 66(1)(b) of the *Water Resources Act 1997*. This finding was communicated to the Board who, along with other Catchment Water Management Boards, have sought clarification from the Crown Solicitor. A response was not received from the Crown Solicitor at the time of preparing this Report.

Risk Management

Audit identified that the Board had not established a formal process for identifying, assessing and managing risk as required by the prescribed elements of the Financial Management Framework.

The Board responded that a detailed risk management policy and plan would be developed.

Monthly Financial Reporting

Audit identified that the monthly finance report to the Board had no narrative explaining major variances between actual and planned revenues and expenses.

The Board responded that a monthly report to the Board on major variances would be provided beginning in 2003-04.

Reporting on Progress of Catchment Projects

Audit observed that the progress of individual major water catchment projects were not reported monthly to the Board and identified in June 2003 that some projects carried over from 2001-02 and some projects scheduled for 2002-03 had not been commenced.

The Board responded that monthly reporting on the progress of catchment projects to the Board was commenced in June 2003.

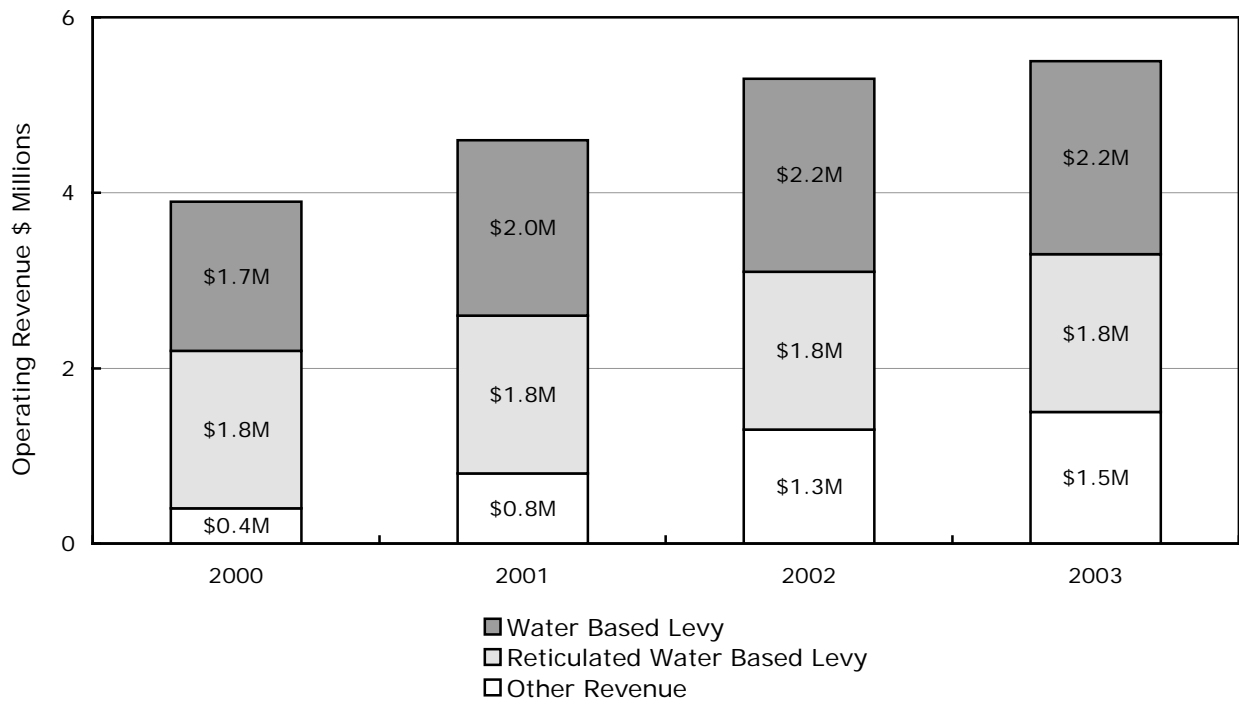
INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

	2003 \$'million	2002 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Water-based levies	4.0	4.0	0
Other revenues	1.5	1.3	15
Total Operating Revenue	5.5	5.3	4
<i>OPERATING EXPENDITURE</i>			
Employee benefits	0.9	0.7	29
Grants	0.8	1.4	(43)
Other expenses	2.3	1.7	35
Total Operating Expenses	4.0	3.8	5
Surplus (Deficit)	1.5	1.5	0
Net Cash Flows from Operations	1.7	1.4	21
<i>ASSETS</i>			
Current assets	6.6	5.2	27
Non-current assets	0.2	0.1	100
Total Assets	6.8	5.3	28
<i>LIABILITIES</i>			
Current liabilities	0.4	0.4	0
Non-current liabilities	0	0	0
Total Liabilities	0.4	0.4	0
<i>EQUITY</i>	6.4	4.9	31

Statement of Financial Performance***Operating Revenues***

Water based levies comprised 73 percent (75 percent) of the Board's operating revenues for the year. Other operating revenues include grants, interest on bank deposits and revenues from managing projects on behalf of the Murray-Darling Basin Commission.

For the four years to 2003 a structural analysis of operating revenues for the Board is presented in the following chart.

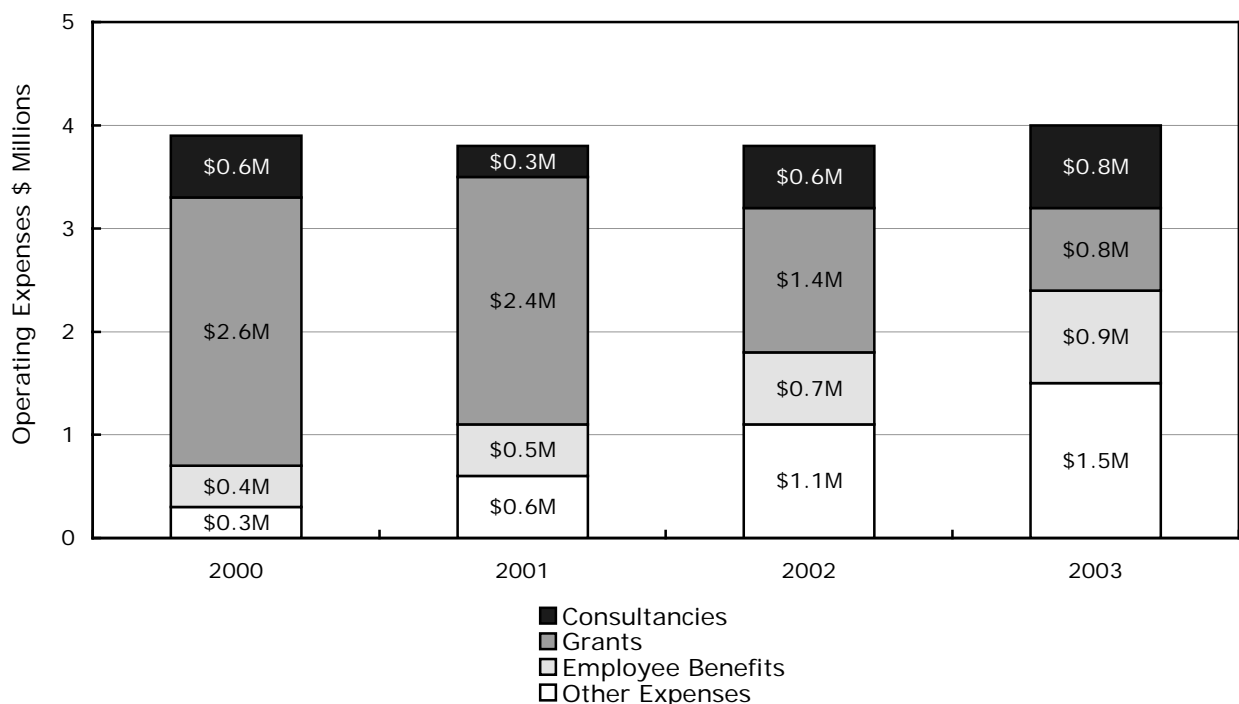


Operating Expenses

The analysis of operating expenses shows that the Board’s grant expenses have steadily decreased over the last four years while employee benefits, consultancies and other expenses have steadily increased. Grants are provided to other bodies, mainly Local Action Planning Associations, to undertake catchment works. The significant decrease of \$608 000 in grants in 2002-03 was due to less payments made under the Murray-Darling 2001 program.

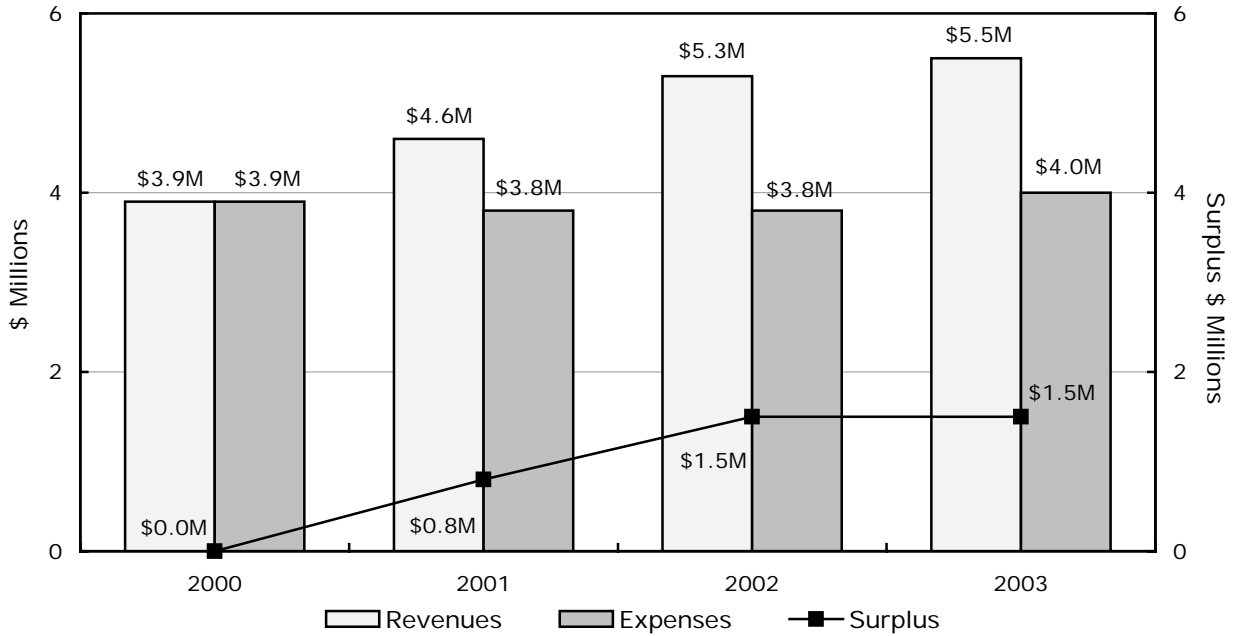
The increase in employee benefits each year reflects the increase in the number of employees (2000: 6 FTEs; 2001: 8.6 FTEs; 2002: 19.2 FTEs with four FTEs appointed in March/April 2002; and 2003: 20 FTEs).

For the four years to 2003 a structural analysis of the main operating expense items for the Board is shown in the following chart.



Operating Result

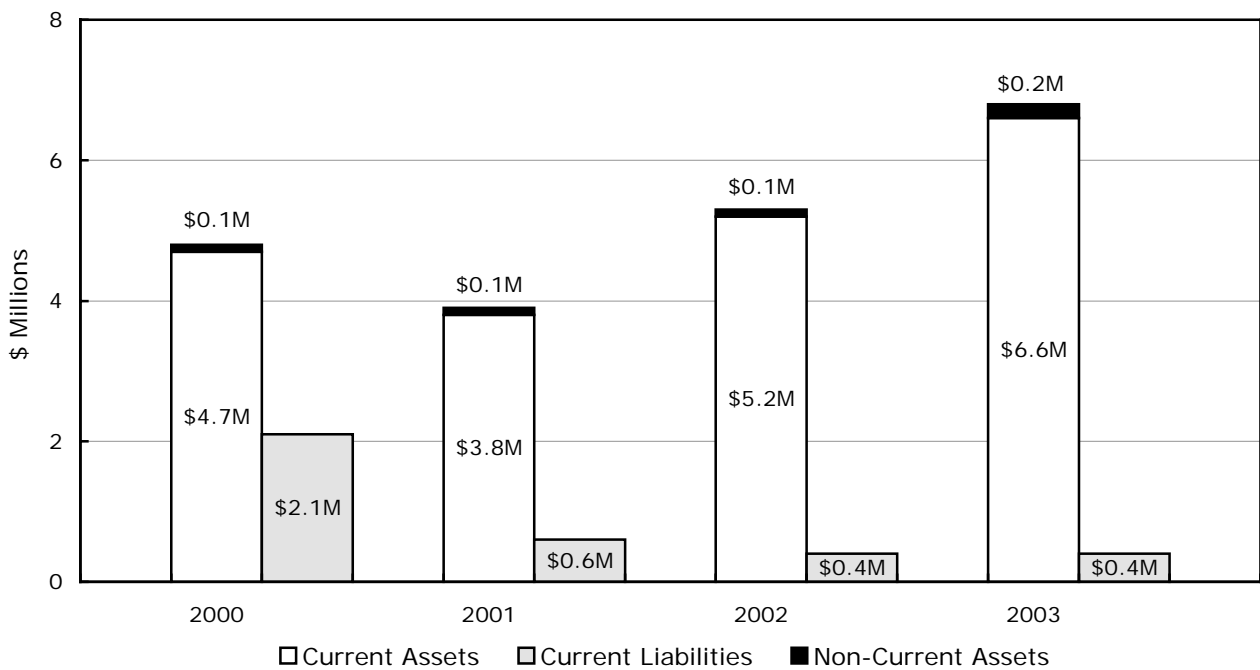
According to the catchment water management plan the Board's expenditure for at least the last two years was planned to exceed its revenues. As can be seen from the following chart revenues have exceeded expenses due mainly to delays in commencing catchment projects. Audit comments in relation to reporting on the progress of catchment projects to the Board were detailed earlier under Significant Matters Raised with Agencies.



Statement of Financial Position

The Board has significant cash assets to cover its small liabilities. The Board had no non-current liabilities for the last four years.

A structural analysis of assets and liabilities for the four years to 2003 is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Net Cash Flows				
Operations	1.7	1.4	(1.2)	1.2
Investing	(0.1)	0	0	0
Change in Cash	1.6	1.4	(1.2)	1.2
Cash at 30 June	4.7	3.1	1.7	2.9

The analysis of cash flows shows that the Board's cash assets have steadily increased over the last three years as a result of delays in commencing catchment projects. At 30 June 2003, \$3.5 million of the \$4.7 million cash balance was committed towards grants and contracts.

River Murray Catchment Water Management Board

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
REVENUE FROM ORDINARY ACTIVITIES:			
Reticulated water supply levy	1.3	1 805	1 805
Water-based levy	1.3	2 176	2 214
Interest	2.5	216	180
Grants and contributions	3	958	748
Other revenue	4	282	395
Total Revenue		5 437	5 342
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee benefits	2.3	935	744
Supplies and services	6	2 101	1 531
Board fees & expenses	13	82	67
Grants	5	824	1 432
Depreciation	2.2,8	39	27
Total Expenses		3 981	3 801
SURPLUS FROM ORDINARY ACTIVITIES	14	1 456	1 541
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER	14	1 456	1 541

**Statement of Financial Position
as at 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
CURRENT ASSETS:			
Cash assets	2.5	4 686	3 053
Receivables	7	1 902	2 117
Total Current Assets		6 588	5 170
NON-CURRENT ASSETS:			
Plant and equipment	8	165	126
Total Non-Current Assets		165	126
Total Assets		6 753	5 296
CURRENT LIABILITIES:			
Payables	9	355	366
Provisions	2.3, 10	42	30
Total Current Liabilities		397	396
Total Liabilities		397	396
NET ASSETS		6 356	4 900
ACCUMULATED FUNDS:			
Accumulated surplus	14	6 356	4 900
TOTAL ACCUMULATED FUNDS		6 356	4 900
Commitments	11		

**Statement of Cash Flows
for year ended 30 June 2003**

	Note	2003 Inflows (Outflows) \$'000	2002 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
INFLOWS:			
Reticulated water supply levy		1 805	1 805
Water-based levy		2 218	2 057
Interest received		202	176
Grants received		948	748
Other income		479	327
GST receipts on revenue	2.9	130	157
GST receipts from Australian Taxation Office	2.9	179	420
OUTFLOWS:			
Payments to suppliers, service providers and employees		(3 940)	(3 946)
GST payments on purchases	2.9	(309)	(342)
Net Cash provided by Operating Activities	15.2	1 712	1 402
CASH FLOWS FROM INVESTING ACTIVITIES:			
OUTFLOWS:			
Payments for plant and equipment		(79)	(59)
Net Cash Flows used in Investing Activities		(79)	(59)
NET INCREASE IN CASH HELD		1 633	1 343
CASH AT 1 JULY		3 053	1 710
CASH AT 30 JUNE	15.1	4 686	3 053

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

1.1 Establishment of the Board

The River Murray Catchment Water Management Board (the Board) was established on 11 September 1997 under the *Water Resources Act 1997* (the Act).

The Board commenced operation under an Initial Plan in 1998 until the completion of the Board's Catchment Water Management Plan.

The Minister for Environment and Conservation and the Minister for the River Murray, Hon John Hill MP adopted the Catchment Water Management Plan for the River Murray in South Australia on 12 March 2003 pursuant to Section 95 of the *Water Resources Act 1997*.

1.2 Functions of the Board are:

- (a) to prepare and implement a Catchment Water Management Plan in accordance with the Act;
- (b) to provide advice to the Minister and the constituent councils in relation to the management of the water resources in the Board's area in accordance with the Act;
- (c) to promote public awareness of the importance of the proper management of water resources in the Board's area and of the sustainable use of those resources; and
- (d) such other functions as are assigned to the Board by or under the Act or any other Act.

1.3 Sources of Funding

In accordance with the provisions of the *Water Resources Act 1997*, the Board received contributions from SA Water and irrigators within the proclaimed catchment area.

A Reticulated Water Supply Levy is charged to SA Water, for users of reticulated water, at the rate of 1 cent per kilolitre.

The water-based levy contributions are levied on a rate per kilolitre to irrigation, recreation and industrial licensed water users based on their licensed water allocation.

Licensed water users of prescribed groundwater in the Angas Bremer Prescribed Wells Area and the Mallee Prescribed Wells Area are levied on a rate per kilolitre based on their licensed water allocation. The levy rate for these two areas vary as indicated below.

	2003	2002
	Kilolitre	Kilolitre
River Murray, Angas Bremer and Noora Prescribed Resources	0.35 cents	0.35 cents
Mallee Prescribed Wells Area (Groundwater)	0.30 cents	0.30 cents

All levies are charged and collected by the Department of Water, Land and Biodiversity Conservation, on behalf of the Board.

1.4 Output Classes of the Board

The Board operates solely in the portfolio area of water resource policy and planning therefore no separation into output classes is warranted.

2. Statement of Significant Accounting Policies

2.1 General

The following is a summary of the significant accounting policies adopted by the Board in the preparation of the Accounts.

The financial report is a general purpose financial report which has been prepared in accordance with the *Water Resources Act 1997*, the requirements of the Treasurer's Instructions relating to financial reporting which are issued pursuant to the *Public Finance and Audit Act 1987* and Accounting Policy Statements issued pursuant to those Instructions, the Statements of Accounting Concepts, applicable Accounting Standards and Urgent Issues Group Consensus Views.

The accrual accounting basis has been used for the preparation of the Financial Statements whereby items are brought to account as they are earned or incurred and included in the statements for the accounting period to which they relate.

The accounts are prepared on the basis of historical cost and are not adjusted to take account of changing money values or current valuations of non-current assets unless otherwise disclosed in these notes.

2.2 Plant and Equipment

Assets have been recognised at cost and included in the Statement of Financial Position. Minor items of plant and equipment with an individual value of less than \$300 are expensed at the time they are acquired.

Depreciation

Depreciation is provided on a straight line basis on all plant and equipment and infrastructure assets and is calculated to allocate the value of the assets against revenue over their estimated useful lives. The rates used for each class of asset are:

Furniture and Fittings	Percent
Equipment	10 and 20
	20

River Murray Catchment Water Management Board

2.3 Employee Benefits

Employer Superannuation

The Board contributed \$84 000 (\$65 000) to superannuation in respect of Employees and Board members for the financial year.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision is calculated based on salary rates plus on-costs that are expected to be paid at the time of taking such leave.

Sick Leave

No provision has been made for sick leave as entitlements are non-vesting and it is considered that sick leave is taken from the employee's entitlement.

Long Service Leave

The benchmark used for determining long service leave liability is seven years in accordance with Accounting Policy Statement APS 9 'Employee Benefits' issued by the Department of Treasury and Finance. Two members of staff have an entitlement to long service leave as a result of specific provisions under employment contracts.

2.4 Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor are charged as expenses in the periods in which they are incurred (refer Note 11).

2.5 Cash and Bank Balances

Deposit Account balances are at call amounts, which earn interest at a rate determined by the Treasurer. Interest is received quarterly in arrears. The average effective interest rate for the reporting period was 4.60 percent (4.40 percent).

2.6 Receivables

Receivables in respect of fees and charges are recorded at their recoverable amount. At the end of each reporting period these receivable balances are reviewed and a provision is raised in respect of any balance where recoverability is considered doubtful. Bad debts are written off in the period in which they are identified. Credit risk therefore is confined to the amount set aside as provision for doubtful debts. The resulting carrying amount of receivables is considered to approximate their net fair values.

The Board does not have any significant exposure to any individual customer, thus its credit risks are due to its customer base being influenced by the South Australian economy.

2.7 Trade Creditors

Trade creditors are unsecured debts, recognised in the financial statements when contracted goods, or services, have been received by the Board. These debts generally are settled within 30 days of invoice.

2.8 Revenue Recognition

All revenue recorded in the Statement of Financial Performance including contributions, levies, grants and other income is recognised when the Board obtains control over the assets arising from those revenues. Grants and other income recognition is in accordance with relevant agreements. Where no agreement exists revenue is recognised when cash is received.

2.9 Goods and Services Tax (GST)

In accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expenses; and
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Tax Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash Flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the Australian Tax Office have however been classified as operating cash flows.

3. Grants and Contributions Received	2003	2002
	\$'000	\$'000
Department of Water, Land & Biodiversity Conservation	887	-
Environment Protection Authority	33	-
Berri-Barmera Local Action Planning Group	15	-
Mid Murray Council	13	-
Department of Environment & Heritage	10	-
Natural Heritage Trust	-	748
Total	958	748
<hr/>		
4. Other Revenue		
Consultancy Agreement*	258	377
Other	24	18
Total	282	395
<hr/>		

* The Board provides consultancy services to the Murray-Darling Basin Commission.

River Murray Catchment Water Management Board

5. **Grants**

Grants expenditure is recognised when there is an obligation to pay an external party under an agreement.

	2003	2002
	\$'000	\$'000
Murray Darling 2001*	402	1 177
Board Funded Grants	422	255
Total	824	1 432

* An agreement was entered into between the Commonwealth of Australia and the State of South Australia for the delivery of the objectives of the Natural Heritage Trust and any associated programs. The Murray Darling 2001 program comprises part of these activities. Under the arrangements, any State funding provided to approved projects is matched by the Commonwealth.

6. **Supplies and Services**

	2003	2002
	\$'000	\$'000
	Note	
Consultancies	762	608
Contractors	476	314
Other expenditure	244	177
Postage, printing and stationery	150	86
Motor vehicle expenses	121	83
Office accommodation and services	58	49
Computing expenditure	56	23
Meeting and conferences	54	34
Staff training and development	45	20
Telephone	44	40
Advertising	34	33
Travel and accommodation	32	34
Audit fees for audit of financial report	16	16
Accounting	9	14
Total Supplies and Services	2 101	1 531

Expenditure on consultancies and contractors has increased due to the commencement of the implementation of the Board's Plans. The auditors provided no other services.

7. **Receivables**

Water based levy contributions receivable at balance date	267	208
Less: Provision for doubtful debts	14	14
	253	194
Accounts receivable from:		
Department of Water, Land and Biodiversity Conservation	1.3	1 579
Other accounts receivable		70
Total Receivables		1 902
		2 117

8. **Plant and Equipment**

Plant and Equipment Movement Schedule

	Furniture and Fittings	Equipment	2003
	\$'000	\$'000	Total
	\$'000	\$'000	\$'000
Gross Carrying Amount:			
Balance as at 30 June 2002	87	111	198
Additions	1	78	79
Disposals	-	(3)	(3)
Balance as at 30 June 2003	88	186	274
Accumulated Depreciation:			
Balance as at 30 June 2002	42	30	72
Depreciation expense	5	34	39
Disposals	-	(2)	(2)
Balance as at 30 June 2003	47	62	109
Net Book Value:			
As at 30 June 2002	45	81	126
As at 30 June 2003	41	124	165

9. **Payables**

	2003	2002
	\$'000	\$'000
Payables	258	174
Accrued expenses	97	192
Total Payables	355	366

River Murray Catchment Water Management Board

10. Provisions		2003	2002
		\$'000	\$'000
	Current Provision		
	Provision for employee benefits:		
	Annual leave	31	25
	Long service leave	11	5
	Total Provisions	42	30

11. Expenditure Commitments			
	Non-Cancellable Operating Lease Commitments Contracted for but not Capitalised in the Accounts		
	Payable in respect of commercial property:		
	Not later than one year	4	4
	Later than one year and not later than five years	-	-
		4	4

Lease payments are made monthly in advance; the Board has the right to renew the operating lease for a further five year period at a rent to be agreed or by arbitration; the lease does not contain any other restrictions on the operations of the Board.

	Other Expenditure Commitments Contracted for but not Capitalised in the Accounts	2003	2002
		\$'000	\$'000
	Payable in respect of grants and contracts:		
	Not later than one year	3 546	2 013
		3 546	2 013

Several projects in the form of grants and contracts have been committed as at 30 June 2003. These projects are mainly grants to Local Action Planning Groups and community groups. This amount is not reflected in the Statement of Financial Performance or the Statement of Financial Position for the current financial year.

12. Executive Remuneration		2003	2002
		Number of	Number of
		Employees	Employee
	\$120 001 - \$130 000	-	1

13. Remuneration of Board Members			
	Members of the River Murray Catchment Water Management Board during the financial year were:		
	Hon David C Wotton (Presiding Member)		Mrs Rachel Murphy
	Mr Jeffrey W Parish		Mr Terence McAnaney
	Hon Peter B Arnold		Mr Roger Wickes
	Mr William R Paterson		Mr Joseph Keynes
	Mrs Joanne L Pfeiffer		

Total income received, or due and receivable, by Board Members was \$58 000 (\$43 000). Other expenses of Board Members were \$24 000 (\$24 000). The number of Members whose income from the entity falls within the following bands are:

	2003	2002
	Number of	Number of
	Members	Members
\$nil	1	2
\$1 - \$9 999	7	10
\$10 000 - \$19 999	-	1
\$20 000 - \$29 999	1	-
	9	13

In accordance with The Department of Premier and Cabinet Circular No. 14, Mr Roger Wickes, as a Government employee, did not receive any remuneration from the Board during the year.

Related Party Disclosures

During the year transactions were entered into where Board Members had either a direct or indirect pecuniary interest. Grants totalling \$3 000 (\$57 000), \$100 000 (\$54 000) and \$112 000 (\$nil) were paid to Coorong Council, Central Irrigation Trust and Goolwa to Wellington Local Action Planning Group respectively. Board Member Mr William Patterson is an employee of Coorong Council, Board Member Mr Jeffrey Parish is an employee of Central Irrigation Trust and Board Member Mrs Rachel Murphy is an employee of Goolwa to Wellington Local Action Planning Group.

River Murray Catchment Water Management Board

14. Statement of Accumulated Surplus	2003	2002
	\$'000	\$'000
Opening balance	4 900	3 359
Surplus from ordinary activities	1 456	1 541
Total	6 356	4 900

15. Statement of Cash Flows

15.1 Reconciliation of Cash

For the purposes of the Statement of Cash Flows, the Board considers cash to include cash on hand and in banks and those investments that are able to be converted to cash within two working days.

15.2 Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities

Surplus from ordinary activities	1 456	1 541
Depreciation	39	27
Loss on write off of fixed assets	1	1
Decrease (Increase) - Receivables	215	(11)
(Decrease) - Payables	(11)	(172)
Increase - Provisions	12	16
Net Cash Provided by Operating Activities	1 712	1 402

SOUTH EAST CATCHMENT WATER MANAGEMENT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South East Catchment Water Management Board was established under section 53 of the *Water Resources Act 1997*, on 15 May 1998.

Functions

The functions of the Board are to:

- prepare and implement a comprehensive Catchment Water Management Plan;
- provide advice to the Minister and constituent councils regarding the management of water resources within the Board's area;
- promote public awareness of the importance of proper management and sustainable use of the water resources within the Board's area.

Structure

The Board is responsible to the Minister and is supported by the Chief Executive Officer and officers in implementing its Catchment Water Management Plan

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and section 74(2) of the *Water Resources Act 1997* provides for the Auditor-General to audit the accounts of the South East Catchment Water Management Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- budgetary control and management reporting
- grant expenditure
- revenue, receipting and banking
- accounts payable
- salaries and wages.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer. Responses to the management letters were considered to be satisfactory. Major matters raised with the Board and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South East Catchment Water Management Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the South East Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient, except for the matter outlined under 'Significant Matters Raised with Agencies', to provide reasonable assurance that the financial transactions of the South East Catchment Water Management Board have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

Delegations

The interim audit of the Board included review of the delegations of authority for expenditure of monies. The review identified that the delegations of authority to Board employees were not approved by the Minister as is required by subsection 66(1)(b) of the *Water Resources Act 1997*. This finding was communicated to the Board who, along with other Catchment Water Management Boards, have sought clarification from the Crown Solicitor. A response was not received from the Crown Solicitor at the time of preparing this report.

Risk Management

Audit identified that the Board had not established a formal process for identifying, assessing and managing risk as required by the prescribed elements of the Financial Management Framework.

The Board responded that risk identification has been introduced as a policy and procedure.

Monthly Financial Reporting

Audit identified that the monthly finance report to the Finance and Audit Committee and the Board had no narrative explaining major variances between actual and planned revenues and expenses.

The Board responded that explanations for major variances are now included in the monthly finance report.

Reporting on Progress of Catchment Projects

Audit observed that the progress of individual major water catchment projects is reported annually to the Board and not monthly.

The Board responded that the progress and financial status of projects would be reported to the Board regularly, depending on the nature and the needs of the project and the risks to the Board from the project.

Fund Administration Service

Audit recommended that the Board review whether the service provided to the Mid South East Irrigators Association Inc. (as detailed in Note 20 to the Financial Statements) is authorised by the *Water Resources Act 1997* and to formally review the risks associated with the provision of the service.

