S O U T H   A U S T R A L I A

Report

of the

Auditor-General

for the

Year ended 30 June 2000

Tabled in the House of Assembly and ordered to be published, 28 November 2000

Fourth Session, Forty-Ninth Parliament

Supplementary Report

Agency Audit Reports

By Authority: M. G. O'Callaghan, Government Printer, South Australia

2000

Auditor-General's Department

27 November 2000

The Hon J C Irwin, MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon J K G Oswald, MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Gentlemen,

Pursuant to the provisions of section 36(3) of the *Public Finance and Audit Act 1987*, I herewith provide to each of you a copy of my Supplementary Report 'Agency Audit Reports' containing the accounts of the following public authorities which are required to be reported on by me in accordance with section 36 of the Act.

- Country Fire Service Board
- Emergency Services Administrative Unit
- Police Superannuation Scheme
- River Murray Catchment Water Management Board
- South Australian Asset Management Corporation and Its Controlled Entities
- South Australian Metropolitan Fire Service

The accounts of the aforementioned public authorities and/or their subsidiaries were not included in my Report to Parliament dated 29 September 2000 as audited financial statements were not available or the audit had not been completed at the time the September Report was being finalised.

Yours sincerely,

K I MacPherson
AUDITOR-GENERAL

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COUNTRY FIRE SERVICE BOARD

FUNCTIONAL RESPONSIBILITY

The Country Fire Service Board was established pursuant to the *Country Fires Act 1989*.

The Country Fire Service (CFS) Board is responsible to the Minister for Police, Correctional Services and Emergency Services for the administration of the *Country Fires Act 1989*. Its main functions are to:

- approve the Strategic Plan, providing clear goals and direction;
- consider business plans and approve performance measures and broad resource allocations;
- provide overall policy guidance and ensure that appropriate measures are in place to manage risk and volunteer support;
- monitor operational and financial performance, environmental and occupational health, safety and welfare performance, legal compliance and ethical behaviour.

The Board is a decentralised organisation supporting six regions.

CHANGES TO AGENCY ORGANISATIONAL STRUCTURE FROM 1 JULY 1999

During 1999-2000 there were certain factors that influenced the financial operations and management of the Country Fire Service Board (the Board).

Principal among these was the establishment of the Emergency Services Administrative Unit (ESAU) from 1 July 1999 (refer comments included under that agency elsewhere in this Report). On that date there was an effective transfer of non-operations staff from the CFS to ESAU, with the financial effect disclosed in the financial statements as an adjustment arising from restructuring (refer Note 13 to the financial statements for further details).

The concept was that ESAU would provide various services in support of the Board's primary functions, including strategic risk management, financial management and accounting services. These were subject to corporate service level agreements that existed in draft form during the latter months of the financial year and were formally ratified by the Board in July 2000. ESAU had formulated a draft Memorandum of Understanding preceding the service level agreement, but this had not been accepted by the Board.

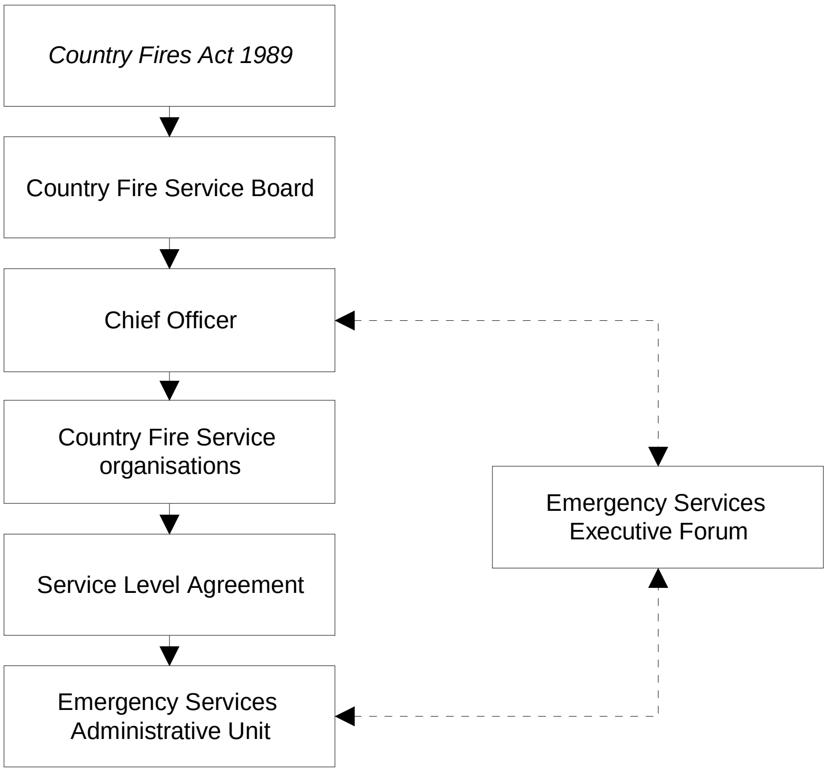
The advent of ESAU and the service level agreements resulted in a significant shift in the nature of control that the Board had over its financial management as it became reliant on information and reporting provided by ESAU.

The Emergency Services Executive Forum (the Forum) was established in response to the new agency interrelationships. The Forum comprised the chief executive officers of the CFS, the South Australian Metropolitan Fire Service (SAMFS), ESAU, and the Director, State Emergency Services (now a division of ESAU). Some of the key roles of the Forum were to ensure that emergency services operated in an integrated manner and that appropriate strategic and business plans consistent with the Government's priorities were established, maintained and implemented.

The Forum, through the Chief Executive Officer of ESAU, reported to a [Department of] Justice Leadership Team. There was in turn a lineage of reporting responsibilities from the Justice Leadership Team to the Minister for Police, Correctional Services and Emergency Services.

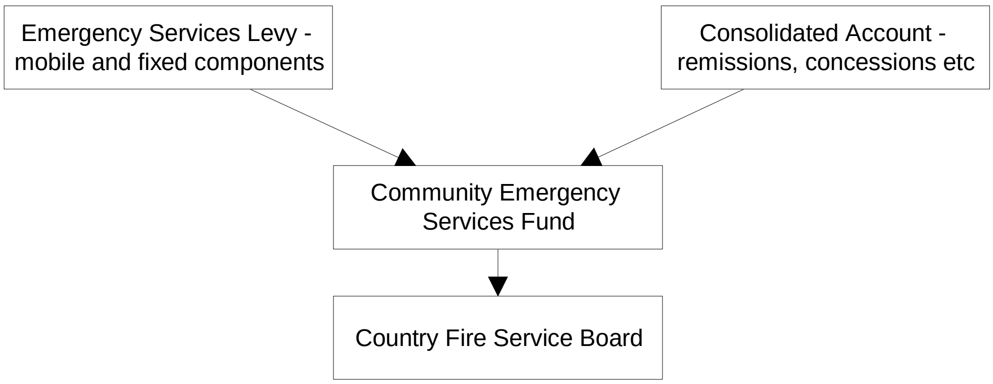
As a member of the Forum, the Chief Officer of the CFS had a responsibility to report back to the Board of which he was also a member. This introduced another tier in the decision making processes relating to the Board. It is relevant to note that while the Board is responsible to the Minister for the administration of the *Country Fires Act 1989*, it is not able to be directed by the Minister.

A diagrammatic depiction of these major relationships is as follows:



CHANGES TO AGENCY FUNDING ARRANGEMENTS FROM 1 JULY 1999

The other major development impacting on the Board's operations during the year was the revised funding for operations arising from the introduction of the Emergency Services Levy (refer to Note 1.2 to the financial statements). The Community Emergency Services Fund (the Fund) was established pursuant to section 28 of the *Emergency Services Funding Act 1998* (the Act). The relationship between the Board and the Fund is shown in the diagram hereunder:



SIGNIFICANT FEATURES

- Change in Net Assets after Restructuring was $6.3 million ($12.9 million)
- Accumulated Surplus at 30 June 2000 was $15.7 million ($9.6 million)

AUDIT MANDATE AND COVERAGE

Audit Authority

Subsection 21(3) of the *Country Fires Act 1989* provides for the Auditor-General to audit the accounts of the Board in respect of each financial year.

Scope of Audit

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

The audit approach was necessarily modified following the establishment of ESAU from 1 July 1999. In addition to the transfer of non-operations personnel, there was a transfer of all major financial and administrative systems to ESAU, with the expectation that services would be delivered consistent with underlying service level agreements, albeit that these were not formulated until late in the financial year and not ratified until July 2000.

The audit of the Board during 1999-2000 required Audit to direct much of its focus to the audit of the 'centralised accounting' structure maintained by ESAU and to test transactions at this level.

During 1999-2000 specific areas of Audit attention included:

- expenditure systems, including accounts payable and salaries and wages;
- general ledger;
- management reporting and budgetary control;
- plant and equipment, including the adequacy of asset register maintenance;
- revenue, including debtors and cash receipting;
- investments.

Audit Communications to Management

The major issues arising from the audit were included in management letters forwarded to the Chief Executive Officer of the Emergency Services Administrative Unit (ESAU). The issues focused on weaknesses in internal controls identified in respect of ESAU business systems. These matters are subject to more detailed discussion under that agency elsewhere in this Report. The audit primarily identified issues with respect to the general ledger and funding arrangements through the Community Emergency Services Fund.

The aspect of public governance remains a major consideration. Audit recognised that the Board retained ultimate responsibility for governance, notwithstanding that ESAU was primarily responsible for maintaining the key financial and management reporting systems, together with the provision of other corporate services.

The essential links between the Board and ESAU are corporate service level agreements. The responsibility for exercising appropriate controls, including adherence with the prescribed elements of the Financial Management Framework, remains shared between the two entities. While ESAU has the most direct influence over many policies and processes, it is equally important that these be monitored in terms of compliance and quality by the Board. The dichotomous nature of the Board's control framework is subject to further discussion in the section 'Commentary on General Financial Controls' hereunder.

AUDIT FINDINGS AND COMMENTS

Commentary on General Financial Controls

The results of the 1999-2000 audit of the Board identified weaknesses in the control framework, as administered by ESAU. Detailed discussion on the nature of the control weaknesses and background to these are included under that agency. The result is that the 'Controls Opinion' is qualified for the Board.

While the Controls Opinion has been qualified, Audit transactional testing did not reveal evidence of material misstatement in the financial report. There is, however, a separate issue that has led to the Independent Audit Report being qualified for the year ended 30 June 2000.

Payment of Corporate Services Charges to the Emergency Services Administrative Unit

During the reporting period the Board made a payment to the Emergency Services Administrative Unit (ESAU) for various strategic and support services delivered pursuant to a draft service level agreement between ESAU and Board (refer Note 8 to the financial statements). This payment amounted to $5 million, representing 17 percent of total operating expenses.

There was no authorisation by the Board for the payment of $5 million, nor documentation indicating a review of elements of the charge.

It is acknowledged that the formula for calculating the service charges was arbitrary in many respects, reflecting the uncertainties associated with the structural transition during 1999-2000. Audit noted the Board's actions in requesting further documentation on this matter as minuted in its meeting held in August 2000.

Financial Management Framework

The Financial Management Framework (FMF) represents a fundamental element of the Control Opinion issued by Audit. A consideration of how well the Board has progressed the implementation of the FMF must consider the influence of the Emergency Service Administrative Unit (ESAU). In this context, 1999-2000 was a transition year during which there was an evolvement in the relationship between the Board and ESAU.

This observation is important in consideration of the assessment of the Board's adherence to the prescribed principles of the FMF as required by the Treasurer's Instructions. The chief executive of each public authority must ensure that the relevant authority develops, implements and documents policies, procedures and systems which will assist accountability to be discharged in relation to:

- reporting of financial information to users of financial reports;
- application of accounting policies;
- financial management;
- internal control systems;
- business policies and practices;
- compliance with applicable laws and regulations; and
- monitoring and controlling risk.

Each of these areas was subject to the service level agreements that were ultimately agreed with ESAU in July 2000. Where weaknesses arise in respect of the control framework and other prescribed principles that govern the FMF, it is sometimes difficult to specifically attribute responsibility to either of the entities, participating in a service level agreement. In reality, the responsibility for public governance is shared between the entities. The Board, as the receiver of services, has its primary role in the monitoring and control over the deliverables emanating out of these service level agreements.

A high level review of the Board's role suggests that there were appropriate structures in place during the year notwithstanding the evolving relationship between the two entities. This was evidenced by:

- the establishment of appropriate consultative processes, such as the Emergency Services Executive Forum (referred to in preceding discussion);

- the development of a CFS strategic plan, through to 2005, key performance indicators and approved budgets;

- the move towards formal service level agreements, notwithstanding that this occurred relatively late in the financial year and that they were not ratified until July 2000;

- monitoring of performance of deliverables pursuant to the service level agreements, such as the provision and scrutiny of monthly financial reports, including operating and capital expenditures.

Similarly, ESAU had adequately defined its service level definitions and provided these to the Board in an accepted format. It would be responsible for managing a number of disparate information systems, controls, policies and procedures. These emigrated not only from the Board but from other emergency service organisations.

This presented a difficult challenge for ESAU and various control weaknesses became evident in respect of these financial management systems. These systems were diverse in terms of their software platforms, business processes, controls and degrees of data integrity. Further discussion on these matters is provided under the Emergency Services Administrative Unit elsewhere in this Report.

Valuation of Assets

The Country Fire Service Board has not been able to provide appropriate documentation to support with sufficient degree of certainty, values attributed to Property, Plant and Equipment assets. As a result, Audit was not able to determine with certainty the values of these assets in the financial report and the quantified financial effect of this on other relevant items in the Statement of Financial Position and the Operating Statement for the year ended 30 June 1999.

These circumstances again prevailed in 1999-2000 and has led to the Independent Audit Report being qualified for the year ended 30 June 2000 as noted below.

EXTRACT FROM INDEPENDENT AUDIT REPORT

With respect to my Independent Audit Report I have issued a qualified audit opinion. Relevant extracts from the Independent Audit Report are provided hereunder:

> *Qualification*
>
> *The Country Fire Service Board has not been able to provide appropriate documentation to support with a sufficient degree of certainty, values attributed to Property, Plant and Equipment assets.*
>
> *As a result I have not been able to determine with certainty the values of these assets in the accounts and the associated quantifiable effect these values have on the Statement of Financial Position and Operating Statement for 30 June 2000. The Independent Audit Report dated 23 September 1999 was similarly qualified in respect of the values attributed to Property, Plant and Equipment assets.*
>
> *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 Australian Accounting Standards and other mandatory professional reporting requirements the financial position of the Country Fire Service Board at 30 June 2000, the results of its operations and its cash flows for the year ended 30 June 2000.*

CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the Country Fire Service Board 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. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Audit formed the opinion that the controls exercised by the Country Fire Service Board 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 'Audit Findings and Comments', were sufficient to provide reasonable assurance that the financial transactions of the organisation were conducted properly and in accordance with the law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Results of Operations

The Change in Net Assets after Restructuring decreased by 51 percent to $6.3 million ($12.9 million), notwithstanding that revenues increased to $36.5 million ($27.3 million).

Operating expenses increased by $16.2 million, 112 percent, to $30.6 million ($14.4 million). A large component of these increases may be seen in terms of the charges levied by the Emergency Services Administrative Unit of $5.1 million and Government radio network costs of $9.2 million.

Other operational, administration and general expenses also increased significantly. This increase was due mainly to the transfer of responsibilities from local government entities to the Board for appliance, fire station, fire fighting and rescue equipment maintenance.

Statement of Financial Position

As at 30 June 2000, CFS had net assets of $18.2 million ($12 million). Of this amount, 86 percent constituted the Accumulated Surplus ($15.7 million), which was primarily represented by non-current assets.

It is relevant to note that the valuation of non-current assets does not reflect deprival values ie replacement cost.

Operating Statement for the year ended 30 June 2000

	Note	2000 $'000	1999 $'000
OPERATING EXPENSES:			
Employee entitlements	4	**3 632**	4 392
Grants to councils and CFS volunteer organisations	5	**-**	2 460
Operational, administration and general expenses	6	**11 490**	5 530
Interest on borrowings		**-**	748
Government radio network costs	7	**9 189**	-
Emergency Services Administrative Unit costs	8	**5 060**	-
Depreciation	9	**1 276**	1 310
Total Operating Expenses		**30 647**	14 440
OPERATING REVENUES:			
Contributions from insurers		**-**	13 356
Interest on investments		**105**	491
Cost recoveries	10	**130**	147
Other income	11	**142**	153
Total Operating Revenues		**377**	14 147
NET COST OF SERVICES		**(30 270)**	(293)
REVENUES FROM GOVERNMENT:			
Appropriations		**-**	13 177
Contributions from the Community Emergency Services Fund		**36 090**	-
Total Revenues from Government		**36 090**	13 177
NET REVENUES FROM DISPOSAL OF NON-CURRENT ASSETS	12	**1**	-
CHANGE IN NET ASSETS BEFORE RESTRUCTURING		**5 821**	12 884
Net revenues from restructuring	13	**494**	-
CHANGE IN NET ASSETS AFTER RESTRUCTURING		**6 315**	12 884

Statement of Financial Position as at 30 June 2000

	Note	2000 $'000	1999 $'000
CURRENT ASSETS:			
Cash on hand and at bank	20(i)	**1 492**	230
Receivables	14	**79**	542
Inventories		**-**	36
Other		**-**	52
Total Current Assets		**1 571**	860
NON-CURRENT ASSETS:			
Property, plant and equipment	15	**19 587**	13 318
Total Non-Current Assets		**19 587**	13 318
Total Assets		**21 158**	14 178
CURRENT LIABILITIES:			
Payables	16	**1 422**	340
Employee entitlements	17	**1 190**	1 062
Total Current Liabilities		**2 612**	1 402
NON-CURRENT LIABILITIES:			
Employee entitlements	17	**378**	725
Total Non-Current Liabilities		**378**	725
Total Liabilities		**2 990**	2 127
NET ASSETS		**18 168**	12 051
EQUITY:			
Capital		**2 483**	2 483
Accumulated surplus	28	**15 685**	9 568
TOTAL EQUITY		**18 168**	12 051
Commitments and Contingent Liabilities	19		

Statement of Cash Flows for the year ended 30 June 2000

	Note	2000 Inflows (Outflows) $'000	1999 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
PAYMENTS:			
Employee entitlements		**(3 357)**	(4 232)
Operating and administration		**(24 190)**	(5 543)
Grants to councils and CFS volunteer organisations		**-**	(1 871)
Interest on borrowings		**-**	(1 200)
RECEIPTS:			
Insurer contributions		**-**	13 356
Cost recoveries and other income		**357**	542
Interest on investments		**105**	491
CASH FLOWS FROM GOVERNMENT:			
Contributions from the Community Emergency Services Fund		**36 090**	-
State Government		**-**	13 177
Net Cash provided by Operating Activities	20(ii)	**9 005**	14 720
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of non-current assets		**1**	-
Payments for non-current assets		**(7 744)**	(1 333)
Net Cash used in Investing Activities		**(7 743)**	(1 333)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings		**-**	(13 163)
Net Cash used in Financing Activities		**-**	(13 163)
NET INCREASE IN CASH HELD		**1 262**	224
CASH AT 1 JULY		**230**	6
CASH AT 30 JUNE	20(i)	**1 492**	230

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

1.1 Objectives

The Country Fire Service (CFS) is established under the *Country Fires Act 1989* and is responsible under the Act for the:

- prevention, control and suppression of fires in the country;
- protection of life and property in other emergencies occurring in the country.

1.2 Funding

The source of funding of the Country Fire Service changed as from 1 July 1999.

1.2.1 Funding up to 30 June 1999

Funding of the Country Fire Service Board is provided by the South Australia Government and by insurers with country risk, based on an estimate by the Treasurer of South Australia, of total expenditure in accordance with subsection 18(1) of the *Country Fires Act 1989*.

1.2.2 Funding from 1 July 1999

The funding of the Country Fire Service (CFS) is derived from the Community Emergency Services Fund (the Fund), which was established by the *Emergency Services Funding Act 1998* (the Act), assented to in September 1998.

The Act replaces the former arrangements for funding the emergency services agencies through insurance premiums and State and Local Government contributions, with a new system that provides for collection of a levy on fixed and mobile property, which applied from 1 July 1999. The funds collected in payment of the levy are credited to the Fund.

The CFS is directly funded from the Fund for the cost of its operational services in the protection of South Australian citizens and their property. The CFS also receives funds from the same source for the cost of strategic and administrative services delivered to it by the Emergency Services Administrative Unit (ESAU).

The strategic and administrative services delivered by ESAU include financial, human resources, asset management and procurement, risk management, volunteer management, occupational health, safety and prevention, and strategic knowledge management services. These deliverables are subject to service level agreements with ESAU.

2. Significant Accounting Policies

2.1 Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987,* Statements of Accounting Concepts, applicable Australian Accounting Standards and mandatory professional reporting requirements (Urgent Issues Group Consensus Views). It has been prepared on the accrual basis of accounting using the historical cost accounting method.

2.2 Accounting for Non-Current Assets

Property, plant and equipment are carried at cost.

2.2 Accounting for Non-Current Assets (continued)

The CFS Board is establishing a process to revalue all land, buildings, fire appliances and rescue classes of equipment to deprival value. On an ongoing basis, revaluations will be made in accordance with a regular policy whereby independent valuations are obtained every three years and carrying amounts adjusted accordingly.

Depreciation on property, plant and equipment, excluding freehold land, is calculated on a straight-line basis, based on the expected useful lives of the assets, and using rates which are reviewed annually. Major depreciation periods are:

	Years
Communications equipment	10
Fire appliances	20
Plant and equipment	6
Computer equipment	5
Motor vehicles	20
Buildings	30
Furniture and fittings	10

2.3 Employee Entitlements

Entitlements as at 30 June 1999 relate to all employees of the Board at that date. As at 1 July 1999 and as part of the reform of the emergency services, non-operational employees were transferred to the newly formed Emergency Services Administrative Unit (ESAU). The entitlements of such employees as at 30 June 2000 are included in the financial statements of ESAU.

(i) Wages and Salaries, Annual Leave and Sick Leave

Liabilities reflect employee entitlements to accrued wages and salaries and annual leave. These liabilities are calculated on current wage rates. Relevant employment on-costs are shown under 'Payables' (refer Note 16). Sick leave is not provided for as it is non-vesting. However, entitlements are accumulated and sick leave taken is deducted from the employee entitlement.

(ii) 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. The liability has been based on current salaries and wages rates. Relevant employment on-costs are shown under 'Payables' (refer Note 16). 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 Australian Accounting Standard AAS 30 'Accounting for Employee Entitlements'. This advice has been adopted and the long service leave liability has been calculated on that basis.

(iii) Recreation Leave

The Board recognises annual leave on a pro-rata basis in respect of all employees based on statutory or contractual obligations.

(iv) Superannuation

The superannuation costs included in the Financial Statements comprise two components:

- The Board is required to pay an amount towards the accruing cost of the government liability for superannuation in respect of current employed contributors to the SA Superannuation Scheme.
- The Board paid towards the accruing cost of the government liability for superannuation in respect of employees who are not members of the SA Superannuation Scheme.

These contributions are treated as an expense when they occur. The Board has no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

(v) Workers Compensation

To reflect the liability for outstanding workers compensation claims the Board has raised a provision as at balance date. The Board fully funds this provision as well as lump sum payments, medical costs, legal costs and all other workers compensation related expense. Claims are administered by a claims management contractor. The balance of outstanding claims at 30 June amounted to $1.115 million ($864 000) of which $1.115 million ($858 000) is in relation to volunteers.

2.4 Emergency Services Administrative Unit

In October 1998 Cabinet endorsed the implementation of three key reforms to achieve desired outcomes in the provision of emergency services within South Australia.

- A new funding arrangement for the delivery of emergency services.
- A Community Emergency Services Fund to advise the Minister in relation to the expenditure of funds.
- The creation of an administrative unit for emergency services, to be known as the Emergency Services Administrative Unit (ESAU).

ESAU integrated all non-operational resources from the SA Metropolitan Fire Service (SAMFS), the Country Fire Service (CFS) and the State Emergency Services (SES) into one unit, which was to provide agreed support and strategic services to SAMFS, CFS and SES. These services comprise strategic risk management, asset management and procurement, human resources, volunteer support and management, occupational health and safety, financial management and information technology and information resource management.

ESAU was established on 1 July 1999. Non-operational staff became staff of ESAU from that date by proclamation, and employee entitlements as at 30 June 1999 applicable to those staff have been transferred to ESAU. The provisions for employee entitlements for those staff are not therefore included in the Statement of Financial Position as at 30 June 2000, but are included as at 30 June 1999.

2.4 Emergency Services Administrative Unit (continued)

In the year 1999-2000 the CFS has been funded from the Community Emergency Services Fund for its share of the operating costs of ESAU and consequently the Operating Statement of CFS includes an allocation of services provided by ESAU.

3. Outputs of the CFS Board

In accordance with the budget reform process initiated by the State Government for the year 1998-99 and beyond, the Board reports its operational activities within the following output classes:

(a) Incident Response Services

Provision of fire and emergency response services across the State except for metropolitan Adelaide and regional centres.

(b) Preventative Services

Provision of services to minimise the impact of incidents, focussing on bushfire safety, building fire safety and community risk awareness.

4. Employee Entitlements

	2000	1999
	$'000	$'000
Salaries and wages	**2 294**	
Payroll tax and superannuation	**372**	
Long service leave	**355**	
Other employee related expenses	**611**	
	3 632	4 392

Information provided for 1999-2000 represents the first year that these expense categories have been available for financial statement disclosure.

5. Grants to Councils and CFS Volunteer Organisations

Prior to 1 July 1999 the Board subsidised the operations of CFS volunteer organisations and local government entities in the form of grants. The payments to councils mainly comprised part subsidy of fire appliances and stations.

Appliances, fire stations and fire fighting and rescue equipment are now acquired under the Board's capital expenditure program.

Appliances	**-**	2 508
Fire Stations	**-**	219
Equipment	**-**	117
	-	2 844
Less: Council contributions	**-**	1 228
	-	1 616
Services	**-**	330
Maintenance	**-**	514
	-	2 460

Following commencement of funding from the Community Emergency Services Fund on 1 July 1999, the Board contributed directly to CFS groups and brigades, becoming their main source of funding for goods and services. This funding has enabled the Board to direct significantly increased attention to protective equipment, repairs and maintenance of assets, supplies and consumables. In 1998-99 councils delivered many of such requirements to groups and brigades in their local government areas.

6. Operational, Administration and General Expenses

	2000	1999
	$'000	$'000
Consumables and minor purchases	**2 244**	
Repairs and maintenance	**2 025**	
Operational costs	**1 065**	
Accommodation	**417**	
Uniforms and protective clothing	**1 546**	
Communication expenses	**1 161**	
Energy	**198**	
Light vehicle expenses	**273**	
Travel and training	**782**	
Other expenses	**1 779**	
	11 490	5 530

Information provided for 1999-2000 represents the first year that these expense categories have been available for financial statement disclosure.

7. Government Radio Network Costs

The Board has been charged by the Department for Administrative and Information Services for costs associated with the provision of emergency communication services, including voice and paging transmission using the Government Radio Network (GRN).

	2000	1999
	$'000	$'000
Contribution towards GRN - voice	**7 704**	-
Contribution towards GRN - paging	**1 483**	-
Other GRN costs	**2**	-
	9 189	-

8. Emergency Services Administrative Unit Costs

On 1 July 1999 the ESAU was established to provide strategic and support services to the SAMFS, CFS and the SES. ESAU delivers services defined in service level agreements and recovers the cost from these organisations. In the reporting period the Board made the following payment for services:

	2000 $'000	1999 $'000
ESAU administration charge	**5 060**	-
	5 060	-

9. Depreciation

Depreciation expense for the reporting period was charged in respect of:

Communications equipment	**349**	466
Fire appliances	**607**	588
Plant and equipment	**221**	139
Computer equipment	**51**	37
Buildings	**48**	80
	1 276	1 310

10. Cost Recoveries

Maps	**102**	
Building inspection fees	**10**	
Training and other recoveries	**18**	
	130	147

Information provided for 1999-2000 represents the first year that these revenue categories have been available for financial statement disclosure.

11. Other Revenue

Rent received	**25**	
Commonwealth property protection	**28**	
Other income	**89**	
	142	153

Information provided for 1999-2000 represents the first year that these revenue categories have been available for financial statement disclosure.

12. Net Revenues from Disposal of Non-Current Assets

Proceeds from disposal of non-current assets	**1**	-
Less: Written down value of non-current assets	**-**	-
Net revenues from disposal of non-current assets	**1**	-

13. Net Revenues from Restructuring

As a result of the restructuring of administrative arrangements that occurred upon the commencement of the Emergency Services Administrative Unit (refer Note 2.4), the following liabilities were transferred to ESAU from 1 July 1999:

Annual leave provision	**93**	-
Long service leave provision	**344**	-
Payables	**57**	-
	494	-

14. Receivables

Gross debtors	**468**	553
Less: Provision for doubtful debts	**389**	11
	79	542

15. Property, Plant and Equipment

Land and Buildings		
Freehold land:		
At cost	**1 674**	263
Total freehold land	**1 674**	263
Buildings:		
At cost	**1 962**	2 390
Accumulated depreciation	**(357)**	(303)
Buildings at cost	**1 605**	2 087
Total buildings	**1 605**	2 087
Total freehold land and buildings	**3 279**	2 350
Plant and Equipment:		
At cost	**23 144**	21 137
Accumulated depreciation	**(11 849)**	(10 601)
Plant and equipment at cost	**11 295**	10 536
Total plant and equipment	**11 295**	10 536
Work in Progress:		
At cost	**5 013**	432
Total work in progress	**5 013**	432
Total Property, Plant and Equipment	**19 587**	13 318

16. Payables

	2000	1999
Payables comprise the following:	**$'000**	$'000
On-costs re employee entitlement provisions and accruals	**62**	122
Creditors	**1 360**	218
	1 422	340

17. Employee Entitlements

Current Liability:		
Annual leave	**55**	184
Long service leave	**20**	13
Workers compensation	**1 115**	865
	1 190	1 062
Non-Current Liability:		
Long service leave	**378**	725

18. Borrowings

In 1999 the Country Fire Service Board repaid a loan to the South Australian Government Financing Authority.

Balance of loans 1 July	**-**	13 163
Less: Repayments	**-**	13 163
	-	-

19. Commitments and Contingent Liabilities

Commitments

As at the reporting date the Board has commitments for capital expenditure contracted but not expended totalling $6.824 million (nil), comprised of $3.982 million for fire appliances and $2.842 million for fire stations and other equipment. These projects are due for completion by 20 June 2001.

Contingent Liabilities

At the reporting date there are no outstanding claims against the Board.

20. Notes to the Statement of Cash Flows

(i) Reconciliation of Cash

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

Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2000	1999
	$'000	$'000
Cash on hand and at bank	**94**	77
Deposits lodged with the Treasurer	**1 235**	3
Investments	**163**	150
	1 492	230

Investments includes funds from donors for specific purposes.

(ii) Reconciliation of Net Cost of Services to Net Cash provided by Operating Activities

Net cash provided by operating activities	**9 005**	14 720
Cash flows provided by State Government	**-**	(13 177)
Contributions from the Community Emergency Services Fund	**(36 090)**	-
(Increase) decrease in employee entitlements	**219**	(187)
(Increase) decrease in payables	**(1 082)**	568
Depreciation	**(1 276)**	(1 310)
Increase (Decrease) in prepayments	**(53)**	(56)
Increase (Decrease) in inventories	**(36)**	(3)
Increase (Decrease) in receivables	**(463)**	(258)
Increase (Decrease) in work in progress	**-**	(590)
Income from restructuring	**(494)**	-
Net Cost of Services	**(30 270)**	(293)

21. Remuneration of Auditors

The amount due and payable for audit services provided by the Auditor-General's Department was:	**13**	34

22. Consultancy Payments

The Board paid a total of $329 000 ($206 000) in consultancy fees. Of this amount, major consultancy assignments were:

	2000 Number of Consultants	1999 Number of Consultants
Less than $10 000	**7**	1
$10 000 - $50 000	**3**	3
Greater than $50 000	**3**	1

23. Remuneration of Employees

Employees received remuneration in the year in the following remuneration bands:

	2000 Number of Employees	1999 Number of Employees
$100 000 - $109 999	**-**	1
$110 000 - $119 999	**1**	-

The amount paid was $114 000.

24. Financial Instruments

(a) Terms and Conditions

Financial Instrument	Note	Accounting Policies and Methods	Nature of Underlying Instrument
Financial Assets			
Cash at bank	20	Cash at bank comprises cash held in a Department of Treasury and Finance Deposit Account. Interest revenue is recorded on an accrual basis.	Interest on cash at bank is calculated quarterly by the Department of Treasury and Finance and is based on the average daily balance of the Deposit Account. The interest rate is the Treasurer's approved rate of interest on deposit accounts, which varied between 4.63 percent and 5.58 percent during 1999-2000 (4.63 percent and 5.22 percent in 1998-99).
		The Board retained its bank account with Westpac Banking Corporation. Interest revenue is recorded on an accrual basis.	Interest on cash at bank is calculated quarterly by the Westpac Banking Corporation and is based on the average daily balance of the account. The rate of interest varied between 2.91 percent and 4.20 percent.
Investments	20	The Board holds cash deposits with the South Australian Government Financing Authority. Interest revenue is recorded on an accrual basis.	Interest on deposits is credited monthly and is calculated on the average daily balance of the account. The rate of interest is based on the overnight cash rate less a margin of 0.10 percent and during the reporting period varied between 4.65 percent and 5.90 percent.
Receivables	14	Sundry debtors are recorded at the amounts due to the Board, less a provision for doubtful debts. They are recorded when goods have been supplied and services completed.	Sundry debtors are due within 30 days of the rendering of an account.
Financial Liabilities			
Payables	16	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 to the Board.	Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

(b) Interest Rate Risk

2000

Financial Instrument:	**Effective Interest Rate Percent**	**Interest Bearing $'000**	**Non-Interest Bearing $'000**	**Total $'000**
Financial Assets:				
Cash on hand		**-**	**2**	**2**
Cash at bank	**3.40**	**92**	**-**	**92**
Treasury deposits	**5.06**	**1 235**	**-**	**1 235**
Investments	**5.11**	**163**	**-**	**163**
Receivables		**-**	**79**	**79**
Total Financial Assets		**1 490**	**81**	**1 571**
Financial Liabilities:				
Payables		**-**	**1 422**	**1 422**
Total Financial Liabilities		**-**	**1 422**	**1 422**

1999

Financial Instrument:	Effective Interest Rate Percent	Interest Bearing $'000	Non-Interest Bearing $'000	Total $'000
Financial Assets:				
Cash on hand		-	2	2
Cash at bank	3.53	75	-	75
Treasury deposits	4.88	3	-	3
Investments	7.20	150	-	150
Receivables		-	542	542
Total Financial Assets		228	544	772
Financial Liabilities:				
Payables		-	340	340
Total Financial Liabilities		-	340	340

24. Financial Instruments (continued)

(c) Net Fair Values of Financial Assets and Liabilities

		2000	
Financial Instrument:	Note	**Total Carrying Amount $'000**	**Net Fair Value $'000**
Cash on hand	20	**2**	**2**
Cash at bank	20	**92**	**92**
Treasury deposits	20	**1 235**	**1 235**
Investments	20	**163**	**163**
Receivables	14	**79**	**79**
		1 571	**1 571**
Payables	16	**1 422**	**1 422**
		1 422	**1 422**

		1999	
Financial Instrument:	Note	Total Carrying Amount $'000	Net Fair Value $'000
Cash on hand	20	2	2
Cash at bank	20	75	75
Treasury deposits	20	3	3
Investments	20	150	150
Receivables	14	542	542
		772	772
Payables	16	340	340
		340	340

(d) Credit Risk Exposure

The Board's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Board has no significant exposures to any concentrations of credit risk.

25. Board Members Remuneration

The names of persons who held office as a member of the Board during the course of the reporting period were:

Mr M Pengilly
Mr B Wilson
Mr L Collins
Mr A Holmes
Mr S Ellis
Ms V Bonython
Ms V Monaghan
Mr K McHugh

The number of members whose income from the Country Fire Service Board falls within the following bands was:	**2000 Number of Members**	1999 Number of Members
Nil	**2**	2
$1 - $10 000	**5**	4
$10 001 - $20 000	**1**	1

Total income received or due and receivable by all members of the Board for the period was $47 000 ($44 000).