The Board responded that it would seek legal advice.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 \$'million	2002 \$'million	Percentage Change
OPERATING REVENUE			
Fees and charges	1.4	1.1	27
Total Operating Revenue	1.4	1.1	27
OPERATING EXPENDITURE			
Employment benefits	0.5	0.5	0
Other expenses	0.8	0.9	(11)
Total Operating Expenses	1.3	1.4	(7)
Surplus (Deficit)	0.1	(0.3)	133
Net Cash Flows from Operations	0.2	(0.3)	166
ASSETS			
Current assets	0.6	0.4	50
Total Assets	0.6	0.4	50
LIABILITIES			
Current liabilities	0.2	0.1	100
Total Liabilities	0.2	0.1	100
EQUITY	0.4	0.3	33

Statement of Financial Performance

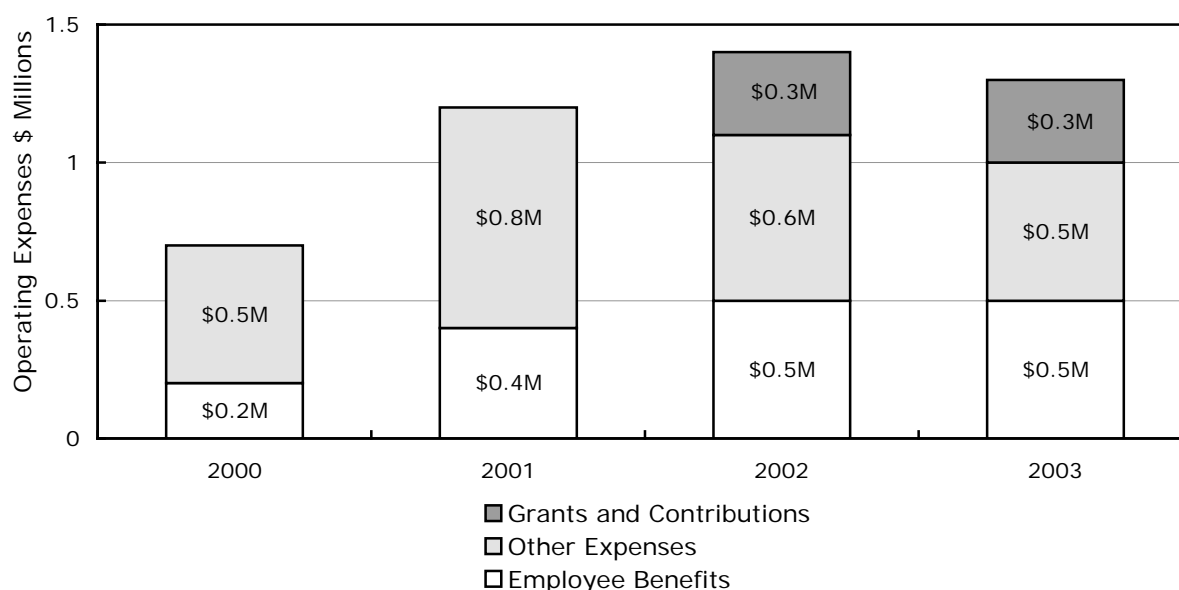
Operating Revenues

Levies charged under the *Water Resources Act 1997* amounted to \$1.4 million (\$1.1 million), and represented 95 percent (96 percent) of the Board's revenue. Other operating revenues consisted mainly of interest on bank deposits.

Operating Expenses

Grants and contributions, which were mainly to the Department of Water, Land and Biodiversity Conservation for projects has increased in recent years while other expenses have decreased due to less use of consultants. The Board's use of consultants was mainly to prepare the Catchment Water Management Plan and to undertake studies on the water needs of ecosystems.

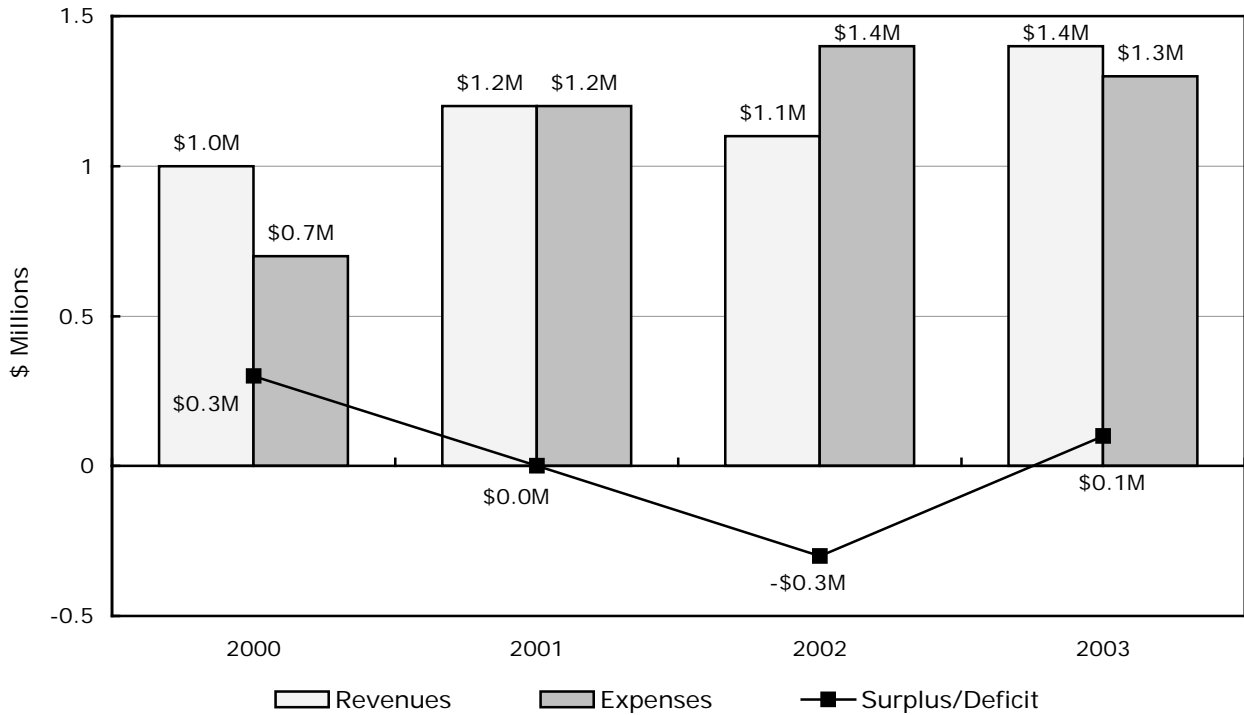
For the four years to 2003 a structural analysis of the main operating expense items for the Board is shown in the following chart.



Operating Result

In accordance with the provisions of the *Water Resources Act 1997*, the Board receives contributions from Councils and water based levies from water licenses within the region's prescribed areas. The total levy amount is based upon the annual estimated expenditure of the Board as detailed in its Catchment Water Management Plan less the funds obtained from other sources including grants. As a result, the revenues of the Board are usually equivalent to its expenditure resulting in low surpluses/deficits. Delays in implementing catchment projects affects the level of surpluses/deficits.

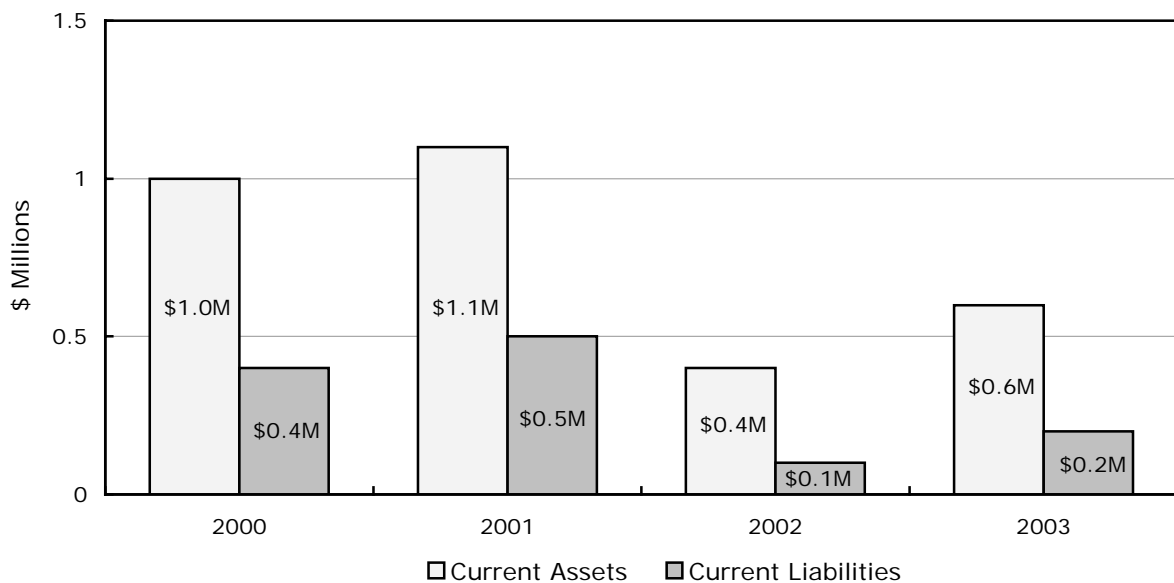
The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2003.



Statement of Financial Position

The Board has significant cash assets to cover its small liabilities. The Board has insignificant non-current assets and no non-current liabilities.

For the four years to 2003 a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Net Cash Flows				
Operations	0.2	(0.3)	(0.1)	0.3
Investing	0	0	0	0
Financing	0	0	0	0
Change in Cash	0.2	(0.3)	(0.1)	0.3
Cash at 30 June	0.4	0.2	0.5	0.6

The analysis of cash flows shows that the Board's cash assets have remained relatively constant over the last four years. At 30 June 2003, \$160 000 of the cash balance was committed towards projects.

Administered Items

The Board administers funds held on behalf of the Mid South East Irrigators Association. Cash held by the Board at 30 June amounted to \$752 000 (\$737 000). Note 1(d) and Note 20 to the Financial Statements explains the details and a summary of financial activity relating to this activity. As mentioned earlier under the heading 'Fund Administration Service' Audit has raised the matter of the Board's authority to be involved in providing a holding service for these funds

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	4	1 377	1 084
Interest revenue	5	34	32
Other revenue	6	42	18
Total Revenues		1 453	1 134
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee benefits		507	459
Goods and services	7	515	650
Grants and contributions		298	348
Depreciation	8	11	12
Total Expenses		1 331	1 469
SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES		122	(335)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		122	(335)

South East Catchment Water Management Board

**Statement of Financial Position
as at 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
CURRENT ASSETS:			
Cash assets	9	439	240
Receivables	10	121	123
Total Current Assets		560	363
NON-CURRENT ASSETS:			
Plant and equipment	11	28	22
Total Non-Current Assets		28	22
Total Assets		588	385
CURRENT LIABILITIES:			
Payables	12	127	59
Employee benefits	13	48	35
Total Current Liabilities		175	94
Total Liabilities		175	94
NET ASSETS		413	291
EQUITY:			
Accumulated surplus	14	413	291
TOTAL EQUITY		413	291
Expenditure Commitments	15		

**Statement of Cash Flows
for the year ended 30 June 2003**

		2003	2002
		Inflows	Inflows
		(Outflows)	(Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Payments:			
Employee benefits		(494)	(453)
Goods and services		(456)	(614)
Grants and contributions		(298)	(348)
GST payments on purchases		(67)	(88)
Receipts:			
Fees and charges		1 387	1 015
Interest revenue		33	31
Other revenue		44	30
GST receipts from taxation authority		63	90
GST receipts on sales		4	2
Net Cash provided by (used in) Operating Activities	16	216	(335)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of plant and equipment		-	2
Purchase of plant and equipment		(17)	(18)
Net Cash used in Investing Activities		(17)	(16)
NET INCREASE (DECREASE) IN CASH HELD		199	(351)
CASH AT 1 JULY		240	591
CASH AT 30 JUNE	9	439	240

South East Catchment Water Management Board

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**1. Objectives and Funding****(a) Establishment of Board**

The South East Catchment Water Management Board was established under Section 53 of the *Water Resources Act 1997*, on 15 May 1998.

The Board's Initial Plan was approved by the Minister for Environment and Heritage in April 1999. The Minister for Environment and Conservation approved the new Catchment Water Management Plan in May 2003 for the five financial years 2003-04 to 2007-08.

(b) Functions of the Board

The functions of the Board are to:

- prepare and implement a Catchment Water Management Plan;
- provide advice to the Minister for Environment and Conservation and constituent councils regarding water resource management in the Board's area;
- promote public awareness of the importance of proper management and sustainable use of the water resources within the Board's area.

(c) Financial Arrangements

In accordance with the provisions of the *Water Resources Act 1997* the Board received water based levies from water licence holders and contributions from councils within the proclaimed catchment area.

The 2002-03 water based levies are set at the following rates, according to the type of allocation and whether the allocation is determined on a volumetric basis or an irrigation equivalent basis where the water allocation on the licence is specified:

- as an annual volume in megalitres, \$1.75 per megalitre of allocation;
- in Irrigation Equivalents (IE), \$8.80 per hectare IE or part thereof;
- as being for the purpose of reticulated water supply pursuant to the *Waterworks Act 1932*, \$10.00 per megalitre of allocation;
- Section 11 pulp and paper mill at \$1.75 per megalitre.

Council contributions are based upon an approximate value of 30 percent of Board revenue (per the Initial Catchment Water Management Plan). Councils are required by the *Water Resources Act 1997* to impose a separate levy on rateable land in the catchment areas of the Board in order to recover the contributions made to the Board.

Contributions payable by the Councils have been reduced by the amount of rebates and remissions granted by Councils in accordance with Section 138 of the *Water Resources Act 1997*.

The financial activities of the Board are conducted through a Deposit Account with the Department of Treasury and Finance pursuant to Section 21 of the *Public Finance and Audit Act 1987*.

(d) Administered Activities

The Board administers funds on behalf of the Mid South East Irrigators Association (MSEIA). The transactions relating to these activities are not recorded in the Board's Statement of Financial Performance, Statement of Financial Position or Statement of Cash Flows, as the Board does not have any control over these activities and merely acts as an agent. Details relating to these administered funds are disclosed in Note 20.

2. Significant Accounting Policies**(a) Basis of Accounting**

The financial statement is a general purpose financial report, and has been prepared in accordance with Statements of Accounting Concepts, Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, Treasurer's Instructions and Accounting Policy Statements issued by the Department of Treasury and Finance and the requirements of the *Water Resources Act 1997*.

The financial report has been prepared on the accrual basis of accounting. Accordingly revenues are recognised when they are earned or when the Board obtains control over them, rather than when they are received and expenses are recognised when they are incurred, rather than when they are paid. Some revenues are recognised when cash is received because only at this time can the Board be certain about the amounts to be collected. These revenues include items such as grants.

The financial report has been prepared in accordance with the historical cost convention.

(b) Plant and Equipment

Assets have been recognised at cost and included in the Statement of Financial Position.

Minor items of plant and equipment with an individual value of less than \$2 000 are expensed in the Statement of Financial Performance at the time they are acquired.

South East Catchment Water Management Board

(c) Depreciation

All items of plant and equipment have a limited useful life and are systematically depreciated in a manner which reflects the consumption of service potential. The depreciation rates are reviewed annually.

The expected useful life is as follows:	Years
Computing equipment	3
Other equipment	3-5
Furniture and fittings	10

Depreciation is provided on a straight-line basis.

(d) Income Recognition

All revenue is recorded in the Statement of Financial Performance. Grants, donations and other contributions are recognised as revenues when the Board obtains control over the assets comprising the contributions. Control over such revenues is normally obtained upon their receipt.

(e) Receivables

Receivables in respect of fees and charges are recorded at their recoverable amount. At the end of each reporting period these receivable balances are reviewed and a provision is raised in respect of any balance where recoverability is considered doubtful. Bad debts are written off in the period in which they are identified.

(f) Superannuation

The Board made contributions of \$48 000 (\$38 000) to Employer Contribution Accounts administered by the South Australian Superannuation Board, in respect of future superannuation liabilities.

(g) Employee Benefits and Other Employee Related Provisions

Employee benefits and employment on-costs accruing during the reporting period are treated as an expense in the Statement of Financial Performance.

A provision is raised at the end of the reporting period to reflect employee annual leave benefits. The annual leave benefit is calculated by multiplying each employee's entitlement by the remuneration rate current at the reporting date. Where leave loadings are paid, they are included in the calculation.

The benchmark used for determining long service leave liability is seven years in accordance with Accounting Policy Statement APS 9 'Employee Benefits' issued by the Department of Treasury and Finance. One member of staff has a long service leave benefit as a result of an entitlement under an employee contract.

(h) Cash Flows

For the purpose of the Statement of Cash Flows, cash includes cash on hand and Deposit Accounts with the Department of Treasury and Finance.

(i) Operating Leases

The Board has no finance leases. The Board has entered operating lease agreements in relation to office premises, photocopier and vehicle whereby lessors effectively retain all of the risks and benefits incidental to ownership of the property held under the operating lease.

(j) Creditors

These amounts represent liabilities for goods and services provided to the Board prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Cash Assets

Deposit account balances are at call amounts, which earn interest at a rate determined by the Treasurer. Interest is received quarterly in arrears. The average effective interest rate for the reporting period was 4.62 percent.

(l) Goods and Services Tax (GST)

In accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expenses; and
- receivables and payables are stated with the amount of GST included.

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows.

(m) Rounding

All amounts are rounded to the nearest thousand dollars.

South East Catchment Water Management Board

3. Output Classes of the Board

The Board operates solely in the portfolio area of water resource policy and planning thus no separation into output classes is warranted.

4. Fees and Charges

Note	2003 \$'000	2002 \$'000
	906	714
	389	291
	82	79
	1 377	1 084

Water based levies
Council levies (land based)
Public water supply levies

Total**5. Interest Revenue**

Interest revenue for the reporting period comprised:

Department of Treasury and Finance	30	27
Department of Water, Land and Biodiversity Conservation	4	5

Total**6. Other Revenue**

Other revenue for the reporting period comprised:

Blue Lake Management Committee and project funding	9	6
Other	33	12

Total**7. Goods and Services**

Goods and services expenses for the reporting period comprised:

Consultants	103	194
Board sitting fees and related expenses	87	84
Publications, reports and advertising	68	99
Other goods and services	55	54
Building accommodation and service expenses	54	48
Vehicle expenses	36	34
Travel expenses	31	25
Stationery	20	17
Staff training	17	18
Telephone	16	14
Minor plant and equipment	14	24
Accountant fees	12	14
Audit fee	11	11
Doubtful debt expense	(9)	14

Total**8. Depreciation**

Computing Equipment
Furniture and Fittings
Other Equipment

	8	9
	-	1
	3	2
	11	12

Total**9. Cash Assets**

Deposit Account with the Department of Treasury and Finance

	439	240
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10. Receivables

Council levies (land based)
Water based levies
GST refund
Sundry receivables
Accrued interest

	48	69
	60	47
	9	11
	4	6
	5	4
	126	137
	(5)	(14)
	121	123

Provision for doubtful debts

11. Plant and Equipment

Computing equipment - At cost
Less: Accumulated depreciation

	55	38
	38	30
	17	8

Furniture and fittings - At cost
Less: Accumulated depreciation

	5	5
	2	2
	3	3

Other equipment - At cost
Less: Accumulated depreciation

	16	16
	8	5
	8	11

Total Plant and Equipment- At Cost
Less: Accumulated depreciation

	76	59
	48	37
	28	22

South East Catchment Water Management Board

11. Plant and Equipment (continued) <i>Plant and Equipment Movement Schedule</i>	Carrying	Additions	Disposals	Depreciation	Carrying
	Amount 30.6.02			Expense	Amount
	\$'000	\$'000	\$'000	\$'000	\$'000
Computing equipment	8	17	-	(8)	17
Furniture and fittings	3	-	-	-	3
Other equipment	11	-	-	(3)	8
	22	17	-	(11)	28

12. Payables	2003	2002
Current:	\$'000	\$'000
Creditors	31	48
Accrued expenses	96	11
Total	127	59

13. Employee Benefits	2003	2002
Annual leave	38	29
Long service leave	10	6
Total	48	35

14. Equity	Accumulated Surplus	
Equity represents the residual interest in the Board's net assets. The South Australian Government holds the equity interest in the Board on behalf of the community.	2003	2002
	\$'000	\$'000
Balance at 1 July	291	626
Surplus (deficit) from ordinary activities	122	(335)
Balance at 30 June	413	291

15. Expenditure Commitments	2003	2002
<i>Leases</i>		
Commitments under non-cancellable operating leases at the reporting date which have not been recognised in the financial statements:		
Payable:		
Not later than one year	24	21
Later than one year and not later than five years	31	16
Total	55	37

The leases are non-cancellable leases, with rental payments monthly in arrears. Contingent rental provisions within the lease agreement allow for increase in payments in line with general inflation.

Other Expenditure Commitments

Other expenditure commitments which have not been recognised in the financial statements relate to arrangements with the Department of Water, Land and Biodiversity Conservation to fund the Volumetric Conversion Project. The commitments are:

Payable:	2003	2002
	\$'000	\$'000
Not later than one year	80	80
Later than one year and not later than five years	80	160
Total	160	240

16. Reconciliation of Net Cash Provided by (used in) Operating Activities to Surplus(deficit) from Ordinary Activities	2003	2002
Surplus (Deficit) from ordinary activities	122	(335)
Depreciation	11	12
Movements in assets and liabilities:		
Increase in payables	68	21
Increase in employee benefits	13	6
Decrease (Increase) in receivables	2	(39)
Net Cash Provided by (used in) Operating Activities	216	(335)

17. **Remuneration of Board Members**

Members of the South East Catchment Water Management Board during the financial year were:

Mr James Osborne (Presiding member)	Mr Robert Mock
Ms Maureen Andrews	Mr Christopher England
Mr Peter Altschwager	Mr Phillip McBride
Mr Robert Cowan	Mr Graham Kaye
Ms Dianne Ashby	

South East Catchment Water Management Board

17. Remuneration of Board Members (continued)

Remuneration paid or payable to Board members in respect of the reporting period fell within the following bands:

	2003	2002
	Number of	Number of
	Members	Members
\$1 - \$10 000	6	9
\$10 001 - \$20 000	2	-
\$20 001 - \$30 000	1	1

Total remuneration paid or payable to these members was \$66 000 (\$60 000). Other expenses of the Board members was \$21 000 (\$24 000).

18. Auditors' Remuneration

	2003	2002
	\$'000	\$'000
Amounts due and receivable for auditing the accounts	11	11

The auditors provided no other services.

19. Remuneration of Employees

The number of employees whose remuneration received or receivable exceeded \$100 000 fell within the following bands:

	2003	2002
	Number of	Number of
	Employees	Employees
\$100 001 - \$110 000	-	1
\$110 001 - \$120 000	1	-

20. Funds held on behalf of Mid South East Irrigators Association

The Board holds funds on behalf of the Mid South East Irrigators Association to assist them implement a program to rehabilitate degraded confined aquifers for wells. The Board has accepted this deposit on the basis that these monies will be disbursed in accordance with the instructions of the Mid South East Irrigators Association. Interest is paid at the same rate as received by the Board.

	2003	2002
	\$'000	\$'000
Balance at 1 July	737	396
Deposits placed with the Board	151	425
Interest earned on deposits	38	25
Less: Payments made on behalf of MSEIA	174	109
Balance of Funds held at 30 June	752	737

TORRENS CATCHMENT WATER MANAGEMENT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Torrens Catchment Water Management Board (the Board) was established on 7 May 1995 pursuant to the *Catchment Water Management Act 1995*, which was subsumed by the *Water Resources Act 1997*.

Functions

The functions of the Board are as follows:

- To prepare and implement a comprehensive Catchment Water Management Plan.
- To provide advice to the Minister and the constituent councils regarding the management of water resources within the Board's area.
- To promote public awareness of the importance of the proper management and sustainable use of the water resources within the Board's area.

Structure

The Board is responsible to the Minister and is supported by the General Manager and officers in implementing its Catchment Water Management Plan.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 74(2) of the *Water Resources Act 1997* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- budgetary control and management reporting
- accounts payable
- payroll
- revenue, including council contributions and grant funding
- grant administration.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager. The response to the management letter was considered to be satisfactory.

AUDIT FINDINGS AND COMMENTS**Audit Opinions*****Audit of Financial Statements***

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Torrens Catchment Water Management Board as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Torrens Catchment Water Management Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient, except for the matter outlined under Significant Matters Raised with Agencies, to provide reasonable assurance that the financial transactions of the Torrens Catchment Water Management Board have been conducted properly and in accordance with law.

Significant Matters Raised with Agencies

The interim audit of the Board included review of the delegations of authority for expenditure of monies. The review identified that the delegations of authority to Board employees were not approved by the Minister as is required by subsection 66(1)(b) of the *Water Resources Act 1997*. This finding was communicated to the Board who indicated they, along with other Catchment Water Management Boards, would seek clarification from the Crown Solicitor. A response was not received from the Crown Solicitor at the time of preparing this report.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

	2003 \$'million	2002 \$'million	Percentage Change
<i>OPERATING REVENUE</i>			
Council contributions	4.0	3.9	3
Other revenues	0.9	0.7	29
Total Operating Revenue	4.9	4.6	7
<i>OPERATING EXPENDITURE</i>			
Grants and subsidies	1.7	2.0	(15)
Other expenses	2.2	4.0	(45)
Total Operating Expenses	3.9	6.0	(35)
Surplus (Deficit) *	1.0	(1.4)	171
Net Cash Flows from Operations	1.0	(1.0)	200
<i>ASSETS</i>			
Current assets	2.0	1.5	33
Non-current assets	2.0	1.6	25
Total Assets	4.0	3.1	29
<i>LIABILITIES</i>			
Current liabilities	0.2	0.3	(33)
Non-current liabilities	0	0	0
Total Liabilities	0.2	0.3	(33)
<i>EQUITY</i>	3.8	2.8	36

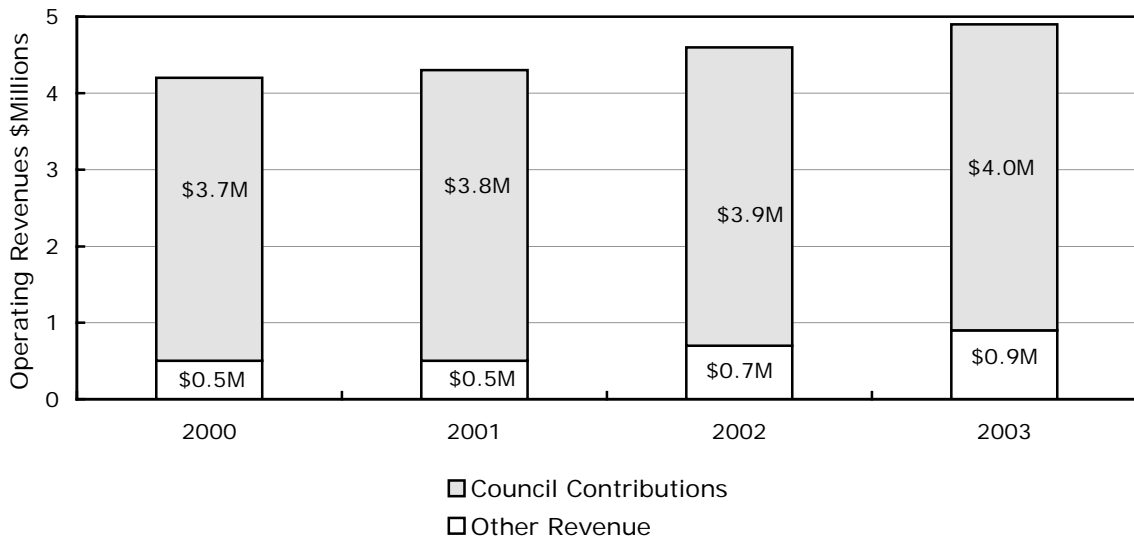
* The surplus/deficit includes some non-operating items.

Statement of Financial Performance

Operating Revenues

Constituent Councils provided contributions of \$4 million (\$3.9 million) to the Board in 2002-03. The contributions comprised 81 percent (85 percent) of the Board’s operating revenues for the year. Other operating revenues include grants and interest on bank deposits.

A structural analysis of operating revenues for the Board for the four years to 2003 is presented in the following chart.

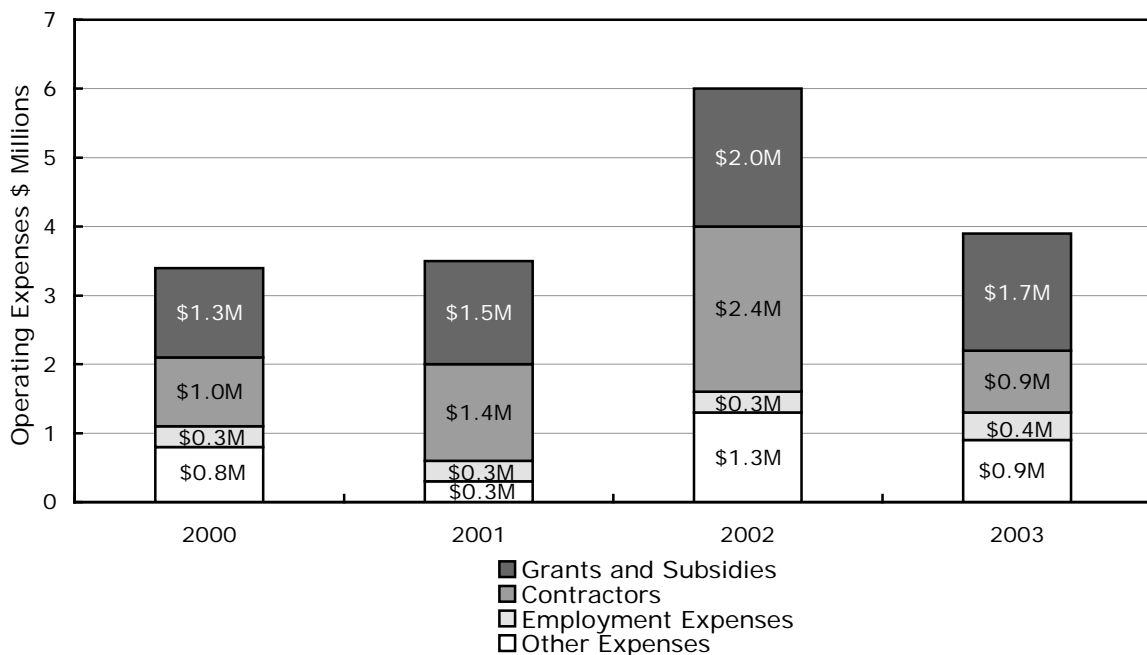


Operating Expenses

Contractor expenses of \$0.9 million (\$2.4 million) comprised 23 percent (40 percent) of the Board’s operating expenses in 2002-03. Contractor expenses were significantly higher in 2001-02 due mainly to the Watercourse Rehabilitation Program and the construction of the St Peters Billabong wetland.

Grants and subsidies of \$1.7 million (\$2.0 million) were provided mainly to councils to undertake water catchment works and are a significant component of the Board’s expense.

A structural analysis of the main operating expense items for the Board is shown in the following chart.

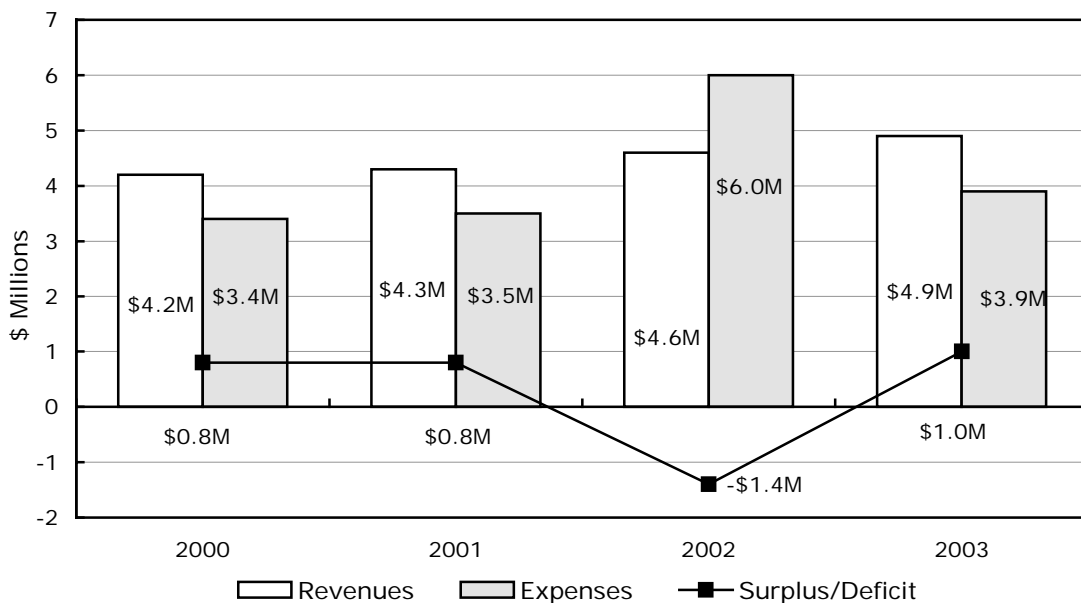


Operating Result

In accordance with the provisions of the *Water Resources Act 1997*, the Board receives contributions from Councils within the proclaimed catchment area. The amount contributed by Councils is based upon the annual estimated expenditure of the Board as detailed in its catchment water management plans, less the funds obtained from other sources including grants. As a result, the revenues of the Board are usually equivalent to its expenditure resulting in low surpluses/deficits, unless there are delays in implementing major projects or funds are required to be accumulated to pay for major projects.

Operating revenues were higher than operating expenses in 2000 and 2001 resulting in surpluses. In 2002 the surplus from past years was used for the Watercourse Rehabilitation Program and construction of the St Peters Billabong Wetland.

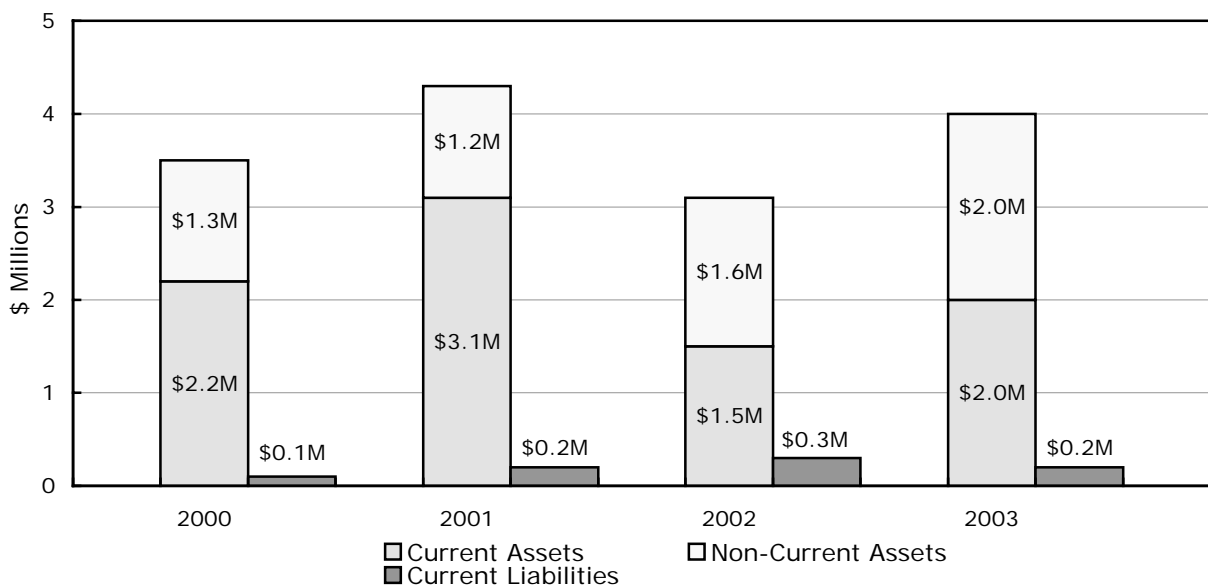
The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2003.



Statement of Financial Position

The Board has significant cash assets to cover its small liabilities. The Board has no non-current liabilities.

A structural analysis of assets and liabilities for the four years to 2003 is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2003.

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Net Cash Flows				
Operations	1.0	(1.0)	0.9	0.8
Investing	(0.5)	(0.9)	0	(0.2)
Financing	0	0	0	0
Change in Cash	0.5	(1.9)	0.9	0.6
Cash at 30 June	1.6	1.1	3.0	2.1

The analysis of cash flows shows that cash was accumulated up to 2000-01 and spent in 2001-02 on the Watercourse Rehabilitation Program and the construction of the St Peters Billabong wetland.

Expenditure commitments for catchment projects were \$2.4 million at 30 June 2003.

Torrens Catchment Water Management Board

Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Council contributions	1.3	3 993	3 915
Other contributions and grants		860	571
Interest received		54	119
Other income		2	50
Total Revenues		4 909	4 655
EXPENSES FROM ORDINARY ACTIVITIES:			
Contractors	3	893	2 391
Grants and subsidies		1 743	2 035
Consultants		552	546
Transfers and write off of non-current assets	5	-	491
Employee benefits	2.5	367	316
Other expenses		242	177
Depreciation	2.4,5	82	44
Board fees and expenses		38	38
Total Expenses		3 917	6 038
SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES		992	(1 383)
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Increase in asset revaluation reserve	9	-	56
Total revenues, expenses and valuation adjustment recognised directly to equity		-	56
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		992	(1 327)

**Statement of Financial Position
as at 30 June 2003**

	Note	2003	2002
		\$'000	\$'000
CURRENT ASSETS:			
Cash assets	12.1	1 556	1 058
Receivables	2.7	402	385
Prepayments		-	4
Total Current Assets		1 958	1 447
NON-CURRENT ASSETS:			
Plant, equipment and gross pollutant traps	4,5	1 726	727
Work in progress	6	331	888
Total Non-Current Assets		2 057	1 615
Total Assets		4 015	3 062
CURRENT LIABILITIES:			
Payables	2,8,7	167	222
Provisions	8.1	29	31
Total Current Liabilities		196	253
NON-CURRENT LIABILITIES:			
Provisions	8.2	32	14
Total Non-Current Liabilities		32	14
Total Liabilities		228	267
NET ASSETS		3 787	2 795
EQUITY:			
Accumulated surplus	9	3 731	2 739
Asset revaluation reserve	2,4,9	56	56
TOTAL EQUITY		3 787	2 795
Commitments	10		
Contingent Liabilities	11		

Torrens Catchment Water Management Board

**Statement of Cash Flows
for year ended 30 June 2003**

		2003	2002
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Inflows:			
Council contributions		3 884	3 915
Other contributions and grants received		858	465
Goods and services tax receipts from taxation authority		461	602
Interest received		53	119
Other income received		3	50
Outflows:			
Payments to suppliers, service providers, grantees and employees		(3 852)	(5 474)
Goods and services tax payments on purchases		(385)	(677)
Net Cash provided by (used in) Operating Activities	12.2	1 022	(1 000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Outflows:			
Payments for plant, equipment, gross pollutant traps and work in progress		(524)	(876)
Net Cash used in Investing Activities		(524)	(876)
NET INCREASE (DECREASE) IN CASH HELD		498	(1 876)
CASH AT 1 JULY		1 058	2 934
CASH AT 30 JUNE	12.1	1 556	1 058

**Output Class Schedule of Board's Expenses
for the year ended 30 June 2003**

Output Class (refer Note 2.10)	1	2	3	4	5
	\$'000	\$'000	\$'000	\$'000	\$'000
Contractors	497	12	95	5	138
Grants and subsidies	361	113	24	79	1 049
Consultants	203	11	247	-	47
Transfers of non-current assets	-	-	-	-	-
Employee benefits	-	-	-	-	-
Other expenses	2	1	2	-	31
Depreciation	-	-	-	-	-
Board fees and expenses	-	-	-	-	-
	<u>1063</u>	<u>137</u>	<u>368</u>	<u>84</u>	<u>1 265</u>

Output Class (refer Note 2.10)	6	7	2003 Total	2002 Total
	\$'000	\$'000	\$'000	\$'000
Contractors	115	31	893	2 391
Grants and subsidies	-	117	1 743	2 035
Consultants	20	24	552	546
Transfers of non-current assets	-	-	-	491
Employee benefits	-	367	367	316
Other expenses	-	206	242	177
Depreciation	-	82	82	44
Board fees and expenses	-	38	38	38
	<u>135</u>	<u>865</u>	<u>3 917</u>	<u>6 038</u>

Revenues from Ordinary Activities have not been distributed to Output Classes as they do not relate to any particular Class.

Torrens Catchment Water Management Board

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**1. Objectives and Funding****1.1 Establishment of Board**

The Torrens Catchment Water Management Board (the Board) was established on 7 May 1995 pursuant to the *Catchment Water Management Act 1995*, which was subsumed by the *Water Resources Act 1997*.

The Board commenced operation under an Initial Plan in 1995. The Board now operates under its latest Catchment Water Management Plan 2002-2007 (the Plan) which was approved by the Minister for Environment and Conservation in May 2002.

In accordance with the *Water Resources Act 1997*, the Board conducted an annual review of the Plan during the year. The 2002-03 review amended projected income and expenditure for the financial years 2003-04 to 2005-06 and was adopted by the Minister for Environment and Conservation on 24 March 2003.

1.2 Functions of the Board

The functions of the Board are:

- to prepare and implement the Torrens Catchment Water Management Plan 2002-2007;
- to provide advice to the Minister and the constituent councils for the Board's area in relation to the management of the water resources in the Board's area in accordance with the *Water Resources Act 1997*; and
- to promote public awareness of the importance of the proper management of the water resources in the Board's area and of the sustainable use of those resources.

1.3 Sources of Funding

In accordance with the provisions of the *Water Resources Act 1997*, the Board received contributions from councils within the proclaimed catchment area. The amount contributed by councils was based upon the estimated expenditure of the Board (as contained in the approved Plan) for the financial year, less the amount of any other funds available to the Board.

Councils are required to impose a separate levy on rateable land in the catchment areas of the Board in order to recover the contributions made to the Board.

Contributions payable by constituent Councils to the Board have been reduced by the amount of rebates or remissions granted by Councils in accordance with section 136 of the *Water Resources Act 1997* and Division 5 of Part 1 of the *Local Government Act 1999*.

2. Statement of Significant Accounting Policies**2.1 General**

The following is a summary of the significant accounting policies adopted by the Board in the preparation of the general purpose financial report.

The general purpose financial report has been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views, Treasurer's Accounting Policy Statements, Treasurer's Instructions, the *Public Finance and Audit Act 1987*, *Water Resources Act 1997* and other mandatory reporting requirements.

The Financial Statements have been prepared on an accrual basis whereby items are brought to account as they are earned or incurred and included in the statements for the accounting periods to which they relate.

The accounts are prepared on the basis of historical cost and are not adjusted to take account of changing money values or current valuations of non-current assets unless otherwise disclosed in these Notes.

2.2 Income Recognition

Contributions from constituent councils are recognised as income following determination of the share of each council by the Minister and publication of those amounts in the Government Gazette. Contributions are required to be paid on a quarterly basis to the Board.

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Income from grants is recognised following completion of formal documentation between the grantor and the Board.

Other income is recognised when the service has been performed.

All income relates to the operating activities of the Board.

2.3 Allocation of Administrative Overheads

The Torrens and Patawalonga Catchment Water Management Boards have agreed to share administrative costs on a 60/40 basis.

Torrens Catchment Water Management Board

2.4 Non-Current Assets

Depreciation

Depreciation is provided on a straight line basis to write off the net cost or revalued amount of all plant, equipment and gross pollutant traps over their expected useful lives. Estimates of remaining useful lives are made on a regular basis for all assets, with annual assessments for major items.

The expected useful lives are as follows:	Years
Display systems	3
Computer equipment	5
Office equipment	8
Furniture and fittings	20
Gross pollutant traps	25

Leasehold improvements are amortised over the life of the lease.

Assets costing less than \$300 have been included in expenditure in the year of acquisition.

Assets Disclosed at Directors' Valuation

In accordance with Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets' issued by the Department of Treasury and Finance, the Board revalued its gross pollutant traps as at 30 June 2002. Current cost has been determined by the Board using the deprival methodology, whereby assets are valued at the replacement cost of procuring similar assets with similar functions and which provide comparable future service potential.

The 30 June 2002 revaluation of gross pollutant traps resulted in an asset revaluation reserve of \$56 000 being recognised in the financial statements.

2.5 Employee Benefits

Employer Superannuation

The Board contributed \$34 000 (\$29 000) to superannuation schemes in respect of its employees for the financial year. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability at balance date relates to any contribution due but not yet paid to the superannuation schemes.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision is calculated at nominal amounts based on current salary rates. On-costs have been included in the provision in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No provision has been made for sick leave. Sick leave taken by employees is considered to be taken from the current year's accrual and in consequence no liability is recognised.

Long Service Leave

The benchmark used for determining long service leave liability is seven years in accordance with Accounting Policy Statement APS 9 'Employee Benefits' issued by the Department of Treasury and Finance. The provision includes entitlements for three employees one of which involves recognition of prior service with other Government Departments.

On-costs have been included in the component of long service leave that will be taken as leave (55 percent of the liability at June 2003) rather than a lump sum. This calculation is based upon an average percentage supplied by the Department of Treasury and Finance for long service that will be taken as a lump sum (45 percent).

Workers Compensation

The Board is registered with WorkCover as an exempt employer and has entered a service level agreement with the Department for Administrative and Information Services to provide insurance cover for work caused injuries.

2.6 Leases

The Board has no financial leases.

The Board entered into operating lease agreements in relation to office premises and computer equipment whereby the lessors effectively retain all of the risks and benefits incidental to ownership of the property held under the operating leases.

Lease payments are included as expenditure in equal instalments over the accounting periods covered by the lease terms.

Total expenditure on operating leases in 2002-03 was \$57 000 (\$55 000).

2.7 Receivables

Income receivable on investment of surplus funds is accrued in accordance with the terms and conditions applicable to funds held at Department of Treasury and Finance in a Section 21 Deposit Account.

Torrens Catchment Water Management Board

2.8 Payables*Trade Creditors*

These amounts represent liabilities for goods and services provided to the Board prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Other Payables

These amounts represent unpaid Board fees and direct overheads at balance date.

2.9 Credit Risk Exposure

The credit risk on financial assets of the Board which have been recognised in the Statement of Financial Position, is generally the carrying amount.

2.10 Output Classes of the Board

Outputs are defined as goods or services produced, provided to or acquired for external customers. The Board has identified seven major classes of outputs that it delivers to the community under the Catchment Water Management Plan approved by the Minister in May 2002 for implementation on 1 July 2002. The identity and description of each major output class of the Board during 2002-03 are summarised below (refer to Output Class Schedule of Board's expenses).

Output 1: Improve and Maintain Water Quality

The Board's goal is to improve and maintain water quality in the catchment at a level suitable for safe use by the community including recreation and to sustain natural ecosystems and reduce impacts on aquatic environments. This is achieved by defining environmental values and targets, controlling diffuse pollution in the catchment, developing and maintaining constructed wetlands, silt traps gross pollutant traps and helping eliminate wastewater discharges.

Output 2: Ensure Sufficient Water Availability and Use

Ensuring sufficient water is maintained in creeks, rivers and aquifers for equitable and economic community use (both private and public) and to maintain ecosystems by defining water for the environment requirements and reviewing resource use and availability. The Board also encourages viable storm water and aquifer storage and recovery (ASR), effluent reuse opportunities and water conservation practices.

Output 3: Protect and Enhance Water Dependent Ecosystems

The goal of protecting and enhancing water dependent ecosystems through integrated natural resource management is undertaken by protecting and rehabilitating rural watercourses, assessing and protecting aquatic habitats and managing urban watercourses.

Output 4: Coordinate Floodplain Management

At a catchment scale the Board aims to co-ordinate integrated stormwater and floodplain management.

Output 5: Foster an Informed and Committed Community

A key goal of the Board is to foster an informed, committed and involved community that takes responsibility for, and actively supports its role in catchment management. This is achieved by implementing the Board's communication and community education/awareness strategy, supporting groups and schools in community programs, delivering an industry and council stormwater pollution prevention program, supporting rural watercourse education and involvement assistance and land management programs and facilitating appropriate enforcement and compliance support for the program.

Output 6: Establish Monitoring and Evaluation Systems

To ensure the effectiveness of its programs, the Board has established monitoring and evaluation systems through linking with other relevant existing and proposed data collection activities in the catchment and providing a performance indicator/evaluation database for the Board's programs.

Output 7: Deliver the Board's Progress in an Integrated Manner

The Board aims to deliver its programs in an integrated manner in partnership with all stakeholders taking into account environmental, economic and social considerations. In doing so the Board will support an integrated resources management approach across the catchment, facilitate collaboration with constituent councils to better integrate Council and Board plans and provide professional services to allow the Board to implement its Catchment Plan and meet its statutory requirements.

2.11 Accounting for Goods and Services Tax (GST)

In accordance with UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

Torrens Catchment Water Management Board

2.11 Accounting for Goods and Services Tax (GST) (continued)

The net GST receivable/payable to the Australian Tax Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash Flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the Australian Tax Office have however been classified as operating cash flows.

2.12 Rounding

All amounts are rounded to the nearest thousand dollars.

3. Contractors

Contractors have been used to implement the Board's program of activities including installation of wetlands, gross pollutant traps and watercourse rehabilitation, monitoring of water quality and production of community education material. The decrease in expenditure on contractors in 2002-03 is due mainly to the reduction in major construction works.

4. Plant, Equipment and Gross Pollutant Traps

	2003		2002	
	\$'000	\$'000	\$'000	\$'000
Display systems at cost	55		55	
Less: Accumulated depreciation	55		53	
		-		2
Furniture and fittings at cost	23		21	
Less: Accumulated depreciation	7		6	
		16		15
Computer equipment at cost	7		7	
Less: Accumulated depreciation	6		5	
		1		2
Office equipment at cost	15		14	
Less: Accumulated depreciation	7		7	
		8		7
Office leasehold improvements at cost	23		23	
Less: Accumulated amortisation	15		12	
		8		11
Gross pollutant traps				
At cost	1 078		-	
At directors' valuation	810		810	
	1 888		810	
Less: Accumulated depreciation	195		120	
		1 693		690
Total Plant, Equipment and Gross Pollutant Traps		1 726		727

5. Plant, Equipment and Gross Pollutant Traps Movement Schedule

	Carrying Amount		Depreciation	Carrying Amount
	1.07.02	Additions	Expense	30.06.03
	\$'000	\$'000	\$'000	\$'000
Display systems	2	-	(2)	-
Furniture and fittings	15	2	(1)	16
Computer equipment	2	-	(1)	1
Office equipment	7	1	-	8
Office leasehold improvements	11	-	(3)	8
Gross pollutant traps	690	1 078	(75)	1 693
	727	1 081	(82)	1 726

Transfer and Write off of Non-Current Assets

During 2001-02 six gross pollutant traps with a carrying value of \$382 000 were transferred to Councils for nil consideration and one gross pollutant trap with a carrying value of \$109 000 was demolished.

6. Work in Progress

Work in progress was \$331 000 (\$888 000) reflecting expenditure on gross pollutant traps under construction.

7. Payables

	2003	2002
	\$'000	\$'000
Trade creditors	154	177
Other payables	13	45
Total	167	222

Torrens Catchment Water Management Board

8.	Provisions		2003	2002
	8.1	Current Provisions:	\$'000	\$'000
		Provision for employee benefits:		
		Annual leave	29	31
	8.2	Non-Current Provisions:		
		Provision for employee benefits:		
		Long service leave	32	14
			61	45
9.	Accumulated Surplus			
		Balance at 1 July	2 739	4 122
		<i>Add:</i> Surplus (Deficit) from ordinary activities	992	(1 383)
		Balance at 30 June	3 731	2 739
		Asset Revaluation Reserve:		
		Increment on revaluation of gross pollutant traps	56	56
			3 787	2 795
10.	Expenditure Commitments			
	10.1	Lease Commitments (excluding GST)		
		Operating Leases:		
		Not later than one year	50	52
		Later than one year and not later than five years	105	230
		Aggregate lease expenditure committed for at balance date but not provided for	155	282
		Operating lease commitments comprise the following:		
		• A property lease which is non-cancellable. Rental is payable monthly with reviews indexed annually, alternating between market value and CPI indexation. Options exist to renew the lease at the end of the current term.		
		• A computer lease which is non-cancellable. Rental is payable monthly and options exist to renew or cancel the lease at the end of the current term.		
	10.2	Other Expenditure Commitments (excluding GST)	2003	2002
			\$'000	\$'000
		Not later than one year	1 959	2 283
		Later than one year and not later than five years	424	97
		Aggregate other expenditure committed for at balance date but not provided for	2 383	2 380
		Approvals have been given for various projects including wetlands, trash racks, rural riparian works, flood studies and grants for pollution prevention and research and development. The value of these projects (\$2.383 million) is not reflected in the Statement of Financial Performance or Statement of Financial Position for the current financial year.		
11.	Contingent Liabilities	The Board has no contingent liabilities.		
12.	Note to the Statement of Cash Flows			
	12.1	Reconciliation of Cash		
		For the purposes of the Statement of Cash Flows, the Board considers cash to include cash on hand and in banks and those investments that are able to be converted to cash within two working days.		
	12.2	Reconciliation of Net Cash (used in) provided by Operating Activities to Surplus (Deficit) from Ordinary Activities	2003	2002
			\$'000	\$'000
		Surplus (Deficit) from ordinary activities	992	(1 383)
		Depreciation	82	44
		Transfers of non-current assets	-	491
		(Increase) – Receivables – Net amounts due in relation to asset disposals	(17)	(183)
		Decrease (Increase) – Prepayments	4	(1)
		(Decrease) Increase – Payables	(55)	31
		Increase – Provisions	16	1
		Net Cash (used in) provided by Operating Activities	1 022	(1 000)
13.	Auditors' Remuneration			
		Amount due and receivable by the auditors for auditing the financial report	11	11

No other services were provided by the auditors.

Torrens Catchment Water Management Board

14. Remuneration of Board Members and Related Party Disclosures

Members of the Torrens Catchment Water Management Board during the financial year were:

Mr Jay Hogan: Presiding Member	Mr Peter Koukourou
Ms Penny Paton	Ms Valerie Bonython
Mr Peter Cooper	Mr Tim Potter
Mr Jason Kuchel	Ms Cathryn Hamilton

Total income received, or due and receivable, by Board Members was \$34 000 (\$32 000). Other expenses of Board Members were \$4 000 (\$6 000).

The number of Members whose income from the entity falls within the following bands is:

	2003	2002
	Number of	Number of
	Members	Members
\$0 - \$9 999	7	8
\$10 000 - \$19 999	1	1

Prescribed benefits given by the Board to prescribed superannuation funds or otherwise in connection with the retirement of Board Members were \$2 000 (\$2 000).

In accordance with the Department of the Premier and Cabinet Circular No. 14, Cathryn Hamilton, as a Government employee, did not receive any remuneration from the Board during the year.

Related Party Disclosures

One Board Member had direct affiliations with a Local Government Council from which Council contributions are received by the Board. The Member is Mr Tim Potter, Adelaide Hills Council.

During the year grants totalling \$27 000 (\$34 000) were approved for the Council of the Board Member, who is an employee of that Council. Schedule 2, clause 10(10) of the *Water Resources Act 1997* provides that a member of the Board does not have a direct or indirect personal or pecuniary interest in any matter under consideration by the Board simply by being a member of a constituent council. The nature of the grants and conditions attached, were similar to other grants provided to various organisations.

15. Executive Officers' Remuneration

The number of Executive Officers whose remuneration from the Torrens and Patawalonga Catchment Water Management Boards falls within the following bandwidth:

	2003	2002
	Number of	Number of
	Executive	Executive
\$120 000 - \$129 999	1	1

Remuneration of the Executive Officer was shared with the Patawalonga Catchment Water Management Board on a 60/40 basis. Refer Note 2.3.

16. Financial Instruments

Interest Rate Risk Exposure

The Board's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

	2003		2002			
	Floating	Non-	Total	Floating	Non-	Total
	Interest	Interest	Carrying	Interest	Interest	Carrying
	Rate	Bearing	Amount	Rate	Bearing	Amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:						
Cash assets	1 556	-	1 556	1 058	-	1 058
Receivables	-	402	402	-	385	385
	1 556	402	1 958	1 058	385	1 443
Weighted average interest rate (percent)	4.60			4.40		
Financial Liabilities:						
Payables	-	167	167	-	222	222
	-	167	167	-	222	222
Weighted average interest rate (percent)	-			-		
Net Financial Assets	1 556	235	1 791	1 058	163	1 221

Reconciliation of Net Financial Assets to Net Assets

	2003	2002
	\$'000	\$'000
Net financial assets as above	1 791	1 221
Non-financial assets and liabilities:		
Plant, equipment, gross pollutant traps and work in progress	2 057	1 615
Prepayments	-	4
Provisions	(61)	(45)
Net Assets per Statement of Financial Position	3 787	2 795

Torrens Catchment Water Management Board

Net Fair Value of Financial Assets and Liabilities - On-Statement of Financial Position

The net fair value of cash and equivalents and non-interest bearing monetary financial assets and financial liabilities of the Board approximates their carrying value.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

On-Statement of Financial Position Financial Instruments	2003		2002	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial Assets:				
Cash assets	1 556	1 556	1 058	1 058
Receivables	402	402	385	385
Financial Liabilities:				
Payables	(167)	(167)	(222)	(222)
	1 791	1 791	1 221	1 221

DEPARTMENT FOR ENVIRONMENT AND HERITAGE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department for Environment and Heritage (DEH) is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*.

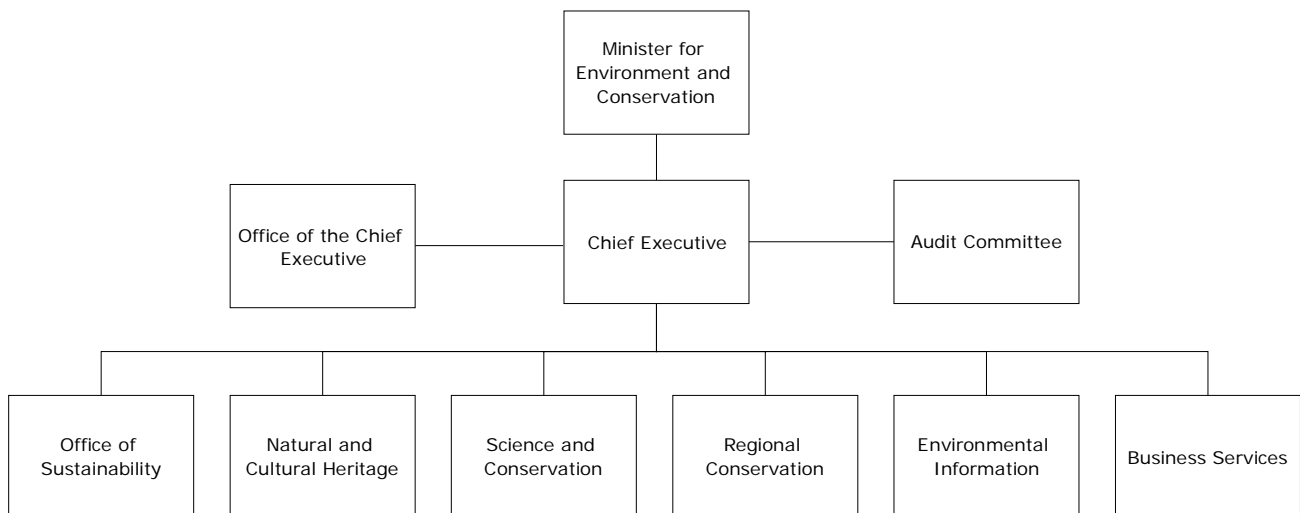
Functions

The functions of the DEH are as follows:

- Policy leadership and advice, relating to environmental sustainability of human activities, and on the conservation, use and enjoyment of natural and cultural heritage, and of the public land estate.
- Manage and conserve public land, special places and wildlife, on behalf of the Government, for the use, benefit and enjoyment of all South Australians.

Structure

The structure of DEH is illustrated in the following organisation chart.



Changes to Functions and Structure

On 1 July 2002, by proclamation of the Governor the employees of the former DEH division known as the Environment Protection Agency were transferred to a newly established administrative unit, the Environment Protection Authority. On that same date the Native Vegetation Council Support, Biodiversity Assessment Services, Natural Resource Planning and Biodiversity Partnership functions were transferred to the Department of Water, Land and Biodiversity Conservation.

The Office of Sustainability was established within DEH on 1 July 2002 to facilitate strategic sustainability policy and programming at a whole-of-government level and to provide an oversight of the development of environmental policies and the reform of environmental and conservation legislation.

During the year DEH undertook an organisational restructure establishing new directorates replacing the previous divisional arrangements.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of DEH for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by DEH in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- revenue, receipts and receivables
- purchases, payments and payables
- employee expenses and related benefits
- fixed assets
- Land Ownership and Tenure System
- procurement
- Financial Management Framework.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Department and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

Qualification

Due to limitations with respect to the reliability and completeness of information maintained on property administered by the Department that have prevented the production of timely and appropriate information, consistent with the previous year I am unable to form an opinion on the completeness and reliability of values ascribed to the property, plant and equipment component of the Schedule of Administered Items. Recognising this property using similar valuation methodology to that used for other property in this financial report may have material effects, the amounts of which are uncertain, on the property, plant and equipment reported in the Schedule of Administered Items.

Qualified Audit Opinion

In my opinion, except for the effect on the financial report of the matter referred to in the qualification paragraph, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department for Environment and Heritage as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by Department for Environment and Heritage in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under 'Significant Matters Raised with the Agency' is sufficient to provide reasonable assurance that the financial transactions of the Department for Environment and Heritage have been conducted properly and in accordance with law.

Significant Matters Raised With the Agency

Financial Management Framework

Previous years' Reports included commentary on DEH's progress toward meeting the principles outlined in the Financial Management Framework (FMF). During the 2002-03 financial year audit process, Audit has followed up certain matters regarding implementation progress. Audit observations and comments arising from an understanding of the status of the application of some of the key elements of the FMF are outlined below.

Financial Management Framework Implementation

In previous years, Audit reported on delays in the establishment of processes to facilitate the progressive implementation and monitoring of the FMF. Last year's Report advised that a review of the implementation of the FMF had been conducted for corporate activities (completed in June 2001) and divisional activities (completed June 2002).

In response to Audit follow-up, DEH has advised that while progress was delayed at a divisional level by the impact of a departmental restructure, the results of the implementation progress review were reported to the Audit Committee on a number of occasions throughout the 2002-03 year. The Department has also advised that significant issues identified through the review process have been included in the directorate component of the 2003-04 Audit Committee Work Program.

Internal Audit

The Office of the Chief Executive has overseen a combination of outsourced internal audit reviews, in-house conducted reviews and reviews sponsored by directorate management.

Risk Management

In response to audit follow up, DEH advised that it had updated its Risk Profile document in November 2002. The profile reflects the major categories of risks faced by DEH and is used as a point of reference for Executive discussions and prioritisation on agency activities. DEH also advised that a status report on risk management in DEH, including an assessment of the DEH Risk Management Strategy, was presented to the Audit Committee in July 2003. Stemming from this review, activities proposed by DEH for 2003-04 include a revision of the Department's Risk Management Policy and implementation of targeted risk assessment workshops.

Strategic Planning, Monitoring and Reporting

Last year's Report observed the launch of the DEH Strategic Plan for 2002-05 and DEH's commencement of reporting on outputs.

In response to Audit follow up, the Department advised that during the 2002-03 year DEH commenced a review of the DEH Strategic Plan 2002-05 to encompass the change from an output class/output budget structure to program/sub-program structure. As part of this review a project commenced in January 2003 to develop a Planning, Budgeting and Reporting Framework. The project's progress to date has included development of a program and sub-program structure and has assigned respective responsibilities to managers. DEH has also advised that program and sub-program goals are currently being developed and current sub-program performance indicators are being reviewed along with aspects of the general ledger to ensure adequate reporting of financial information.

Procurement Practices

The previous two year's Reports have included comment on a number of observations relating to DEH's implementation of the SA Government Procurement Reform Strategy.

Comments in the 2001-02 Report noted that there was limited progress towards establishing the scope of the Accredited Purchasing Unit (APU) activities, formulation of a Procurement Development Strategy and management review and reporting on the strategic and operational aspects of procurement. Audit also reported inconsistent application of the Procurement Policies, noted potential opportunities to be more strategic in the procurement process and highlighted a need for some degree of centralised procurement reporting and review (monitoring) processes directed toward procurement reform management, risk management, internal control compliance, and strategic purchasing.

In 2002-03 Audit conducted a follow-up review of these matters and further assessed DEH's application of the principles of the Reform Strategy. Audit noted that recent progress has been made on a number of matters including the development and approval of terms of reference for the APU, preparation of a formal

Procurement Development Strategy and introduction of a pilot contract register for a division of the Department.

While DEH has managed and addressed various aspects of the matters reported in previous years, certain matters were identified which remain a concern and warrant attention. In summary, these matters included the:

- absence of a longer term strategy for monitoring and reporting which would enable the APU and Chief Executive to monitor the achievement of the objectives of the Procurement Reform Strategy and ensure that agency obligations under the Reform Strategy are met;
- need for improvement in departmental policy documents in relation to panel contracts;
- absence of a central contracts register.