26. Related Party Transactions

No transactions have occurred between the Country Fire Service Board and members of the Board in the 1999-2000 financial year.

27. Events Occurring after Balance Date

Transfer of Mobile Property to the Minister for Police, Correctional Services and Emergency Services

In March 2000 the Emergency Services Funding Transitional Advisory Committee invited comments from Councils regarding transfer of CFS appliances owned by Councils to the Minister for Police, Correctional Services and Emergency Services. Following transfer of mobile property, due to occur in 2000-01, the Country Fire Service Board will be responsible for the maintenance and replacement of this property in addition to those appliances already owned by the Board. As at the reporting date, the transfer of mobile property from 20 Councils had been completed. Valuation of property transferred was not available at reporting date.

Transfer of Fixed Property to the Minister for Police, Correctional Services and Emergency Services

The Transition Assets Team has identified 135 whole parcels of land to be transferred to the Minister for Police, Correctional Services and Emergency Services.

It is anticipated that the transfer/leasing of land and buildings will be completed by 31 December 2001.

28. Equity and Changes in Equity

Equity represents the residual interest in the net assets of the Board. The Government holds the equity interest in the Board on behalf of the community.

	Accumulated Surplus		Capital		Total	
	2000 $'000	1999 $'000	**2000 $'000**	1999 $'000	**2000 $'000**	1999 $'000
Balance at 1 July	**9 568**	(3 316)	**2 483**	2 483	**12 051**	(833)
Change during period:						
Change in net assets after restructuring	**6 315**	12 884	**-**	-	**6 315**	12 884
Correction to amounts previously recognised in the balance of property, plant and equipment	**(198)**	-	**-**	-	**(198)**	-
Balance at 30 June	**15 685**	9 568	**2 483**	2 483	**18 168**	12 051

EMERGENCY SERVICES ADMINISTRATIVE UNIT

FUNCTIONAL RESPONSIBILITY

The Emergency Services Administrative Unit (ESAU) is an Administrative Unit established on 1 July 1999, pursuant to section 7(2) of the *Public Sector Management Act 1995*. It incorporates within its structure the State Emergency Service and most of the former non-incident management services and staff of the Country Fire Service and the South Australian Metropolitan Fire Service.

Its primary objectives are:

- to provide strategic, corporate and support services to the South Australian emergency services, namely the South Australian Metropolitan Fire Service (SAMFS), the Country Fire Service (CFS) and the State Emergency Service (SES);

- through the SES, to provide a local incident emergency response service, and significant participation in State Disaster emergency management, planning and training. The SES was previously an Administrative Unit in its own right during the period 1 July 1996 to 30 June 1999.

AGENCY FUNDING FROM 1 JULY 1999

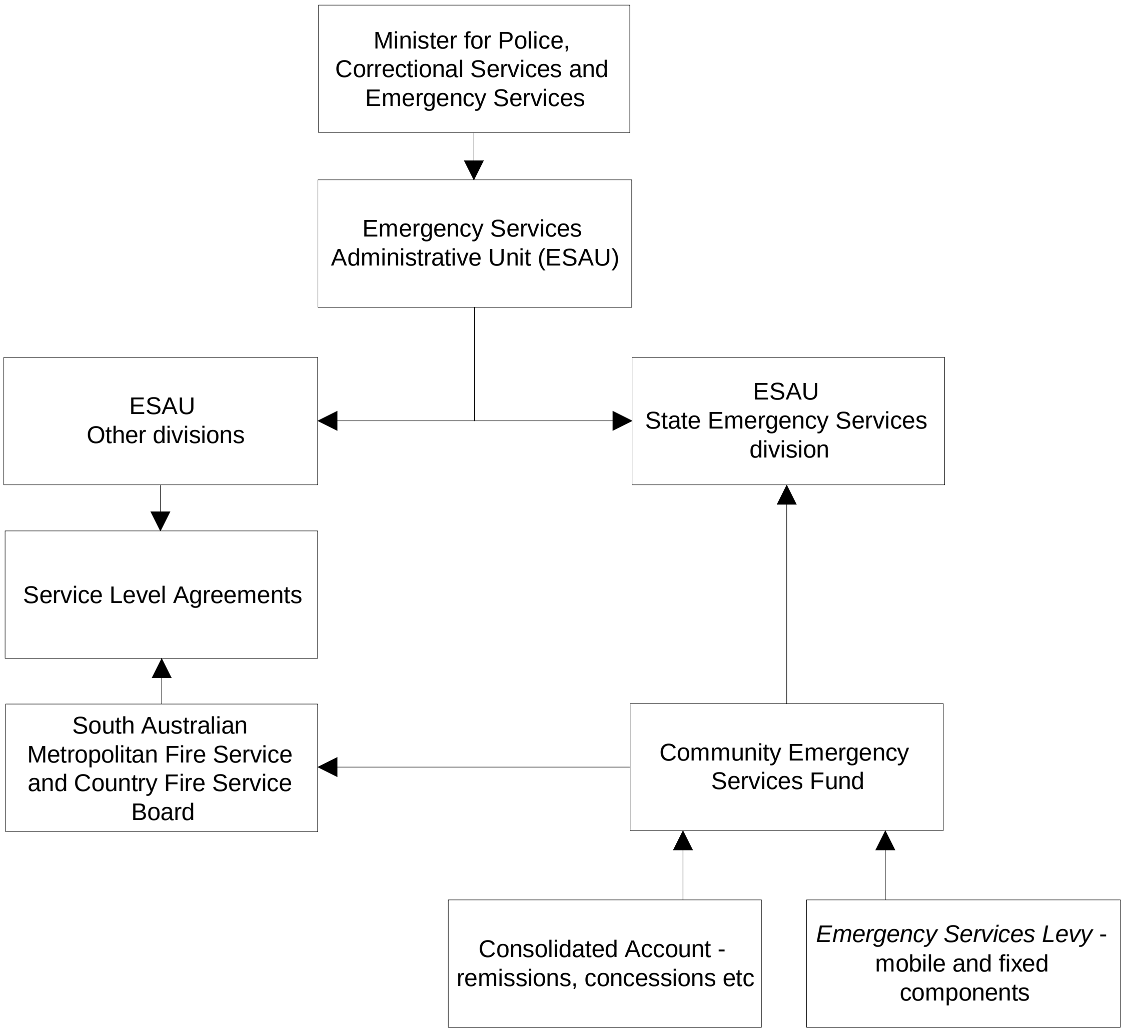
The funding of ESAU is derived through recharges to the SAMFS and the CFS for services rendered. The Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998* (the Act), assented to in September 1998, provides funding direct to those organisations.

The Act replaces the former arrangements for funding the emergency services agencies through insurance premiums and State and Local Government contributions, with a new system that provides for the collection of a levy on fixed and mobile property, which applied on 1 July 1999. The funds collected from the Levy are credited to the Fund.

The SES is directly financed by the Fund for the cost of its operational services in the protection of South Australian citizens and their property. SES also receives funding from the same source for the cost of strategic and administrative services delivered to it by ESAU.

The strategic and administrative services delivered by ESAU include financial, human resources, asset management and procurement, risk management, volunteer management, occupational health, safety and prevention and strategic and knowledge management services. These deliverables are funded by the CFS and the SAMFS under service level agreements.

The organisation structure and funding arrangements are overviewed in the following diagram:



AUDIT MANDATE AND COVERAGE

Audit Authority

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987*, provides for the Auditor-General to audit the accounts of the Emergency Services Administrative Unit in respect of each financial year.

Scope of Audit

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

At the outset, it was important to obtain an understanding of ESAU's core functions and the organisational structures supporting these. Key to this understanding was ESAU's primary sources of funding; the nature of its relationship with other entities such as the CFS, the SAMFS, the SES and the Community Emergency Services Fund; the basis of 'ownership' and 'control' of various assets and liabilities and ESAU's strategic and business planning processes.

These elements were essential in Audit seeking to identify and understand the events, transactions and practices that, in its judgement, may have impacted significantly on either the financial report or the opinion on internal controls.

The establishment of ESAU was accompanied by a transfer of all major financial and administrative systems from emergency service agencies (ie providers), with the expectation that services would be delivered consistent with underlying service level agreements, albeit that these were not formulated until late in the financial year and not ratified until July 2000.

Hence, the focus of the audit was the 'centralised accounting' structures maintained by ESAU with testing of transactions performed at this level.

During 1999-2000 specific areas of Audit attention included:

- expenditure, including accounts payable and salaries and wages;
- plant and equipment, including the adequacy of asset register maintenance;
- revenue, debtors, receipting and banking;
- service level agreements;
- general ledger.

Audit Communications to Management

The major issues arising from the audit were included in management letters forwarded to the Chief Executive Officer. The issues focused on weaknesses in internal controls identified in respect of ESAU business systems and processes. Specific comment on the key issues is outlined within the section 'Commentary on General Financial Controls'.

Public governance was a key element of Audit's communications. In particular, it recognised that the corporate responsibilities assumed by ESAU would necessarily exert significant influence on how the SAMFS and the CFS would discharge their own responsibilities regarding governance matters. ESAU was responsible for maintaining the key financial and management reporting systems, together with the provision of other corporate services.

The essential links between ESAU and the SAMFS and the CFS were service level agreements. The responsibility for exercising appropriate controls, including adherence with the prescribed elements of the Financial Management Framework, was shared between ESAU and the other two reporting entities. While ESAU exerted direct influence over many policies and processes, core responsibilities for agency outcomes remained with the SAMFS and the CFS, particularly where these were enshrined in relevant legislation.

AUDIT FINDINGS AND COMMENTS

Commentary on General Financial Controls

The audit of ESAU identified significant weaknesses in the control framework, necessitating extended detailed testing of transactions in order to support the opinion issued with respect to the financial reports of ESAU, the SAMFS and the CFS. This approach resulted in not all relevant internal controls being assessed by Audit.

Audit was also cognisant of the work performed by an independent consultant with respect to the Financial Services function of ESAU, which included a review of internal controls. The findings of this review were consistent with Audit's assessment of the internal control environment. Additional commentary on this external review is provided in 'Further Commentary on Operations'.

In forming an opinion on internal controls, Audit recognised the overriding influence exerted by the fact that ESAU was newly established and did not possess key elements that would assist it in achieving a sound level of internal controls. These elements included inadequately skilled resources and the requirement to maintain fractious business systems, having little integration or interfacing of processes.

The result is that the 'Controls Opinion' for ESAU is qualified with consequent effects for the SAMFS and the CFS control opinions. Notwithstanding, Audit was able to undertake detailed testing of transactions so as to be able to form an opinion on ESAU's financial report for the year ended 30 June 2000, which is unqualified.

Salient matters reported by Audit during the year and other factors influencing the controls opinion are summarised as follows:

Key Functions and Organisation Structure

Audit's review of relevant documentation revealed gaps in the definition and scope of ESAU's key functions and objectives. These gaps contributed to a level of uncertainty surrounding not only what were ESAU's key functions, but also how its role would be accepted by other agencies, notably the SAMFS and the CFS.

A 1998 Cabinet submission provided lengthy discussion relating to the establishment and future strategic role of ESAU, but the recommendations in that submission did not necessarily give force to the strategies discussed. Audit was unable to rely on this document as support for ESAU's 'perceived role'. Reference to other relevant documentation proved less than insightful.

A strategic plan had been prepared by ESAU, but had not been endorsed by the relevant portfolio Minister. Audit suggested that ESAU revisit its strategic plan together with the Minister so that clarity may be achieved as to ESAU's role. Audit considered such an approach would assist ESAU in coordinating its efforts with the other emergency service providers and give it a clear direction in respect of the strategies it would employ in the future.

Audit suggested that there be a process of consultation with the agencies affected most so that there would ultimately be a shared purpose and vision in respect each of the reporting entities. Agreement on key points could then be translated into appropriate service level agreements.

Management Response

The response received from the Chief Executive Officer (CEO) of ESAU presented a chronological sequence of events surrounding the efforts to ensure that there was a clear role established for ESAU. He acknowledged that clarity on this question could only be obtained with the support of the other agencies, notably the SAMFS and the CFS; there had been a consistent series of steps taken since the creation of ESAU to achieve clarity on what ESAU's key functions were, including confirmation from the relevant Portfolio Minister.

The CEO referred to a number of key documents, including the Cabinet submission (October 1998), referred to by Audit and his own job and person specifications.

He also made reference to a revised draft Memorandum of Understanding (MOU) prepared June 1999, between ESAU, the CFS Board and the SAMFS. The CEO commented that the draft document:

> *... took into account the fledgling nature of ESAU which had not* [yet] *been formally created and the perceived difficulty of incorporating definitive measures of service when there were no agreed benchmarks or assessment of how such service could and should be delivered by ESAU to the agencies.*

The draft MOU was signed by the Acting Chief Officer of the SAMFS in July 1999, but the CFS Board made the following comments in respect thereof:

> *… The CFS Board notes the efforts to clarify the role of ESAU, but also notes that this has real potential to contradict the legislative role of the CFS Board. This issue may remain unresolved, although the Board is not prepared to 'sign off' on the role of ESAU … the Board accepts that it may take some time to finalise the MOU and further acknowledges that a Service Level Agreement will be developed over the coming year* [1999-2000].

Following this response, the focus of efforts by ESAU turned to developing appropriately worded service level agreements.

In October 1999, the Department of Justice (the relevant Portfolio Department) sought to enhance the clarity of the respective roles and responsibilities of ESAU and the CFS Board at a planning day. Attendees at the event included the Minister, the CFS Board and key Portfolio personnel. During discussions the CFS gave the indication that

> *… expectations and perceptions were not aligned … the CFS Board expected ESAU to be an administrative body while under Government direction ESAU* [had] *a dual role of support and strategic development for all emergency services … the CFS Board had not clearly understood ESAU's role as a strategic body that would seek to integrate services and drive a reform agenda in addition to being an administrative support body*.

In April and May 2000 the CEO of ESAU had written to the CEO, Department of Justice setting out concerns regarding the need for the Minister to:

> *... vigorously pursue the strategic dimensions for which ESAU had been established by Government … it was argued that without proper recognition of these strategic concerns, it would be difficult to justify the creation of an agency to merely provide support services.*

The need for a 'Whole of Emergency Services' Strategic Directions Framework was identified as being critical.

In June 2000, a meeting convened by the CEO, Department of Justice was attended by the Minister, key CFS Board Members and Portfolio personnel to clarify key financial, Service Level Agreement and Strategic Direction issues. At that meeting a key statement was tabled regarding 'Strategic Direction for Emergency Services as per State Government Policy' and supported by the Minister. It was agreed that this document would be used as a foundation charter by the Emergency Services Executive Forum (ESEF) for the development of a Strategic Directions Framework document, after having been considered by the CSF Board.

The ESEF developed a draft of the Strategic Directions Framework in September 2000. That document was agreed in principle by the CFS Board during a meeting of the Board that same month. It was acknowledged by the Board that further 'refinement' of the document would need to occur, mainly with respect to key performance measures.

The Strategic Directions Framework is presently under consideration by the Minister. It is planned that ESAU will revisit its own strategic planning document, as will the other emergency service providers, once the document has been formally endorsed by the Minister. Once this occurs, further refinement of the service level agreements will then be able to proceed.

Funding and Budgetary Control

Community Emergency Services Fund

The Community Emergency Services Fund (CESF) represents the key source of funding for the delivery of emergency services. The payment of monies out of the CESF is subject to the provisions of the *Emergency Services Funding Act 1998* which established the CESF (section 28).

The CESF meets the cost of SES operations directly, but it was intended that the other areas of ESAU's operations would be funded by means of service charges levied in respect of the SAMFS, the CFS and the SES. The latter would receive funds directly from the CESF in order to meet the cost of the services recharged by ESAU.

These arrangements sought to provide greater transparency in the funding process and ensure that there was accountability in how ESAU delivered its services to the SAMFS, the CFS and the SES.

An Audit review revealed that the disbursement of funds from the CESF to ESAU was not related to expected cash flows. Other issues to arise included:

- with the exception of certain asset management recharges ESAU had not recharged the SAMFS, CFS and the SES for the relevant corporate services provided until the time of preparation of the year-end financial reports. The basis for calculating the recharges was arbitrary and did not reflect an agreed methodology. Audit would expect an agreed methodology to form part of the definitions included in the various service level agreements. There was consequently very little opportunity for the SAMFS, the CFS and the SES to assess the reasonableness of these charges given the absence of any agreed formulae. Commentary on these payments is also included under the SAMFS and the CFS.

- the amounts received by ESAU included a transfer of $21 million from the SAMFS. The amount was transferred to ESAU in July 1999 and represented a transfer of reserves from the SAMFS, held in a Treasurer's Deposit Account (Section 22). Audit understands that the amount was to provide ESAU with an initial injection of necessary working capital in order to meet the cost of its operations.

  Subsequent review by Audit indicated that the transaction was made by the SAMFS contrary to its establishing legislation and this has resulted in a qualified audit opinion being issued with respect to the financial report of the SAMFS. Detailed discussion of this transaction is included under that agency.

Management Response

With respect to inter-agency transactions the CEO of ESAU advised the aim was to recover the cost of services provided. In 2000-01, there would be an allocation of ESAU costs to the SAMFS, the CFS and the SES according to agreed allocation criteria.

The development of activity based costing would allow ESAU to cross charge for specific activities or projects undertaken by it on behalf of the other agencies.

The CEO reported that issues relating to the disbursement of funds to ESAU and the transfer of $21 million from the SAMFS '*more properly rest with the Justice Portfolio from which advice* [had] *been sought. The matter of future funding* [had] *also been raised in this context'*.

Audit subsequently sought information from the Department of Justice directly on specific matters and was provided with documentation relating to the provision of loan funds of $21 million from the SAMFS.

Status of the State Emergency Services (SES)

The proclamation establishing ESAU made no direct reference to the operations of the SES. The previous State Emergency Services Administrative Unit was abolished on 30 June 1999.

The proclamation abolishing the previous Unit transferred all the employees of the Unit to ESAU from 1 July 1999. It was not clear that the assets and liabilities of the Unit would similarly transfer to ESAU; there can, therefore, only be a presumption that this was intended as part of the overall restructuring.

Audit understands that while ESAU's organisation chart reflects the Director of SES as reporting to ESAU's Chief Executive Officer (CEO), in practice the Director SES reports directly to the Minister. The absence of other indicators such as formal expenditure delegations, raise the potential for confusion as to whether the Director SES is accountable initially to the CEO of ESAU.

It is clear that the CEO of ESAU must be able to exercise his powers and responsibilities pursuant to the *Public Sector Management Act 1995*, without compromise and there is the potential for the blurring of accountability in respect of SES operations should the Director, SES act or be seen to act independently of the CEO of ESAU.

Audit also noted that there was no Service Level Agreement (SLA) covering the provision of services to the SES by ESAU.

These factors suggested ambiguity in respect of the status of the SES. Accordingly, Audit considered that there should be clarification on these matters in order to reflect the substance of the Government's intentions and to ensure appropriate accountabilities were established.

Management Response

The CEO of ESAU provided clarification on matters raised by Audit and indicated that the Director, SES reports to him but retains statutory powers under the *State Emergency Services Act 1987*. Given the expectation of Government that the SES should be viewed from an operational perspective as an 'independent' service, funding for SES had been regarded as being directly managed by the Director, SES on exactly the same basis as operated for the CFS Board and the Chief Officer, SAMFS.

The CEO of ESAU indicated that the Director, SES was accountable to him for the funds that are allocated to the SES. Further, the Director, SES would also be required to develop a Strategic Plan for the SES in conjunction with the CEO of ESAU within the context of the 'Strategic Directions Document'.

Accounting for Advances

Audit referred to control issues relating to the funding of SES advance accounts noting that approximately $750 000, around 60 percent of SES' total funding, had been distributed directly to individual SES units, which maintain separate advance accounts. Audit observed that payments from these advance amounts were reflected simply as 'General Administrative Expenses'.

Audit sought information regarding the internal controls exercised by ESAU on how these funds were used. The delegations of expenditure authority regarding the use of these funds were not able to be sighted by Audit.

Management Response

It was acknowledged by ESAU that the practice of making 60 percent of the SES budget available in cash to the operational units, removed control over expenditure authorities that would otherwise be available in a centrally controlled system encompassing ordering, supply, invoice authorisation and accounts payable functions.

This practice had been established prior to the establishment of ESAU and had not been questioned by officers from the ESAU Financial Services function. The Director, SES has agreed for ESAU to assist in reducing the percentage distribution of cash in the 2000-01 financial year.

Corporate Service Level Agreements (SLAs)

SLAs represent a cornerstone for any agency that has the provision of corporate services as one of its key functions. Notwithstanding that there may exist different views as to ESAU's ultimate strategic role and objects, it is clear that it has a strong corporate service focus and hence an obligation to agree on appropriate service delivery platforms, formalised by way of SLAs.

Audit commented on the importance of having clear and robust SLAs, which were seen to be fundamental to ESAU's commercial relationships with its emergency service provider agencies. The SLAs also represented a key mechanism by which ESAU could advance its own corporate objectives.

Audit also commented that it was not necessarily clear whether the existing (then draft) SLAs met all relevant business needs and suggested a foreword may be useful in highlighting the key processes to be adopted by each of the participating agencies in advancing the SLAs.

Further, Audit indicated that the timeframes associated with the monitoring processes surrounding the SLAs should be appropriate to enable management to identify potential performance issues while not creating an information 'overload'. The evidence of formal inter-agency review meetings was suggested as a viable approach in this regard.

The issue of pricing of services also warranted further consideration. SLAs often ascribe a market-based cost to the service being provided that will in turn be supported by the adoption of transfer pricing models. It was not clear how ESAU would pursue its service charging.

Of critical importance, was the application of corporate policies and guidelines. While this matter was clearly identified in the SLAs, Audit considered that it was reasonable for ESAU to consider a process of standardisation in the application of accounting policies and practices. Increased standardisation would be particularly effective in the operation of various accounting systems (eg non-current assets), where the aim of integration of accounting records would be advanced if there was consistency on matters such as the expected useful lives of assets.

Management Response

The CEO of ESAU commented that the SLAs would be revised as required and that each SLA would have agreed service monitoring and review arrangements. The first scheduled review that would take place would be the SLA for the Financial Services function. The issues raised relating to pricing of services and standardisation of guidelines would be incorporated into the review.

General Ledger

The general ledger system reflected an absence of integration and/or interfaces with other major feeder business systems (eg payroll). There was a poor level of documentation of policies and procedures and poor controls over general ledger processing.

At year end it became evident that the structure of the general ledger was not appropriate for furnishing separate financial reports for the individual reporting entities, being ESAU, SAMFS and the CFS. This situation had arisen from the misconception that each of these agencies was to be consolidated within ESAU, with ESAU having control over the relevant assets and liabilities.

A complex and detailed extraction of general ledger journals was required at year-end in order to prepare the relevant financial reports. Consequently the level of detailed testing required by Audit at year end was expanded significantly in order to be able to form an opinion on the relevant financial information.

Management Response

Management commissioned an external contractor to address the structural and processing issues identified in respect of the general ledger during July 2000. Work performed by the contractor was reviewed by Audit in terms of its detailed transactional testing at financial year end.

Accounting for Non-Current Assets

Audit observed various aspects where ESAU had not addressed key tasks relating to the accounting for non-current assets, including:

- general ledger reconciliations had not been completed for each non-current asset register as at 1 July 1999 and 30 June 2000;
- reconciliations had not been performed for gross and net asset values in respect of data recorded on previous non-current asset registers when transferring that data to the new asset register reporting system (ie Masterpiece);
- movement schedules had not been prepared, that would summarise major shifts between opening and closing asset balances and support the integrity of relevant items appearing in the financial report;
- an absence of documentation of key processes, including control measures that would ensure that assets have been capitalised in accordance with the approved accounting policies operating in respect of each separate reporting entity.

The information available from non-current asset registers is also an important determinant of the quality of asset management. Audit did not extend its review to capture the major elements of asset management as its focus was necessarily required to be directed to forming an opinion on the integrity of asset information. It is intended that the matter of asset management will be reviewed by Audit during 2000-01.

Management Response

ESAU provided advice prior to the preparation of the financial reports of actions taken or proposed in reference to the Audit observations. As not all management tasks were satisfactorily completed for the 1999-2000 financial reports, Audit was required to extend its detailed testing of transactions and account balances in order to formulate its opinion.

CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the Emergency Services Administrative Unit 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. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Audit formed the opinion that the controls exercised by the Emergency Services Administrative Unit 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 'Audit Findings and Comments', were sufficient to provide reasonable assurance that the financial transactions of the organisation were conducted properly and in accordance with the law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

The Change in Net Assets after Restructuring in its first year of operations was $592 000. ESAU's Accumulated Funds as at 30 June 2000 totalled $827 000 following adjustments arising from the recognition of property, plant and equipment and the transfer of the accumulated surplus from the former State Emergency Service (now a division of ESAU).

Revenues from recharges to the emergency service providers totalled $8.6 million and represented 87 percent of Total Operating Revenues and 54 percent of total revenues. Total revenues included direct Contributions from the Community Emergency Services Fund of $6.2 million to fund SES operations.

FURTHER COMMENTARY ON OPERATIONS

Independent Review of Corporate Finance Functions

During the year the Department of Justice (the Department) engaged an external consultant to undertake a review of the corporate finance functions and services provided by ESAU including its processes, its internal controls, systems, resources and, roles and relationships. The objective of the consultancy was to develop recommendations and implementation plans for improvements in the provision of services within ESAU, the emergency service agencies and for the Justice Portfolio.

The consultant reported to the Department and the Chief Executive Officer of ESAU in July 2000. Major findings emanating from the report are summarised hereunder.

- There is a general lack of policies and procedures within the finance function; where they do exist the emergency service agencies are generally unaware of them.
- Monthly management reports take a significant time to prepare and involve a high level of re-keying of data into usable formats;
- There is no analysis of monthly expenditure reports by finance staff unless a specific account is materially overspent.
- Monthly management reports consist mainly of an expenditure statement and detailed transaction listing.
- Reporting of accruals and commitments for operating expenditure and capital expenditure is weak and potentially inaccurate.
- The current Service Level Agreement (Financial Services) lacks clear definition of services, accountabilities and responsibilities of the finance function, agencies and the Department.
- Responsibility for fixed assets is not clearly defined and currently no fixed asset management is undertaken.
- There is a lack of appropriately skilled resources within the finance function to provide the services required by the agencies and the Department.
- A significant proportion of time spent by the finance function is on transaction processing rather than 'value-added' activities.
- There is a poor level of internal controls and policies and procedures.

ESAU Response

The report was considered by both ESAU and the Department of Justice.

The major recommendations arising from the review were accepted, with a separate contract due to be awarded during November 2000 to devise strategies to implement the recommendations.

Operating Statement for the year ended 30 June 2000

	Note	2000 $'000
OPERATING EXPENSES:		
Employee entitlements	5	**5 662**
Operational, administration and general expenses	7	**6 014**
Government radio network costs	6	**1 525**
Interest on borrowings		**1 063**
State Disaster Committee		**104**
Depreciation	8	**109**
Total Operating Expenses		**14 477**
OPERATING REVENUES:		
Interest on investments		**31**
Grants	4	**517**
Cost recoveries		**276**
Emergency Services Administrative Unit recharges		**8 601**
Other revenue		**479**
Total Operating Revenues		**9 904**
NET COST OF SERVICES		**(4 573)**
REVENUES FROM STATE GOVERNMENT:		
Contributions from the Community Emergency Services Fund		**6 162**
		6 162
CHANGE IN NET ASSETS BEFORE ASSET DISPOSAL		**1 589**
NET REVENUES FROM DISPOSAL OF NON-CURRENT ASSETS	9	**40**
CHANGE IN NET ASSETS BEFORE RESTRUCTURING		**1 629**
NET COST OF RESTRUCTURING	22	**(1 037)**
CHANGE IN NET ASSETS AFTER RESTRUCTURING	24	**592**

Statement of Financial Position as at 30 June 2000

	Note	2000 $'000
CURRENT ASSETS:		
Cash on hand and at bank	17(i)	**2 469**
Receivables	11	**97**
Total Current Assets		**2 566**
NON-CURRENT ASSETS:		
Property, plant and equipment	12	**3 183**
Total Non-Current Assets		**3 183**
Total Assets		**5 749**
CURRENT LIABILITIES:		
Payables	13	**3 086**
Employee entitlements	14	**564**
Total Current Liabilities		**3 650**
NON-CURRENT LIABILITIES:		
Employee entitlements	14	**1 272**
Total Non-Current Liabilities		**1 272**
Total Liabilities		**4 922**
NET ASSETS		**827**
EQUITY:		
Accumulated funds		**827**
TOTAL EQUITY		**827**
Commitments and Contingent Liabilities	16	

Statement of Cash Flows for the year ended 30 June 2000

	Note	2000 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
PAYMENTS:		
Employee entitlements		**(6 699)**
Suppliers		**(3 364)**
RECEIPTS:		
Cost recoveries and other receipts		**276**
Other revenue		**479**
Emergency Services Administrative Unit recharges		**8 601**
Interest on investments		**31**
CASH FLOWS FROM GOVERNMENT:		
Contributions from the Community Emergency Services Fund		**6 162**
Net Cash provided by Operating Activities	17(ii)	**5 486**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of non-current assets		**40**
Payments for non-current assets		**(3 057)**
Net Cash used in Investing Activities		**(3 017)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings		**21 000**
Repayment of borrowings		**(21 000)**
Net Cash provided by Financing Activities		**-**
NET INCREASE IN CASH HELD		**2 469**
CASH AT 1 JULY		**-**
CASH AT 30 JUNE	17(i)	**2 469**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives

1.1 Objectives

The Emergency Services Administrative Unit (ESAU) was established from 1 July 1999 with the following objectives:

- To provide strategic, corporate and support services to the South Australian emergency services, namely the SA Metropolitan Fire Service (SAMFS), the Country Fire Service (CFS) and the State Emergency Service (SES);
- Through the State Emergency Service (SES), to provide a local incident emergency response service, and significant participation in State Disaster emergency management, planning and training. SES had from 1 July 1996 to 30 June 1999 been an administrative unit within the Justice portfolio.

1.2 Funding

The funding of the Emergency Services Administrative Unit is derived from the Community Emergency Services Fund (the Fund), which was established by the *Emergency Services Funding Act 1998* (the Act) assented to on 10 September 1998.

The Act replaces the former arrangements for funding the emergency services agencies through insurance premiums and State and Local Government contributions, with a new system that provides for the collection of a levy on fixed and mobile property, which applied on 1 July 1999. The funds collected in payment of the levy are credited to the Fund.

The State Emergency Service (SES) is directly funded from the Fund for the cost of its operational services in the protection of South Australian citizens and their property. SES also receives funding from the same source for the cost of strategic and administrative services delivered to it by ESAU.

The strategic and administrative services delivered by ESAU include financial, human resources, asset management and procurement, risk management, volunteer management, occupational health, safety and prevention and strategic and knowledge management services. These deliverables are funded by the CFS and the SAMFS under service level agreements.

2. Significant Accounting Policies

2.1 Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statements of Accounting Concepts, applicable Australian Accounting Standards and mandatory professional reporting requirements (Urgent Issues Group Consensus Views). It has been prepared on the accrual basis of accounting using the historical cost accounting method, with the exception that certain major non-current assets will be revalued to their current deprival value.

The operations, assets and liabilities that comprise the Emergency Services Administrative Unit, include that of the SES, which prior to 1 July 1999, operated as a separate administrative unit. From 1 July 1999, the existing assets and liabilities of the SES were absorbed into the Emergency Services Administrative Unit. It now represents a separate division and reports through a Director, SES to the Chief Executive Officer. Note 3 presents relevant segment information.

2. Significant Accounting Policies (continued)

2.2 Accounting for Non-Current Assets

Property, plant and equipment are carried at cost.

Depreciation on property, plant and equipment, excluding freehold land, is calculated on a straight line basis, based on the expected useful lives of the assets, which are reviewed annually. Major depreciation periods are:

	Years
Plant and equipment	10
Buildings	20

2.3 Employee Entitlements

As at 1 July 1999 and as part of reform of the emergency services non-operational employees were transferred from CFS, SAMFS and SES to the newly formed Emergency Services Administrative Unit (ESAU). The entitlements of such employees as at 30 June 2000 are included in the financial statements of ESAU.

(i) Wages and Salaries, Annual Leave and Sick Leave

Liabilities reflect employee entitlements to accrued wages and salaries and annual leave. These liabilities are calculated on current wage rates. Relevant employment on-costs are shown under 'Payables' (see Note 13). Sick leave is not provided for as it is non-vesting. However, entitlements are accumulated, and sick leave taken is deducted from the employee entitlement.

(ii) 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. The liability has been based on current salaries and wages rates. Relevant employment on-costs are shown under 'Payables' (see Note 13). 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 Australian Accounting Standard AAS 30 'Accounting for Employee Entitlements'. This advice has been adopted and the long service leave liability has been calculated on that basis.

(iii) Superannuation

Contributions are made by the Emergency Services Administrative Unit to the SA Metropolitan Fire Service Superannuation Fund and to the South Australian Superannuation Board, Superannuation Benefit Scheme. These contributions are treated as an expense when they occur. ESAU has no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

(iv) Workers Compensation

To reflect the liability for outstanding workers compensation claims ESAU has raised a provision as at balance date. ESAU fully funds this provision, as well as lump sum payments, medical costs, legal costs and all other workers compensation related expenses.

3. Outputs of the Emergency Services Administrative Unit

The Emergency Service Administration Unit provides emergency incident response and prevention services through the State Emergency Service and strategic and support services to the SA Metropolitan Fire Service, the Country Fire Service and the State Emergency Service. The objectives and the funding of these activities are identified in Note 1.1.

		2000	
	SES Incident Response and Prevention Services	**ESAU Admin Services**	**Total**
Operating Revenues:	**$'000**	**$'000**	**$'000**
ESAU administration charges	**-**	**8 601**	**8 601**
Interest on investments	**31**	**-**	**31**
Grant	**517**	**-**	**517**
Cost recoveries	**27**	**249**	**276**
Other revenue	**8**	**471**	**479**
Total Operating Revenues	**583**	**9 321**	**9 904**
Operating Expenses:			
Employee entitlements	**(1 028)**	**(4 634)**	**(5 662)**
Operational, administrative and general expenses	**(2 275)**	**(3 739)**	**(6 014)**
Government radio network costs	**(1 525)**	**-**	**(1 525)**
ESAU administration costs recharged	**(705)**	**705**	**-**
Interest on borrowings	**-**	**(1 063)**	**(1 063)**
State Disaster Committee	**(104)**	**-**	**(104)**
Depreciation	**(108)**	**(1)**	**(109)**
Total Operating Expenses	**(5 745)**	**(8 732)**	**(14 477)**
Net Cost of Services	**(5 162)**	**589**	**(4 573)**
Contributions from the Community Emergency Services Fund	**6 162**	**-**	**6 162**
Change in Net Assets before Asset Disposal	**1 000**	**589**	**1 589**
Net revenues from Asset Disposal	**-**	**40**	**40**
Change in Net Assets before Restructuring	**1 000**	**629**	**1 629**
Net Cost of Restructuring	**-**	**(1 037)**	**(1 037)**
CHANGE IN NET ASSETS AFTER RESTRUCTURING	**1 000**	**(408)**	**592**

4. Grants

	2000 $'000
Commonwealth grant - State Disaster Committee	**99**
Commonwealth grant - Other	**418**
	517

5. Employee Entitlements

Salaries and wages	**4 173**
Payroll tax and superannuation	**850**
Long service leave	**369**
Other employee related expenses	**270**
	5 662

6. Government Radio Network Costs

The Emergency Services Administrative Unit has been charged by the Department for Administrative and Information Services for costs associated with the provision to SES of emergency communication services, including voice and paging transmission using the Government Radio Network (GRN).