DEH Response

DEH's response detailed a risk management approach to improvements in procurement practice, encompassing periodic compliance reviews and screening of risk through quality assurance processes. The response included the following actions:

- Recent implementation of a number of initiatives including advisory services and the creation of policy documents.
- Analysis of expenditure patterns to determine areas of focus.
- Intended implementation of contract registers across the Department.
- Intended introduction of further and improved monitoring processes.
- Intended formalisation of procurement practices in relation to asset construction projects and panel contracts by means of policy documents.

Accounting for Crown Land

Over the past four years Audit has commented on action taken in relation to the treatment of Crown lands for accounting purposes and the completeness and accuracy of information available on Crown lands.

DEH has advised, in past years, that it considers the valuation and recording of Crown lands to be an issue that should be addressed from a whole-of-government perspective.

As a result of the aforementioned matters, the Independent Audit Reports on the Department's financial statements for past years were qualified with respect to administered property.

Due to there being no resolution to the valuation of Crown lands, the Independent Audit Report to the financial statements has again been qualified with respect to the completeness and valuation of property, plant and equipment included in the Schedule of Administered Items.

Accounting for Fixed Assets

Last year's Report commented on a lack of regular and timely review and analysis of fixed asset information. The 2002-03 review revealed some improvements in the review of asset records. However, there remain areas that could be improved, particularly in regard to the assessment of newly constructed assets and useful life information to ensure accurate reporting of actual asset holdings.

During the year DEH undertook a revaluation of a significant proportion of its asset holdings. A review of this process established that the valuation approach adopted by the Department was found to be generally satisfactory. The review did, however, identify a number of matters that required further action including the need for:

- increased disclosure within the Department's financial statements;
- formalisation of a systematic and methodical revaluation plan;
- formal documentation of the rationale for adopting assumptions used in relation to all significant assets or groups of assets;
- adequate documentation of methodologies applied to derive the value of several 'unique' assets.

DEH Response

The Department has advised that the issues raised had been addressed or were to be the subject of further remedial action. In particular DEH advised that:

- a review of capital work in progress information would be performed quarterly;
- a review of useful life information held within the fixed asset register had been conducted;
- consideration was to be given to increasing asset disclosures in DEH's financial statements;
- a formal asset valuation plan is scheduled to be completed in 2003-04;

The Department also advised details of the overall assumptions used in revaluing certain asset classes.

Land Information Revenue

The Land Ownership and Tenure System (LOTS) is primarily directed toward recording land information. Information from LOTS is provided to government and non-government users. Many users are charged for information provided, while others (eg. other government agencies and private sector entities who have arrangements with the Department), are not charged. LOTS information is provided either by internet access (Property Assist), by dial up/direct connection (LOTS Enquiries) or over the counter.

Last year's Report detailed concerns relating to certain control weaknesses over the completeness of LOTS and Property Assist inquiry revenue and the establishment and maintenance of user access. In response to matters raised last year DEH advised that a review of the risks to revenue and the procedures for user registration and management was to be undertaken. The 2002-03 audit revealed that this review of business processes was still in progress and there had been no significant changes made to the control environment surrounding LOTS and Property Assist.

Specifically, the 2002-03 audit review revealed that controls in relation to non-chargeable users, were insufficient to ensure the validity of users or the appropriateness of use of LOTS and Property Assist. These control weaknesses present risks of inappropriate use and dissemination of LOTS information and a potential for forgone revenue. Further, controls were not adequate to ensure that all inquiries made in Property Assist were transferred completely to Masterpiece Accounts Receivable for invoicing and Masterpiece General Ledger for reporting. Subsequent to the initial audit process, it was noted that DEH has now implemented a reconciliation control process.

DEH Response

The Department noted the transfer of business processes relating to LOTS and Property Assist to DAIS as at 1 September 2003, as detailed under 'Transfer of Land Services Group and LOTS'. As part of the transitional processes DEH has indicated an intention to advise DAIS of the issues raised in relation to possible weaknesses in internal controls, proposed corrective actions and the need for undertaking a formal risk assessment of LOTS and all related applications. DEH further advised details of actions being undertaken or proposed to address matters raised by Audit.

Transfer of Land Services Group and LOTS

As part of the 23 October 1997 restructure of government agencies, the functions, assets and liabilities of the Land Services Group (LSG) were transferred to the Department for Administrative and Information Services (DAIS).

In prior years Audit has, on a number of occasions, corresponded with DEH and DAIS highlighting the need to formally document the final negotiated position and establish formal service agreements between DEH and DAIS outlining the responsibilities, rights and obligations of each agency resulting from the transfer of LSG and resulting IT assets. These issues have, in recent years, been the subject of discussions between DEH and DAIS.

In January 2003 a Statement of Intent was agreed in principle between DEH and DAIS to re-align both agencies' land administration and land management information systems to the respective agencies roles. Resulting from this process the Chief Executives of DEH and DAIS noted that an agreement had been reached to transfer, from 1 September 2003, the management responsibilities for LOTS and Property Assist and related IT and financial services from DEH to DAIS. In addition the Departments approved the establishment of a Joint Management Committee to manage the transition process.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2003 \$/million	2002 \$/million	Percentage Change
REVENUE			
Revenues from Government	83.3	94.7	(12)
Fees and charges	26.8	24.3	10
Grants and contributions	10.4	20.4	(49)
Revenue from take up of administered items	4.7	-	-
Other revenue	12.5	18.9	(34)
Total Revenue	137.7	158.3	(13)
EXPENSES			
Employment expenses	58.0	68.6	(15)
Grants and contributions	4.4	16.7	(74)
Expense from restructure	3.6	61.2	-
Other expenses	77.7	81.8	(5)
Total Expenses	143.7	228.3	(37)
(Deficit) on Ordinary Activities*	(6.0)	(70.0)	(91)
Net Cash Flows from Operations	23.9	(5.0)	
ASSETS			
Current assets	72.4	60.0	21
Non-current assets	218.6	223.2	(2)
Total Assets	291.0	283.2	3
LIABILITIES			
Current liabilities	14.8	17.9	(17)
Non-current liabilities	50.8	48.6	5
Total Liabilities	65.6	66.5	(1)
EQUITY	225.4	216.7	4

* The deficit includes some non-operating items.

Statement of Financial Performance

Revenues

Due to restructuring of activities, 2002 revenue figures are not directly comparable.

Revenues from all activities decreased by \$20.6 million. Major items effecting that movement were:

Revenues from Government decreased by \$11.4 million, representing in the main, the separation from DEH of the Environment Protection Agency which was transferred to a newly established administrative unit as from 1 July 2002.

Grants and contributions revenue decreased by \$10 million.

Fees and Charges increased by \$2.5 million. This movement is due mainly to the following items:

- Increase of \$0.9 million in rental income, in part, due to an increase in rental charges for perpetual leases over crown land.
- Increase of \$0.8 million received for application fees in relation to a crown lease free-holding initiative.

Environment and Heritage

- Increase of \$1.9 million in property inquiry fees and Section 7 reports.
- Increase of \$6.5 million resulting from a change in accounting treatment for the General Reserves Trust, State Heritage Fund and Wildlife Conservation Fund (refer to Note 2(a)). This increase is matched by a decrease in Grants and Contributions revenue.
- Offset by a decrease of approximately \$7 million in Levies and Licences attributable to functions of environment protection transferred as at 1 July 2002.

Expenses

Due to restructuring of activities, 2002 expenditure figures are not directly comparable.

Expenses from all activities decreased by \$84.6 million. Major items effecting that movement were:

- net expenses from restructuring in the prior year amounted to \$61.2 million. Note 14 to the financial statements provides full details of the transfers made;
- a decrease in expenditure relating to the transfer of the environment protection function from DEH to Environment Protection Authority as at 1 July 2002;
- Recreation and Sport financial assistance grants of \$9.1 million paid in the previous year in relation to the Office for Recreation, Sport and Racing function which was transferred out of DEH on 4 December 2001.

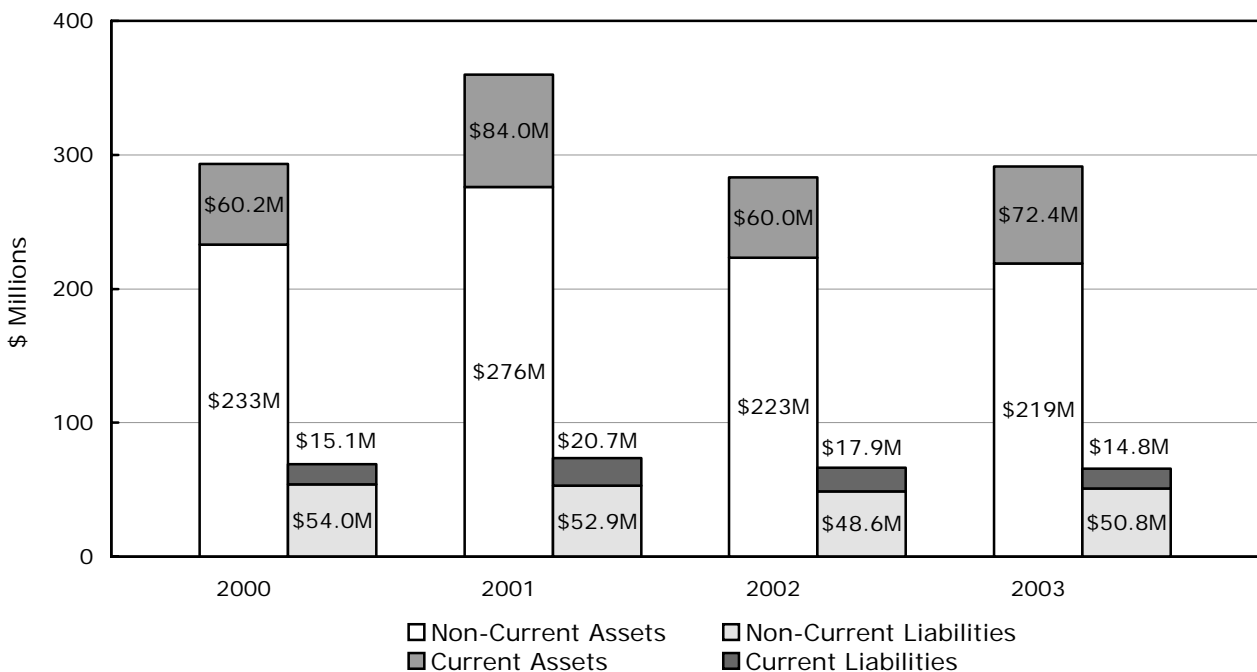
Operating Result

DEH recorded a net operating deficit before restructuring and take up of administered items expenses/revenues of \$7.1 million compared to a deficit of \$8.8 million in the previous year.

Statement of Financial Position

Property, plant and equipment decreased from \$218.8 million to \$215.7 million. Depreciation and amortisation amounting to \$26.2 million was offset by revaluation increments of \$15.1 million and additions of \$16.5 million. A further factor influencing the decrease was the transfer of property plant and equipment valued at \$2.8 million to the Environment Protection Authority.

For the four years to 2003 a structural analysis of assets and liabilities for the current year and the three preceding years is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the current year and the preceding three years.

	2003 \$'million	2002 \$'million	2001 \$'million	2000 \$'million
Net Cash Flows				
Operations	23.9	(5.0)	37.4	26.3
Investing	(9.6)	(19.0)	(14.9)	(17.7)
Financing	(0.1)	(0.1)	-	(0.1)
Change in Cash	14.1	(24.1)	22.5	8.5
Cash at 30 June	63.5	49.4	73.5	51.0

Cash assets under the control of the Department increased by \$14.1 million reflecting mainly:

- \$12.1 million accrual appropriation received from the Department of Treasury and Finance (access to these funds is subject to the Treasurer's approval);
- a change in accounting treatment resulting in the recognition of \$4.5 million cash previously recorded as administered;
- cash, amounting to \$3.4 million, transferred to the Environment Protection Authority.

Administered Items

Write down of Herbarium Collection

DEH administers the activities of the Board of the Botanic Gardens and State Herbarium. During 2002-03 the Board endorsed a write down in the asset value of the Herbarium Collection from \$45.9 million to zero as a result of a reassessment of the reliability of measurement. The write down resulted in a \$45.9 million administered expense recognised in the schedule of administered items in DEH's financial statements.

Crown Land Sales

The sale of Crown Lands administered by DEH during 2002-03 has resulted in revenues amounting to \$11.1 million. These revenues have been recorded in the schedule of administered items in DEH's financial statements. Proceeds from these sales remain in the cash balance of the administered item.

Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Salaries and wages and other employee related expenses		57 990	68 590
Goods and services	4	43 075	52 222
Grants and contributions	5	4 403	16 671
Depreciation and amortisation	6	26 239	25 545
Borrowing cost expense		2 766	2 634
Net loss from disposal of non-current assets	7	881	304
Other expenses	8	4 711	1 169
Total Expenses		140 065	167 135
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	9	26 820	24 346
Grants and contributions	10	10 356	20 444
Interest and dividends		3 712	3 361
Assets received free of charge	11	5 724	7 736
Other revenues	12	3 037	7 772
Total Revenues		49 649	63 659
NET COST OF SERVICES	27	90 416	103 476
REVENUES FROM GOVERNMENT:			
Recurrent appropriations		71 047	89 489
Accrual appropriations		12 140	4 098
Contingency provision grants		128	1 096
Total Revenues from Government	13	83 315	94 683
NET REVENUE(EXPENSE) FROM RESTRUCTURING	14(a)	(3 593)	(61 202)
NET REVENUE (EXPENSE) FROM TAKE UP OF ADMINISTERED ITEMS	14(b)	4 681	-
(DEFICIT) ON ORDINARY ACTIVITIES		(6 013)	(69 995)
Initial adoption of AASB 1028 'Employee Benefits'	2(s)	(291)	-
Increase in asset revaluation reserve	20, 26	15 052	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER	26	8 748	(69 995)

Statement of Financial Position as at 30 June 2003

	Note	2003 \$'000	2002 \$'000
CURRENT ASSETS:			
Cash assets	15	63 502	49 355
Receivables	16	6 925	8 304
Inventory	17	1 585	1 530
Other	19	452	781
Total Current Assets		72 464	59 970
NON-CURRENT ASSETS:			
Receivables	16	82	541
Inventory	17	2 762	3 837
Other financial assets	18	8	11
Property, plant and equipment	20	215 720	218 836
Other	19	26	30
Total Non-Current Assets		218 598	223 255
Total Assets		291 062	283 225
CURRENT LIABILITIES:			
Payables	21	10 369	10 098
Employee benefits	22	4 267	7 509
Finance leases	23	19	104
Provision for workers compensation	25	129	245
Total Current Liabilities		14 784	17 956
NON-CURRENT LIABILITIES:			
Payables	21	1 996	1 719
Employee benefits	22	10 403	7 955
Finance leases	23	17	34
Loans	24	38 054	38 054
Provision for workers compensation	25	360	807
Total Non-Current Liabilities		50 830	48 569
Total Liabilities		65 614	66 525
NET ASSETS		225 448	216 700
EQUITY:			
Accumulated surplus		195 858	202 162
Reserves		29 590	14 538
TOTAL EQUITY	26	225 448	216 700
Restrictions on Contributions	32		
Contingent Obligations and Contingent Assets	33		

Statement of Cash Flows for the year ended 30 June 2003

		2003 Inflows (Outflows) \$'000	2002 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
PAYMENTS:			
Employee benefits and other employee related expenses		(56 293)	(69 132)
Goods and services		(41 927)	(53 636)
Grants and contributions		(4 403)	(16 671)
Interest		(2 774)	(2 680)
GST payments on purchases	2(p)	(7 027)	(8 379)
Other expenses		(22)	-
RECEIPTS:			
Fees and charges		29 082	20 964
Interest income		3 668	4 837
Grants and contributions		10 357	20 444
GST receipts on sales	2(p)	2 836	2 531
GST receipts from taxation authority	2(p)	4 191	5 939
Other revenues		1 765	7 839
CASH FLOWS FROM GOVERNMENT:			
Recurrent appropriations		71 047	89 489
Accrual appropriations		12 140	4 098
Contingency provision grants		128	1 096
Transfer payments to other Government entities on restructure		(3 384)	(14 168)
Transfer receipts from other Government entities on restructure		4 470	2 411
Net Cash provided by (used in) Operating Activities	27	23 854	(5 018)
CASH FLOWS FROM INVESTING ACTIVITIES:			
RECEIPTS:			
Disposal of non-current assets	7	11	241
PAYMENTS:			
Purchase of non-current assets		(9 616)	(19 209)
Net Cash used in Investing Activities		(9 605)	(18 968)
CASH FLOWS FROM FINANCING ACTIVITIES:			
PAYMENTS:			
Principal repayments under finance leases and repayments of borrowings		(102)	(179)
Net Cash used in Financing Activities		(102)	(179)
NET INCREASE (DECREASE) IN CASH HELD		14 147	(24 165)
CASH AT 1 JULY		49 355	73 520
CASH AT 30 JUNE	15	63 502	49 355

**Schedule of Administered Items
for the year ended 30 June 2003 (refer Note 1)**

Programs (Refer Note 3(b))	1	2	3	5	Not Attributed	Total 2003	Total 2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
EXPENSES FROM ORDINARY							
ACTIVITIES:							
Salaries and wages and other employee related expenses	104	35	-	-	213	352	829
Goods and services	3 680	178	234	26	4	4 122	2 095
Grants and contributions	66	570	463	19	8 552	9 670	21 298
Depreciation and amortisation	1 270	-	-	-	-	1 270	1 343
Borrowing cost expense	-	-	-	-	-	-	59
Net loss from disposal of non-current assets	-	44	-	-	-	44	7
Other expenses	-	-	-	-	4	4	673
Net revaluation decrement	45 940	-	-	-	-	45 940	-
Total Expenses	51 060	827	697	45	8 773	61 402	26 304
REVENUES FROM ORDINARY							
ACTIVITIES:							
Fees and charges	(455)	(609)	(10)	(20)	(5 509)	(6 603)	(14 550)
Grants and contributions	(169)	(86)	(93)	-	-	(348)	(1 461)
Interest and dividends	(3)	(106)	-	(13)	-	(122)	(545)
Assets received free of charge	-	-	-	-	-	-	(61)
Sale of land	(11 120)	-	-	-	-	(11 120)	-
Other revenues	(71)	(38)	-	-	-	(109)	(2 000)
Total Revenues	(11 818)	(839)	(103)	(33)	(5 509)	(18 302)	(18 617)
NET COST OF SERVICES	39 242	(12)	594	12	3 264	43 100	7 687
REVENUES FROM GOVERNMENT:							
Revenues from Government	-	-	(750)	-	(3 053)	(3 803)	(5 540)
NET EXPENSE FROM RESTRUCTURING	3 787	1 755	-	322	-	5 864	-
DEFICIT (SURPLUS) ON ORDINARY ACTIVITIES	43 029	1 743	(156)	334	211	45 161	2 147

**Schedule of Administered Items
for the year ended 30 June 2003 (refer Note 1) (continued)**

	2003	2002
	Total	Total
	\$'000	\$'000
ADMINISTERED ASSETS AND LIABILITIES:		
ASSETS:		
Cash assets	29 699	16 557
Current receivables	801	1 443
Inventory	134	116
Non-current receivables	568	720
Capital works in progress	50	-
Property, plant and equipment	76 354	110 692
Total	107 606	129 528
LIABILITIES:		
Payables	9 809	1 394
Other current liabilities	9 208	4 892
Non-current liabilities	266	-
Total	19 283	6 286

Program Schedule of Expenses and Revenues for the year ended 30 June 2003

Programs (Refer Note 3(a))	2003						Not Attribu- table	2003 Total \$'000
	1	2	3	4	5	6		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
EXPENSES FROM ORDINARY								
ACTIVITIES:								
Salaries and wages and other employee related expenses	25 856	14 275	2 934	150	1 560	13 215	-	57 990
Goods and services	18 122	10 606	2 607	82	1 262	10 396	-	43 075
Grants and contributions	1 383	1 654	176	502	379	309	-	4 403
Depreciation and amortisation	19 706	2 599	361	-	186	3 387	-	26 239
Borrowing cost expense	1 415	705	174	22	92	358	-	2 766
Net loss from disposal of non-current assets	182	630	6	-	3	60	-	881
Other expenses	4 066	278	86	3	26	252	-	4 711
Total Expenses	70 730	30 747	6 344	759	3 508	27 977	-	140 065
REVENUES FROM ORDINARY								
ACTIVITIES:								
Fees and charges	11 244	649	-	2	251	14 674	-	26 820
Grants and contributions	4 107	5 445	368	-	95	341	-	10 356
Interest and dividends	1 992	909	219	28	129	435	-	3 712
Assets received free of charge	5 724	-	-	-	-	-	-	5 724
Other revenues	1 369	527	13	-	8	1 120	-	3 037
Total Revenues	24 436	7 530	600	30	483	16 570	-	49 649
NET COST OF SERVICES	46 294	23 217	5 744	729	3 025	11 407	-	90 416
REVENUES FROM GOVERNMENT:								
Revenues from Government	42 582	21 302	5 270	670	3 026	10 465	-	83 315
NET EXPENSE (REVENUE) FROM RESTRUCTURING	(4 358)	(257)	-	-	(323)	-	3 850	(1 088)
DEFICIT (SURPLUS) ON ORDINARY ACTIVITIES	(646)	1 658	474	59	(324)	942	3 850	6 013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. **Strategic Context and Financial Arrangements**

Strategic Context

The Department for Environment and Heritage is the Government's principal environment agency with key roles to:

- provide policy advice and leadership on the environmental sustainability of human activities and on the conservation, use and enjoyment of natural and cultural heritage, and of the public land estate;
- manage and conserve our public land, special places and wildlife, on behalf of Government, for the use, benefit and enjoyment of all South Australians.

The Department for Environment and Heritage has a key advocacy and engagement role across Government and with business and communities throughout South Australia to achieve:

- wise resource allocation and use;
- clean and healthy environments;
- conserved and functioning ecosystems;
- conserved and celebrated heritage;
- improved condition of our air, land, water and biodiversity; and
- a society actively engaged in the environment.

Financial Arrangements

The Department's sources of funds consist of monies appropriated by Parliament together with income derived from fees and charges for services to the public and industry. These include:

- fees, levies and licenses;
- admissions and guided tour charges;
- rents for Crown land; and
- sales of spatial information.

The financial activities of the Department are primarily conducted through Deposit Accounts with the Department of Treasury and Finance pursuant to Section 8 of the *Public Finance and Audit Act 1987*. The Deposit Accounts are used for funds provided by Parliamentary appropriation together with revenues from services provided. All contracts and balances of the Department are denominated solely in Australian dollars, therefore there are no foreign currency assets or liabilities.

Administered Activities

The Department is responsible for the administration of certain activities described below on behalf of the Department of Treasury and Finance, other SA Government agencies, the Crown, industry, interstate governments and the Minister for Environment and Conservation. The transactions relating to these activities are not recorded in the Department's Statement of Financial Performance or Statement of Financial Position, as the Department does not have any control over these activities and merely acts as an agent. Administered revenues, expenses, assets and liabilities are detailed in the Schedule of Administered Items. The administered items are:

- War Service Land Settlement Scheme;
- Crown Land Sales Freeholding Account;
- Surplus Land and Property Sales;
- Bookmark Biosphere Trust (Dissolved 1 May 2003);
- Martindale Hall Conservation Trust;
- Board of the Botanic Gardens and State Herbarium;
- Coast Protection Fund;
- Murray Mallee Partnership;
- Land Services Group;
- Racing Industry Development Authority (RIDA) decommissioning costs;
- Ministerial other payments:
 - War concessions;
 - Royal Zoological Society of South Australia Inc; and
- Special Acts allocation:
 - Salary and allowances – Minister.

Full Time Equivalents

The Department was operating with 933 full time equivalent employees as at 30 June 2003 (1 098 as at 30 June 2002).

2. **Significant Accounting Policies**

(a) **Changes to Agency Structure**

The Environment Protection Agency was a division within the Department for the year ended 30 June 2002. As of 1 July 2002 its functions were reassigned to the new independent administrative unit named Environment Protection Authority. The administered funds Environment Protection Fund and Adelaide Coastal Waters Study were also transferred to the Environment Protection Authority at 1 July 2002.

During the year the General Reserves Trust, State Heritage Fund and Wildlife Conservation Fund met the accounting criteria of a controlled entity. Refer Note 14(b). As such, from 1 July 2002 these Trusts have been accounted for in the Department. This change in recognition has resulted in significant increases in the fees and charges revenue disclosed in Note 9, matched by a significant reduction in the amount of grants and contributions revenue as disclosed in Note 10.

(b) **Basis of Accounting**

This financial report is a general purpose financial report which has been prepared in accordance with the Statements of Accounting Concepts, Australian Accounting Standards, Urgent Issues Group Consensus Views (UIG's), *Public Finance and Audit Act 1987*, Treasurer's Instructions and Accounting Policy Statements issued by the Department of Treasury and Finance.

(b) Basis of Accounting (continued)

The financial statements, including administered items, have been prepared on the accrual basis of accounting. Accordingly, revenues are recognised when they are earned or when the Department has control over them, rather than when they are received and expenses are recognised when they are incurred, rather than when they are paid. Some revenues are recognised when cash is received because only at this time can the Department be certain about the amounts to be collected. These revenues include items such as licence and accreditation fees, fines and penalties.

The financial statements have been prepared in accordance with the historical cost convention, with the exception of certain types of physical non-current assets which are valued at written down current cost, in accordance with Department of Treasury and Finance guidance. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements detail the revenues, expenses and financial position of the Department as a single entity and accordingly all intra Departmental transactions and balances have been eliminated.

(c) Property, Plant and Equipment

All items of property, plant and equipment controlled by the Department have been brought to account at fair value, with assets other than land, being reduced to reflect the portion of economic benefits that had been consumed since the asset was acquired, ie 'depreciated fair value'.

Fair value has been determined, whereby assets are valued at the replacement cost of procuring assets with similar functions and which provide comparable future service potential. Accordingly, all assets acquired since 1 July 1996 are accounted for at cost of acquisition unless revalued in accordance with the Department's revaluation policy. Assets received free of charge are brought to account at their net fair value.

All classes of physical non-current assets with fair values at the time of acquisition equal to or greater than \$1 million and estimated useful lives equal to or greater than three years were to be revalued at intervals not exceeding three years as per previous Treasurer's Instructions. However, the Department has approval from the Treasurer to use the transitional provisions of Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments' allowing the first revaluation to be an interval not exceeding five years, but prior to 30 June 2004, and then revaluations at every three years thereafter.

Under the transitional provisions of Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' the Department have used 'depreciated fair value' methodology for revaluations undertaken prior to 30 June 2003.

During the financial year ended 30 June 2003, the Department revalued certain land, buildings and infrastructure. The data dictionary values used by the ARAMIS (Asset Register and Management Information System) to value buildings, infrastructure, road, tracks, trails and certain vehicles within National Parks statewide were also revalued. This work was carried out by Valcorp during February 2003. The revaluations resulted in an addition to the revaluation reserve of \$15 million in the 2002-03 financial statements.

Heritage assets are recognised in the Statement of Financial Position as part of the aggregate value of major classes of assets (building/improvements or other). Heritage assets and works of art that are unique are not depreciated due to their long useful lives. Heritage assets that provide a functional service are recorded at depreciated fair value.

Minor items of plant and equipment with an individual value of less than \$2 000 are expensed in the Statement of Financial Performance at the time they are acquired.

(i) Land

Land comprising National Parks, Conservation Parks, Recreation Parks, Wilderness Protection Areas and Reserves, generally have restrictions on use imposed by statute or regulation. Independent valuers, using the fair value approach, and having regard to restrictions on use, have determined the carrying amount of this type of land.

The Department is custodian of unallotted Crown land, by virtue of its responsibilities under the *Crown Lands Act 1929*. This land is considered to be an administered asset. As the Department has been unable to formulate a suitable methodology for determining a reliable measure of value of the asset, unallotted Crown land is not included in the Schedule of Administered Items.

The Schedule of Administered Items includes the Crown's interest in land leased to third parties under miscellaneous leases, perpetual leases and annual licences.

(ii) Buildings, Improvements and Infrastructure

Independent valuers have valued selected items in this category. Other items have been measured at cost, or at estimated replacement cost using a methodology developed by independent valuers.

(iii) Intellectual Property, Databases and Information Systems

Selected items have been measured at cost, or at estimated replacement cost using methodology developed by independent valuers. The Department controls a large number of databases, registers, information systems and other intellectual property. All databases were developed in-house and are used to store and manage intellectual property owned by the Department. While the development and maintenance of these databases involve on-going costs to the Department, neither the systems nor the data have been recognised in the financial statements as assets, as it has not been possible to reliably measure the value of those assets.

(iii) *Intellectual Property, Databases and Information Systems (continued)*

The purchase costs of information systems used by the Department have been recognised as assets. However, the implementation and development costs related to the systems have not been capitalised as assets. These costs therefore have been expensed when incurred, as it has not been possible to reliably identify and match the expenditure to economic benefits attributable to future reporting periods.

(iv) *Capital Work in Progress*

Capital work in progress consists of actual expenditure carried forward, where it is possible to reliably measure the cost of the asset/work, and it is probable that future economic benefits will flow to the Department from use or conversion of the asset/work.

(d) **Depreciation**

All items of property, plant and equipment, with the exception of land, unique heritage assets and works of art have a limited useful life and are systematically depreciated in a manner that reflects the consumption of service potential. The depreciation rates are reviewed annually. No depreciation is applied to capital work in progress, as this asset category consists of unfinished projects, which have not been commissioned into service.

Assets are subject to straight-line depreciation over the following periods:

	Years
Buildings/improvements	10-80
Infrastructure	2-50
Roads, tracks and trails	4-50
Moveable vehicles	5-20
Computing equipment	3
Application software	5
Furniture and fittings	5-20
Plant and equipment	3-30
Other	3-25

(e) **Repairs and Maintenance**

Repairs and maintenance costs are expensed as incurred.

(f) **Income Recognition**

All revenue recorded in the Statement of Financial Performance, including appropriations, grants, donations and other contributions are recognised as revenues when the Department obtains control over the assets comprising the contributions. Control over appropriations and granted assets is normally obtained upon their receipt.

Licences, leases and accreditation fees, where the period exceeds one reporting period, are recorded as revenue in the period in which they are received.

The Department is not economically dependent on one individual for its revenue, however, the amount of revenue earned from transactions with our customer base can be influenced by the South Australian economy.

(g) **Cash Assets**

Cash assets consist of cash on hand, at call accounts with Australian commercial banks and monies held by the Department of Treasury and Finance in Special Deposit Accounts. Interest is received on credit balances in accordance with standard commercial terms for deposits not held by the Treasurer. Deposit Account balances are at call amounts, which earn interest at a rate determined by the Treasurer. Interest is received quarterly in arrears. The average effective interest rate for the reporting period was 6.45 percent (6.16 percent).

(h) **Receivables**

Receivables in respect of fees and charges are generally settled within 60 days and are recorded at their recoverable amount. At the end of each reporting period these receivable balances are reviewed and a provision is raised in respect of any balance where recoverability is considered doubtful. Bad debts are written off in the period in which they are identified. Credit risk therefore is confined to the amount set aside as the provision for doubtful debts. The resulting carrying amount of receivables is considered to approximate their net fair values.

The Department does not have any significant exposure to any individual customer, thus its credit risks are due to its customer base being influenced by the South Australian economy.

(i) **Creditors/Payables**

Trade creditors are unsecured debts, recognised in the financial statements when contracted goods or services have been received by the Department. These debts generally are settled within 30 days of invoice. Retention monies held on capital works projects are carried at their nominal face value. On-costs associated with employee benefits have been recognised as accrued payables for the period ending 30 June 2003 in accordance with Accounting Policy Statement APS 9 'Employee Benefits', paragraph 30. The resulting amount of creditors/payables is considered to approximate their net fair values.

(j) **Employee Benefits Provisions**

A provision is raised at the end of the reporting period to reflect employee benefits to annual leave, long service leave and accrued salaries and wages.

(i) *Annual Leave*

The annual leave benefits is calculated by multiplying each employee's benefit by the remuneration rate expected when the leave is taken. The estimated rate of salary inflation is 4 percent (refer Note 2(s)). Where leave loadings are paid, these are included in the calculation.