	2000 $'000
Contribution towards SA GRN:	
Voice	**1 469**
Paging	**56**
	1 525

7. Operational, Administration and General Expenses

Consumables and minor purchases	**1 423**
Repairs and maintenance	**305**
Accommodation	**715**
Uniforms and protective clothing	**125**
Communication expenses	**158**
Energy	**21**
Light vehicle expenses	**170**
Travel and training	**597**
Other expenses	**2 254**
GST compliance costs	**246**
	6 014

8. Depreciation

Depreciation expense for the reporting period was charged in respect of:

Communications equipment	**54**
Emergency appliances	**16**
Plant and equipment	**25**
Computer equipment	**14**
	109

9. Net Revenues from Disposal of Non-Current Assets

Proceeds from disposal of non-current assets	**40**
Less: Written down value of non-current assets	**-**
Net Revenues from Disposal of Non-Current Assets	**40**

10. Administered Item

During the reporting period the Emergency Services Administrative Unit was responsible for administering the financial transactions relating to the operations of volunteer marine rescue units. Funding was received from the Community Emergency Services Fund on behalf of the following units:

	2000 $'000
Expenses:	
Volunteer Marine Rescue	**1**
Victor Harbor Sea Rescue Squadron	**58**
Cowell Sea Rescue Squadron	**27**
SA Sea Rescue Squadron	**131**
Whyalla Sea Rescue Squadron	**20**
Australian Volunteer Coastguard	**114**
Royal Volunteer Coastal Patrol	**16**
State Marine Rescue Sub-Committee	**3**
	370
Revenues:	
Contributions from the Community Emergency Services Fund	**370**

11. Receivables

Gross debtors	**97**
Less: Provision for doubtful debts	**-**
	97

12. Property, Plant and Equipment

	2000 $'000
Buildings:	
At cost	353
Accumulated depreciation	-
Buildings at Cost	353
	353
Plant and Equipment:	
At cost	3 330
Accumulated depreciation	(508)
	2 822
Work in Progress	8
Total Property, Plant and Equipment	3 183

With the exception of assets owned by SES at 30 June 1999, all assets shown in the financial statements of the Emergency Services Administrative Unit have been acquired in the reporting period. The Emergency Services Administrative Unit has not revalued these assets during the reporting period.

13. Payables

	2000 $'000
Payables comprise the following:	
Accrued employee entitlements	63
On-costs re-employee entitlement provisions and accruals	270
Creditors	2 753
	3 086

14. Employee Entitlements

Current Liabilities:	
Annual leave	388
Long service leave	66
Workers compensation	110
	564
Non-Current Liabilities:	
Long service leave	1 272

15. Borrowings

During the year 1999-2000 the Emergency Services Administrative Unit (ESAU) borrowed $21 000 000 from the cash reserves of the SA Metropolitan Fires Service (SAMFS) for use as working capital, pending receipt of monies from the Community Emergency Services Fund. ESAU paid SAMFS interest at the Treasurer's average overnight cash deposit rate. The interest totalling $1.063 million is shown as administration expenses (Note 3) in ESAU's Operating Statement and as an operating revenue in the SAMFS Operating Statement. The borrowing has been repaid.

16. Commitments and Contingent Liabilities

Commitments

As at the reporting date the Emergency Services Administrative Unit has commitments for capital expenditure contracted but not expended totalling $2 204 000, being for emergency vehicles, accommodation facilities and equipment for the State Emergency Service. These projects are due for completion by 30 June 2001.

Contingent Liabilities

At the reporting date there are no outstanding claims against the Emergency Services Administrative Unit.

17. Notes to the Statement of Cash Flows

(i) Reconciliation of Cash

	2000 $'000
For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank.	
Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:	
Cash on hand	1
Deposits lodged with the Treasurer	2 468
	2 469

(ii) Reconciliation of Net Cost of Services to Net Cash provided by Operating Activities

Net cash provided by operating activities	5 486
Cash flows from Community Emergency Services Fund	(6 162)
Increase in employee entitlements	(1 836)
Increase in payables	(3 086)
Depreciation	(109)
Increase in receivables	97
Net cost of restructuring	1 037
Net Cost of Services	(4 573)

18. Remuneration of Auditors

The amount due and payable for audit services provided by the Auditor-General's Department was	60

19. Consultancy Payments

	2000 $'000
The Corporation paid a total of $826 000 in consultancy fees. Of this amount, major consultancy assignments were:	
Capital expenditure project planning and advice	**208**
GST preparation and compliance	**200**

Major consultancy assignments were:	2000 Number of Consultants
Less than $10 000	**15**
$10 001 - $50 000	**11**
Greater than $50 001	**5**

20. Remuneration of Employees

Employees received remuneration in the year in the following remuneration bands:	2000 Number of Employees
$140 001 - $150 000	**1**

The aggregate of the remuneration referred to in the above table was $142 000.

21. Financial Instruments

(a) Terms and Conditions

Financial Instrument	Note	Accounting Policies and Methods	Nature of underlying instrument
Financial Assets:			
Cash at bank	17	Cash at bank comprises cash held in a Department of Treasury and Finance Deposit Account. Interest revenue is recorded on an accrual basis.	Interest on cash at bank is calculated quarterly by the Department of Treasury and Finance and is based on the average daily balance of the Deposit Account. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts, which varied between 4.63 percent and 5.58 percent during 1999-2000.
Receivables	11	Sundry debtors are recorded at the amounts due to ESAU, less a provision for doubtful debts. They are recorded when goods have been supplied and services completed.	Sundry debtors are due within 30 days of the rendering of an account.
Financial Liabilities:			
Payables	13	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 to ESAU.	Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

(b) Interest Rate Risk

	2000			
Financial Instrument	Effective Interest Rate at 30.6.00 Percent	Interest Bearing $'000	Non-Interest Bearing $'000	Total $'000
Financial Assets:				
Cash at bank	**5.06**	**2 468**	**1**	**2 469**
Receivables	**-**	**-**	**97**	**97**
		2 468	**98**	**2 566**
Financial Liabilities:				
Payables		**-**	**3 086**	**3 086**
		-	**3 086**	**3 086**

(c) Net Fair Values of Financial Assets and Liabilities

		2000	
Financial Instrument	Note	Total Carrying Amount $'000	Net Fair Value $'000
Cash at bank	17	**2 469**	**2 469**
Receivables	11	**97**	**97**
		2 566	**2 566**
Payables	13	**3 086**	**3 086**

(d) Credit Risk Exposure

ESAU's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

ESAU has no significant exposures to any concentrations of credit risk.

22. Net Cost of Restructuring

As a result of the restructuring of administrative arrangements that occurred upon the commencement of the Emergency Services Administrative Unit (refer Note 1), the following liabilities were transferred from the SA Metropolitan Fire Service and the Country Fire Service to ESAU from 1 July 1999:

	$'000
Annual leave provision	223
Long service leave provision	691
Payables	123
	1 037

23. Events Occurring after Balance Date

Transfer of Mobile Property to the Minister for Police, Correctional Services and Emergency Services

In March 2000 the Emergency Services Funding Transitional Advisory Committee invited comments from Councils regarding transfer of State Emergency Service emergency vehicles owned by Councils to the Minister for Police, Correctional Services and Emergency Services. Following transfer of mobile property, due to occur in the year 2000-01, the State Emergency Service will be responsible for the maintenance and replacement of this property. As at the reporting date, the transfer of mobile property from 20 councils has been completed. Valuation of property transferred was not available at reporting date.

Transfer of Fixed Property to the Minister for Police, Correctional Services and Emergency Services

The Transition Assets Team has identified 21 whole parcels of land to be transferred to the Minister for Police, Correctional Services and Emergency Services.

It is anticipated that the transfer of land and buildings will be completed by 31 December 2001.

24. Equity and Changes in Equity

Equity represents the residual interest in the net assets of the Emergency Services Administrative Unit.

	2000 Accumulated Funds $'000
Balance at 1 July	-
Change during period:	
Change in net assets after restructuring	592
Correction to amounts previously recognised in the balance of property, plant and equipment	110
State Emergency Service accumulated surplus	125
Balance at 30 June	827

POLICE SUPERANNUATION SCHEME

FUNCTIONAL RESPONSIBILITY

The Police Superannuation Board (the Board), established under the *Police Superannuation Act 1990*, is responsible for the collection of contributions from members of the Police Superannuation Scheme (the Scheme) and for the payment of superannuation benefits to members and members' families.

The main financial administration arrangements that apply in relation to the Scheme involve:

- The Police Superannuation Fund (the Fund) — The Fund, established under the *Police Superannuation Act 1990*, records as income to the Fund, members' contributions and revenue derived from investment of those monies, and also records as payments from the Fund, the employee share of benefit payments and administration costs.

  The Fund is comprised of two divisions, namely, an Old Scheme Division which provides pension benefits with a lump sum option and a New (Lump Sum) Scheme Division which provides lump sum benefits.

  The investment management responsibility for the Fund is vested with the Superannuation Funds Management Corporation of South Australia (Funds SA) under the *Police Superannuation Act 1990*.

- The Police Superannuation Scheme Contribution Account (Police Employer Contribution Account) was established in 1994-95 to record employer contributions on behalf of the police officers and cadets. The employer share of the benefits paid and administration costs is met from the Police Employer Contribution Account. Monies deposited into the account are invested and managed by Funds SA but do not form part of the Fund.

- The Police Occupational Superannuation Scheme (POSS), which was established under a Deed of Arrangement between the Treasurer and the Police Association of South Australia. The Board is responsible for all aspects of the administration of the Deed of Arrangement except management and investment activities. On 29 May 2000 (with effect from 1 July 1999) the Treasurer determined that POSS is a public sector superannuation scheme and the assets of the Scheme are to be invested and managed by Funds SA.

Police officers and cadets who commenced employment on or before 31 May 1990 are members of the Old Scheme Division. Those police officers and cadets who commenced employment on or after 1 June 1990 are members of the New Scheme Division. The New Scheme Division was formally closed to new members through amendments to the *Police Superannuation Act 1990* in October 1994. From 1 July 1995 police officers and cadets who commenced employment became members of the Southern State Superannuation Scheme which is administered by the South Australian Superannuation Board.

SIGNIFICANT FEATURES

- Net assets available to pay benefits increased by $66.8 million to $442.5 million.
- Investment revenue totalled $74.6 million compared to $33.6 million in the previous year.
- Benefits paid totalled $39.2 million compared to $30.6 million in the previous year.

AUDIT MANDATE AND COVERAGE

Audit Authority

Subsection 31 of the *Public Finance and Audit Act 1987*, provides the authority for the Auditor-General to audit the accounts of the Scheme.

Scope of Audit

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

During 1999-2000, the aspects of financial operations that were the subject of audit attention included:

- contributions from members and employers
- pension and lump sum payments
- administrative expenses
- disbursement account reconciliation.

Audit Communications to Management

Issues arising from the audit of the scheme will be the subject of a letter to be forwarded to the Presiding Member, Police Superannuation Board in November 2000. Further comments relating to these issues are contained in 'Audit Findings and Comments' hereunder.

AUDIT FINDINGS AND COMMENTS

Commentary on General Financial Controls

While the general financial control structure was found to be satisfactory, there were areas where it was considered there was scope for improvement.

CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the Police Superannuation Scheme 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 and also, whether the controls in operation were consistent with the prescribed principles of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'. The overall aim of that assessment was to establish whether those controls were sufficient to provide reasonable assurance that the financial transactions have been conducted properly and in accordance with the law.

Audit formed the opinion that the controls exercised by the Police Superannuation Scheme in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities, were sufficient to provide reasonable assurance that the financial transactions of the organisation were conducted properly and in accordance with the law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Statement of Changes in Net Assets

The net assets available to pay benefits (net assets) increased by $66.8 million to $442.5 million. Reflected in this result was:

- net investment revenue of $74.6 million ($33.6 million) derived by Funds SA from the Scheme's financial assets;
- benefits paid by the Scheme in the form of pension and lump sum payments of $39.2 million, an increase of $8.6 million from the previous year.

Funding of Liabilities

The net assets of the Scheme comprise Fund net assets of $245.4 million, Police Employer Contribution Account of $164.7 million and the POSS Employer Contribution Account of $32.4 million. The Fund's net assets are currently sufficient to cover the Fund's proportion of its liabilities. The liabilities are detailed in the actuarial assessments of the Scheme's accrued and vested liabilities at Notes 3 and 4 of the Financial Statements. In relation to the South Australian Government, there is a significant shortfall between net assets and liabilities. Contributions to the Police Employer Contribution Account commenced only during the 1994-95 year.

FURTHER COMMENTARY ON OPERATIONS

Contributors and Pensioners

As at 30 June 2000, 3035 (3177) police officers were contributing to the Fund. The number of ex-police officers, spouses and children in receipt of pensions at 30 June 2000 was 1069 (1057).

Financial Statements for the year ended 30 June 2000

The Police Superannuation Board, established under the *Police Superannuation Act 1990*, is responsible for all aspects of the administration of the Act except the management and investment of the Police Superannuation Fund. The investment management responsibility for the Police Superannuation Fund is vested with the Superannuation Funds Management Corporation of South Australia (Funds SA) under the *Police Superannuation Act 1990*. The Police Occupational Superannuation Scheme was established under a Deed of Arrangement between the Treasurer and the Police Association of South Australia. The Board is responsible for all aspects of the administration of the Deed of Arrangement except the management and investment of the Police Occupational Superannuation Scheme. On 29 May 2000 (with effect from 1 July 1999) the Treasurer determined that the Police Occupational Superannuation Scheme is a public sector superannuation scheme and the assets of the Scheme are to be invested and managed by the Superannuation Funds Management Corporation of South Australia.

The following consolidated financial statements present the operations of the Board and Funds SA and have been prepared from the accounts of both bodies.

Statement of Net Assets as at 30 June 2000

	Note	$'000	2000 $'000	$'000	1999 $'000
INVESTMENTS:	2, 13				
Index linked bonds		**53 148**			44 472
Property		**36 467**			31 875
Australian equities		**149 102**			126 215
International equities		**162 509**			126 579
Fixed interest		**23 038**			34 843
Cash		**6 999**			12 856
Adelaide Plaza		**14 117**			1 674
Total Investments			**445 380**		378 514
OTHER ASSETS:	2				
Fixed assets		**9**			-
Cash and deposits at Treasury		**2 400**			1 473
Income due and accrued		**137**			51
Prepaid expenses		**9**			9
Sundry debtors		**158**			50
Total Other Assets			**2 713**		1 583
Total Assets				**448 093**	380 097
CURRENT LIABILITIES:	2				
Rent paid in advance		**124**			166
Provisions		**122**			4
Sundry creditors		**1 927**			433
			2 173		
NON-CURRENT LIABILITIES:	2		**3 427**		3 830
Total Liabilities				**5 600**	4 433
NET ASSETS AVAILABLE TO PAY BENEFITS				**442 493**	375 664

Statement of Changes in Net Assets for the year ended 30 June 2000

	Note	$'000	2000 $'000	$'000	1999 $'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY	15			**375 664**	336 860
INVESTMENT REVENUE	2		**74 643**		33 599
OTHER INCOME			**107**		56
ADMINISTRATION EXPENSE	9		**(354)**		(259)
CONTRIBUTIONS:					
Contributions for past service liability		**-**			2 800
Contributions by employer		**26 141**			26 878
Contributions by members		**7 172**			7 439
			33 313		37 117
BENEFITS PAID:					
Pensions	14, 15	**(21 116)**			(19 980)
Lump sums	14, 15	**(18 085)**			(10 586)
			(39 201)		(30 566)
REFUNDS TO MEMBERS:					
Contributions	14, 15	**(976)**			(704)
Interest	14, 15	**(703)**			(439)
			(1 679)		(1 143)
NET INCREASE IN FUNDS				**66 829**	38 804
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE				**442 493**	375 664

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Format of Accounts

The Police Superannuation Scheme (the Scheme) was created pursuant to the *Police Superannuation Act 1990* (the Act). The Act provides for superannuation benefits for police officers who are members of the Scheme.

The Police Superannuation Board (the Board) was established on 1 June 1990. The Board is responsible for the administration of the Police Superannuation Scheme which comprises:

- contributors to the Old (Pension) Scheme Division which was closed to members on 31 May 1990;
- contributors to the New (Lump Sum) Scheme Division, which was closed to members effective from May 1994.

Pursuant to the *Police Superannuation Act 1990* contributions from members of the scheme are paid to the Treasurer, who in turn deposits those contributions with the Police Superannuation Fund (the Fund). The assets of the Fund belong (both at law and in equity) to the Crown. The Fund is subject to the management and control of the Superannuation Funds Management Corporation of South Australia (Funds SA). Member contributions are based on a percentage of salary and range between 5 percent to 6 percent. Contributions are adjusted in July each year based on salary payable to contributors at the previous 31 March.

The Scheme provides defined benefits for members of the Old (Pension) and New (Lump Sum) Divisions. All benefit payments were met from the Consolidated Account which was then reimbursed in accordance with the prescribed employer and employee shares. The employer and employee shares of all benefits are set out in Regulations to the *Police Superannuation Act 1990*.

1. Format of Accounts (continued)

The Police Occupational Superannuation Scheme (POSS) was created under a Deed of Arrangement (the Deed) between the Treasurer and the Police Association of South Australia. All Police Officers who are members of the Scheme are also members of POSS. The Deed provides for superannuation benefits for Police Officers who are members of POSS. The POSS scheme provides defined lump sum benefits for members. All benefit payments were met from the Consolidated Account which was then reimbursed in accordance with the prescribed employer share. Members do not pay contributions to the POSS scheme.

Employer Contributions on behalf of members of the Scheme and POSS are deposited into the 'Police Superannuation Scheme Contribution Account' (Police Employer Contribution Account) and the 'Police Occupational Superannuation Scheme Contribution Account' (POSS Employer Contribution Account) respectively. The employer share of benefits paid from the Scheme and POSS is met from the respective Employer Contribution Account. The employee share of benefits of the Scheme is met from the Fund. The employer pays the total benefit paid from the POSS scheme.

For the year ended 30 June 2000, $22.9 million ($26.9 million) was deposited into the Police Employer Contribution Account and $3.3 million (nil) was deposited into the POSS Employer Contribution Account in relation to employer contributions on behalf of members.

Funds SA is responsible, under the Act, for the investment and management of the Fund. Monies deposited into the Police Employer Contribution Account are invested and managed by Funds SA but do not form part of the Fund. Funds SA is also responsible for the maintenance of the accounts of the Funds and the Police Employer Contribution Account.

On 29 May 2000 (with effect from 1 July 1999) the Treasurer determined that the POSS is a public sector superannuation scheme and Funds SA is responsible for the investment and management of the Fund. Monies deposited into the POSS Employer Contribution Account are invested and managed by Funds SA. Funds SA is also responsible for the maintenance of the accounts of the POSS Employer Contribution Account.

Since 30 June 1994 the government has commenced a process of funding its accrued past service superannuation liabilities. For the year ended 30 June 2000 the Government did not transfer any additional funding ($2.8 million) to the Employer Contribution Accounts to meet liabilities in respect of the scheme or POSS. The Government will continue to pay contributions to the Employer Contribution Accounts to meet the accrued past service liability so that liability will be fully funded by 30 June 2034.

Under the terms of the Act, the Board is required to determine rates of return to be credited to members' accounts in the old and new divisions of the Scheme. Rates of return are credited to each contributors' account at the end of the financial year. In determining the rate of return to be applied, the Act requires that the Board have regard to the net rate of return achieved by Funds SA for each division.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The Financial Statements have been drawn up, to the extent practicable, in accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' and with the Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987*.

The members of the Board believe that this policy best discloses the financial status of funds under management and, provides consistency with the Scheme's financial statements. Consequently, assets and liabilities are recorded at net market values as at the balance date, and realised and unrealised gains or losses are brought to account through the Statement of Changes in Net Assets.

As investments are revalued to their respective market values at balance date, depreciation and amortisation are not provided.

(b) Basis of Valuations

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where material.

(i) Index Linked Bonds

The Index Linked Bonds portfolio comprises two subsectors:

- *Internally Managed*
  These investments, the returns of which are linked to movements in either the Consumer Price Index (CPI) or Average Weekly Earnings (AWE), have been valued using the discounted cash flow method. The valuation as at 30 June 2000 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*
  The externally managed portfolio is invested and managed by a professional manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises four subsectors:

- *Directly Held Properties*
  Valuations of directly held properties have been carried out by independent licensed property valuers other, than as indicated in Note 8 to the financial statements of Funds SA.

- *Directly Held Listed Property Trusts*
  Investments in directly held listed property trusts have been valued using market prices applicable at the balance date.

(ii) *Property (continued)*

- *Externally Managed Listed Property Trusts*
  The externally managed listed property trust portfolio is invested and managed by two professional managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

- *Externally Managed Unlisted Property Vehicles*
  Investments in externally managed unlisted property vehicles have been valued in accordance with the exit valuation supplied by the managers.

(iii) *Australian Equities*
The Australian Equities portfolio comprises two subsectors:

- *Listed Australian Equities*
  The listed Australian Equities portfolio is invested and managed by professional external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

- *Private Equity*
  The private equity portfolio comprises holdings in a number of externally managed specialist funds together with internally managed assets. The externally managed specialist funds have been valued by the managers in accordance with the Australian Venture Capital Association Limited (AVCAL) guidelines. Internally managed assets have been valued by the Directors of Funds SA, either in accordance with market prices applicable at balance date, or having regard to market conditions and the current and expected future performance of the investments.

(iv) *International Equities*
The International Equities portfolio is invested and managed by professional external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles and private equity funds have been valued in accordance with the exit valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at the balance date where applicable.

(v) *Adelaide Plaza*
The Adelaide Plaza Fund comprises Funds SA's investment in the Funds SA Subsidiary Holding Corporation, a wholly owned subsidiary of Funds SA (refer Note 11 to the financial statements of Funds SA). The Funds SA Subsidiary Holding Corporation's remaining investments at 30 June comprise the units in the Riverside Office Trust (the owner and operator of the Riverside Office building, North Terrace), the shares in Riverside Office Pty Ltd (the trustee company for the Riverside Office Trust) and cash. Funds SA's investments in the Adelaide Plaza Fund has been valued by the Directors of Funds SA having regard to 30 June 2000 consolidated management accounts of the Funds SA Subsidiary Holding Corporation.

(vi) *Fixed Interest*
The Fixed Interest portfolio is invested and managed by professional external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vii) *Cash*
Deposits at call and other deposits of very short term duration have been valued on the basis of principal plus accrued interest. Bank bills have been valued using market rates applicable at the balance date.

(viii) *Other Assets and Liabilities*
These items have been assessed and the Directors of Funds SA are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using market related interest rates.

3. Liability for Accrued Benefits

The accrued liabilities of the Police Superannuation Scheme and the Police Occupational Superannuation Scheme (POSS) as determined by the Department of Treasury and Finance are shown below.

For both the Old (Pension) and New (Lump Sum) Scheme Divisions the accrued liabilities are the present values of expected future benefit payments arising from membership of the Schemes up to 30 June 1999.

The expected future benefit payments have been determined using the 30 June 1999 actuarial Scheme review assumptions relating to mortality, disability, withdrawal, preservation and retirement. The review salary promotion scale has also been used, while general salary increases of 1 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans', the expected future benefit payments have then been discounted to present values by a discount rate of 4 percent per annum above CPI.

Accrued Liabilities 30 June 1999	Old Scheme Division $'million	New Scheme Division $'million	POSS Employer Account $'million	Total $'million
Police Superannuation Fund	183.5	5.3	-	188.8
Police Employer Account	618.5	10.3	-	628.8
POSS Employer Account	-	-	25.7	25.7
Total	802.0	15.6	25.7	843.3

3. Liability for Accrued Benefits (continued)

While it is not possible to provide a detailed estimate of the Scheme's accrued liabilities as at 30 June 2000 until data as at 30 June 2000 becomes available, a broad estimate of the accrued liabilities has been made. The same assumptions have been used to determine these 2000 estimates as were used for the determination of the estimates as at 30 June 1999.

Accrued Liabilities 30 June 2000	**Old Scheme Division $'million**	**New Scheme Division $'million**	**POSS Employer Account $'million**	**Total $'million**
Police Superannuation Fund	**192.8**	**6.2**	**-**	**199.0**
Police Employer Account	**651.6**	**12.4**	**-**	**664.0**
POSS Employer Account	**-**	**-**	**28.6**	**28.6**
Total	**844.4**	**18.6**	**28.6**	**891.6**

Pursuant to the *Police Superannuation Act 1990* actuarial reviews of the Police Superannuation Scheme must be conducted three yearly to address, inter alia, the ability of the Fund to meet its current and future liabilities. The review as at 30 June 1999 was carried out by Mr P Crump, FIAA of Buck Consultants. His report, dated 14 June 2000, to the Minister was tabled in Parliament on 4 July 2000. These reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation. There is no direct relationship between the liability figures determined by those two assessments.

4. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Police Superannuation Scheme and the Police Occupational Superannuation Scheme (or any factor other than resignation from the Scheme) and include benefits which members would be entitled to receive on termination of membership of the Schemes.

When members resign from the Police Superannuation Scheme, they have two options. Firstly they can elect to take cash refunds of their own contributions, accumulated with interest, together with preserved employer benefits as required by Commonwealth Superannuation Guarantee legislation. Alternatively they can elect to take fully vested, preserved benefits which will be based on their full accrued entitlements at the date of resignation and will be increased during preservation in line with increases in the CPI.

When members resign from the Police Occupational Superannuation Scheme, they are entitled to a preserved lump sum benefit.

The vested benefits shown below assume that all resignation benefits will be taken in the form of fully preserved benefits. The value of vested benefits have then been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

As for accrued benefits, vested benefits have been calculated as at 30 June 1999 and then a broad estimate has been made of the vested benefits as at 30 June 2000.

Vested Benefits 30 June 1999	Old Scheme Division $'million	New Scheme Division $'million	POSS Employer Account $'million	Total $'million
Police Superannuation Fund	164.1	3.5	-	167.6
Police Employer Account	559.6	8.1	-	567.7
POSS Employer Account	-	-	21.4	21.4
Total	723.7	11.6	21.4	756.7

Vested Benefits 30 June 2000	**Old Scheme Division $'million**	**New Scheme Division $'million**	**POSS Employer Account $'million**	**Total $'million**
Police Superannuation Fund	**172.4**	**4.1**	**-**	**176.5**
Police Employer Account	**589.5**	**9.8**	**-**	**599.3**
POSS Employer Account	**-**	**-**	**23.8**	**23.8**
Total	**761.9**	**13.9**	**23.8**	**799.6**

5. Benefits which Accrued Between 30 June 1998 and 30 June 1999

Benefits accrued during the financial year 1998-99 are measured as the sum of the net changes in the accrued liabilities over the year and the amount of benefits paid to beneficiaries during the year.

Benefits Accrued 1998-99	Old Scheme Division $'million	New Scheme Division $'million	POSS Employer Account $'million	Total $'million
Police Superannuation Fund	31.8	0.7	-	32.5
Police Employer Account	103.3	0.5	-	103.8
POSS Employer Account	-	-	3.2	3.2
Total	135.1	1.2	3.2	139.5

6. Guaranteed Benefits

Members' benefit entitlements are set out in State Legislation under the *Police Superannuation Act 1990*.

7. Purchase of Additional Benefits

There are no provisions under the *Police Superannuation Act 1990* for contributing members to purchase additional benefits.

8. Taxation

The Scheme is exempt form federal income tax and no income tax expense has been brought to account in these financial statements.

9. Administration

The Scheme's administration costs comprise of:

- costs incurred by Funds SA in administering the investment activities of the Fund and the Police Superannuation Scheme Contribution Account (Employer Contribution Account) and the Police Occupational Superannuation Scheme Account (Employer Contribution Account);
- costs incurred by the Board in administering the Scheme.

Investment expenses and administration costs incurred by Funds SA are charged directly against the investment income of the Fund and the Employer Contribution Accounts.

Administration costs incurred by the Board are financed in the first instance by the Police Superannuation Scheme (the Scheme) from the 'Police Superannuation Scheme Employer Contribution Account' through a Special Deposit Account. Under the provisions of the Act, the Fund is required to meet a prescribed proportion, currently 30 percent, of the administration costs incurred by the Scheme. Administration costs incurred by the Scheme for 1999-2000 amounted to $354 000 ($259 000) of which the fund is required to reimburse $106 000 ($78 000) to the Scheme through the Employer Contribution Account.

Administration costs are apportioned between the Old (Pension) and New (Lump Sum) Scheme Divisions on a cost per member basis.

10. Members' Remuneration

Members' fees are set according to State Government guidelines for Statutory Authorities. Members who are State public sector employees, do not receive fees for their Board membership.

Total remuneration received or due and receivable by the members of the Board in 1999-2000 was $8 000 ($8 000).

The number of Board members whose remuneration was within the following bands are as follows:	**2000 Number of Members**	1999 Number of Members
$Nil	**3**	3
$1 - $10 000	**2**	2

11. Remuneration of Auditors

Amounts received or due and receivable by the Auditors for auditing accounts of the Board in 1999-2000 total $17 000 ($17 000).

12. Additional Financial Instrument Disclosures

The specific disclosure requirements of Australian Accounting Standard AAS 33, 'Presentation and Disclosure of Financial Instruments' are fully set out in the Notes to the Financial Statements to Funds SA and have not been repeated in this financial report.

13. Assets

The interests of each Scheme in the unitised investment portfolio as at the balance date are:

	2000				1999		
	Old Scheme Division	**New Scheme Division**	**Police[1] Employer Account**	**POSS[1] Employer Account**	Old Scheme Division	New Scheme Division	Employer Contrib. Account
INVESTMENTS:	**$'000**	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000
Index linked bonds	**29 315**	**1 099**	**18 993**	**3 741**	24 408	827	19 237
Property	**20 114**	**754**	**13 032**	**2 567**	17 494	593	13 788
Australian equities	**82 241**	**3 082**	**53 284**	**10 495**	69 271	2 349	54 595
International equities	**89 636**	**3 359**	**58 075**	**11 439**	69 470	2 356	54 753
Fixed interest	**12 707**	**476**	**8 233**	**1 622**	19 123	648	15 072
Cash	**3 860**	**145**	**2 501**	**493**	7 973	270	4 613
Adelaide Plaza	**-**	**-**	**11 794**	**2 323**	-	-	1 674
Total Investments	**237 873**	**8 915**	**165 912**	**32 680**	207 739	7 043	163 732
OTHER ASSETS:							
Fixed assets	**5**	**-**	**3**	**1**	-	-	-
Cash and deposits at Treasury	**907**	**83**	**1 410**	**-**	604	133	736
Income due and accrued	**76**	**3**	**49**	**9**	28	1	22
Prepaid expenses	**5**	**-**	**3**	**1**	5	-	4
Sundry debtors	**1**	**-**	**157**	**-**	-	-	50
Total Other Assets	**994**	**86**	**1 622**	**11**	637	134	812
Total Assets	**238 867**	**9 001**	**167 534**	**32 691**	208 376	7 177	164 544
Less: **CURRENT LIABILITIES:**							
Rent paid in advance	**68**	**3**	**44**	**9**	91	3	72
Provisions	**17**	**1**	**87**	**17**	3	-	1
Sundry creditors	**310**	**44**	**1 549**	**24**	289	40	104
NON-CURRENT LIABILITIES: (2)	**1 890**	**71**	**1 225**	**241**	2 103	71	1 656
Total Liabilities	**2 285**	**119**	**2 905**	**291**	2 486	114	1 833
NET ASSETS AVAILABLE TO PAY BENEFITS	**236 582**	**8 882**	**164 629**	**32 400**	205 890	7 063	162 711

13. Assets (continued)

(1) Police Employer Account and POSS Employer Account

For the year ended 30 June 2000 the assets of the Police Employer and POSS Employer accounts have been separated. For the year ended 30 June 1999 these assets were combined in the Employer Contribution Account.

(2) Bank Bill Facility

Non-current liabilities include the Scheme's portion of an arrangement entered into by Funds SA during 1993. Under the arrangement the future income stream arising from the long-term lease to the Australian Taxation Office (ATO) of the whole of a Hobart office property has been redirected to a syndicate of international banks. The redirection took the form of a concurrent lease of the property to the banks under which the banks received the right to the rental and fixed outgoings payments made by the ATO. The concurrent lease requires the banks to make rental payments to Funds SA equal in value to the payments receivable from the ATO. As part of the transaction, the banks provided a bank bill facility to Funds SA. Under a set-off agreement, the rental payments due to Funds SA under the concurrent lease are applied by the banks to service the bill facility. The amounts outstanding under the facility are predetermined and are capable of being fully serviced and repaid from the concurrent lease rentals.

14. Changes in Net Assets

Transactions within each Scheme are summarised below:

	2000				1999		
	Old Scheme Division	**New Scheme Division**	**Police Employer Account**	**POSS Employer Account**	Old Scheme Division	New Scheme Division	Employer Contrib. Account
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY	**$'000**	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000
	205 890	**7 063**	**136 684**	**26 027**	189 422	5 674	141 764
INVESTMENT REVENUE	**34 348**	**1 243**	**34 517**	**4 535**	17 921	600	15 078
OTHER INCOME	**36**	**6**	**65**	**-**	23	7	26
ADMINISTRATION EXPENSE	**(94)**	**(12)**	**(248)**	**-**	(70)	(8)	(181)
CONTRIBUTIONS:							
Contributions for past service liability	**-**	**-**	**-**	**-**	-	-	2 800
Contributions by employer	**-**	**-**	**22 885**	**3 256**	-	-	26 878
Contributions by members	**6 213**	**959**	**-**	**-**	6 472	967	-
	6 213	**959**	**22 885**	**3 256**	6 472	967	29 678
BENEFITS PAID:							
Pensions	**(4 768)**	**(6)**	**(16 342)**	**-**	(4 514)	(2)	(15 464)
Lump sums	**(3 655)**	**(80)**	**(12 932)**	**(1 418)**	(2 343)	(53)	(8 190)
	(8 423)	**(86)**	**(29 274)**	**(1 418)**	(6 857)	(55)	(23 654)
REFUNDS TO MEMBERS:							
Contributions	**(773)**	**(203)**	**-**	**-**	(610)	(94)	-
Interest	**(615)**	**(88)**	**-**	**-**	(411)	(28)	-
	(1 388)	**(291)**	**-**	**-**	(1 021)	(122)	-
NET INCREASE IN FUNDS	**30 692**	**1 819**	**27 945**	**6 373**	16 468	1 389	20 947
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE	**236 582**	**8 882**	**164 629**	**32 400**	205 890	7 063	162 711

15. Benefit Payments

All benefit payments were met in the first instance from the Consolidated Account. The Treasurer, in turn, recouped the value of the employee share of benefits paid from the Police Superannuation Fund and the employer share from the Police Superannuation Scheme Contribution Account.

	2000				1999		
	Old Scheme Division	**New Scheme Division**	**POSS Scheme**	**Total**	Old Scheme Division	New Scheme Division	Total
PENSIONS:	**$'000**	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000
Gross scheme costs	**21 096**	**20**	**-**	**21 116**	19 974	6	19 980
Funded from:							
Police Superannuation Fund	**4 768**	**6**	**-**	**4 774**	4 514	2	4 516
Police Superannuation Scheme Contribution Account	**16 328**	**14**	**-**	**16 342**	15 460	4	15 464
	21 096	**20**	**-**	**21 116**	19 974	6	19 980
LUMP SUMS:							
Gross scheme costs	**16 336**	**331**	**1 418**	**18 085**	10 403	183	10 586
Funded from:							
Police Superannuation Fund	**3 655**	**80**	**-**	**3 735**	2 343	53	2 396
Police Superannuation Scheme Contribution Account	**12 681**	**251**	**-**	**12 932**	8 060	130	8 190
POSS Scheme Contribution Account	**-**	**-**	**1 418**	**1 418**	-	-	-
	16 336	**331**	**1 418**	**18 085**	10 403	183	10 586
RESIGNATION BENEFITS:							
Gross scheme costs:							
Contributions	**773**	**203**	**-**	**976**	610	94	704
Interest	**615**	**88**	**-**	**703**	411	28	439
	1 388	**291**	**-**	**1 679**	1 021	122	1 143
Funded from:							
Police Superannuation Fund	**1 388**	**291**	**-**	**1 679**	1 021	122	1 143

RIVER MURRAY CATCHMENT WATER MANAGEMENT BOARD

FUNCTIONAL RESPONSIBILITY

The River Murray Catchment Water Management Board (the Board) was established pursuant to the *Water Resources Act 1997*. The functions of the Board include:

- preparing and implementing a catchment water management plan;
- providing advice to the Minister for Water Resources (the Minister) 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.

The Board is a separate body corporate and an instrumentality of the Crown and, is subject to control and direction by the Minister.

AUDIT MANDATE AND COVERAGE

Audit Authority

Section 74(2) of the *Water Resources Act 1997* specifically provides for the Auditor-General to audit the accounts and financial statements of the Board in respect of each financial year.

Scope of Audit

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

During 1999-2000 specific areas of audit attention included:

- expenditure, including accounts payable and salaries and wages
- revenues, receipts and debtors
- general ledger maintenance
- financial reporting
- property, plant and equipment.

Audit Communications to Management

Management letters communicating the results of the audit were forwarded to the Presiding Member of the Board. Satisfactory responses were received with respect to the issues raised.