(ii) *Long Service Leave*
 In calculating long service leave benefits the Department uses a benchmark of 7 years (8 years), based on an actuarial assessment undertaken by the Department of Treasury and Finance of a significant sample of employees throughout the South Australian public sector. The long service leave benefit estimated to be paid within 12 months of balance date, is calculated by multiplying employee benefits by the remuneration rate expected when the leave is taken. The estimated rate of salary inflation is 4 percent (refer Note 2(s)). This calculation is consistent with the Department's experience of employee retention and leave taking.

(iii) *Sick Leave*
 The Department's employees' entitlement to sick leave is non-vesting. Sick leave is only recognised as a liability at reporting date to the extent it is probable that sick leave expected to be taken in future periods will be greater than benefits which are expected to accrue in those future periods. No sick leave liability has been recorded as it is probable the sick leave during future periods will be less than the sick leave benefits accrued.

(k) Interest-Bearing Liabilities

Interest-bearing liabilities consist of loans advanced by the Department of Treasury and Finance. The loans, which are unsecured, generally incur interest at a rate determined by the Treasurer. Interest is paid quarterly in arrears. The average effective interest rate for the reporting period was 6.50 percent (6.21 percent).

(l) Leases

The Department has entered into lease agreements for property, plant and equipment.

Where the lessors effectively retain all of the risks and benefits incidental to ownership of the items the arrangements are considered to be operating leases. For these cases equal instalments of the lease payments are charged to the Statement of Financial Performance over the lease term as this is representative of the pattern of benefits to be derived from the leased property. Details of operating leases are disclosed in Note 31.

The Department's rights and obligations under finance leases, which are leases that effectively transfer to the Department substantially all of the risks and benefits incidental to ownership of the leased items, are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed as plant and equipment under lease, and are amortised to the Statement of Financial Performance over the period during which the Department is expected to benefit from the use of the leased assets. Minimum lease payments are allocated between interest expense and reduction of the lease liability, according to the interest rate implicit in the lease. Details of finance leases are disclosed in Note 23.

(m) Superannuation

The Department made contributions of \$5.1 million to Employer Contribution Accounts administered by the South Australian Superannuation Board, in respect of future superannuation liabilities.

(n) Inventories

Inventories are valued in the accounts at the lower of cost and net realisable value.

(o) Lease Incentive

The Department has entered into an operating accommodation lease where it received an incentive, in the form of structural improvements and the provision of certain items of furniture and fittings. A liability has been raised to reflect the deferred benefits received under the lease incentive arrangement and this liability is systematically reduced by the allocation of lease rental payments between rental expense and reduction of the lease incentive liability.

(p) Goods and Services Tax (GST)

The Department is registered for GST, as such it charges GST on its products and claims input tax credits on its purchases where required by legislation. The net amount of GST recoverable from the Australian Taxation Office has been recognised as part of current receivables in the Statement of Financial Position. In accordance with Urgent Issues Group Abstract 31 'Accounting for Goods and Services Tax (GST)', receivables and payables have been recognised inclusive of GST. The only exception to grossing up for GST is for accrued expenses where a valid tax invoice is not on hand at the time of accruing the revenue or expense and the amount of the transaction has been estimated.

The Department prepares a Business Activity Statement on behalf of its administered entities and for clients provided with business services under the grouping provisions of the GST legislation. Under these provisions, the Department is liable for the payments and entitled to the receipt of GST. As such, the GST applicable to these entities forms part of the receivables and payables recorded in the Statement of Financial Position and the GST cash flows recorded on the Statement of Cash Flows of the Department.

(q) Cash Flows

For the purpose of the Statement of Cash Flows, cash includes cash on hand (including petty cash and cashier floats), deposits held at call with banks and Special Deposit Accounts with the Department of Treasury and Finance.

(r) Comparative Figures

The Statement of Financial Performance for the 2001-02 financial year includes the full year's operating results for the Environment Protection Agency (EPA). Accordingly the Statement of Financial Position as at 30 June 2002 includes items relating to EPA. As of 1 July 2002 its functions were reassigned to the Environment Protection Authority and as a consequence its results are not included in the Statement of Financial Performance or Statement of Financial Position for 2002-03.

(r) **Comparative Figures (continued)**

The comparative figures in the Schedule of Administered Items have been amended to reflect the final audited position of administered entities for the year ended 30 June 2002. As a result, there are differences when comparing the comparative figures to the Schedule of Administered Items as published in the Report of the Auditor-General for the year ending 30 June 2002.

(s) **Changes in Accounting Policies**

In accordance with Accounting Standard AASB 1028 'Employee Benefits', on 1 July 2002 the Department changed its policy for recognising provisions for annual leave and current long service leave. Under the new policy the amount of the provision is calculated using the remuneration rate expected to apply at the time of settlement, rather than the remuneration rate that applies at reporting date.

In calculating long service leave benefits, on 1 July 2002 the Department changed its benchmark from eight years to seven years.

In accordance with Accounting Standard AASB 1041 'Revaluation of Non-Current Assets', the Department must use the fair value method of asset valuation for revaluations which occur after 1 July 2002.

In accordance with Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets', commitments where materials are disclosed in the notes.

(t) **Rounding**

All amounts are rounded to the nearest thousand dollars.

3. Programs of the Department

The Department is funded by both appropriation and receipts for the provision of the following programs as set out below:

1. *Public Land Management* - The conservation, maintenance and stewardship of the State's public lands
2. *Nature Conservation* - The management, science and education contributing to conserving the State's biodiversity
3. *Coast & Marine Conservation* - The conservation, management and protection of the State's coast and marine environments
4. *Animal Welfare* - The promotion and regulation of the humane treatment of animals
5. *Heritage Conservation* - The understanding of conservation and protection of the State's rich heritage
6. *Sustainability* - The promotion of sustainable and eco-efficient human endeavour with minimal impact on essential life systems
7. *Not Attributed*

(a) Controlled items not attributed to the above Programs:

- Restructure of the Environment Protection Agency (Restructure Expenditure \$3 850 000, Revenues \$Nil)

(b) Administered items attributed to the above Programs:

	Program Class
• War Service Land Settlement Scheme (Expenditure \$Nil, Revenue \$499 000)	1
• Crown Land Sales Freeholding Account (Expenditure \$3 766 000, Revenues \$11 015 000)	1
• Surplus Land and Property Sales (Expenditure \$3 000, Revenues \$Nil)	1
• Bookmark Biosphere Trust (Expenditure \$73 000, Revenues \$42 000)	1,2
• Martindale Hall Conservation Trust (Expenditure \$44 000, Revenues \$33 000)	5
• Board of the Botanic Gardens and State Herbarium	
(Expenditure \$48 050 000, Revenues \$1 107 000)	1,2
• Coast Protection Fund (Expenditure \$693 000, Revenues \$853 000)	3
• Murray Mallee Partnership (Expenditure \$6 000, Revenues \$Nil)	1

Administered items not attributed to the above programs include :

- Land Services Group (Expenditure \$5 506 000, Revenues \$5 509 000);
- Minister other payments (Expenditure \$217 000, Revenues \$3 000); and
- Special Acts allocation (Expenditure \$3 050 000, Revenues \$3 050 000).

4. Goods and Services

Goods and service expenses for the reporting period comprised:

	2003	2002
Goods and service expenses for the reporting period comprised:	\$'000	\$'000
Accommodation and service expenses	7 322	8 984
Section 7 remittances	3 061	3 050
Materials and consumables	2 225	3 283
Vehicle and aircraft operating expenses	3 911	4 000
Travel and accommodation	949	1 310
Contractor expenses	10 420	13 219
Consultancies	389	731
Computing expenses	6 248	5 679
Minor plant and equipment purchases	715	710
Auditor's remuneration - Auditing services	196	222
Equipment repairs and maintenance	204	284
Printing and publishing	838	1 298
Cost of goods sold	1 431	1 203
Cost of property sales	410	458
Bank fees	112	85
Postage, courier and freight	442	511
Advertising	464	595
Scholarships, awards and prizes	36	97
Scientific and technical services	207	1 008
Telephone expenses	1 750	2 579
Other	1 745	2 916
	43 075	52 222

5. Grants and Contributions	Note	2003 \$'000	2002 \$'000
Grants and contributions for the reporting period comprised:			
Contribution to:			
Adelaide Coastal Water Study		-	340
Board of the Botanic Gardens and State Herbarium		193	337
Department of Water, Land and Biodiversity Conservation		100	-
Department for Transport and Urban Planning		4	605
Department of Primary Industries and Resources SA		268	517
Department for Administrative and Information Services		4	547
Environment Protection Authority		152	-
State Heritage Fund		-	406
Conservation Council of SA		292	-
Coast Care grants		71	608
Animal Welfare grants - RSPCA		500	500
Natural Heritage Trust grants		497	790
Resource Conservation grants		-	172
KESAB		-	375
Recreation and Sport financial assistance grants		-	9 074
Urban Forest grants		138	166
On Ground Works Mallee grants		280	52
Friends of Parks grants		64	117
State Heritage Fund grants		562	-
Wildlife Conservation Fund grants		187	-
Conservation Council grants		106	172
Miscellaneous grants and contributions		985	1 893
		4 403	16 671
6. Depreciation and Amortisation			
Depreciation and amortisation expenses for the reporting period were charged in respect of:			
Buildings/improvements		2 269	1 531
Infrastructure		5 444	5 580
Roads, tracks and trails		8 753	8 367
Moveable vehicles		540	538
Computing equipment		4 311	4 203
Application software		2 797	3 134
Furniture and fittings		353	211
Plant and equipment		496	897
Amortisation of plant and equipment under finance lease		211	226
Other		1 065	858
		26 239	25 545
7. Net Loss from Disposal of Non-Current Assets			
Proceeds from disposal of non-current assets			
		11	241
Less: Written down value of non-current assets			
		892	545
		881	304
8. Other Expenses			
Bad and doubtful debts			
		18	29
Capital work in progress write-off			
		1 131	1 140
Asset write-downs			
		3 558	-
Other			
		4	-
		4 711	1 169
9. Fees and Charges			
Fees and charges for the reporting period comprised:			
Rent and other related income		3 202	2 297
Fees, levies and licences		1 716	8 772
Admissions and guided tour charges	2(a)	4 015	87
Section 7 enquiries		9 846	7 979
Property inquiry fees		2 243	2 234
Sale of products and other services	2(a)	5 798	2 977
		26 820	24 346
10. Grants and Contributions			
Grants and contributions for the reporting period comprised:			
Commonwealth contributions		3 177	7 110
State Government grants		216	2 823
Contributions from General Reserves Trust	2(a)	-	6 942
Contributions from Board of Botanic Gardens and State Herbarium		570	382
Contributions from Environment Protection Fund		450	532
Contributions from Coast Protection Fund		-	210
Contributions from Department of Water, Land and Biodiversity Conservation		978	80
Contributions from Department for Transport and Urban Planning		1 631	472
Contributions from Office for Recreation and Sport		184	385

10. Grants and Contributions (continued)		2003	2002
		\$'000	\$'000
Contributions from South Australian Housing Trust		-	58
Contribution from Native Vegetation Fund		295	-
Grant from Northern Adelaide and Barossa Catchment Board		-	60
Emergency Services Levy		2 008	-
South Australian Tourism Commission		191	-
Sundry grants and contributions received		656	1 390
		10 356	20 444
11. Assets Received Free of Charge			
Assets received free of charge*		5 724	7 736
		5 724	7 736

* These assets represent the creation of new parks, the extension of existing parks and the first time recognition of assets.

12. Other Revenues			
Other revenues for the reporting period comprised:			
Salary and wage expenses recouped		1 805	4 436
Gaming revenue		-	1 141
Insurance recovery		352	653
Service charges received from DAIS for Finance and IT Services		488	481
Other revenue		392	1 061
		3 037	7 772
13. Revenues from Government			
Reconciliation of Government Revenues			
Total appropriations		83 190	93 853
Contingency provision grants		128	1 096
Consolidated Account reimbursement for grants that have been paid on behalf of the Minister*		(3)	(266)
Total Government Revenues		83 315	94 683

* The Department does not control how these funds are to be spent and acts only as an agent in an administrative capacity on behalf of the Minister for Environment and Conservation. The net draw on the Consolidated Account not recognised in the Statement of Financial Performance comprised:

			2003	2002
			\$'000	\$'000
Ministerial other payments	Note		(3)	(4)
Special Acts - recurrent expenditure (not yet drawn)			(212)	(262)
			(215)	(266)
14. Net Revenues (Expenses) from Restructuring of Administrative Arrangements and take up of Administered Items				
(a) The net revenues (expenses) relating to the restructuring of administrative arrangements are the following:				
Office for Recreation and Sport to the Department for Administrative and Information Services	(1)		-	(63 350)
Office for Volunteers to Emergency Services Administrative Unit	(2)		-	235
The Geographic Analysis Research Unit (GAR) from the Department of Transport and Urban Planning	(3)		-	(187)
Environment Protection Authority to new Administrative Unit	(4)		(3 849)	-
Water-related functions to the Department for Water Resources	(5)		-	2 100
Biodiversity conservation-functions to the Department of Water, Land and Biodiversity Conservation	(6)		256	-
			(3 593)	(61 202)

(1) During the 2001-2002 financial year the Department relinquished responsibility for the Office for Recreation and Sport to the Department for Administrative and Information Services, effective from 4 December 2001. Amounts transferred comprised of Cash \$14 120 000, Receivables \$2 402 000, Inventory \$5 000, Property, Plant and Equipment \$51 070 000, Other Assets \$15 000, Payables \$2 620 000, Employee Benefits \$1 133 000, Provisions \$1 000 and Borrowings \$508 000.

(2) During the 2001-2002 financial year the Department relinquished responsibility for the Office for Volunteers to the Emergency Services Administrative Unit, effective from 4 December 2001. Amounts transferred comprised of Cash \$48 000, Receivables \$1 000, Property, Plant and Equipment \$22 000, Payables \$49 000 and Employee Benefits \$257 000.

(3) During the 2001-2002 financial year, the Department assumed responsibility for the Geographic Analysis Research Unit (GAR) from the Department for Transport and Urban Planning (DTUP), effective from 1 January 2002. Amounts transferred comprised of Cash \$311 000, Prepayments \$56 000, Property, Plant and Equipment \$72 000, Payables \$43 000, Employee Benefits \$277 000 and Unearned Revenue \$306 000.

(4)	During the 2002-2003 financial year, the Department relinquished responsibility for the Environment Protection Agency to a new independent administrative unit named the Environment Protection Authority, effective from 1 July 2002. The following assets and liabilities were transferred:		
		2003	2002
		\$'000	\$'000
	Assets:		
	Cash	(3 371)	-
	Receivables	(1 174)	-
	Inventory	(13)	-
	Other Financial Assets	(4)	-
	Property, plant and equipment	(2 810)	-
	Other	(166)	-
		2003	2002
	Liabilities:	\$'000	\$'000
	Payables	923	-
	Employee Benefits	2 596	-
	Provision for workers compensation	170	-
	Net Assets Transferred Out	(3 849)	-
		<hr/> <hr/>	<hr/> <hr/>
	At the date of the financial report there were some matters relating to the financial transfer between the Department and the Environment Protection Agency which remained unresolved at that date. The effect of such transfers was not measurable, and it is however estimated that these matters will not be material.		
(5)	In February 2000, the Department relinquished its responsibility for water-related functions to the Department for Water Resources. During 2001-2002 there was a further transfer of cash from the Department for Water Resources of \$2.1 million as a result of the finalisation of the transfer of water-related functions.		
(6)	In April 2002, the Department for Water Resources was abolished and the Department of Water, Land and Biodiversity Conservation was established. As part of this establishment, effective 1 July 2002, certain functions formally provided by the Department were relinquished, including the administration of the <i>Native Vegetation Act 1997</i> . Amounts transferred comprised Cash \$13 000, Receivables \$1 000, Property, Plant and Equipment \$57 000, Payables \$13 000, Payables – Employee On Costs \$46 000 and Employee Benefits \$268 000.		
(b)	The net revenues (expenses) relating to administered activities meeting the accounting criteria of a controlled entity are the following	2003	2002
		\$'000	\$'000
	General Reserves Trust from administered funds	(1) 3 722	-
	Bookmark Biosphere Trust from administered funds	(2) 65	-
	State Heritage Fund from administered funds	(3) 323	-
	Wildlife Conservation Fund from administered funds	(4) 571	-
		4 681	-
		<hr/> <hr/>	<hr/> <hr/>
(1)	During the year, the General Reserves Trust met the accounting criteria of a controlled entity. Consequently, as at 1 July 2002 the following assets and liabilities were transferred from administered operations. The following assets and liabilities were transferred:		
		2003	2002
		\$'000	\$'000
	Assets:		
	Cash	3 572	-
	Receivables	165	-
	Liabilities:		
	Payables	(15)	-
	Net Assets Transferred In	3 722	-
		<hr/> <hr/>	<hr/> <hr/>
(2)	During the year, the Bookmark Biosphere Trust was dissolved by proclamation of the Governor on 1 May 2003 with the assets and liabilities of the Trust being transferred to the General Reserves Trust. The following assets were transferred:		
		2003	2002
		\$'000	\$'000
	Assets:		
	Cash	64	-
	Receivables	1	-
	Net Assets Transferred In	65	-
		<hr/> <hr/>	<hr/> <hr/>
(3)	During the year, the State Heritage Fund met the accounting criteria of a controlled entity. Consequently, as at 1 July 2002 the following assets and liabilities were transferred from administered operations. The following assets and liabilities were transferred:		
		2003	2002
		\$'000	\$'000
	Assets:		
	Cash	270	-
	Receivables	14	-
	Loans	102	-
	Liabilities:		
	Payables	(63)	-
	Net Assets Transferred In	323	-
		<hr/> <hr/>	<hr/> <hr/>

Environment and Heritage

- (4) During the year, the Wildlife Conservation Fund met the accounting criteria of a controlled entity. Consequently, as at 1 July 2002 the following assets and liabilities were transferred from administered operations. The following assets and liabilities were transferred:

	2003 \$'000	2002 \$'000
Assets:		
Cash	564	-
Receivables	1	-
Inventory	10	-
Liabilities:		
Payables	(4)	-
Net Assets Transferred In	571	-

15. Cash Assets

Bank accounts with non-South Australian Government entities	316	544
Cash on hand (including petty cash)	22	22
Accrual Appropriation Excess Fund Special Deposit Account with the Department of Treasury and Finance	43 654	47 395
Special Deposit Accounts with Department of Treasury and Finance comprising of:		
Operating Account	2 370	1 394
Accrual Appropriation*	17 140	-
	63 502	49 355

- * During the financial year the Department of Treasury and Finance approved access to \$5.0 million in accrual appropriation. This amount is currently shown in the operating account of the Department. In addition, \$12.1 million in accrual appropriation received during 2002-03 was held by the Department at 30 June. An assessment of the Department's ongoing working capital requirements will occur early in 2003-04 and may result in an allocation of cash balances between the Accrual Appropriation Excess Fund and the operating account of the Department.

16. Receivables

	2003 \$'000	2002 \$'000
Current:		
Fees and charges	4 416	7 055
Loans receivable	11	80
Accrued investment income	75	31
GST receivable	1 250	1 298
Other	1 289	17
Less: Provision for doubtful debts	116	177
	6 925	8 304
Non-Current:		
Fees and charges	-	45
Loans receivable	82	496
	82	541

17. Inventory

Current:		
Raw materials and consumables	266	320
Work in progress	8	10
Finished goods held for resale	715	800
Land held for resale	596	400
	1 585	1 530
Non-Current:		
Land held for resale	2 762	3 837

18. Other Financial Assets

Equity in listed entities	8	11
	8	11

19. Other Assets

Current:		
Prepayments	444	773
Provision for workers compensation - Third party recoveries	8	8
	452	781
Non-Current:		
Provision for workers compensation - Third party recoveries	26	30

20. Property, Plant and Equipment

Valuations of protected areas, selected land, buildings (including fixtures and fittings), plant and equipment and heritage assets not providing a functional service were performed by Valcorp Australia Pty Limited, during the reporting period. The valuers who provided professional opinions were Messrs A J Lucas, MBA, B App Sc (Val), Dip Acc, AAPI and F Taormina, B App Sc (Val), AAPI. Certain items have been valued by Mr D B Bruce AAPI (Val). Other land controlled by the Department has been valued at unimproved site value provided by the Valuer-General. Various items of infrastructure, computing equipment, movable vehicles, plant and equipment and other assets have been included at officer's valuation.

The Department has undertaken a review of all asset values and has determined that they represent fair value for all classes of assets, pursuant to APS 3.

20. Property, Plant and Equipment (continued)

The Department has elected under AASB 1041 'Revaluation of Non- Current Assets' to carry out periodic and progressive valuations, which results in the certain classes of assets carrying amounts at differing valuation dates and methodologies. From the valuation details below and the table that follows the Department has quantified the carrying amounts of each valuation methodology:

- (a) Under the periodic revaluation process certain land, building, infrastructure and road assets were not revalued in 2003. Those assets under \$50 000, were last revalued during the 1999 financial year and are recorded at valuation amounts as at 1 July 1998. The valuer who performed these valuations was Valcorp Australia Pty Limited. The valuers who provided professional opinions were Messrs. A J Lucas, MBA, B App Sc (Val), Dip Acc, AAPI and F Taormina, B App Sc (Val), AAPI.
- (b) The Department has implemented a periodic revaluation process whereby land parcels, unique buildings and infrastructure over \$50 000 were revalued during the 2003 financial year and are recorded at valuation amounts as at 1 July 2002. The valuer who performed these valuations was Valcorp Australia Pty Limited. The valuers who provided professional opinions were Messrs. A J Lucas, MBA, B App Sc (Val), Dip Acc, AAPI and F Taormina, B App Sc (Val), AAPI.
- (c) The Department has developed in conjunction with independent valuers, Valcorp Australia, a data dictionary approach to valuing generic categories of building, infrastructure and road class assets. The data dictionary was last revalued by Valcorp Australia during the year ended 30 June 2003. The valuer who provided professional opinions was Mr. F Taormina, B App Sc (Val), AAPI.
- (d) The Department constructs certain assets (including buildings, infrastructure, roads and application software) through its investment program and transfers these assets to the appropriate class upon completion of the asset. Pursuant to APS 3 the Department immediately revalues these items to fair value.

The tables that follow provide details of:

- the basis of valuation for the Department's asset classes;
- the reasons for changes in the value of the Department's assets including asset additions, disposals, transfers between classes and variations resulting from periodic revaluation.

Land, Buildings, Infrastructure and Roads

	Note	2003 \$'000	2002 \$'000
Land:			
Valuer-General's valuation		6	7
Independent valuation 1999	(a)	3 161	60 994
Independent valuation 2003	(b)	63 559	-
At Cost		7 767	5 080
Total Land		74 493	66 081
Buildings:			
Independent valuation 1999 (Data Dictionary)	(a)	676	63 104
Independent valuation 2003	(b)	13 808	-
Independent valuation 2003 (Data Dictionary)	(c)	47 597	-
At cost (transfers from capital work in progress)	(d)	9 176	2 287
Accumulated depreciation		(30 806)	(30 040)
Total Buildings		40 451	35 351
Infrastructure:			
Independent valuation 1999 (Data Dictionary)	(a)	266	107 197
Independent valuation 2003	(b)	7 879	-
Independent valuation 2003 (Data Dictionary)	(c)	105 859	-
At cost (includes transfers from capital work in progress)	(d)	9 030	7 369
Accumulated depreciation		(95 635)	(85 850)
Total Infrastructure		27 399	28 716
Roads:			
Independent valuation 1999 (Data Dictionary)	(a)	-	94 365
Independent valuation 2003	(b)	2 984	-
Independent valuation 2003 (Data Dictionary)	(c)	98 031	-
At cost (includes transfers from capital work in progress)	(d)	6 533	5 779
Accumulated depreciation		(61 561)	(51 298)
Total Roads		45 987	48 846
Total Land, Buildings, Infrastructure and Roads		188 330	178 994

Plant and Equipment

Motor Vehicles:			
At cost		7 334	6 700
Accumulated depreciation		(3 801)	(3 231)
		3 533	3 469
Computers:			
At cost		17 996	19 862
Accumulated depreciation		(12 605)	(12 053)
		5 391	7 809
Application Software:			
At cost		16 652	16 543
Accumulated depreciation		(13 156)	(10 516)
		3 496	6 027

Plant and Equipment (continued)

	Note	2003 \$'000	2003 \$'000
Furniture and Fittings:			
At cost		3 883	2 170
Accumulated depreciation		(2 097)	(1 126)
		1 786	1 044
Plant and Equipment:			
At cost		1 767	5 774
Accumulated depreciation		(1 153)	(3 217)
		614	2 557
Plant and Equipment Under Finance Lease:			
Capitalised Leased Assets		98	915
Accumulated amortisation		(60)	(712)
		38	203
Other:			
Independent valuation 1999 (Data Dictionary)	(a)	-	5 734
Independent valuation 2003	(c)	8 988	-
Capital work in progress	(d)	1 727	759
At cost		5 865	5 439
Accumulated depreciation		(6 888)	(4 088)
		9 692	7 844
Capital Works in Progress:			
At cost		2 840	10 889
Total Plant and Equipment		27 390	39 842
Total Property, Plant and Equipment		215 720	218 836

	Land \$'000	Buildings/ Improve- ments \$'000	Other Infrastruc- ture \$'000	Roads, Tracks and Trails \$'000	Moveable Vehicles \$'000	Computing Equipment \$'000	Application Software \$'000
Gross Carrying Amount:							
Balance at 30 June 2002	66 081	65 391	114 566	100 144	6 700	19 862	16 543
Additions	980	69	109	314	526	2 552	-
Additions - Transfer from CWIP	-	5 903	1 949	303	-	115	229
Additions - Assets received free of charge	1 415	956	401	4 041	178	136	-
Asset write downs	(828)	(1 433)	(2 270)	(2 683)	-	(76)	-
Disposals	-	(1 097)	(12)	-	(32)	(2 236)	(888)
Revaluation increments	6 845	4 231	5 418	5 449	-	-	-
Transfers within Government	-	(63)	(56)	(2)	(74)	(1 310)	-
Transfers within classes	-	(2 700)	2 929	(18)	36	(1 047)	768
Work in progress written off	-	-	-	-	-	-	-
Balance at 30 June 2003	74 493	71 257	123 034	107 548	7 334	17 996	16 652
Accumulated Depreciation/Amortisation:							
Balance at 30 June 2002	-	(30 040)	(85 850)	(51 298)	(3 231)	(12 053)	(10 516)
Disposals	-	791	8	-	29	2 138	888
Depreciation expense	-	(2 269)	(5 444)	(8 753)	(540)	(4 311)	(2 797)
Revaluation increments	-	(1 006)	(4 261)	(1 666)	-	-	-
Additions - Assets received free of charge	-	(610)	(197)	(1 082)	(85)	(118)	38
Asset write downs	-	508	2 020	1 225	-	-	-
Transfers within Government	-	12	2	-	37	817	-
Transfers within classes	-	1 808	(1 913)	14	(11)	922	(769)
Balance at 30 June 2003	-	(30 806)	(95 635)	(61 561)	(3 801)	(12 605)	(13 156)
Net Book Value							
As at 30 June 2002	66 081	35 351	28 716	48 846	3 469	7 809	6 027
As at 30 June 2003	74 493	40 451	27 399	45 987	3 533	5 391	3 496

	Furniture and Fittings \$'000	Plant and Equipment \$'000	Plant and Equipment under Finance Lease \$'000	Other \$'000	Capital Work in Progress \$'000	Total \$'000
Gross Carrying Amount:						
Balance at 30 June 2002	2 170	5 774	915	11 932	10 889	420 967
Additions	179	359	2	2 201	3 505	10 796
Additions - Transfer from CWIP	700	-	-	1 037	(10 236)	-
Additions - Assets received free of charge	1 066	10	-	820	-	9 023
Asset write downs	-	-	-	(21)	-	(7 311)
Disposals	(35)	(248)	(819)	(509)	-	(5 876)
Revaluation increments	-	32	-	134	-	22 109
Transfers within Government	(207)	(2 157)	-	(1 039)	(187)	(5 095)
Transfers within classes	10	(2 003)	-	2 025	-	-
Work in progress written off	-	-	-	-	(1 131)	(1 131)
Balance at 30 June 2003	3 883	1 767	98	16 580	2 840	443 482

20. Property, Plant & Equipment (continued)

	Furniture and Fittings \$'000	Plant and Equipment \$'000	Plant and Equipment Finance \$'000	Plant and Equipment under Lease \$'000	Other \$'000	Capital Work in Progress \$'000	Total \$'000
Accumulated Depreciation/Amortisation:							
Balance at 30 June 2002	(1 126)	(3 217)	(712)	(4 088)	-	-	(202 131)
Disposals	10	210	862	47	-	-	4 983
Depreciation expense	(353)	(496)	(210)	(1 065)	-	-	(26 239)
Revaluation increments	-	(27)	-	(97)	-	-	(7 057)
Additions - Assets received free of charge	(694)	(5)	-	(546)	-	-	(3 299)
Asset write downs	-	-	-	-	-	-	3 753
Transfers within Government	68	1 048	-	244	-	-	2 228
Transfers within classes	(2)	1 334	-	(1 383)	-	-	-
Balance at 30 June 2003	(2 097)	(1 153)	(60)	(6 888)	-	-	(227 762)
Net Book Value							
As at 30 June 2002	1 044	2 557	203	7 844	10 889	-	218 836
As at 30 June 2003	1 786	614	38	9 692	2 840	-	215 720

21. Payables

Current:		2003	2002
		\$'000	\$'000
Creditors		5 337	5 657
Accruals		4 055	2 977
Employee benefits – On-costs		676	1 163
Lease incentive		301	301
		10 369	10 098
Non-Current:			
Creditors		300	-
Accruals		-	74
Employee benefits – On-costs		1 470	1 118
Lease incentive		226	527
		1 996	1 719

22. Employee Benefits

Current:			
Long service leave		1 070	4 572
Annual leave		2 983	2 937
Accrued salaries and wages		214	-
		4 267	7 509
Non-Current:			
Long service leave		10 403	7 955

23. Finance Leases

At the reporting date, the Department had the following obligations under finance leases (the sum of which is recognised as a liability after deduction of future finance lease charges included in the obligation). The finance leases held by the Department are mainly PC's, Copiers and Printer leases that are non-cancellable and payable either six monthly or monthly in advance or monthly in arrears. The option to renew the lease is held by the Department. There are no existing contingent rental provisions.

	2003	2002
	\$'000	\$'000
Payable not later than one year	27	119
Payable later than one year but not later than five years	19	43
	46	162
Minimum lease payments	46	162
Less: Future finance charges	10	24
Lease liability	36	138
Classified as:		
Current	19	104
Non-Current	17	34
	36	138

24. Loan Liabilities

Non-Current:		
Interest Bearing Loan - Department of Treasury and Finance	38 054	38 054
	38 054	38 054

25. Provision for Workers Compensation

A provision is raised to reflect the liability for any outstanding (unsettled) workers compensation claims for lump sum payments, adjusted for potential recoveries from negligent third parties. It is based on an actuarial assessment prepared for the Department of the Premier and Cabinet.

These figures reflect an apportionment of the whole-of-government estimate of workers compensation liability, according to the Department's experience of claim numbers and payments based on data as at 30 April 2003, extrapolated to 30 June 2003.

25. Provision for Workers Compensation (continued)

The whole-of-government estimate can be found in a report prepared by Taylor Fry Pty Ltd, consulting actuaries, and submitted to the Public Sector Occupational Health and Injury Management Section of the Department of the Premier and Cabinet. This report conforms to the WorkCover Guidelines for Actuaries, Australian Accounting Standard AAS 26 'Financial Reporting of General Insurance Activities' and Professional Standard PS 300 'Actuarial Reports and Advice on Outstanding Claims in General Insurance' of the Institute of Actuaries of Australia.

The above allocation of workers compensation liabilities has also been split into current (ie the provision required to meet the liability over the coming year) and non-current (ie the provision required for later years).

26. Equity

Equity represents the residual interest in the Department's net assets. The South Australian Government holds the equity interest in the Department on behalf of the community.