AUDIT FINDINGS AND COMMENTS

Water Based Levies

A major source of the Board's revenue is Water Based Levies, which are collected from licensed water holders in accordance with the *Water Resources Act 1997*. These levies are initially raised, collected and reported through the Water Licensing System operated by the Department for Water Resources (previously the Department for Environment, Heritage and Aboriginal Affairs).

Audit review in 1997-98 and 1998-99 revealed a number of control weaknesses within the Water Licensing System and associated management processes used to raise, collect and report Water Based Levies. These control weaknesses inhibited the reporting of reliable financial information on levies due and receivable by the Board, which resulted in the qualification of the Board's financial statements for 1997-98 and 1998-99.

Audit review during 1999-2000 focussed on following-up the weaknesses identified in previous years audits. Audit review revealed that the Department for Water Resources instigated certain remedial action to address the control and system weaknesses identified by Audit. These efforts included undertaking an internal audit of water licences and reconciling all revenue raised for the 1999-2000 financial year back to validated licence data. In regard to the internal audit, the review was not completed within sufficient time to enable Audit to appropriately assess the work undertaken at the time of preparation of this Report. Consequently, the Board's financial statements have been qualified with respect to revenue and accounts receivable. Further commentary with respect to the limitations that resulted in this qualification is included under the Department for Water Resources in my Annual Report to Parliament for the year ended 30 June 2000, tabled on 4 October 2000.

General Financial Controls

Commentary with respect to the Board's General Financial Controls is provided in the Catchment Water Management Boards (River Murray) section of my Annual Report to Parliament for the year ended 30 June 2000 under the headings 'Internal Control Environment' and 'Other Audit Findings and Comments'.

Extract from Independent Audit Report

> ***Qualification***
>
> *Water Based Levies due and payable under the* Water Resources Act 1997 *were initially collected and reported through systems operated by the Department for Water Resources (formerly the Department for Environment, Heritage and Aboriginal Affairs) for remitting to the Board. These systems have limitations with respect to the completeness and accuracy of recording of transactions. The Department for Water Resources has undertaken corrective action to address these limitations. At the time of this Report that work was not completed in sufficient time to be assessed by Audit.*
>
> *Due to the unresolved limitations within the systems utilised in relation to Water Based Levies, I am unable to form an opinion on the recorded value of revenue and the related accounts receivable balance reported for such levies.*
>
> ***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 Australian Accounting Standards and other mandatory professional reporting requirements, the financial position of the River Murray Catchment Water Management Board as at 30 June 2000, the results of its operations and its cash flows for the year then ended.*

CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the River Murray Catchment Water Management Board 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. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Audit formed the opinion that 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, except for the matters outlined under 'Audit Findings and Comments', were sufficient to provide reasonable assurance that the financial transactions of the organisation were conducted properly and in accordance with the law.

Operating Statement for the year ended 30 June 2000

	Note	2000 $'000	1999 $'000
INCOME:			
Contributions from SA Water	1.3	**1 800**	1 800
Water based levy	1.3	**1 729**	1 651
Interest received		**182**	149
Rent received		**6**	8
Grants received	14	**194**	75
Other income		**39**	12
Total Income		**3 950**	3 695
EXPENDITURE:			
Administration and Board Expenses:			
Administration expenses		**275**	269
Board fees and related payments		**62**	68
Depreciation and amortisation	2.2	**12**	9
Salaries, wages and related payments	2.3	**359**	349
Total Administration and Board Expenses		**708**	695
Catchment Plan Programs:			
Education and communication		**171**	86
Planning		**486**	531
Murray Darling 2001	3	**2 448**	2 912
Other programs administered by the Board		**136**	-
Total Catchment Plan Programs		**3 241**	3 529
Total Expenditure		**3 949**	4 224
OPERATING SURPLUS (DEFICIT)		**1**	(529)
Retained surplus 1 July		**2 609**	3 138
ACCUMULATED SURPLUS AT 30 JUNE		**2 610**	2 609

Statement of Financial Position as at 30 June 2000

	Note	2000 $'000	1999 $'000
CURRENT ASSETS:			
Cash	2.5	**2 914**	1 717
Receivables and prepayments	4	**1 748**	1 407
Total Current Assets		**4 662**	3 124
NON-CURRENT ASSETS:			
Plant and equipment	5	**79**	71
Total Non-Current Assets		**79**	71
Total Assets		**4 741**	3 195
CURRENT LIABILITIES:			
Creditors and accrued expenses	6	**2 115**	566
Lease liability	2.4, 8	**3**	3
Provisions	2.3, 7	**12**	12
Total Current Liabilities		**2 130**	581
NON-CURRENT LIABILITIES:			
Lease liability	2.4, 8	**1**	5
Total Non-Current Liabilities		**1**	5
Total Liabilities		**2 131**	586
NET ASSETS		**2 610**	2 609
ACCUMULATED FUNDS:			
Accumulated surplus		**2 610**	2 609
TOTAL ACCUMULATED FUNDS		**2 610**	2 609
Commitments	8		

Statement of Cash flows for year ended 30 June 2000

	Note	2000 Inflows (Outflows) $'000	1999 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Inflows:			
Contributions from SA Water		**1 800**	900
Water based levy		**1 425**	2 574
Interest received		**172**	152
NHT Project grants		**165**	75
Other Income		**35**	12
Rent		**6**	8
Outflows:			
Payments to suppliers, service providers and employees		**(2 379)**	(3 933)
Net Cash provided by (used in) Operating Activities	13.2	**1 224**	(212)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Outflows:			
Payments for plant and equipment		**(25)**	(21)
Principal repaid on lease liability		**(2)**	(3)
Net Cash used in Investing Activities		**(27)**	(24)
NET INCREASE (DECREASE) IN CASH HELD		**1 197**	(236)
CASH AT 1 JULY		**1 717**	1 953
CASH AT 30 JUNE	13.1	**2 914**	1 717

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. General

1.1 Establishment of the Board

The River Murray Catchment Water Management Board (the Board) commenced operation under the *Water Resources Act 1997* (the Act), which came into operation on 2 July 1997. The Board was established 11 September 1997 and commenced operations under an Initial Plan approved by the Minister for Environment and Heritage.

1.2 Functions of the Board

The functions of the Board are:

- to prepare and implement a catchment water management plan in accordance with the Act;
- 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;
- 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;
- 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 the users of reticulated water, at the rate of 1 cent per kilolitre. This levy is raised under the *Water Resources Act 1997*, collected by SA Water and distributed to the Board in equal instalments each half year in June and December.

The Water Based Levy contributions are levied on a rate per kilolitre of water licensed to each irrigator, recreation and industrial licensed water users based on their licensed water allocation (0.3 cents per kl). All water based levies are charged and collected by the Department for Water Resources (formerly Department for Environment, Heritage and Aboriginal Affairs) on behalf of the Board.

1.4 Employees

The General Manager (on secondment from the Department of the Premier and Cabinet) and six permanent staff are engaged to undertake the work of the Board. Casual staff are engaged when required. Consultants are engaged to undertake specific projects.

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 general purpose Financial Statements have been prepared in accordance with appropriate Australian Accounting Standards, Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and the requirements of the *Water Resources Act 1997*.

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. Statement of Significant Accounting Policies (continued)

2.2 Non-Current Assets

Depreciation and Amortisation

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:

	Percent
Furniture	10
Computer and related equipment	20
Leased plant and equipment	20

2.3 Employee Entitlements

Employer Superannuation

The Board contributed \$39 000 (\$20 000) in 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 at nominal amounts based on current salary rates. On-costs have been included in the provision in accordance with Australian Accounting Standard AAS 30 'Accounting for Employee Entitlements'.

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 employees entitlement.

Long Service Leave

The benchmark used for determining long service leave liability is eight years in accordance with Accounting Policy Statement APS 9 'Employee Entitlements' issued by the Department of Treasury and Finance. One member of staff has an entitlement to long service leave as a result of an entitlement under an employment contract.

2.4 Leases

Leases of fixed assets, where the Board has retained substantially all the risks and benefits incidental to ownership of the asset, are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the present value of the minimum lease payments including residual values. Leased assets are amortised over five years (refer Note 8.1).

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor are charged as expenses in the period in which they are incurred (refer Note 8.2).

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 4.96 percent (4.96 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.

3. Murray Darling 2001

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.

During 1999-2000 the Board contributed to the funding of 69 projects (90 in 1998-99) associated with water management issues in the Murray Catchment Area. The contributions were made to the Department for Water Resources (formerly the Department for Environment, Heritage and Aboriginal Affairs), which as lead agency for the State in delivery of the MD 2001 Program with the Natural Heritage Trust, administers these projects.

4. Current Receivables and Prepayments

	Note	**2000 \$'000**	1999 \$'000
Water based levy contributions receivable at balance date		**140**	1 181
Less: Provision for doubtful debts		**14**	14
		126	1 167
Accounts receivable from:			
The Department for Water Resources (formerly DEHAA)	1.3	**1 573**	227
Accounts receivable		**49**	7
Prepayments		**-**	6
Total Receivables and Prepayments		**1 748**	1 407

5. Plant and Equipment

	2000 $'000	1999 $'000
Office equipment, furniture and fittings at cost	**93**	73
Less: Accumulated depreciation	**20**	10
	73	63
Capitalised leased asset	**13**	13
Less: Accumulated amortisation	**7**	5
	6	8
Total Plant and Equipment	**79**	71

6. Creditors and Accrued Expenses

	2000	1999
Trade creditors	**378**	540
Accrued expenses	**1 737**	26
Total Creditors and Accrued Expenses	**2 115**	566

7. Provisions

	2000	1999
Current Provisions:		
Provision for employee entitlements:		
Annual leave	**9**	11
Long service leave	**3**	1
Total Current Provisions	**12**	12

8. Expenditure Commitments

8.1 Finance Lease Commitments

	2000	1999
Payable in respect of the photocopier:		
Not later than one year	**3**	5
Later than one year and not later than five years	**1**	4
Later than five years	**-**	-
Minimum lease payments	**4**	9
Less: Future finance charges	**-**	1
Net Lease Liability	**4**	8

Lease payments are made monthly in advance; the Board has the right to pay the residual and own the equipment; the lease does not contain any other restrictions on the operations of the Board.

8.2 Non Cancellable Operating Lease Commitments Contracted for but not capitalised in the Accounts

	2000	1999
Payable in respect of commercial property:		
Not later than one year	**24**	24
Later than one year and not later than five years	**28**	52
Later than five years	**-**	-
	52	76

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.

9. Auditor's Remuneration

	2000 $'000	1999 $'000
Amounts due and receivable for auditing the accounts	**20**	20

10. Remuneration of Board Members

Total income received, or due and receivable, by Board Members was $56 000 ($65 000). The number of Members whose income from the entity falls within the following bands are:

	2000 Number of Members	1999 Number of Members
$Nil	**1**	1
$1 - $9 999	**7**	6
$10 000 - $19 999	**1**	1
$20 000 - $29 999	**-**	1

11. River Murray Catchment Water Management Board

Members of the River Murray Catchment Water Management Board during the financial year were:

Mr James McColl, Presiding Member
Mr Guy Boothby
Mr Peter Norman
Mr Brian Caddy (term expired 20 October 1999)
Mr Peter B Arnold (appointed 21 October 1999)
Mr Raymond R McDonald
Mr Ian Kroehn
Mrs Joanne L Pfeiffer
Mr Jeffrey W Parish
Mr William R Paterson (appointed 21 October 1999)

12. Consultant Fees

	Particulars	**2000 $'000**	1999 $'000
Below $10 000:			
Hollis B	The Gurra Survey	**-**	2
Pacific Project Management	LAP Writers Guide	**-**	4
QED Pty Ltd	Strategic Planning Workshop	**-**	2
Sinclair Knight Merz	NHT Bid Preparation	**-**	3
$10 000 - $50 000:			
Australia Water Environment	Water Allocation Plan – Angus Bremer	**-**	31
Australia Water Environment	Proposal Statements	**-**	15
BC Tonkin and Associates	The Marne Study	**-**	25
Newman Robert	Catchment Planning	**-**	19
Planning SA	Geographic Information System	**25**	25
QED Pty Ltd	Proposal Statements	**-**	17
Above $50 000:			
Australia Water Environment	Water Allocation Plan – Angus Bremer	**81**	-
Sinclair Knight Merz	Water Allocation Plan – Murray	**96**	25
Sinclair Knight Merz	Water Allocation Plan – Noora	**28**	26
Sinclair Knight Merz	Irrigation Management Strategy	**-**	53
Sinclair Knight Merz	Catchment Planning	**-**	208
Sinclair Knight Merz	The Drought Plan	**-**	46
Sinclair Knight Merz	Catchment Water Management Plan Stage 2	**219**	-
Michels Warren	Information and Publication	**50**	-
Michels Warren	Community Awareness	**52**	-
Total		**551**	501

13. Statement of Cash Flows

13.1 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.

13.2 Reconciliation of Net Cash provided by (used in) Operating Activities to Operating Surplus	**2000 $'000**	1999 $'000
Operating surplus (deficit)	**1**	(529)
Depreciation and amortisation	**12**	9
Loss on write off of computers	**3**	-
Decrease (Increase) - Receivables and prepayments	**(341)**	23
Increase - Trade creditors and accruals	**1 549**	279
Increase - Provisions	**-**	6
Net Cash provided by (used in) Operating Activities	**1 224**	(212)

14. Grants Received

During the year the Board received Grants for three specific projects. The amounts were received from the Natural Heritage Trust MD 2001 program and unspent funds as at 30 June 2000 will be fully expended by 30 June 2001. The projects are:

	Grant $'000	Spent $'000	Carry Forward $'000
River Murray Catchment Communications and Education Strategy	40	14	26
Development of a Strategy for Decision Making for Wetlands Enhancement for the River Murray	85	-	85
Quantification of Environmental Flows for Ephemeral Streams in the Eastern Mt Lofty Ranges	69	-	69

SOUTH AUSTRALIAN ASSET MANAGEMENT CORPORATION AND ITS CONTROLLED ENTITIES

FUNCTIONAL RESPONSIBILITY

The *State Bank of South Australia Act 1983* (as amended) provides for the South Australian Asset Management Corporation (SAAMC), formerly known as the State Bank of South Australia to '… manage, realise and otherwise deal with its remaining assets and liabilities and, with the approval of the Treasurer, other assets and liabilities of the Crown or an instrumentally of the Crown, to the best advantage of the State'. The Act also provides for the Board of Directors of SAAMC to be subject to the control and direction of the Treasurer.

SAAMC and its controlled entities (ie former subsidiary and associated entities of the former State Bank of South Australia) commenced operations on 1 July 1994 with consolidated assets and liabilities of $8.3 billion and $8.2 billion respectively. At 30 June 2000 they stood at $2.1 billion and $1.8 billion respectively. SAAMC has now largely realised its property and loan portfolios and has invested the resulting funds in liquids so as to meet future liabilities totalling $1.8 billion which mature through to the year 2005. At the commencement of the financial year SAAMC had nine controlled entities. During the year one entity was wound up for nil consideration. With effect from 1 July 2000 the other eight controlled entities were dissolved pursuant to section 23 of the *State Bank (Corporatisation) Act 1994*. The remaining assets and liabilities of these eight controlled entities as at 30 June 2000 were vested in the parent entity (SAAMC).

In the Report of the Auditor-General for the year ended 30 June 2000, I commented in Part B 'South Australian Asset Management Corporation and its Controlled Entities', that SAAMC had complied with the *Public Finance and Audit Act 1987* requirement for submission of financial statements to the Auditor-General and that the audit had not been completed in its entirety prior to finalisation of that Report.

This Report includes commentary concerning the controls exercised by SAAMC during the 1999-2000 financial year and presents the 1999-2000 audited financial statements with accompanying interpretation and analysis.

AUDIT MANDATE AND COVERAGE

Audit Authority

Subsection 23(2a) of the *State Bank of South Australian Act 1983* provides for the Auditor-General to audit the accounts of SAAMC in respect of each financial year. Consistent with the approach taken in prior years the 2000 statutory audits of SAAMC and its controlled entities are undertaken by a private sector chartered accounting and auditing firm under sub-contract arrangement to the Auditor-General.

Audit Scope and Findings

A comprehensive Audit Plan formulated between the sub-contract auditor and the Auditor-General's Department established the review scope for the 1999-2000 financial year. The Audit Plan outlines the audit approach, coverage and procedures to be employed in the process of examination of the auditable areas of review including:

- loans and other asset reviews - asset valuation/provisioning/realisations and recoveries
- Treasury operations
- investments
- cash and cash at bank
- borrowings and other liabilities
- operating expenses
- financial accounting and reporting consolidations
- financial information systems, including system/subsystem reconciliations
- internal audit
- financial statements verification.

The review of the auditable areas (including verification of financial statements) proceeded to finalisation, and consistent with previous years, the assessment of SAAMC's general financial controls was determined as satisfactory. In addition, matters raised with SAAMC management during the course of the audit (not material in nature) were responded to in a positive manner.

CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the South Australian Asset Management 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. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

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

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

The financial statements represent a consolidated financial report of the assets and liabilities and results of operations of SAAMC and SAAMC controlled entities.

Two of the major objectives of SAAMC involve the management of the divesting of assets and repayment of liabilities rather than holding for long term operations and profit generation. Accordingly assets have been viewed essentially as current in nature and valued on this basis (Notes 1(a) and (b) to the financial statements refers). Not all liabilities are current and therefore are not required to be repaid within 12 months. Note 14 to the financial statements details the due dates for repayment of long term public and listed note issues.

More specific interpretative comments in relation to the financial statements follow.

Operating Statement

Profit and Loss Accounts

SAAMC's consolidated operations for the year ended 30 June 2000 resulted in an operating profit before income tax of $30.2 million ($50.9 million). The main components of that profit were:

- Net interest income for the year of $7 million. This comprised interest income of $120.3 million and interest expense of $113.3 million. Interest income of $13.2 million was received from the South Australian Government Financing Authority in respect of funding provided to that organisation (Note 3 to the financial statements refers). A further $107 million was received in income from investments by the SAAMC Treasury. The interest expense of $113.3 million was in respect of external borrowings.

- Non-interest income of $14 million. This included a mark to market gain of $10.3 million (Note 3 to the financial statements refers).

- Non-interest expenses of $2.8 million. This included $2.3 million in administration and general costs. Included in administration and general costs were legal costs of $1.1 million associated with the recovery of loans and $0.2 million incurred in funding the costs of the Bank Litigation Section of the Attorney-General's Department (Notes 2 and 4 to the financial statements refers).