	2003	2002
	\$'000	\$'000
Accumulated Surplus:		
Opening balance accumulated surplus	202 162	272 157
Adjustments to opening accumulated surplus on initial adoption of AASB 1028 'Employee Benefits'	(291)	-
Deficit for the period on Ordinary Activities	<u>(6 013)</u>	<u>(69 995)</u>
	195 858	202 162
Asset Revaluation Reserve:		
Opening balance asset revaluation reserve	14 538	14 538
Amounts recognised on revaluation of property, plant and equipment	15 052	-
	<u>29 590</u>	<u>14 538</u>
	225 448	216 700

27. Reconciliation of Net Cash provided by Operating Activities to Net Cost of Services

Net cash provided by operating activities (Statement of Cash Flows)	23 854	(5 018)
Cash flows from Government	(83 315)	(94 683)
Depreciation and amortisation	(26 239)	(25 545)
Net loss (gain) on sale of non-current assets	881	(304)
Net result of transfer of assets to and from the Department	(2 870)	(50 512)
Assets received free of charge	5 724	7 736
Asset write down	(3 558)	-
Net restructure revenues not included in net cost of services	(1 086)	61 202
Adoption of AASB 1028 'Employee Benefits' taken directly to Equity	291	-
Asset accruals	(1 180)	-
CWIP written off	(1 131)	(1 140)
Movements in assets and liabilities:		
Receivables	(1 838)	(990)
Inventories	(1 020)	(772)
Other assets	(336)	189
Payables	(548)	5 420
Worker's compensation provision	563	(71)
Employee benefits	794	1 012
Net Cost of Services (Statement of Financial Performance)	<u>(90 416)</u>	<u>(103 476)</u>

28. Remuneration of Employees

The number of employees whose remuneration received or receivable during the period 1 July 2002 to 30 June 2003 falls within the following bands:

	2003	2002
	Number of Employees	Number of Employees
\$100 000 - \$109 999	3	4
\$110 000 - \$119 999	3	5
\$120 000 - \$129 999	4	3
\$130 000 - \$139 999	1	-
\$150 000 - \$159 999	1	1
\$160 000 - \$169 999	1	3
\$170 000 - \$179 999	2	1
\$220 000 - \$229 999	-	1
\$230 000 - \$239 999	1	-
	<u>16</u>	<u>18</u>

Total remuneration received or due and receivable during the reporting period by these employees was \$2.2 million (\$2.4 million).

29. Targeted Voluntary Separation Packages (TVSPs)

TVSPs paid to employees during the reporting period were:

	2003	2002
	\$'000	\$'000
TVSP payments	1 187	3 961
Recovery from the Department of the Premier and Cabinet in respect of TVSPs	(1 187)	(3 961)
Annual and long service leave accrued over the period of employment paid to employees who received TVSPs	378	1 272

The number of employees who were paid TVSPs during the reporting period totalled 18 (52).

30. Audit Fees

Audit fees of \$0.196 million (\$0.208 million) are estimated for the period ending 30 June 2003. No other services were provided by the auditors.

31. Operating Leases

At the reporting date, the Department had the following obligations under non-cancellable operating leases. These obligations are not recognised as liabilities in the Statement of Financial Position. The operating leases held by the Department are mainly property leases with penalty clauses equal to the amount of the residual payments remaining for the lease term. The leases are payable one month in advance. The option to renew the lease is held by the Department. There are no existing or contingent rental provisions. The total amount of operating lease expenses recognised in the 2002-03 Statement of Financial Performance is \$4.2 million (\$5.4 million).

	2003	2002
	\$'000	\$'000
Payable not later than one year	3 228	4 107
Payable later than one year but not later than five years	3 385	9 068
Payable later than five years	66	1 688
	6 679	14 863

32. Restrictions on Contributions Received

The Department receives contributions from various funding sources expressly for the purpose of undertaking specific projects. As at 30 June 2003, \$3.0 million of those contributions, which have been recognised as revenues in the Statement of Financial Performance during current or previous periods, are yet to be spent in the manner specified by the contributors.

	2003	
	Revenue	Unspent
	\$'000	\$'000
Resource conservation and management	11 270	2 987
	11 270	2 987

33. Contingent Obligations and Contingent Assets***Wilpena Tourist Centre***

The Minister (on behalf of the Department) extended a guarantee to a maximum value of \$1.25 million to ANZ Bank on behalf of Flinders Ranges Tourist Services Pty Ltd, in respect of the Wilpena Tourist Centre redevelopment/lease arrangement. This contingent liability is expected to reduce by an amount of \$125 000 per year effective from 1 July 2000 in line with loan repayments. As a result, the maximum exposure in relation to the guarantee as at 30 June 2003 is \$0.75 million. As at the reporting date, no event was known to have occurred which would crystallise liability under the guarantee.

The Department is not aware of the existence of any contingent assets as at 30 June 2003.

34. Employee Benefits and Related On-cost Liabilities

In accordance with the requirements of AASB 1028 'Employee Benefits' employee on costs are required to be reported as payables whilst leave liability amounts are reported separately as 'Employee Benefits'. Below is a composite note disclosure showing the total liabilities the Department has at 30 June relating to employee benefits:

		2003	2002
		\$'000	\$'000
Annual Leave:			
On costs included in payables - Current	21	524	520
Employee benefits - Current	22	2 983	2 937
		3 507	3 457
Long Service Leave:			
On costs included in payables - Current	21	152	643
Employee benefits - Current	22	1 070	4 572
		1 222	5 215
On costs included in payables - Non-current	21	1 470	1 118
Employee benefits - Non-current	22	10 403	7 955
		11 873	9 073

35. Events subsequent to Reporting Date

On 24 July 2003 the Chief Executive of the Department and Chief Executive of the Department for Administrative and Information Services (DAIS) approved transfer arrangements for a range of land administration functions from the Department to DAIS. The functions include Section 7, LOTS, Property Assist and related IT and financial services.

The consequences of this event will be incorporated into future financial statements and no financial impact is reflected in the 2002-03 financial statements.

Staff transfers of 11.6 full time equivalents are anticipated and a number of minor IT assets and almost fully depreciated IT infrastructure will also transfer.

Transition planning is now occurring however it is envisaged that the transfer will progressively occur over a 12 to 18 month timeframe and be finalised no later than 31 December 2004.

ENVIRONMENT PROTECTION AUTHORITY

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The financial reporting entity, the Environment Protection Authority (EPA), includes the following entities and fund:

- The Environment Protection Authority — an Administrative Unit established on 1 July 2002 pursuant to the *Public Sector Management Act 1995* as part of a restructure of the Government's environment protection functions.
- A Statutory Authority also named the Environment Protection Authority established through amendments to the *Environment Protection Act 1993* (the Act).
- The Environment Protection Fund as established under the Act.

Functions

The functions of the EPA are to administer and enforce the Act, promoting principles of ecological sustainable development. These functions include:

- review, develop and draft environment protection policies and national environment protection measures;
- authorise activities of environmental significance through an authorisation system aimed at the control and minimisation of pollution and waste;
- conduct compliance investigations and institute environmental monitoring and evaluation programmes;
- provide advice and assistance regarding best environmental management practice.

In administering these functions the EPA is also responsible for the Environment Protection Fund established under the Act. The purpose of the Environment Protection Fund is to provide funds which may be applied to education, training, investigations, research, and pilot programs in relation to the protection, restoration or enhancement of the environment and to facilitate assistance in relation to an environment performance agreement.

Structure

The structure of the EPA is illustrated in the following organisation chart.



Changes to Functions and Structure

In May 2002 Cabinet recommended that the Environment Protection Authority be established separately from the Department for Environment and Heritage which at that time had administrative responsibility for employees and related resources of the then Environment Protection Agency, a division of the Department. In establishing the entity's structure, Cabinet recommended that the EPA be an arm's length regulatory body by requiring that strategic direction be provided by a governing Board.

These changes were instituted during 2002-03 through the creation of the administrative unit and amendments to the Act. These changes can be summarised as follows.

On 1 July 2002, by proclamation of the Governor pursuant to the *Public Sector Management Act 1995*, the administrative unit, the Environment Protection Authority was established, and the employees of the former Department for Environment and Heritage division known as the Environment Protection Agency and the employees of the Department of Human Services' former Radiation Protection Branch of the Public and Environmental Health Service, were transferred to the newly established administrative unit. Also on 1 July 2002, employees within the Department of Water, Land and Biodiversity Conservation dealing with enforcement and prosecution services under the *Water Resources Act 1997* were transferred to the Administrative Unit.

Amendments to the Act in April 2003 established the Board of the Environment Protection Authority as the governing body of the Authority. Under the amended Act, the Office of the Chief Executive was established and was made subject to the control and direction of the Board. The Act also permits the statutory authority, the Environment Protection Authority, to make use of the services of the Administrative Unit's employees and of its facilities.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the EPA for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the EPA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- revenue raising
- environmental licensing
- waste depot levies
- Radiation Protection Branch
- expenditure
- payroll.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The response to the management letter was considered to be satisfactory.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Environment Protection Authority as at June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the EPA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the EPA have been conducted properly and in accordance with law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

The Financial Statements are the first produced by EPA. As such comparative information is therefore not available.

	2003 \$'million
REVENUE	
Revenue from Government	10.5
Fees and charges	11.3
Transfers on establishment	7.8
Other revenues	3.3
Total Revenue	32.9
EXPENDITURE	
Employment expenses	13.8
Other expenses	10.0
Total Expenses	23.8
Surplus from Ordinary Activities *	9.1
Net Cash Flows from Operations	10.6
ASSETS	
Current assets	11.1
Non-current assets	3.2
Total Assets	14.3
LIABILITIES	
Current liabilities	1.9
Non-current liabilities	3.3
Total Liabilities	5.2
EQUITY	9.1

* The surplus includes some non-operating items.

Statement of Financial Performance

Revenues

The major items making up fees and charges are environmental licence fees, \$4.7 million, and waste levies, \$6.1 million.

Changes to Environmental License Fees in 2002-03

In August 2001 the Premier announced intended reforms to environmental licensing, providing for incentives for improved environmental performance and a changed fee structure increasing charges by 100 percent over a four year period. The first phase of increases, an increase of 25 percent, became operative through regulations to the Act from September 2002.

Proposed Changes to Waste Levies 2003-04

In June 2003 Cabinet approved the creation, as at 1 July 2003, of a new administrative unit the Office of Zero Waste SA and the proposed transfer of a number of staff from EPA to the Office of Zero Waste SA. The Office of Zero Waste SA is to be funded by an increase in waste levies collected by the EPA to take effect from July 2003. Consequently an increase of 100 percent came into effect on 1 July 2003.

Transfers on Establishment of the EPA

Revenues as a result of the establishment of the EPA amounted to \$7.8 million. These revenues principally comprise net amounts transferred from the Department for Environment and Heritage, \$3.8 million, the Environment Protection Fund, \$3.8 million, and the Department of Human Services, \$75 000. Refer to Note 13 to the EPA's Financial Statements.

Expenses

Salaries, wages and other employee related costs, \$13.8 million, accounted for 58 percent of total expenditure.

The Department for Environment and Heritage (DEH) provides certain professional, technical and administrative support to the EPA at no charge. These services have not been reflected as expenses in the EPA's Statement of Financial Performance. Refer to Note 1(c) to the EPA's Financial Statements.

Statement of Financial Position

Asset and liability balances were established at the beginning of the 2002-03 financial year to reflect transfers from other Government entities. These transfers included a significant cash balance of \$7.2 million, being \$3.4 million transferred from DEH and \$3.8 million transferred from the Environment Protection Fund.

Net assets include cash of the Environment Protection Fund as detailed in Note 30 of the EPA's financial statements. Until the *Zero Waste SA Act 2003* comes into operation, the Office of Zero Waste SA will be funded from the Environment Protection Fund.

Disregarding transfers, net assets increased a further \$1.4 million in the 2002-03 year. The most significant items in this movement were an increase in cash of \$2.9 million offset by an increase in employee benefits liability of \$0.7 million and a decrease in receivables of \$0.3 million.

Statement of Cash Flows

The following table summarises the net cash flows for the current year.

	2003 \$'million
Net Cash Flows	
Operations	10.6
Investing	(0.6)
Change in Cash	10.0
Cash at 30 June	10.0

The analysis of cash flows shows that cash increased by \$10.0 million, of which \$7.1 million related to cash transferred on EPA's establishment. Disregarding these opening transfers, net cash provided by operating activities amounted to \$3.5 million.

**Statement of Financial Performance
for the year ended 30 June 2003**

	Note	2003 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:		
Salaries and wages and other employee related expenses		13 768
Goods and services	4	7 669
Grants and contributions	5	1 395
Depreciation and amortisation	6	923
Other expenses	8	29
Total Expenses		23 784
REVENUES FROM ORDINARY ACTIVITIES:		
Fees and charges	9	11 347
Grants and contributions	10	2 318
Interest and dividends		507
Initial recognition of non-current assets	11	213
Net gain from disposal of non-current assets	7	3
Other revenues	12	247
Total Revenues		14 635
NET COST OF SERVICES		9 149
REVENUES FROM GOVERNMENT:		
Recurrent appropriations		10 501
Contingency provision grants		3
Total Revenues from Government		10 504
NET TRANSFERS ON ESTABLISHMENT OF THE AUTHORITY:		
Transfers from the Department for Environment and Heritage		3 849
Transfers from the Department of Human Services		75
Transfers from the Environment Protection Fund		3 848
Total Transfers on Establishment of the Authority	13	7 772
SURPLUS FROM ORDINARY ACTIVITIES		9 127
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		
		9 127

Statement of Financial Position as at 30 June 2003

	Note	2003 \$'000
CURRENT ASSETS:		
Cash assets	14	10 057
Receivables	15	919
Inventory		2
Other	16	116
Total Current Assets		11 094
NON-CURRENT ASSETS:		
Receivables	15	133
Other financial assets		3
Property, plant and equipment	17	3 115
Other	16	5
Total Non-Current Assets		3 256
Total Assets		14 350
CURRENT LIABILITIES:		
Payables	18	947
Employee benefits	19	780
Other current liabilities		151
Provision for workers compensation	20	24
Total Current Liabilities		1 902
NON-CURRENT LIABILITIES:		
Payables	18	420
Employee benefits	19	2 834
Provision for workers compensation	20	67
Total Non-Current Liabilities		3 321
Total Liabilities		5 223
NET ASSETS		9 127
EQUITY:		
Accumulated surplus		9 127
TOTAL EQUITY	21	9 127
Contingent liabilities and contingent assets	26	
Restrictions on contributions	28	

**Statement of Cash Flows
for the year ended 30 June 2003**

	Note	2003 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
PAYMENTS:		
Employee benefits and other employee related expenses		(13 040)
Goods and services		(7 238)
Grants and contributions		(1 395)
RECEIPTS:		
Fees and charges		11 532
Receipts from loans		78
Interest income		484
Grants and contributions		2 318
Other revenues		255
CASH FLOWS FROM GOVERNMENT:		
Recurrent appropriations		10 501
Contingency provision grants		3
Transfer receipts from other Government entities on restructure		7 133
Net Cash provided by Operating Activities	22	10 631
CASH FLOWS FROM INVESTING ACTIVITIES:		
RECEIPTS:		
Disposal of non-current assets	7	3
PAYMENTS:		
Purchase of non-current assets		(577)
Net Cash used in Investing Activities		(574)
NET INCREASE IN CASH HELD		10 057
CASH AT 1 JULY		-
CASH AT 30 JUNE	14	10 057

**Schedule of Administered Items
for the year ended 30 June 2003 (refer Note 1)**

	2003 Total \$'000
<hr/>	
ADMINISTERED EXPENSES AND REVENUES	2003 Total \$'000
EXPENSES FROM ORDINARY ACTIVITIES:	
Goods and services	783
Total Expenses	<u>783</u>
REVENUES FROM ORDINARY ACTIVITIES:	
Grants and contributions	559
Interest and dividends	44
Total Revenues	<u>603</u>
(DEFICIT) ON ORDINARY ACTIVITIES	<u><u>(180)</u></u>
 ADMINISTERED ASSETS AND LIABILITIES	
ASSETS:	
Cash assets	414
Current receivables	395
Total Assets	<u><u>809</u></u>
LIABILITIES:	
Payables	-
Total Liabilities	<u><u>-</u></u>
<hr/>	

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

(a) **Establishment of the Authority**

An administrative unit titled the 'Environment Protection Authority' (Authority) was established, by proclamation under the *Public Sector Management Act 1995* in the Government Gazette dated 27 June 2002. The administrative unit was established from the Environment Protection Agency functions transferred from the Department for Environment and Heritage (DEH) and the Radiation Protection Branch functions transferred from the Department of Human Services. Employees relating to these functions were transferred effective from 1 July 2002 pursuant to Section 7 of the *Public Sector Management Act 1995*.

The administrative unit was established as a separate body to the statutory authority that is also called the Environment Protection Authority, which was established in 1995 under the *Environment Protection Act 1993*. Subsequent amendments to the *Environment Protection Act* in April 2003 introduced a governing board to the Authority, being the Board of the Environment Protection Authority, to which the Chief Executive of the administrative unit is now accountable. Through this new governing arrangement, the statutory authority (through its governing Board) is responsible for the operations of the administrative unit.

(b) **Authority Objectives**

The Authority objective is to achieve a healthy and valued environment for the people of South Australia, by working with community, industry and Governments. The Authority has principal responsibility for radiation protection, environment protection, policy and regulation.

(c) **Financial Arrangements**

The Authority has agreed that DEH continue to provide professional, technical and administrative support to the Authority. The identifiable direct costs of providing these services are met by the Authority. In addition, certain services are provided by DEH at no charge to the Authority and have not been recognised in the financial statements, as it is impractical to determine a value for these items. The costs of these services include salaries and overheads relating to the provision of various administrative services. Officers of DEH and the Authority are currently negotiating the terms of a Service Level Agreement relating to the future provision of these services by DEH to the Authority.

The Authority's sources of funds consist of monies appropriated by Parliament together with income derived primarily from fees, levies and licences to the public and industry.

The financial activities of the Authority are primarily conducted through Deposit Accounts with the Department of Treasury and Finance pursuant to Section 8 and Section 21 of the *Public Finance and Audit Act 1987*. The Deposit Accounts are used for funds provided by Parliamentary appropriation together with revenues from services provided and from fees and charges. All contracts and balances of the Authority are denominated solely in Australian dollars, therefore there are no foreign currency assets or liabilities.

(d) **Office of Zero Waste SA**

The Office of Zero Waste SA was established effective from 1 July 2003, by proclamation in the Government Gazette dated 26 June 2003 as a separate administrative unit under the *Public Sector Management Act 1995*. Approval has been granted by Cabinet for \$650 000 of waste levy funds held in the Environment Protection Fund to be used to meet the costs of this new administrative unit in 2003-04.

When the Zero Waste SA Bill 2003 is passed, any of these funds that remain unspent will be transferred to the Waste to Resources Fund, to be administered by Zero Waste SA.

(e) **Administered Activities**

The Authority is responsible for the administration of certain activities described below on behalf of other SA Government agencies, industry, and the Minister for Environment and Conservation. The transactions relating to these activities are not recorded in the Authority's Statement of Financial Performance or Statement of Financial Position, as the Authority does not have any control over these activities and merely acts as an agent. Administered revenues, expenses, assets and liabilities are detailed in the Schedule of Administered Items. The Adelaide Coastal Waters Study is considered to be an administered item of the Authority.

(f) **Full Time Equivalents**

The Authority was operating with 203 full time equivalent employees as at 30 June 2003.

2. Significant Accounting Policies

(a) **Basis of Accounting**

This financial report is a general purpose financial report which has been prepared in accordance with the Statements of Accounting Concepts, Australian Accounting Standards, Urgent Issues Group Consensus Views (UIG's), *Public Finance and Audit Act 1987*, Treasurer's Instructions and Accounting Policy Statements issued by the Department of Treasury and Finance.

The financial statements, including the Schedule of Administered Items, have been prepared on the accrual basis of accounting. Accordingly, revenues are recognised when they are earned or when the Authority has control over them, rather than when they are received. Expenses are recognised when they are incurred, rather than when they are paid. Some revenues are recognised when cash is received because only at this time can the Authority be certain about the amounts to be collected. These revenues include items such as licence fees, fines and penalties.

The financial statements have been prepared in accordance with the historical cost convention.

(b) Property, Plant and Equipment

All items of property, plant and equipment controlled by the Authority have been brought to account at cost of acquisition and have been reduced to reflect the portion of economic benefits that had been consumed since the asset was acquired. The Authority has undertaken an assessment of those assets carried at cost at balance date and has determined that the carrying amount of these assets reflects their fair value.

Minor items of plant and equipment with an individual value of less than \$2 000 are expensed in the Statement of Financial Performance at the time they are acquired.

Intellectual Property, Databases and Information Systems

The Authority controls a number of databases, registers, information systems and other intellectual property. All databases were developed in-house and are used to store and manage intellectual property owned by the Authority. While the development and maintenance of these databases involve on-going costs to the Authority, the data has not been recognised in the financial statements as assets, as it has not been possible to reliably measure the value of those assets.

The purchase costs of information systems used by the Authority have been recognised as assets. However, the internal implementation and development costs related to the systems have not been capitalised as assets. These costs therefore have been expensed when incurred, as it has not been possible to reliably identify and match the expenditure to economic benefits attributable to future reporting periods.

(c) Depreciation

All items of property, plant and equipment have a limited useful life and are systematically depreciated in a manner that reflects the consumption of service potential. The depreciation rates are reviewed annually.

Assets are subject to straight-line depreciation over the following periods:

	Useful Life
	Years
Buildings and infrastructure	5-50
Moveable vehicles	10-15
Computing equipment	3
Application software	3-10
Furniture and fittings	3-12
Plant and equipment	3-20

(d) Repairs and Maintenance

Repairs and maintenance costs are expensed as incurred.

(e) Income Recognition

All revenue recorded in the Statement of Financial Performance, including appropriations, grants, donations, licence fees and other contributions are recognised as revenues when the Authority obtains control over the assets comprising the contributions. Control over appropriations, licence fees and granted assets is normally obtained upon their receipt.

(f) Cash Assets

Cash assets consist of cash on hand and monies held by the Department of Treasury and Finance in Special Deposit Accounts. Interest is received on credit balances in accordance with standard commercial terms for deposits not held by the Treasurer. Deposit Account balances are at call amounts, which earn interest at a rate determined by the Treasurer. Interest is received quarterly in arrears. The average effective interest rate for the reporting period was 4.6 percent.

(g) Receivables

Receivables in respect of fees and charges are generally settled within 60 days and are recorded at their recoverable amount. At the end of each reporting period these receivable balances are reviewed and a provision is raised in respect of any balance where recoverability is considered doubtful. Bad debts are written off in the period in which they are identified. Credit risk therefore is limited to the amount set aside as the provision for doubtful debts. The resulting carrying amount of receivables is considered to approximate their net fair values.

(h) Creditors/Payables

Trade creditors are unsecured debts, recognised in the financial statements when contracted goods or services have been received by the Authority. These debts generally are settled within 30 days of invoice. Retention monies held on capital works projects are carried at their nominal face value. On-costs associated with employee benefits have been recognised as accrued payables for the period ending 30 June 2003 in accordance with Accounting Policy Statement APS 9 'Employee Benefits', paragraph 30. The resulting amount of creditors/payables is considered to approximate their net fair values.

(i) Employee Benefits

Amounts are raised at the end of the reporting period to reflect employee benefits to annual leave, long service leave and accrued salaries and wages.

(i) Annual Leave

The annual leave benefit is calculated by multiplying each employee's entitlement by the remuneration rate expected when the leave is taken. The estimated rate of salary inflation is 4 percent. Where leave loadings are paid, they are included in the calculation.

(ii) Long Service Leave

In calculating long service leave benefits the Authority uses a benchmark of 7 years, based on an actuarial assessment undertaken by the Department of Treasury and Finance of a significant sample of employees throughout the South Australian public sector. The long service leave benefit estimated to be paid within 12 months of balance date, is calculated by multiplying employee benefits by the remuneration rate expected when the leave is taken. The estimated rate of salary inflation is 4 percent.

(iii) **Sick Leave**
 The Authority's employees' entitlement to sick leave is non-vesting. Sick leave is only recognised as a liability at reporting date to the extent it is probable that sick leave expected to be taken in future periods will be greater than entitlements which are expected to accrue in those future periods. No sick leave liability has been recorded as the sick leave taken in future periods will be less than the sick leave entitlements accrued in those periods.

(j) **Leases**
 The Authority has entered into non-cancellable operating lease agreements for office accommodation where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases. The operating lease payments are charged to the Statement of Financial Performance over the lease term as they are representative of the pattern of benefits to be derived from the leased property. Details of operating leases are disclosed in Note 25.

The Authority has not entered into any finance leases.

(k) **Superannuation**
 The Authority made contributions of \$1.2 million to Employer Contribution Accounts administered by the South Australian Superannuation Board, in respect of future superannuation liabilities.

(l) **Inventories**
 Inventories are valued in the accounts at the lower of cost and net realisable value.

(m) **Goods and Services Tax**
 The Authority is a member of a Goods and Services Tax (GST) group. Under these grouping arrangements one group member, DEH, is responsible for the collection of GST on sales and payment of GST on purchases, and received/paid monies relating to the Australian Taxation Office, for all group members. The Authority does not recognise an asset or liability relating to the GST in its Statement of Financial Position or amounts for GST received/paid in its Statement of Cash Flows as they are recognised in DEH.

(n) **Cash Flows**
 For the purpose of the Statement of Cash Flows, cash includes cash on hand (including petty cash and cashier floats) and Special Deposit Accounts with the Department of Treasury and Finance.

(o) **Comparative Figures**
 The general purpose financial report is the first produced by the Environment Protection Authority. Comparative information is therefore not available for the Statement of Financial Performance, Statement of Financial Position or Statement of Cash Flows.

(p) **Rounding**
 All amounts are rounded to the nearest thousand dollars.

3. Programs of the Authority

The Authority is funded by appropriation for the provision of environment protection, policy and regulatory services. In line with the objective of establishing the Authority to focus on environment protection activities the Authority conducts its services through a single program, Environment and Radiation Protection.

The Adelaide Coastal Waters Study has not been attributed to the above program as it is an administered item of the Authority.

4. Goods and Services

	2003
	\$'000
Goods and services expenses for the reporting period comprised:	
Accommodation and service expenses	1 553
Advertising	181
Auditor's remuneration - Auditing services	59
Bank fees	6
Contractor expenses	1 302
Consultancies	516
Computing expenses	492
Equipment repairs and maintenance	35
Hazardous waste storage and disposal costs	316
Legal fees	47
Materials and consumables	322
Media monitoring	232
Minor plant and equipment purchases	100
Postage, courier and freight	42
Printing and publishing	304
Scientific and technical services	901
Telephone expenses	318
Travel and accommodation	198
Vehicle operating expenses	401
Other	344
	7 669

5. Grants and Contributions	2003
Grants and contributions for the reporting period comprised:	\$'000
Contributions to:	
Department of Water, Land and Biodiversity Conservation	18
Department for Environment and Heritage	519
Department of Primary Industries and Resources SA	6
Business SA Program	25
Solar Hot Water Systems Rebates:	
SA Housing Trust	137
Rebates to public and local Councils	88
Waterwatch Program	215
KESAB service agreement	205
Miscellaneous grants and transfers	182
	<u>1 395</u>
6. Depreciation and Amortisation	
Depreciation and amortisation expenses for the reporting period were charged in respect of:	
Buildings and infrastructure	5
Moveable vehicles	4
Computing equipment	256
Application software	24
Furniture and fittings	65
Plant and equipment	569
	<u>923</u>
7. Net Gain from Disposal of Non-Current Assets	
Proceeds from disposal of non-current assets	3
Less: Written down value of non-current assets	-
	<u>3</u>
8. Other Expenses	
Doubtful debts	6
Bad debts	1
Capital work in progress write-off	22
	<u>29</u>
9. Fees and Charges	
Fees and charges for the reporting period comprised:	
Fees and licences	4 725
Waste levies	6 131
Fines and penalties	139
Section 7 enquiries	275
Sale of products and other services	77
	<u>11 347</u>
10. Grants and Contributions	
Grants and contributions for the reporting period comprised:	
Commonwealth contributions	1 431
State Government grants	409
Contributions from Department of Primary Industries and Resources SA	160
Contributions from Department of Transport and Urban Planning	25
Contributions from Department for Environment and Heritage	50
Contribution from NRG Flinders	200
Sundry grants and contributions received	43
	<u>2 318</u>
11. Initial Recognition of Non-Current Assets	
Initial recognition of non-current assets	111
Non-current assets received free of charge	102
	<u>213</u>
12. Other Revenues	
Other revenues for the reporting period comprised:	
Salary and wage expenses recouped	145
Sponsorship and donations	57
Other revenue	45
	<u>247</u>
13. Net Transfers on Establishment of the Authority	
Transfers from the Department for Environment and Heritage	
Net assets transferred to the Authority:	
Cash assets	3 371
Receivables	1 174
Inventory	13
Other financial assets	4
Property, plant and equipment	2 810
Other	166
	<u>7 538</u>

13. Net Transfers on Establishment of the Authority (continued)	2003
Net liabilities transferred to the Authority:	\$'000
Payables	923
Employee benefits	2 596
Provision for workers compensation	170
	<u>3 689</u>
Net transfers from the Department for Environment and Heritage	<u>3 849</u>
Transfers from the Department of Human Services	
Net assets transferred to the Authority:	
Property, plant and equipment	460
	<u>460</u>
Net liabilities transferred to the Authority:	
Payables	21
Employee benefits	364
	<u>385</u>
Net transfers from the Department of Human Services	<u>75</u>
Transfers from the Environment Protection Fund	
Net assets transferred to the Authority:	
Cash assets	3 762
Receivables	149
	<u>3 911</u>
Net liabilities transferred to the Authority:	
Payables	63
	<u>63</u>
Net transfers from the Environment Protection Fund	<u>3 848</u>
	<u><u>7 772</u></u>

The assets and liabilities transferred on the establishment of the Authority from the Department for Environment and Heritage and the Department of Human Services represent amounts agreed to between the respective Departments and the Authority at the date of signing this report. At that date there were some matters relating to the financial transfer between the Department for Environment and Heritage and the Authority which remained unresolved and the effect of which was not measurable. The Authority recognised all the revenues and expenses for the reporting period for the functions transferred from the respective Departments.

The Environment Protection Fund (Fund) met the accounting criteria of a controlled entity of the Authority and consequently the assets and liabilities of the Fund were recognised by the Authority effective from 1 July 2002. The Authority recognised all the revenues and expenses for the reporting period for the Fund. Previously the Fund was an administered item of the Department for Environment and Heritage.

The water regulatory functions of the Investigations Unit transferred to the Authority from the Department of Water, Land and Biodiversity Conservation effective from 1 July 2002. The Authority recognised all the revenue and expenses for the reporting period for these functions. There were no asset or liability transfers to the Authority in relation to these functions.

14. Cash Assets	2003
	\$'000
Cash on hand (including petty cash)	6
Accrual Appropriation Excess Fund Special Deposit Account with the Department of Treasury and Finance	1 049
Authority Special Deposit Accounts with Department of Treasury and Finance	5 536
Environment Protection Fund Deposit Account with the Department of Treasury and Finance	3 466
	<u>10 057</u>
15. Receivables	
Current:	
Fees and charges	847
Loans receivable	74
Accrued investment income	36
Less: Provision for doubtful debts	38
	<u>919</u>
Non-Current:	
Loans receivable	133
	<u>133</u>
16. Other Assets	
Current:	
Prepayments	114
Provision for workers compensation - Third party recoveries	2
	<u>116</u>
Non-Current:	
Provision for workers compensation - Third party recoveries	5
	<u>5</u>

17. Property, Plant and Equipment	2003
Buildings and Infrastructure:	\$'000
At cost	124
Accumulated depreciation	<u>(22)</u>
	102
Moveable Vehicles:	
At cost	74
Accumulated depreciation	<u>(41)</u>
	33
Computing Equipment:	
At cost	1 422
Accumulated depreciation	<u>(995)</u>
	427
Application Software:	
At cost	359
Accumulated depreciation	<u>(24)</u>
	335
Furniture and Fittings:	
At cost	713
Accumulated depreciation	<u>(190)</u>
	523
Plant and Equipment:	
At cost	3 863
Accumulated depreciation	<u>(2 168)</u>
	1 695
Total Property, Plant and Equipment:	
At cost	6 555
Total accumulated depreciation	<u>(3 440)</u>
	3 115

	Buildings and Infrastruc- ture	Moveable Vehicles	Computing Equipment	Application Software	Furniture and Fittings	Plant and Equipment	2003 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Carrying Amount							
Balance at 30 June 2002	-	-	-	-	-	-	-
Additions	-	-	132	300	8	137	577
Initial recognition of assets	-	-	90	59	-	279	428
Disposals	-	-	(24)	-	-	(32)	(56)
Transfers within Government	121	74	1 227	-	705	3 501	5 628
Write off of capital work in progress	-	-	-	-	-	(22)	(22)
Transfer within classes	3	-	(3)	-	-	-	-
Balance at 30 June 2003	124	74	1 422	359	713	3 863	6 555
Accumulated Depreciation/Amortisation							
Balance at 30 June 2002	-	-	-	-	-	-	-
Disposals	-	-	24	-	-	32	56
Depreciation expense	(5)	(4)	(256)	(24)	(65)	(569)	(923)
Initial recognition of assets	-	-	(8)	-	-	(207)	(215)
Transfers within Government	(14)	(37)	(758)	-	(125)	(1 424)	(2 358)
Transfer within classes	(3)	-	3	-	-	-	-
Balance at 30 June 2003	(22)	(41)	(995)	(24)	(190)	(2 168)	(3 440)
Net Book Value							
As at 30 June 2002	-	-	-	-	-	-	-
As at 30 June 2003	102	33	427	335	523	1 695	3 115

18. Payables	2003
Current:	\$'000
Creditors	582
Accruals	183
Environment agreement security deposit	50
Employee benefit - On-costs	<u>132</u>
	947
Non-Current:	
Employee benefits - On-costs	<u>420</u>

19. Employee Benefits	2003
Current:	\$'000
Long service leave	97
Annual leave	632
Accrued salaries and wages	51
	<u>780</u>
Non-Current:	
Long service leave	<u>2 834</u>
20. Provision for Workers Compensation	
A provision is raised to reflect the liability for any outstanding (unsettled) workers compensation claims for lump sum payments, adjusted for potential recoveries from negligent third parties. It is based on an actuarial assessment prepared for the Department of the Premier and Cabinet.	
These figures reflect an apportionment of the whole-of-government estimate of workers compensation liability, according to the Authority's experience of claim numbers and payments based on data as at 30 April 2003, extrapolated to 30 June 2003. A separate valuation of the liabilities of the Authority has not been undertaken.	
The whole-of-government estimate can be found in a report prepared by Taylor Fry Pty Ltd, consulting actuaries, and submitted to the Public Sector Occupational Health and Injury Management Section of the Department of the Premier and Cabinet. This report conforms to the WorkCover Guidelines for Actuaries, Australian Accounting Standard AAS 26 'Financial Reporting of General Insurance Activities' and Professional Standard PS 300 'Actuarial Reports and Advice on Outstanding Claims in General Insurance' of the Institute of Actuaries of Australia.	
The allocation of workers compensation liabilities has also been split into current (ie the provision required to meet the liability over the coming year) and non-current (ie the provision required for later years).	
21. Equity	
Equity represents the residual interest in the Authority's net assets. The South Australian Government holds the equity interest in the Authority on behalf of the community.	
Accumulated Surplus:	2003
	\$'000
Transfers from the Department for Environment and Heritage	3 849
Transfers from the Department of Human Services	75
Transfers from the Environment Protection Fund	3 848
Surplus for the period	1 355
	<u>9 127</u>
22. Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities	
Net cash provided by operating activities	10 631
Net transfers of assets to the Authority	3 270
Non-cash items:	
Depreciation and amortisation	(923)
Net gain on sale of non-current assets	(3)
Initial recognition of non-current assets	213
Asset accruals	9
Capital WIP write-off	(22)
Movements in assets and liabilities:	
Increase in receivables	1 052
Increase in inventories	2
Increase in other assets	121
Increase in payables	(1 367)
Increase in other liabilities	(151)
Increase in worker's compensation provision	(91)
Increase in employee benefits	(3 614)
Surplus from Ordinary Activities	<u>9 127</u>
23. Remuneration of Employees	2003
The number of employees whose remuneration received or receivable during the period 1 July 2002 to 30 June 2003 falls within the following bands:	Number of Employees
\$130 000 - \$139 999	1
\$140 000 - \$149 999	1
Total remuneration received or due and receivable during the reporting period by these employees was \$275 000.	
24. Audit Fees	
Audit fees of \$59 400 were incurred for the period ending 30 June 2003.	
25. Operating Leases	
At the reporting date, the Authority had the following obligations under non-cancellable operating leases. These obligations are not recognised as liabilities in the Statement of Financial Position. The operating leases held by the Authority are mainly property leases with penalty clauses equal to the amount of the residual payments remaining for the lease term. The leases are payable one month in advance. The option to renew the lease is held by the Authority. There are no existing or contingent rental provisions. The total amount of operating lease expenses recognised in the 2002-2003 Statement of Financial Performance is \$1 400 000.	

25. Operating Leases (continued)	2003
	\$'000
Payable not later than one year	1 429
Payable later than one year but not later than five years	5 200
Payable later than five years	530
	7 159

26. Contingent Liabilities and Contingent Assets

Contingent Liabilities

During 2002 an Authority prosecution an failed in the Environment and Resources Development Court. The defendant party has submitted a claim for compensation of the legal costs incurred by the company in this matter. The compensation claim is in the hands of the Crown Solicitor. If the claim is successful it is estimated that the amount of compensation payable could be as high as \$120 000.

Contingent Assets

The Authority is not aware of the existence of any contingent assets as at 30 June 2003.

27. Employee Benefits and Related On-Cost Liabilities

In accordance with the requirements of AASB 1028 employee on-costs are required to be reported as payables whilst leave liability amounts are reported separately as 'Employee Benefits'. Below is a composite note disclosure showing the total liabilities the Authority has as at 30 June 2003 relating to Employee Benefits:

		2003
		\$'000
Annual Leave:	Note	
On-costs included in payables - Current	18	118
Employee benefits - Current	19	632
		750
Long Service Leave:		
On-costs included in payables - Current	18	14
Employee benefits - Current	19	97
		111
On-costs included in payables - Non-current	18	420
Employee benefits - Non-current	19	2 834
		3 254
		4 115

Aggregate Employee Benefits and Related On-cost Liabilities

28. Restrictions on Contributions Received

The Authority receives contributions from various funding sources expressly for the purpose of undertaking specific projects. As at 30 June 2003, \$1 553 000 of those contributions, which have been recognised as revenues in the Statement of Financial Performance during current or previous periods, are yet to be spent in the manner specified by the contributors.

	2003	
	Revenue	Unspent
	Received	Amount
	\$'000	\$'000
Environment protection	5 159	1 553

29. Remuneration of Authority Members

The total income received, or due and receivable by Authority members was \$53 000.

The number of Authority members whose remuneration received or due and receivable fell within the following bands:	2003
	Number
\$nil	3
\$1 - \$10 000	8
\$20 001 - \$30 000	1

30. The Environment Protection Fund

The Environment Protection Fund (Fund) is established under Section 24 of the *Environment Protection Act 1993*. The purpose of the Fund is to provide funds which may be applied to education, training, investigations, research and pilot programs in relation to the protection, restoration or enhancement of the environment and to facilitate assistance in relation to an environment performance agreement.

The Fund meets the accounting criteria of a controlled entity of the Authority and consequently the assets and liabilities of the Fund are recognised by the Authority in the Statement of Financial Position and the Fund's revenues and expenses have been recognised in the Authority's Statement of Financial Performance. The following is a summary of the amounts included in the Fund. In reflecting these amounts in the Authority's financial statements transactions between the Fund and the Authority have been eliminated.

Statement of Financial Performance for the period ended 30 June 2003	2003
EXPENSES FROM ORDINARY ACTIVITIES:	\$'000
Salaries and wages and other employee related expenses	627
Good and services	441
Grants and contributions	1 163
Total Expenses from Ordinary Activities	2 231

Statement of Financial Performance for the period ended 30 June 2003 (continued)		2003
REVENUES FROM ORDINARY ACTIVITIES:		\$'000
Fees and charges		1 822
Interest and dividends		175
Other		23
Total Revenues from Ordinary Activities		<u>2 020</u>
(DEFICIT) FROM ORDINARY ACTIVITIES:		<u>(211)</u>
Statement of Financial Position as at 30 June 2003		
CURRENT ASSETS:		
Cash assets		3 466
Receivables		259
Total Current Assets		<u>3 725</u>
NON-CURRENT ASSETS		
Property, plant and equipment		5
Total Non-Current Assets		<u>5</u>
Total Assets		<u>3 730</u>
CURRENT LIABILITIES:		
Payables		78
Other current liabilities		15
Total Current Liabilities		<u>93</u>
NET ASSETS		<u><u>3 637</u></u>

DEPARTMENT OF WATER, LAND AND BIODIVERSITY CONSERVATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department of Water, Land and Biodiversity Conservation (DWLBC) is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*. That establishment occurred on 8 April 2002 as part of a restructure of certain government functions.

DWLBC comprises all the functions of the former Department for Water Resources, which was abolished upon the creation of DWLBC, and certain sections of the Sustainable Resources Group of the Department of Primary Industries and Resources.

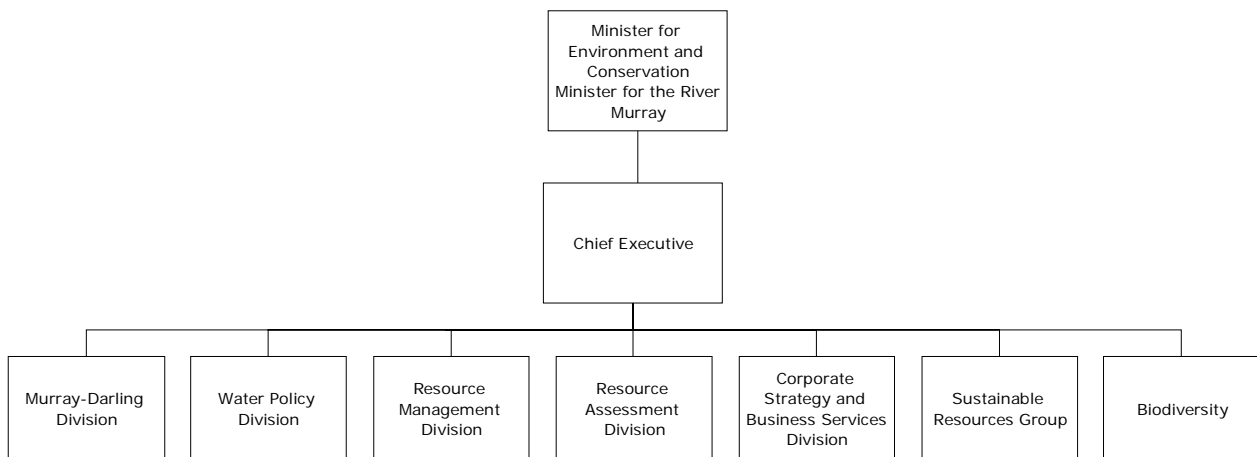
Functions

The objective of DWLBC is to ensure South Australia's natural resources are managed in ecologically sustainable ways that support the well-being of present and future generations. The Department's functions include:

- natural resource planning: coordination of whole-of-government initiatives or services as well as policy advice and development for and on behalf of the Minister;
- natural resource science and information services including monitoring the condition of natural resources and the provision of technical advice and information;
- natural resource management services including the administration of natural resources legislation, restoration and maintenance of ecosystems and resource licensing.

Structure

The structure of DWLBC is illustrated in the following organisation chart.



Changes to Functions and Structure

On 1 July 2002 the Native Vegetation Council Support, Biodiversity Assessment Services, Natural Resource Planning and Biodiversity Partnership functions of the Department for Environment and Heritage were transferred to the DWLBC.

Also on 1 July 2002, employees within the DWLBC dealing with enforcement and prosecution services under the *Water Resources Act 1997* were transferred to the Environment Protection Authority.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of Department of Water, Land and Biodiversity Conservation for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Department of Water, Land and Biodiversity Conservation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program covered major financial systems and was directed primarily toward obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2002-03, specific areas of audit attention included:

- fixed assets
- water licensing transactions
- expenditure
- grants
- payroll
- development of Water Information and Licensing Management Application (WILMA).

In undertaking its operations for the 2002-03 financial year DWLBC utilised a number of financial systems of the Department for Administrative and Information Services (DAIS) and the Department of Primary Industries and Resources (PIRSA). In conducting audit work, consideration was given to control processes performed in these outsourced arrangements.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Department and the related responses are considered in Audit Findings and Comments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

Qualification

With respect to 2001-02 I issued a qualified Independent Audit Report for the Department of Water, Land and Biodiversity Conservation. The qualification related to certain non-current assets which had not been brought to account as at 30 June 2002. Due to the potential significance of those assets, I was unable to form an opinion on the completeness of values ascribed to assets included in the Statement of Financial Position as at 30 June 2002 and the resultant depreciation that would have impacted on the operating result.

Qualified Audit Opinion

In my opinion, except for the effect on the financial report of the matter referred to in the qualification paragraph, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department of Water, Land and Biodiversity Conservation as at 30 June 2003, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department of Water, Land and Biodiversity Conservation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters outlined under 'Significant Matters Raised with the Agency', is sufficient to provide reasonable assurance that the financial transactions of the Department of Water, Land and Biodiversity Conservation have been conducted properly and in accordance with law.

Significant Matters Raised with the Agency

Financial Management Framework

The Financial Management Framework (FMF) provides agencies of government with guidance on critical processes and controls to be put in place to enable good financial management to be exercised. During the 2002-03 financial year, Audit has noted the progress of DWLBC in reference to the application of some important aspects of the prescribed elements of the FMF. Audit's understanding of the status of the application of some of the key aspects of the FMF are outlined below.

FMF Implementation

The Department has advised of the status on the following items that it considers critical in ensuring the implementation of the principles of the FMF.

- During the year DWLBC implemented revised governance arrangements including reforms to the DWLBC Executive and formation of a Directors Group and various specialist executive committees.
- Throughout the 2002-03 year the Department's ledger and reporting processes were somewhat disaggregated reflecting the arrangements with DAIS and PIRSA, leading to difficulties in reporting and monitoring. With regard to these difficulties, and to facilitate improved reporting across the Department, DWLBC has advised of their development of a new chart of accounts.
- Other areas of focus in 2002-03 include the formation of the Executive Finance Committee, implementation of a new budget process, revision to the service level agreement covering outsourced support services and implementation of asset management planning process.

Risk Management

DWLBC has advised that a risk management framework based on Australian Standards has been implemented within the DWLBC procurement system.

Notwithstanding this, the Department has advised of some concerns over the level of risk assurance provided on major projects currently being managed by the Department. DWLBC has advised of its intention to address this matter through provision of further training and implementation of reviews of all risk management arrangements for all major projects and initiatives.

Strategic Planning

DWLBC has advised that since the formation of the agency the following planning items have been implemented:

- Approval of a DWLBC Planning Framework.
- Establishment of a DWLBC Strategic Plan.
- Creation of a new program structure effective from 1 July 2003.

The Department also advised of their intended revision of directorate and divisional plans in light of new organisational arrangements.

Monitoring and Reporting

DWLBC has advised that the Department has implemented monthly executive management reporting, quarterly reporting to the Chief Executive and the formation of a number of executive committees to provide an oversight function. The Department has also advised of an intention to introduce quarterly reporting on achievements against the budget and a further revision of executive management reporting.

Monitoring and Review of the Control Environment

The FMF asserts that the Chief Executive of an agency is ultimately responsible for implementing an effective control framework and mechanisms for monitoring and reporting on its effectiveness.

In undertaking its operations for the 2002-03 financial year, DWLBC utilised a number of financial systems of the Department for Administrative and Information Services (DAIS) and the Department of Primary Industries and Resources (PIRSA). DWLBC has a responsibility to maintain overarching controls despite outsourcing the provision of specific services or processing controls. In this regard, the audit in 2002-03 revealed that some areas of concern existed in the Department's overall control environment, including the need for improved monitoring and review of controls. Audit considers that the level and extent of monitoring and review could be improved in a number of broad control areas including:

- overall and timely review of the Department's general ledger balances to ensure the integrity of information produced by subsidiary systems, some of which are subject to outsourced arrangements;
- mechanisms to allow for the overall monitoring of processes and controls performed in outsourced environments;
- controls surrounding the completeness and accuracy of processing to ensure the validity of the Department's expenditure including accounts payable, payroll and asset acquisition.

DWLBC's Response

The response noted the existence of administrative issues stemming from the creation of DWLBC. Positively, the Department expressed an intention to address all issues raised including the following initiatives:

- Assigning responsibility for the coordination of timely review of general ledger reports to business managers.
- A review of the provision of corporate services including financial services.
- Introduction of a formal verification process to ensure the effectiveness of controls outsourced.
- Reconciliation between authorised expenditure and that processed and paid.
- Renegotiation of the Service Level Agreement with DAIS to incorporate formal and prescribed accountabilities for controls.

Water Information and Licensing Management Application (WILMA) Development

Background

In May 2001 Cabinet approved the development of a new water licensing system, WILMA, to support the administration of the *Water Resources Act 1997* and to enhance state economic development through the facilitation of trading of water allocations and salinity credits. The Cabinet submission identified a number of risks in relation to the existing system, including concerns over the then Department for Water Resource's capacity to:

- meet statutory and other regulatory requirements;
- undertake accurate and timely reporting;
- provide a cost effective service;
- provide support for existing systems.

Capital funding sought and approved through the Cabinet for this project was \$3.3 million.

A contract was awarded in November 2001 for the detailed design, development and provision of the WILMA software and associated maintenance and support services. The contract specified a completion date of 11 October 2002 and a total contract price for software development and licence fee of \$1.4 million. As at 30 June 2003, the total expenditure incurred for the WILMA project was \$1.9 million. Included in this amount were progress payments to the contractor amounting to \$1 million.

During 2002-03 Audit undertook a review of some matters associated with the development project. The review revealed a number of significant matters with respect to the project's progress and project reporting and assurance mechanisms.

Project Reporting

DWLBC established a project board in January 2002 to provide overall direction and management for the WILMA project. Audit's review of the WILMA Project Board minutes revealed that overall commentary on the project's progress was not sufficient to adequately report the status of the project and to indicate any potential issues identified. Audit recommended that the Department establish an appropriate reporting framework allowing for the timely reporting of significant project issues.

DWLBC's Response

The Department has introduced monthly WILMA Project Board reporting to DWLBC Executive and has encouraged greater commentary on decisions made during their regular meetings.

Project Assurance

On 26 February 2002 the WILMA Project Board approved a governance and role document, 'Roles and Responsibilities of Project Board, Project Team and Reference Group'. Within this document, the project assurance function provided for the independent monitoring of all aspects of the project's performance and deliverables. Key responsibilities of this assurance function were to include:

- maintenance of thorough liaison between the supplier and the customer throughout the project;
- customer needs and expectations are being met or managed;
- risks are being controlled;
- the project remains viable;
- focus on the business need is maintained.

These elements were not evident to Audit in the management framework adopted by the Department for the WILMA project. In response to a query raised in relation to this matter, Audit was advised that this assurance function was not adopted as originally intended. Audit recommended the formal assignment of these responsibilities to appropriate officers to facilitate accountability of the assurance function.

DWLBC's Response

The Department considered that Board members could provide the necessary independent monitoring required and that project assurance was implemented to a reasonable degree through:

- management and executive liaison with the Contractor;
- user representation on the Board and general consideration at Board meetings;
- management and executive input and consultation;
- general consideration of risks at Board meetings including a number of specific agenda items.

Notwithstanding this, the Department advised of their intended adoption of more formal processes through the engagement of an independent contractor to assist in monitoring and addressing project risks.

Project Status

Audit noted that key milestones in the delivery of the project have been delayed significantly and there were, at the time of the audit, a number of unresolved issues surrounding the functionality of the system.

In June 2003, as a result of concerns over delays in project delivery, the Department appointed an independent contractor to conduct a major review of the WILMA project. Coinciding with the review process, a number of key project positions were terminated or vacated. The future direction of the project and the appointment of officers to key project positions were deferred until the completion of the independent review.

Results of the Independent Review conducted July 2003

The report of the independent reviewer concluded that 'unless significant and immediate corrective action is taken the WILMA project is at high risk of non-completion within its existing budget.' The main sources of concern for the project presenting the most risk were detailed as:

- 'business requirements have not been adequately reflected in the formal documentation provided throughout the project';
- 'contract terms and conditions are not currently favourable for timely implementation of a satisfactory system';
- 'project and relationship management is currently not conducive to collaborative corrective action.'

The independent review recommended that the Department 'develop and agree a detailed project plan for completion including costs and methods' to be used 'as the basis for a decision whether to proceed or not and under what conditions.'

Audit noted that in August 2003 the independent reviewer was awarded a contract regarding services for WILMA project viability and management including the development of a project implementation plan.

Fixed Assets

In previous years, Audit reported that certain assets had been identified by DWLBC and its predecessor agency, the Department for Water Resources, but not recognised in their accounts, as uncertainty existed over where control and ownership rested and the appropriate entity that should recognise them. Examples of these assets included infrastructure assets associated with the River Murray (evaporation basins, locks, weirs, etc), metropolitan drainage assets and Linear Park. Due to the potential significance of these assets the Independent Audit Reports on the financial statements for DWLBC and the Department for Water Resources, were qualified in 2000-01 and 2001-02.

Audit's review of asset balances during 2002-03 included an assessment of work undertaken by DWLBC to clarify these ownership and control issues. The major items of significance are discussed briefly below.

Assets Recognised for the First Time

DWLBC's review into assets controlled has resulted in the first time recognition of a number of assets in the Department's financial statements. Accounting for the take up of these assets has resulted in a fundamental error recognised in the Department's Statement of Financial Performance. For further detail reference should be made to Note 20 to DWLBC's Financial Statements.

Metropolitan Drainage Scheme Assets

The metropolitan drainage schemes include the River Torrens, River Sturt and Brownhill and Keswick Creeks. In April 1997, Cabinet recommended that, with the agreement of relevant Ministers, certain functions deemed to be Community Service Obligations, be transferred from SA Water Corporation to the then Minister for Environment and Natural Resources. While the Cabinet submission was clear in the intention to transfer metropolitan drainage schemes, the Department has advised that the transfer has not been effected.

It is therefore understood that the Department does not currently own or control the metropolitan drainage assets and as a consequence has not recognised them in the financial statements. The Department has advised of their correspondence with SA Water Corporation to enable the clear identification of the assets and their respective conditions and to progress the transfer. At the time of preparing this Report, the transfers had yet to be effected.

River Murray Structures (Locks, Weirs, Barrages and Saline Water Disposal Basins)

A number of structures along the River Murray, including locks, weirs, barrages and specific saline water disposal basins were constructed under the Murray Darling Basin Agreement. Audit has been advised by the Department that the Murray Darling Basin Commission (MDBC) exercises effective control of these assets.

The Murray Darling Basin Agreement specifies that the State cannot undertake any work or other actions in relation to these assets without the permission of the MDBC. As South Australia does not have the capacity to dominate the decision making of the Commission, DWLBC, as the lead agency responsible for the State's water resource management, does not have control over these assets. Consequently, the Department has not recognised these River Murray structures in their financial statements.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

Due to the creation of DWLBC in 2002, revenues, expenses and the resulting surplus figures for 2002 reflect results of a part year period from 8 April 2002 to 30 June 2002. As a consequence 2002 and 2003 revenue, expense and surplus figures are not directly comparable.

	2003 \$'million	2002 \$'million	Percentage Change
REVENUE			
Government Appropriations	54.8	5.3	N/A
Grants	28.9	8.5	N/A
Fundamental Error	18.9	-	N/A
Transfers	8.4	30.1	N/A
Other	9.1	4.3	N/A
Total Revenue	120.1	48.2	N/A
EXPENDITURE			
Employment expenses	25.7	5.3	N/A
Grants and subsidies	35.3	5.5	N/A
Other expenses	38.3	10.3	N/A
Total Expenses	99.3	21.1	N/A
Surplus from Ordinary Activities*	20.8	27.1	N/A
Net Cash Flows from Operations	7.0	5.5	27
ASSETS			
Current assets	12.5	9.1	37
Non-current assets	49.2	27.6	78
Total Assets	61.7	36.7	68
LIABILITIES			
Current liabilities	5.7	4.5	27
Non-current liabilities	5.7	5.1	12
Total Liabilities	11.4	9.6	19
EQUITY	50.3	27.1	86

* The surplus/deficit includes some non-operating items.

Statement of Financial Performance

Revenues

Changes in revenues from 2002 to 2003 to a large extent reflect the full year effect of restructuring arrangements.

A number of significant revenues in 2002-03 related to non-operating items, in particular the items related to:

- a fundamental error amounting to \$18.9 million relating to assets recognised for the first time. Reference should be made to Note 20 of DWLBC's financial statements;
- transfer of opening cash balances from PIRSA amounting to \$8.7 million. Reference should be made to Note 12 of DWLBC's financial statements.

Expenses

Changes in expenses from 2002 to 2003 to a large extent reflect the full year effect of restructuring arrangements.

Grants and Subsidies totalling \$35.3 million account for 36 percent of DWLBC expenditure. Of this 46 percent, \$16.4 million, relates to the State's contributions to the Murray Darling Basin Commission under an agreement established in 1992.

Included within goods and services expenses is \$20.3 million paid to contractors. Major items of this expenditure include:

- payments associated with the rehabilitation of the Loxton irrigation district amounting to \$7 million;
- payments to PIRSA's Rural Solutions Group for technical work undertaken in relation to National Action Plan for Water Quality and Salinity and Natural Heritage Trust projects amounting to \$4.3 million.

Surplus from Ordinary Activities

Surplus from ordinary activities amounted to \$20.8 million. Of this surplus, \$18.9 million is attributable to assets recognised for the first time (fundamental error) and \$8.4 million attributable to a transfer of net assets. Disregarding these items the Department's result for 2002-03 would be a deficit of \$6.5 million.

Statement of Financial Position

Property, plant and equipment has increased by \$21.5 million, due mainly to recognition of assets for the first time amounting to \$18.9 million. These assets include the recognition of salinity disposal schemes amounting to \$8.4 million and the Patawalonga Seawater Circulation and Barcoo assets amounting to \$9.3 million.

Total restrictions on contributions received as at 30 June 2003 amount to \$7.2 million (refer Note 27 of DWLBC's financial statements).

Statement of Cash Flows

The following table summarises the net cash flows for the two years to 2003.

	2003 \$'million	2002 \$'million
Net Cash Flows		
Operations	7.0	5.5
Investing	(2.5)	(1.1)
Change in Cash	4.5	4.4
Cash at 30 June	8.9	4.4

The analysis of cash flows shows that cash increased by \$4.5 million. Of total cash receipts, \$8.7 million related to cash transferred from PIRSA. Disregarding this transfer, net cash would have decreased by \$4.2 million.

Administered Items

Included in items recorded as administered by DWLBC are the results and cash position in relation to the State's involvement in the National Action Plan for Salinity and Water Quality (NAP). Under an agreement between the Commonwealth Government and the State, the NAP aims to enable action to:

- prevent, stabilise and reverse trends in salinity, particularly dry-land salinity, affecting the sustainability of production, the conservation of biological diversity and the viability of infrastructure;
- improve water quality and secure reliable allocations for human uses, industry and the environment.

The NAP items administered by DWLBC include appropriation revenues, \$8.6 million, grant revenues, \$16.2 million, grant expenses, \$17.3 million and cash balances, \$13.3 million.

Statement of Financial Performance for the year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee costs	4(a)	25 667	5 255
Goods and services	5	35 685	10 062
Grants and subsidies	6	35 287	5 452
Depreciation	7	1 653	290
Bad and doubtful debts		303	-
Net loss on disposal of non-current assets	19	745	-
Total Expenses		99 340	21 059
REVENUES FROM ORDINARY ACTIVITIES:			
User charges and fees	8	7 674	3 884
Grants	9	28 913	8 520
Interest and other revenues	10	1 379	390
Total Revenues		37 966	12 794
NET COSTS OF SERVICES		(61 374)	(8 265)
REVENUES FROM GOVERNMENT:			
Recurrent appropriation		54 826	4 895
Accrual appropriation		-	62
Contingency provision grants		12	311
Total Revenues from Government	11	54 838	5 268
Fundamental error - assets recognised for the first time	2(d), 20	18 910	-
TRANSFERS:			
Transfers from the Department for Environment and Heritage		(257)	-
Transfers from the former Department for Water Resources		-	28 788
Transfers from the Department of Primary Industries and Resources		8 650	1 278
Net Revenue from Restructure	12	8 393	30 066
SURPLUS FROM ORDINARY ACTIVITIES		20 767	27 069
Increase in Asset Revaluation Reserve	18	2 482	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		23 249	27 069

**Statement of Financial Position
as at 30 June 2003**

	Note	2003 \$'000	2002 \$'000
CURRENT ASSETS:			
Cash on hand and deposits	2(j),13	8 852	4 435
Receivables	14	3 099	4 100
Inventory	2(f)	492	475
Other		40	45
Total Current Assets		12 483	9 055
NON-CURRENT ASSETS:			
Property, plant and equipment	15,16	49 187	27 644
Total Non-Current Assets		49 187	27 644
Total Assets		61 670	36 699
CURRENT LIABILITIES:			
Creditors and accruals	17	4 026	3 255
Provision for employee benefits	4(b)	1 626	1 280
Total Current Liabilities		5 652	4 535
NON-CURRENT LIABILITIES:			
Creditors and accruals	17	661	604
Provision for employee benefits	4(b)	5 039	4 491
Total Non-Current Liabilities		5 700	5 095
Total Liabilities		11 352	9 630
NET ASSETS		50 318	27 069
EQUITY:			
Accumulated surplus	18	47 836	27 069
Asset revaluation reserve	18	2 482	-
TOTAL EQUITY		50 318	27 069

**Statement of Cash Flows
for the year ended 30 June 2003**

	Note	2003 Inflows (Outflows) \$'000	2002 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
PAYMENTS:			
Employee costs		(24 996)	(4 915)
Goods and services		(34 928)	(14 134)
Grants and subsidies		(35 287)	(5 452)
GST paid on purchases		(2 442)	(781)
GST paid to the ATO		(47)	-
Total Payments		(97 700)	(25 282)
RECEIPTS:			
User charges and fees		8 838	1 669
Grants		28 913	8 520
Interest		467	272
Other receipts		942	180
GST receipts on sales		977	297
GST receipts from the taxation authority		1 017	368
Total Receipts		41 154	11 306
CASH FLOWS FROM GOVERNMENT:			
Appropriation		54 838	5 268
Transfers from other Government agencies		8 663	14 251
Total Receipts from Government		63 501	19 519
Net Cash provided by Operating Activities	21	6 955	5 543
CASH FLOWS FROM INVESTING ACTIVITIES:			
PAYMENTS:			
Property, plant and equipment		(2 538)	(1 108)
Net Cash used in Investing Activities		(2 538)	(1 108)
NET INCREASE IN CASH HELD		4 417	4 435
CASH AT 1 JULY	13	4 435	-
CASH AT 30 JUNE		8 852	4 435

**Program Schedule of Expenses and Revenues
for the year ended 30 June 2003**

	Policy Planning & Coordination \$'000	Natural Resource Mgmt \$'000	Natural Resource Science & Information \$'000	2003 Total \$'000
EXPENSES FROM ORDINARY ACTIVITIES:				
Employee costs	4 877	13 860	6 930	25 667
Goods and services	5 710	22 838	7 137	35 685
Grants and subsidies	1 411	33 876	-	35 287
Depreciation	-	1 653	-	1 653
Bad and doubtful debts	182	-	121	303
Net loss on disposals of non-current assets	-	745	-	745
Total Expenses	12 180	72 972	14 188	99 340
REVENUES FROM ORDINARY ACTIVITIES:				
Appropriation	6 581	40 580	7 677	54 838
User charges and fees	4 604	-	3 070	7 674
Grants	1 446	26 310	1 157	28 913
Interest and other revenues	69	1 255	55	1 379
Total Revenues	12 700	68 145	11 959	92 804
GAIN (LOSS) RESULTING FROM ORDINARY ACTIVITIES	520	(4 827)	(2 229)	(6 536)
Fundamental error - Assets recognised for the first time	-	18 910	-	18 910
TRANSFERS:				
Transfers from the Department for Environment and Heritage	(31)	(190)	(36)	(257)
Transfers from Department of Primary Industries and Resources	-	8 650	-	8 650
Total	(31)	8 460	(36)	8 393
SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES	489	22 543	(2 265)	20 767

Schedule of Administered Items for the year ended 30 June 2003

	2003						
	Catchmt Water Mgmt Board Levies \$'000		Qualco Sunlands \$'000	Penalty Charges \$'000	Arid Areas Catchmt Water Mgmt Boards \$'000	Resources Water Levy Fund \$'000	South Eastern Water Consvtn Drainage Board \$'000
ADMINISTERED ASSETS AND LIABILITIES:							
ASSETS:							
Cash on hand and on deposit	1 695	446	590	630	-	(213)	(18)
Accruals and prepayments	3	2	-	2	-	-	-
Current receivables	532	18	2 327	7	3	183	18
Non-Current assets	-	-	-	-	-	-	-
Total Assets	2 230	466	2 917	639	3	(30)	-
LIABILITIES:							
Current creditors and accruals	1 575	509	379	13	-	32	-
Current provision for employee benefits	-	-	-	43	-	55	-
Non-Current creditors and accruals	-	-	-	-	-	-	-
Non-Current provisions for employee benefits	-	-	-	25	-	153	-
Total Liabilities	1 575	509	379	81	-	240	-
NET ADMINISTERED ASSETS	655	(43)	2 538	558	3	(270)	-
ADMINISTERED REVENUES AND EXPENSES:							
EXPENSES FROM ORDINARY ACTIVITIES:							
Employee costs	-	-	-	319	-	813	-
Goods and services	-	188	-	194	-	16	-
Grants and subsidies	-	125	-	1	-	-	-
Amounts remitted to and due to Consolidated Account	-	446	379	-	-	-	-
Amounts remitted and due to Catchment Water Management Boards	7 128	-	-	-	-	-	-
Amounts remitted to South Eastern Water Conservation Drainage Board	-	-	-	-	-	1 586	-
Total Expenses	7 128	759	379	514	-	2 415	-
REVENUES FROM ORDINARY ACTIVITIES:							
Appropriations	-	250	-	400	-	1 586	-
Grants	-	-	-	-	-	-	-
User charges and fees	5 755	188	379	6	-	-	-
Other revenues	20	22	-	33	-	982	-
Total Revenues	5 775	460	379	439	-	2 568	-
NET REVENUES (EXPENSES) FROM ORDINARY ACTIVITIES	(1 353)	(299)	-	(75)	-	153	-

Schedule of Administered Items for the year ended 30 June 2003 (continued)

	Native Vegetation Fund \$'000	Pastoral Board \$'000	Natural Heritage Trust Grants \$'000	National Action Plan for & Water Salinity Quality \$'000	Soil Consvtn and Landcare \$'000	2003 Total \$'000	2002 Total \$'000
ADMINISTERED ASSETS AND LIABILITIES:							
ASSETS:							
Cash on hand and on deposit	510	-	11 949	13 289	25	28 903	14 825
Accruals and prepayments	1	-	-	-	-	8	-
Current receivables	816	-	-	-	-	3 904	3 109
Non-Current assets	-	*28 600	-	-	-	28 600	23 583
Total Assets	1 327	28 600	11 949	13 289	25	61 415	41 517
LIABILITIES:							
LIABILITIES:							
Current creditors and accruals	342	-	-	-	-	2 850	2 373
Current provision for employee benefits	-	-	-	-	-	98	61
Non-Current creditors and accruals	-	-	-	-	-	-	23
Non-Current provisions for employee benefits	-	-	-	-	-	178	173
Total Liabilities	342	-	-	-	-	3 126	2 630
NET ADMINISTERED ASSETS	985	28 600	11 949	13 289	25	58 289	38 887
*Pastoral land increased by \$5 million as a result of revaluation.							
ADMINISTERED REVENUES AND EXPENSES:							
EXPENSES FROM ORDINARY ACTIVITIES:							
Employee costs	-	-	-	-	-	1 132	1 366
Goods and services	2	-	-	2	-	402	422
Grants and subsidies	1 206	-	10 397	17 308	-	29 037	27 237
Amounts remitted to and due to Consolidated Account	-	-	-	-	-	825	774
Amounts remitted and due to Catchment Water Management Boards	-	-	-	-	-	7 128	5 141
Amounts remitted to South Eastern Water Conservation Drainage Board	-	-	-	-	-	1 586	1 551
Total Expenses	1 208	-	10 397	17 310	-	40 110	36 491
REVENUES FROM ORDINARY ACTIVITIES:							
Appropriations	825	9	-	8 554	-	11 624	9 529
Grants	36	-	16 313	16 248	-	32 597	28 549
User charges and fees	85	-	-	-	-	6 413	7 992
Other revenues	86	-	-	172	1	1 316	887
Total Revenues	1 032	9	16 313	24 974	1	51 950	46 957
NET REVENUES (EXPENSES) FROM ORDINARY ACTIVITIES	(176)	9	5 916	7 664	1	11 840	10 466

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Departmental Objectives

The objectives of the Department of Water, Land and Biodiversity Conservation are to:

- Influence perceptions, understandings and behaviours to achieve better use and management of the State's natural resources;
- Understand the natural resource condition by monitoring, assessment and reporting;
- Create a culture of excellence in which we attract, grow and promote skills, knowledge and enthusiasm within and outside the organisation;
- Build informed resources partnerships to adopt sustainable resource management;
- Restore, maintain and enhance healthy ecosystems that provide the service and intrinsic value for the community; and
- Create and sustain a highly responsive, ethical and accountable organisation that applies sound management practices.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report which has been prepared in accordance with the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards, Statements of Accounting Concepts and Urgent Issues Group Consensus Views (UIG's). The financial statements are prepared on the accrual basis of accounting and in accordance with historical cost convention, except for certain types of physical non-current assets which are valued at fair value.

The Statement of Financial Performance, Statement of Cash Flows and the Program Schedule report the financial activities from 1 July 2002 to 30 June 2003. The Statement of Financial Position and the Schedule of Administered Items reports financial activity for the 12 months ending 30 June 2003

(b) The Reporting Entity

The financial activities of the Department are primarily conducted through a Special Deposit Account established pursuant to section 8 of the *Public Finance and Audit Act 1987* and held with the Department of Treasury and Finance.

The Department's sources of funds consist of monies appropriated by Parliament together with grants revenue and income derived from user charges and fees for services to the public and industry.

Administered Activities

The Department administers, but does not control, certain activities on behalf of the South Australian Government. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy the resources for achievement of the Department's objectives. For these activities, the Department acts on behalf of the South Australian Government.

Transactions and balances relating to administered resources are not recognised as Departmental assets, liabilities, revenues or expenses, but are disclosed separately in the Schedule of Administered Items.

(c) Income Recognition

All revenue is recognised when the Department obtains control over the cash. User charges and fees collected by the Department but not controlled by it are not recognised as revenues, but are reported as administered revenues in the schedule of administered items. Such amounts are paid to the consolidated account or other funds not controlled by the Department.

(d) Non-Current Assets

The Statement of Financial Position includes those non-current assets where identification, ownership, control and valuations can be reliably determined. The scope of assets owned or under the control of the Department was reviewed during 2002-03. The review identified certain assets under the Department's control which were not previously recognised. These assets have been valued and are now included in the Statement of Financial Position. This has resulted in the recognition of a fundamental error of \$18.9 million in the Statement of Financial Performance for the year ended 30 June 2003.

The Department has adopted an asset capitalisation threshold of \$5 000. Minor assets with an individual value of less than \$5 000 are expensed in the Statement of Financial Performance at the time they are acquired. The capitalisation threshold has not been applied to the Groundwater Monitoring Wells and the Hydrometric Stations due to the significant number and long useful lives of the assets contained within these classes. All assets for these classes have been recognised in the Statement of Financial Position regardless of their initial cost of acquisition.

All items of property, plant and equipment controlled by the Department have been brought to account at current cost, with assets other than land, being reduced to reflect the portion of economic benefits that had been consumed since the asset was acquired, ie fair value.

Fair Value has been determined using deprival value methodology, whereby assets are valued at the replacement cost of procuring assets with similar functions and which provide comparable future service potential.

Assets Recognised for the First Time and Asset Revaluations

Patawalonga Seawater Circulation & Barcoo

The Glenelg barrage gates, Weir No 1 and the floating boom have been recognised at construction cost as at 30 June 2003 (\$9 272 000). The Barcoo asset component was recognised in 2001-02. Refer to Note 20.

Salinity Disposal Schemes

The Noora Drainage Disposal Scheme has been recognised for the first time at fair value as at 30 June 2003 (\$8 400 000). Refer to Note 20.

Hydrometric Gauging Stations

A complete assessment of the Hydrometric Gauging Stations was undertaken as at 30 June 2003. This assessment was performed using technically qualified Department personnel and this resulted in no change to the assets fair value. Some Hydrometric Gauging Stations were recognised for the first time. Refer to Note 20.

Land and Buildings

Land and buildings have been independently valued by Valcorp Pty Ltd as at 30 June 2003. The Department has commenced a cyclical valuation process for valuing all land and buildings.

Groundwater Monitoring Wells

A revaluation of the Groundwater Monitoring Wells (formerly known as the Borehole Network) was undertaken as at 30 June 2003. These assets were valued internally using technically qualified Department personnel.

Waste Disposal Stations

The houseboat Waste Disposal Stations were independently valued by Valcorp Pty Ltd as at 30 June 2003.

Plant and Equipment

Plant and equipment are brought to account at cost or at officers' valuation for initial recognition purposes. As a result of a review conducted by Departmental staff, some plant and equipment were recognised for the first time (\$234 000).

Assets Not Recognised

Murray Darling Basin Commission (MDBC)

Under the *Murray Darling Basin Act 1993*, the MDBC controls the assets in South Australia including Locks 1 to 9 on the River Murray, the barrages at the Murray Mouth, the Lake Victoria works, Woolpunda and Waikerie Salinity Interception Works and the associated drainage basin. The South Australian Government has an interest in these assets (and all of the assets controlled by the MDBC) through the funding provided to the Commission for the construction of the assets and through its involvement in the operation of the Commission.

Lower Murray Government Irrigation Scheme (LMGIS)

The LMGIS consists of irrigation and drainage infrastructure which enable dairy farmers in the Lower Murray region to use swamps along the river productively. The River Murray Water Allocation Plan provides for the implementation of new water entitlements and environmental standards which can only be achieved by the rehabilitation of the existing infrastructure.

A scheme to rehabilitate the infrastructure is currently being negotiated with the affected landholders. The rehabilitation work is expected to occur over the next four years. As each swamp is rehabilitated, it is intended the infrastructure will be handed over to a private irrigation trust for management and operation. Given the restricted life of the existing infrastructure, the future economic benefit is likely to be relatively low. Accordingly a value has not been assigned for the purpose of financial reporting.

(e) Depreciation

All items of property, plant and equipment, with the exception of land, have a limited useful life and are systematically depreciated in a manner that reflects the consumption of service potential. The depreciation rates are reviewed annually. No depreciation is applied to capital work in progress.

Assets are subject to straight line depreciation over the following periods:

	Years
Buildings	40-60
Groundwater Monitoring Wells	30
Patawalonga Seawater Circulation and Barcoo	25-50
Hydrometric Gauging Stations	4-95
Waste Disposal Station	50
Salinity Disposal Schemes	40
Plant and equipment	3-30

(f) Inventories

Inventories are measured at the lower of cost or net market value. Inventories include plants and materials held by State Flora.

(g) Employee Benefits

(i) Sick Leave

The Department's employees' entitlement to sick leave is non-vesting. Sick leave is only recognised as a liability at reporting date to the extent it is probable that sick leave expected to be taken in future periods will be greater than entitlements which are expected to accrue in those periods. No sick leave liability has been recorded as it is probable that sick leave taken in future periods will be less than the sick leave benefits accrued in those periods.

(ii) Annual Leave

In accordance with Accounting Standard AASB 1028 'Employee Benefits', on 1 July 2002 the Department changed its policy for recognising provisions for annual leave. Under the new policy the amount of the provision is calculated using the remuneration rate expected to apply at the time of settlement, rather than the remuneration that applies at reporting date. The estimated rate of inflation is 4 percent.

(iii) Long Service Leave

A liability for long service leave is calculated by using the product of the current liability for all employees who have completed seven or more years of service and the current rate of remuneration for each of these employees respectively. The seven years has been based on an actuarial calculation as directed in Accounting Policy Statements. The liability is measured as the amount unpaid at the reporting date.

- (iv) **Employee Benefit On-Costs**
Related on-costs of payroll tax and superannuation are recorded under the item payables for any annual and long service leave accrued at the end of the year.
- (v) **Superannuation**
Contributions are made by the Department to several superannuation schemes operated by the South Australian Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability outstanding at balance date relates to any contribution due but not yet paid to the superannuation schemes. The Department made contributions of \$2.3 million for the 2002-03 financial year.
- (vi) **Workers Compensation**
A provision is raised to reflect the liability for any outstanding (unsettled) workers compensation claims for lump sum payments, adjusted for potential recoveries from negligent third parties. It is based on an actuarial assessment prepared for the Department of Premier and Cabinet.

These figures reflect an apportionment of the whole-of-government estimate of workers compensation liability, according to the Department's experience of claim numbers and payments.

The whole-of-government estimate can be found in a report prepared by Taylor Fry Pty Ltd, consulting actuaries, and submitted to the Public Sector Occupational Health and Injury Management Branch of the Department of the Premier and Cabinet. This report conforms to the WorkCover Guidelines for Actuaries, Australian Accounting Standard AAS 26 'Financial Reporting of General Insurance Activities' and Professional Standard PS 300 'Actuarial Reports and Advice on Outstanding Claims in General Insurance' of the Institute of Actuaries of Australia.

(h) **Leases**

The Department has entered into non-cancellable operating lease agreements for office accommodation where the lessor effectively retains all of the risks and benefits incidental to ownership of the items held under the operating lease. Refer to Note 22 for further details.

Operating lease payments are representative of the pattern of benefit derived from the leased assets and accordingly are charged to the Statement of Financial Performance in the periods in which they are incurred.

The Department has not entered into any finance leases.

(i) **Provision for Doubtful Debts**

The provision for doubtful debts has been calculated as a percentage of all receivables, together with an allowance for specific debts that are unlikely to be collected.

(j) **Cash**

For the purpose of the Statement of Cash Flows, cash includes cash deposits which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis. Cash includes \$123 000 (\$123 000) in accrual appropriation and its use is restricted by conditions established by the Treasurer.

(k) **Goods and Services Tax**

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as a part of the cost of acquisition of the asset, or as part of the expense item. All GST remitted to and received from the ATO in relation to the Sustainable Resources Group has been accounted for by the Department of Primary Industries and Resources. The Sustainable Resources Group of the Department is a member of a GST group. Under these grouping arrangements, one group member, Primary Industries and Resources (PIRSA), is responsible for the collection of GST on sales and payment of GST on purchases and received/paid monies relating to the Australian Taxation Office for all members. The Department does not recognise an asset or liability relating to GST on Sustainable Resources Group transactions in its Statement of Financial Position (or GST received/paid in the Statement of Cash Flows) as they are recognised by PIRSA.

The net amount of GST recoverable or payable to the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis.

(l) **Comparative Figures**

The Department was established on 8 April 2002. Therefore, comparative information for the 2001-02 reporting period is for the period 8 April to 30 June 2002 only.

(m) **Rounding**

All amounts are rounded to the nearest thousand dollars.

3. **Programs of the Department**

The Department has specified three major Programs that it delivers to the community and the Minister for Environment and Conservation. The identity and description of each major Program of the Department are summarised below (refer to the Program Schedule of Operating Expenses and Revenues).

Program 1 Policy, Planning and Coordination

Natural resource planning: coordination of whole-of-government initiatives or services as well as policy advice and development for and on behalf of the Minister.

Program 2 Natural Resource Management

Natural resource management services including the administration of natural resources legislation, restoration and maintenance of ecosystems and resource licensing.

Program 3 Natural Resource Science and Information

Natural resource science and information services including monitoring the condition of natural resources and the provision of technical advice and information.

4. Employee Benefits		2003	2002
(a) Employee Costs		\$'000	\$'000
Wages, salaries and other employee related expenses		23 249	4 855
Workers Compensation		98	-
Superannuation		2 320	400
		25 667	5 255
(b) Employee Benefits Liability			
Current Liabilities:			
Long service leave		206	183
Annual leave		1 384	1 069
Workers Compensation		36	28
		1 626	1 280
Non-Current Liabilities:			
Long service leave		4 943	4 399
Workers Compensation		96	92
		5 039	4 491
(c) Employee Benefits and Related On-Cost Liabilities			
In accordance with the requirements of AASB 1028 'Employee Benefits' employee on-costs are required to be reported as payables whilst leave liability amounts are reported separately as 'Employee Benefits'. Below is a composite note disclosure showing the total liabilities the Department has at 30 June 2003 relating to employee benefits:			
		2003	2002
		\$'000	\$'000
Annual Leave:			
On-costs (Note 17)		185	142
Provision for employee benefits (Note 4b)		1 385	1 069
		1 570	1 211
Long Service Leave:			
On-costs - Current (Note 17)		22	20
Long service leave - Current (Note 4b)		206	183
		228	203
On-costs - Non-Current (Note 17)		661	604
Long service leave - Non-Current (Note 4b)		4 943	4 399
		5 604	5 003
		7 402	6 417
5. Goods and Services			
Goods and service expenses for the reporting period comprised of:			
Contractor expenses		20 335	6 038
Accommodation and service expenses		1 750	413
Travel and accommodation		1 173	247
Materials and consumables		1 294	408
Computing expenses		1 271	593
Service Level Agreement		1 372	663
Minor plant and equipment purchases		1 057	447
Vehicle operating expenses		1 660	290
Printing, publishing and stationery		847	113
Telephones		619	85
Equipment repairs and maintenance		546	125
Consultancies		455	122
Legal fees		221	36
Chemical analysis		179	79
Advertising, exhibition and promotional expenses		417	187
Audit remuneration		105	10
Maps, photographs and plans		114	153
Other		2 270	53
		35 685	10 062
6. Grants and Subsidies			
Grants and subsidies for the reporting period comprised:			
Transfer to Murray Darling Basin Commission		16 376	-
Animal and Plant Control Commission		3 565	-
Agriculture, Fisheries, Forestry Australia (AFFA)		2 005	-
GH Michell Trade Waste Subsidy		1 670	265
Grants - Mt Lofty Ranges Catchment Program		1 615	-
Great Artesian Basin Bore-drain*		1 431	408
Catchment Management Subsidy Scheme		1 302	1 591
Loxton Irrigation Trust		964	452
Lower Murray Reclaimed Irrigation Area		694	-
Murray Darling 2001 Grants		500	-
Dog Fence Board		382	-
Mount Lofty Ranges Investigation		339	-

6. Grants and Subsidies (continued)	Note	2003 \$'000	2002 \$'000
Regional Flood Mitigation Program		218	163
CSIRO		141	-
Lake Eyre Basin (Environment Australia)		125	-
Centre for Groundwater Studies		100	50
Gawler River Flood Mitigation		-	278
Miscellaneous grants		3 860	2 245
		35 287	5 452
* This amount was granted by way of work undertaken for the project, ie contribution of assets.			
7. Depreciation			
Depreciation expenses for the reporting period were charged in respect of:			
Building improvements		35	5
Groundwater Monitoring Wells		289	72
Hydrometric Gauging Stations		76	20
Waste Disposal Stations		60	15
Patawalonga Seawater Circulation & Barcoo		534	87
Salinity Disposals Schemes		141	-
Plant and equipment		518	91
		1 653	290
8. User Charges and Fees			
User charges and fees for the reporting period comprised:			
Sale of goods and services		5 113	3 649
Fees, levies and licences		1 811	235
Pastoral rents		674	-
Other revenue		76	-
		7 674	3 884
9. Grants			
Grant revenue for the reporting period comprised:			
National Action Plan		13 934	1 885
Natural Heritage Trust		3 856	-
Loxton District Irrigation Rehabilitation		3 495	4 596
Branched Broomrape Eradication Program		2 097	-
SA Murray Darling Basin INRM Group Inc		1 045	-
Environmental Flows (Environment Australia)		389	421
Great Artesian Basin (AFFA)		550	400
Padthaway: Salt Accession Investigations (SENRC)		250	-
Regional Flood Mitigation Program		-	146
Sundry grants and contributions received		3 297	1 072
		28 913	8 520
10. Interest and Other Revenues			
Interest and other revenues for the reporting period comprised:			
Salaries and wages recouped		447	87
Interest income		436	210
Other revenue		496	93
		1 379	390
11. Revenues from Government			
Recurrent appropriation		54 826	4 895
Accrual appropriation		-	62
Contingency provision grants		12	311
		54 838	5 268
12. Transfers as a Result of Restructure			
Transfers from the Department for Environment and Heritage:			
Net assets transferred to the Department:			
Cash		13	-
Receivables		1	-
Property, plant and equipment		56	-
		70	-
Net liabilities transferred to the Department:			
Payables		(59)	-
Provision for employee benefits		(268)	-
		(327)	-
Net transfers from the Department for Environment and Heritage	(i)	(257)	-
Transfers from the Department for Water Resources:			
Net assets transferred to the Department:			
Cash		-	14 251
Receivables		-	1 830
Other current assets		-	33
Property, plant and equipment		-	24 439
		-	40 553

12. Transfers as a Result of Restructure (continued)			2003	2002
Net liabilities transferred to the Department:	Note		\$'000	\$'000
Payables			-	(7 819)
Provision for employee benefits			-	(3 946)
			<u>-</u>	<u>(11 765)</u>
Net transfers from the Department for Water Resources	(ii)		<u>-</u>	<u>28 788</u>
Transfers from the Department of Primary Industries and Resources:				
Net assets transferred to the Department:				
Cash			8 650	-
Inventory			-	598
Property, plant and equipment			-	2 387
			<u>8 650</u>	<u>2 985</u>
Net liabilities transferred to the Department:				
Payables			-	(184)
Provision for employee benefits			-	(1 523)
			<u>-</u>	<u>(1 707)</u>
Net transfers from the Department of Primary Industries and Resources	(iii)		<u>8 650</u>	<u>1 278</u>
Total Transfers			<u>8 393</u>	<u>30 066</u>

- (i) In 2002-03 the assets and liabilities transferred from the Department of Environment and Heritage (DEH) represents amounts agreed to between the two agencies. The transfer related to the Biodiversity Division of DEH.
- (ii) The Department was established as an Administrative Unit under the *Public Sector Management Act 1995* by the Proclamation in the Government Gazette dated 8 April 2002. The Department was created from the functions transferred from the former Department for Water Resources and the Sustainable Resources Group from the Department of Primary Industries and Resources (PIRSA).
- (iii) During 2002-03 negotiations between PIRSA and the Department were finalised with respect to the transfer of the functions of Sustainable Resources Group into the Department. This resulted in a cash transfer of \$8.65 million.

13. Financial Instruments

The following disclosures have been provided in accordance with the requirements of Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments'.

(a) Terms, Conditions and Accounting Policies

(i) *Financial Assets*

- Cash on hand and deposits are available at call and are recorded at cost.
- Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 60 days.

(ii) *Financial Liabilities*

- Trade creditors are raised for all amounts billed or ordered but unpaid. Trade creditors are normally settled within 30 days.

(b) Interest Rate Risk

	2003			Weighted Average Effective Interest Rate Percent
Financial Instrument	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	
Financial Assets:				
Cash on hand and deposits	8 852	-	8 852	4.6
Receivables	-	2 560	2 560	
	<u>8 852</u>	<u>2 560</u>	<u>11 412</u>	
Financial Liabilities:				
Trade creditors	-	(3 522)	(3 522)	
	<u>-</u>	<u>(3 522)</u>	<u>(3 522)</u>	
	2002			Weighted Average Effective Interest Rate Percent
Financial Instrument	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	
Financial Assets:				
Cash on hand and deposits	4 435	-	4 435	4.9
Receivables	-	3 841	3 841	
	<u>4 435</u>	<u>3 841</u>	<u>8 276</u>	
Financial Liabilities:				
Trade creditors	-	2 738	2 738	
	<u>-</u>	<u>2 738</u>	<u>2 738</u>	

(c) Net Fair Value

Financial Instruments are valued at the carrying amount as per the Statement of Financial Position which approximates fair value. The carrying amount of financial assets approximates net fair value due to their short term to maturity or being receivable on demand. The carrying amount of financial liabilities is considered to be a reasonable estimate of net fair value.

(d) **Credit Risk**

At the end of each reporting period these receivable balances are reviewed and a provision is raised in respect of any balance where recoverability is considered doubtful. Bad debts are written off in the period in which they are identified. Credit risk therefore is confined to the amount set aside as a provision for doubtful debts. The resulting carrying amount is considered to approximate their net fair values. The Department does not have any significant exposure to any customer, thus its credit risks are due to its customer base being influenced by the South Australian economy.

14. Receivables	2003	2002
Current:	\$'000	\$'000
User charges and fees receivable	2 558	3 808
Accrued interest	2	33
Workers Compensation recoveries	1	-
Goods and Services Tax receivable	788	293
Less: Provision for doubtful debts	250	34
	3 099	4 100

15. Property, Plant and Equipment	2003			
	Cost	Valuation	Accumulated Depreciation	Written Down Value
	\$'000	\$'000	\$'000	\$'000
Non-Current Assets:				
Land and buildings	62	2 996	10	3 048
Groundwater Monitoring Wells	-	3 276	-	3 276
Hydrometric Gauging Stations	-	4 576	1 119	3 457
Waste Disposal Stations	-	1 633	-	1 633
Patawalonga Seawater Circulation and Barcoo	16 184	9 420	737	24 867
Plant and equipment	5 631	687	4 637	1 681
Salinity Disposal Schemes	8 400	-	141	8 259
Work in progress	2 966	-	-	2 966
	33 243	22 588	6 644	49 187

For further details of valuation methodologies adopted by the Department refer to Note 2(d).

16. Property, Plant and Equipment Movement Schedule	2003				
	Land and Buildings	Groundwater Monitoring Wells	Hydrometric Gauging Station	Waste Disposal Stations	Patawalonga Seawater Circulation
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Carrying Amount:					
Balance as at 1 July 2002	2 744	8 691	3 883	2 996	16 312
Additions	-	-	1 005	250	9 292
Disposals	-	-	(312)	-	-
Net revaluation increments (decrements)	626	(5 415)	-	(1 613)	-
Transfers between classes	(312)	-	-	-	-
Balance as at 30 June 2003	3 058	3 276	4 576	1 633	25 604
Accumulated Depreciation:					
Balance as at 1 July 2002	(640)	(6 282)	(1 164)	(1 588)	(203)
Disposals	-	-	121	-	-
Net adjustments from revaluation increments (decrements)	665	6 571	-	1 648	-
Depreciation expense	(35)	(289)	(76)	(60)	(534)
Balance as at 30 June 2003	(10)	-	(1 119)	-	(737)
Net Book Value:					
As at 30 June 2003	3 048	3 276	3 457	1 633	24 867
	Plant and Equipment	Salinity Disposal Schemes	Work in Progress	2003 Total	
	\$'000	\$'000	\$'000	\$'000	
Gross Carrying Amount:					
Balance as at 1 July 2002	6 726	-	1 184	42 536	
Additions	753	8 400	1 782	21 482	
Disposals	(1 473)	-	-	(1 785)	
Net Revaluation increments (decrements)	-	-	-	(6 402)	
Transfers between classes	312	-	-	-	
Balance as at 30 June 2003	6 318	8 400	2 966	55 831	
Accumulated Depreciation:					
Balance as at 1 July 2002	(5 015)	-	-	(14 892)	
Disposals	896	-	-	1 017	
Net adjustments from revaluation increments (decrements)	-	-	-	8 884	
Depreciation expense	(518)	(141)	-	(1 653)	
Balance as at 30 June 2003	(4 637)	(141)	-	(6 644)	
Net Book Value:					
As at 30 June 2003	1 681	8 259	2 966	49 187	

17. Payables		2003	2002
Current:		\$'000	\$'000
Employee costs		504	517
Trade creditors		3 522	2 738
		<u>4 026</u>	3 255
Non-Current:			
Employee costs		661	604
		<u>661</u>	<u>604</u>
18. Accumulated Surplus			
Opening Balance		27 069	-
Surplus from ordinary activities		20 767	27 069
		<u>47 836</u>	<u>27 069</u>
Asset Revaluation Reserve:			
Groundwater Monitoring Wells		1 156	-
Land and buildings		1 291	-
Waste Disposal Stations		35	-
		<u>2 482</u>	<u>-</u>
Accumulated Surplus at 30 June		<u>50 318</u>	<u>27 069</u>
19. Net Loss from Disposal of Non-Current Assets			
Proceeds from Disposal of non-current assets		-	-
Less: Written down value of non-current assets		745	-
		<u>745</u>	<u>-</u>
20. Fundamental Error - Assets Recognised for the First Time			
Patawalonga Seawater Circulation and Barcoo		9 272	-
Salinity Disposal Schemes		8 400	-
Hydrometric Gauging Stations		1 004	-
Plant and equipment		234	-
		<u>18 910</u>	<u>-</u>
21. Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities			
Net cash provided by operating activities		6 955	5 543
Net transfers of assets to the Department		(270)	26 826
Fundamental Error - Assets recognised for the first time		18 910	-
Loss on disposal of non-current assets		(745)	-
Depreciation expense		(1 653)	(290)
Change in operating assets and liabilities:			
Increase (Decrease) in receivables		(1 001)	4 100
Increase (Decrease) in other assets		(5)	45
Increase (Decrease) in inventory		17	475
Decrease (Increase) in creditors and accruals		(813)	(3 859)
(Increase) in employee benefits		(628)	(5 771)
Surplus from Operating Activities		<u>20 767</u>	<u>27 069</u>
22. Lease Commitment			
At 30 June 2003, the Department of Water, Land and Biodiversity Conservation has the following obligations under non-cancellable operating leases:			
Not later than one year		1 600	1 000
Later than one year but not later than five years		4 459	3 419
Later than five years		2 892	2 691
		<u>8 951</u>	<u>7 110</u>
		<u>8 951</u>	<u>7 110</u>
These operating leases are not recognised in the Statement of Financial Position as liabilities. The non-cancellable leases are mainly accommodation leases with penalty clauses equal to the amount of the residual payments remaining for the term of the lease. Options exist to renew the leases at the end of the term of the leases. Leases are payable one month in advance.			
23. Remuneration of Employees		2003	2002
For the period 1 July 2002 to 30 June 2003 there were 14 employees whose remuneration received or receivable exceeded \$100 000. The number of employees whose remuneration was equal to or exceeded \$100 000 fell within the following bands:		Number of	Number of
		Employees	Employees
\$100 001 - \$110 000		4	4
\$110 001 - \$120 000		3	-
\$120 001 - \$130 000		1	4
\$130 001 - \$140 000		2	-
\$140 001 - \$150 000		1	1
\$150 001 - \$160 000		1	2
\$160 001 - \$170 000		1	-
\$170 001 - \$180 000		1	1
\$200 001 - \$210 000		-	1
		<u>14</u>	<u>13</u>
		<u>14</u>	<u>13</u>

Total remuneration paid was \$1 798 000 (\$1 745 000).

24. Payments to Consultants

Payments to consultants fell within the following bands:

	2003	2002
	Number of	Number of
	Consultants	Consultants
\$0 - \$10 000	22	23
\$10 001 - \$50 000	7	7
\$50 001 and above	3	-

25. Remuneration to Auditors

Audit fees for the period 1 July 2002 to 30 June 2003 are \$105 000.

26. Enhanced Targeted Voluntary Separation Package Scheme

There were no Enhanced Targeted Voluntary Separation Packages paid to employees between 1 July 2002 and 30 June 2003.

27. Restrictions on Contributions Received

The Department received contributions from various funding sources, expressly for the purpose of undertaking specific projects. As at 30 June 2003 \$7 200 000 (\$11 759 000) of contributions, which have been recognised as revenues in the Statement of Financial Performance, are yet to be spent in the manner specified by the contributors.

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