  Offsetting the non-interest expenses were recoveries and net write backs in provisions for doubtful debts of $11.9 million (Notes 1(d) and 5 to the financial statements refers). The credits to the provisions for doubtful debts included proceeds of $3.4 million of distributions from the Adelaide Steamship Company receivership and $2.9 million from settlement of Edward Park Property Trust.

Balance Sheets

Asset and Liabilities

Total assets at 30 June 2000 were $2.1 billion compared with $2.2 billion at 30 June 1999. The composition of assets did not change significantly from last year as SAAMC has primarily completed its strategy of wind-down and realisation of exposures to loans. In respect of on balance sheet exposures, SAAMC remains in a highly liquid position with $1.9 billion invested in the South Australian Government Financing Authority, liquid foreign currency and Australian dollar securities.

Total liabilities at 30 June 2000 was $1.8 million compared to $1.9 million at 30 June 1999. The reduction in borrowings continues in line with the maturity of various capital market raisings.

Shareholders' Equity

Shareholders equity attributable to the South Australian Government increased from $266.7 million at 30 June 1999 to $296.9 million at 30 June 2000. This increase resulted from an operating profit after income tax of $30.2 million.

Retained Profits

Section 22 of the *State Bank of South Australia Act 1983* (as amended) provides that any surplus of funds remaining after the costs of SAAMC have been met in any financial year, must be paid into the Consolidated Account or otherwise dealt with as the Treasurer of South Australia may determine. The Treasurer has determined that SAAMC is to retain its current operating surplus of $30.2 million and its prior years retained earnings.

Reserves

SAAMC entered into a property put option in 1993-94 as part of the sale of the Australis property. If the purchaser of the Australis property exercises the put option in 2008, SAAMC will be required to purchase the property for $39.5 million.

Should this event occur, SAAMC will be required to fund the full acquisition cost of $39.5 million. In the event that the property is subsequently sold, SAAMC may need to fund the difference between the acquisition cost of $39.5 million and the net proceeds from the sale of the property.

In recognition of these financial management considerations, SAAMC transferred a portion of retained profits to a Property Reserve as part of a strategic objective of building up a reserve that may be required to fund either the partial or full acquisition of the Australis property in 2008.

Statements of Cash Flows

The Statements of Cash Flows highlights the net receipts from loans, advances and receivables of $495 million, the net receipts from deposits of $18.7 million and the net repayments of borrowings of $83 million which reflect the primary operating activities of SAAMC.

Significant cash flows also included cash flows from interest received and interest paid.

Profit and Loss Statements for the year ended 30 June 2000

	Note	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
INTEREST INCOME	3	**120 294**	122 816	**120 294**	122 956
Less: INTEREST EXPENSE	3	**113 298**	115 849	**113 298**	115 849
Net income from interest		**6 996**	6 967	**6 996**	7 107
Commission and other income	3	**14 046**	15 369	**14 046**	15 745
OPERATING INCOME		**21 042**	22 336	**21 042**	22 852
Less: Operating Expenses:					
Non-interest expenses	4	**2 789**	18 763	**2 789**	4 150
Charge (credit) for bad and doubtful debts	5	**(12 039)**	(44 478)	**(11 981)**	(32 175)
OPERATING PROFIT BEFORE INCOME TAX		**30 292**	48 051	**30 234**	50 877
Income tax benefit attributable to operating profit	6	**-**	69	**-**	69
OPERATING PROFIT AFTER INCOME TAX ATTRIBUTABLE TO THE SOUTH AUSTRALIAN GOVERNMENT		**30 292**	48 120	**30 234**	50 946
RETAINED PROFITS AT 1 JULY		**211 706**	163 586	**211 397**	160 451
Total available for distribution		**241 998**	211 706	**241 631**	211 397
Dividends provided for or paid	2	**-**	-	**-**	-
RETAINED PROFITS AT 30 JUNE		**241 998**	211 706	**241 631**	211 397
Transfer from reserves	18	**2 261**	-	**2 628**	-
Transfer to reserves	18	**(972)**	-	**(972)**	-
TOTAL RETAINED PROFITS AT 30 JUNE		**243 287**	211 706	**243 287**	211 397

Balance Sheets as at 30 June 2000

	Note	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
ASSETS:					
Cash on hand and at bank		**12 604**	10 803	**12 604**	10 804
Short term investments	8	**-**	73 000	**-**	73 000
Loans, advances and receivables	9	**60 242**	551 497	**60 242**	551 495
Liquid and trading securities	10	**1 905 005**	1 378 766	**1 905 005**	1 378 766
Property, plant and equipment	11	**6 600**	-	**6 600**	-
Investments in controlled entities	12	**-**	104 954	**-**	-
Other assets	13	**154 560**	250 094	**154 560**	172 554
Total Assets		**2 139 011**	2 369 114	**2 139 011**	2 186 619
LIABILITIES:					
Borrowings	14	**1 834 836**	1 908 697	**1 834 836**	1 908 697
Provisions	15	**667**	1 965	**667**	1 965
Other liabilities	16	**6 533**	191 769	**6 533**	9 218
Total Liabilities		**1 842 036**	2 102 431	**1 842 036**	1 919 880
NET ASSETS		**296 975**	266 683	**296 975**	266 739
SHAREHOLDERS' EQUITY:					
Share capital	17	**52 716**	52 716	**52 716**	52 755
Reserves	18	**972**	2 261	**972**	2 587
Retained profits		**243 287**	211 706	**243 287**	211 397
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SOUTH AUSTRALIAN GOVERNMENT		**296 975**	266 683	**296 975**	266 739

Statements of Cash Flows for the year ended 30 June 2000

	Note	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:					
Interest received		**118 694**	135 953	**118 694**	136 093
Interest paid		**(119 206)**	(162 964)	**(119 206)**	(162 964)
Dividends received		**-**	12	**-**	12
Other income received		**3 991**	1 295	**3 991**	1 671
Recovery of bad debts written off in previous years		**12 984**	14 973	**12 926**	15 176
Payments to trade creditors, other creditors and employees		**(5 234)**	(6 342)	**(5 234)**	(7 429)
Income taxes refunded		**-**	-	**-**	-
Net Cash Flows provided by (used in) Operating Activities	25(c)	**11 229**	(17 073)	**11 171**	(17 441)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net receipts(advances) from/to loans, advances and receivables		**495 011**	476 830	**495 009**	477 198
Net (payments) receipts for property, plant and equipment		**(6 600)**	-	**(6 600)**	-
Net (payments) receipts from trading securities		**(506 335)**	(9 360)	**(506 335)**	(9 360)
Net receipts from non-trading investments		**(56)**	5	**-**	5
Proceeds from sale of controlled entities, net of cash disposed	25(b)	**-**	-	**-**	-
Net Cash Flows (used in) provided by Investing Activities		**(17 980)**	467 475	**(17 926)**	467 843
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net receipts from (repayment of) borrowings		**(83 108)**	(429 011)	**(83 105)**	(429 011)
Net receipts from (repayment of) deposits		**18 660**	31 503	**18 660**	31 503
Repayment of capital		**-**	-	**-**	-
Dividends paid		**-**	-	**-**	-
Net Cash Flows used in Financing Activities		**(64 448)**	(397 508)	**(64 445)**	(397 508)
NET (DECREASE) INCREASE IN CASH HELD		**(71 199)**	52 894	**(71 200)**	52 894
CASH AT 1 JULY		**83 803**	30 909	**83 804**	30 910
CASH AT 30 JUNE	25(a)	**12 604**	83 803	**12 604**	83 804

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The significant policies that have been adopted in the preparation of these financial statements are:

(a) Basis of Preparation

South Australian Asset Management Corporation (SAAMC - referred to as the 'Corporation') is incorporated under the *State Bank of South Australian Act 1983* (as amended). On 1 July 1994, the Corporation changed its name from State Bank of South Australia to South Australian Asset Management Corporation, as provided for in the *State Bank of South Australia Act 1983* (as amended). The financial statements of the Corporation and its controlled entities (Consolidated Entity) are prepared as if it were a prescribed corporation, as defined under section 409 of the Corporations Law.

The general purpose financial report of the Corporation and the Consolidated Entity have been prepared in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Law so far as they are applicable to Australian banking operations, and with the *Public Finance and Audit Act 1987*. The accounting policies have been consistently applied by the entities in the Consolidated Entity and are consistent with those of the previous financial year, unless otherwise stated.

The Consolidated Entity vested the majority of its Australian banking operations to Bank of South Australia Limited (BankSA) on 1 July 1994. The vesting was facilitated by legislation passed in South Australia, the Commonwealth and other mainland State Parliaments. The Consolidated Entity retained certain Australian assets (that were excluded from the operations of BankSA), the majority of the wholesale funding liabilities as well as the overseas operations. The Corporation retained control of all controlled entities which included those shown in Note 24, Controlled entities.

The Consolidated Entity's functions are to manage, realise and otherwise deal with its remaining assets and liabilities, and (with the approval of the Crown), other assets and liabilities of the Crown, or an instrumentality of the Crown, to the best advantage of the State of South Australia. For the purpose of performing its functions, the Corporation may carry on the general business of banking.

All assets of the Consolidated Entity which are onshore assets are marked-to-market and treated as current with the exception of an office building purchased in October 1999. Certain liabilities of the Consolidated Entity extend beyond 30 June 2000 and are detailed with their due dates in Note 14, Borrowings.

Effective from 1 July 1994, under the Deed of Termination and Variation between the Treasurer of South Australia and the Corporation, the Corporation assumed the responsibility for management and control of the assets and liabilities of the Group Asset Management Division (GAMD). This resulted in the incorporation of the results and financial position of GAMD with the Consolidated Entity. Certain controlled entities of the Corporation were dissolved effective from 1 July 2000 by proclamation. Refer Note 24 to the financial statements.

(b) Asset Valuation Basis

The assets of the Corporation as they appear on its financial statements and the consolidated financial statements of the Consolidated Entity are mainly monetary assets and as such they have been marked-to-market. Non-monetary assets have been valued using historical costs. All assets with the exception of an office building in Adelaide purchased in October 1999 for $6.6 million, are treated as current as the intention is that, where possible, they will be converted to cash within twelve months. The carrying amounts of these assets are revalued on an ongoing basis so that their market value is reflected on the entity's balance sheet with adjustments made to the profit and loss account.

1. Summary of Significant Accounting Policies (continued)

(c) Principles of Consolidation

The consolidated financial statements are a consolidation of the financial statements of the Corporation and all controlled entities (collectively the 'Consolidated Entity' or the 'Group') as defined by Australian Accounting Standards Board AASB 1024 'Consolidated Accounts'. A list of controlled entities is contained in Note 24, Controlled Entities.

All material balances and transactions between members of the Consolidated Entity have been eliminated on consolidation.

The operating results of controlled entities acquired or disposed of during the year have been included from the date of acquisition or to the date of disposal.

(d) Bad and Doubtful Debts

Specific Provisions

The charge against profits for provisions for doubtful debts reflects the net of new specific provisions less reversals of specific provisions no longer required. All known bad debts are written off against the provision in the period in which they are recognised. Bad debts, in respect of which no specific provisions have been established, are recognised in the profit and loss account.

Where full recovery is considered doubtful on loans, advances and receivables and liquid and trading securities, specific provisions for doubtful debts are made, income recognition is discontinued and amounts received are held as an offset to principal. The assessment of an appropriate level of provisioning requires a large element of subjective judgement relating to many factors, including the ability of a borrower to generate cash flows and the net fair value of security held by the Consolidated Entity where a borrower defaults. These judgements, as at 30 June 2000, have necessitated consideration of the current state of the Australian and International economies, specific markets and future asset values.

Where a loan, advance, receivable and securities has been impaired and requiring a specific provision, that provision is calculated as the amount required to reduce the carrying value of that loan, advance, receivable or securities to the ultimate net fair value amount. The net fair value amount is determined as the recoverable amount of the assets measured on a current market value basis. In this context, the current market value means the price obtainable through an orderly sale less the costs expected to be incurred in obtaining the proceeds of such sale.

General Provisions

In previous years a general provision is also maintained to cover unidentified losses inherent in the loans, advances, receivables and securities portfolio that could have emerge in the future. The general provision was maintained at 1 percent of risk weighted assets (on and off-balance sheet), excluding assets for which a specific provision has been raised or where credit risk was considered negligible. The general provision was maintained at levels, which reflect the risk of unidentified losses that the Directors believed may eventuate as a result of the state of the economy and was consistent with Reserve Bank guidelines for the banking industry.

Change in Accounting Policy

Invested liquid and trading securities constitute 97 percent of the assets of the Corporation. The Corporation has a policy of investing in securities rated A- or better and it has an active monitoring process in place, which ensures that assets downgraded below the approved limit are disposed of in the open market.

Due to the nature of these assets, the credit risk attached to each asset can be individually measured and a specific provision raised where necessary. Therefore a general provision is no longer maintained.

The financial effect of this change in accounting policy is to increase the operating profit before tax by $48 000.

(e) Derivative Financial Instruments

The Corporation is exposed to changes in interest rates and foreign exchange rates from its activities. Prior to the 30 June 1994, the Corporation conducted a trading Treasury. When the banking operations were vested to BankSA, all the significant Treasury exposures were retained by the Corporation. The Corporation no longer trades in derivatives, though some minor positions are maintained. The Corporation has financial instruments, including interest rate and currency swaps, forward rate agreements, futures and options, which arose as part of the former trading activities. It also has financial instruments to hedge non-trading assets, liabilities and commitments of the Corporation. Instruments entered into as part of old trading activities continue to be marked-to-market with gains and losses, whether realised or unrealised, being recognised immediately in the profit and loss account. Gains and losses on instruments that are designated as hedges and are effective as hedges are accounted for on the same basis as the underlying instrument. The face values of such instruments are not recorded as assets and liabilities in the balance sheet. Any amounts receivable or payable in relation to these instruments are recorded as other assets or other liabilities. Details of these financial instruments are disclosed in Note 22, Financial Instruments, to the financial statements.

(f) Leased Assets as Lessor

Operating Leases

Operating leases for leased assets where the Consolidated Entity is the lessor are included in property, plant and equipment in the balance sheet. Rental income is brought to account in the period in which it is earned over the effective lease term. Depreciation expense is charged against profit over the useful life of the asset. The Corporation also owns a property, which is leased to the Department for Administrative and Information Services on a monthly tenancy basis. The property, which was purchased in October 1999 is expected to be covered by a long term lease in the near future and it is included in the balance sheet at its purchase price. Rental income is brought to account in the period in which it is earned. There are no depreciation charges against the asset.

1. Summary of Significant Accounting Policies (continued)

(g) Foreign Currency

All amounts are expressed in Australian currency at the exchange rate applying at balance date. Profits and losses of overseas operations are translated at average exchange rates for the year. Monetary assets and liabilities of overseas operations are translated at mid-point rates of exchange ruling at balance date. There were no Non-monetary assets and liabilities in the overseas operations at balance date. Differences arising on the translation of financial statements of the overseas operations that are considered to be integrated are recognised in the profit and loss account.

Forward exchange contracts are translated at the forward rate applicable at balance date. The unrealised gains and losses arising from these revaluations are discounted to their present value using the mid-rate of the appropriate yield curve and included in the profit and loss account. It is policy to maintain a substantially matched position in foreign currency assets and liabilities and, accordingly, the Corporation's foreign currency exposure in this respect is not material.

(h) Taxation

Section 22(1) of the *State Bank of South Australia Act 1983* (as amended) has been repealed by the *State Bank (Corporatisation) Act 1994*, resulting in the Corporation not being subject to income tax after 30 June 1994. The controlled entities are subject to Australian Federal Government income tax assessment and the overseas operations are subject to Federal taxation regulations applicable to their respective countries.

The Consolidated Entity applies tax effect accounting using the liability method, where the income tax expense is matched to the accounting profit after permanent differences between taxable and accounting income, irrespective of when the income tax is payable.

The tax effect of timing differences, which arise from the recognition of revenue and expenses in different periods to those in which they are assessable or deductible for income tax purposes, is shown in the balance sheet and included in other assets and in other liabilities. Future income tax benefits, including tax losses, are not carried forward as an asset of the Consolidated Entity unless the benefit is virtually certain of being realised.

(i) Employee Entitlements

Employee entitlements as shown in Note 19 to the financial statements have been reported in accordance with Australian Accounting Standards Board AASB 1028, 'Accounting for Employee Entitlements'. The value of commitments to employees is based on planned departure dates of staff and is calculated on the estimated cash entitlement at the time of the expected departure.

Wages, Salaries, Annual Leave and Sick Leave

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represent the amount that the Consolidated Entity has a present obligation to pay, resulting from employees' services provided up to balance date. The provision has been calculated at nominal amounts, based on current wage and salary rates, and includes related on-costs.

Long Service Leave

The liability for employee entitlements to long service leave represents the estimated nominal cash value of the entitlement at the time of the expected departure.

Superannuation Funds

The Corporation contributes the prescribed Employee Contribution to the Triple S scheme administered by Super SA. Contributions are charged against income as they are made. Refer to Note 19, Employee Entitlements.

(j) Liquid and Trading Securities

Liquid and trading securities represent public and other debt instruments that are purchased with the intention of hedging the former trading portfolio, investing excess liquidity prior to the repayment to the South Australia Government, or as part of the liquidity management function of the Consolidated Entity. Such securities are recorded at market value. Gains and losses realised from the sale of these securities and unrealised gains and losses on revaluation are reflected in the profit and loss account.

(k) Non-Trading Investments

Non-trading investments represent investments that are purchased primarily with the intention of being held until maturity. The Corporation no longer holds non-trading investments.

In prior years such securities were recorded at cost adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses relating to any permanent diminution in the value of investment securities were recognised in the profit and loss account. Profits or losses on sales of non-trading investment securities were taken to profit and loss when realised. Investments, including those in associated entities, were recorded at cost less any necessary provision for permanent diminution in value.

(l) Investments in Controlled Entities

The Corporation has eliminated all its investments in controlled entities and it does not carry any of these investments on the Corporation's balance sheet. In the previous years the Corporation carried these investments at cost less any provision for diminution in value.

Dividends and distributions were brought to account in the profit and loss account when they were proposed by the controlled entities.

(m) Rounding and Reclassification

Unless otherwise indicated, all amounts have been rounded to the nearest thousand dollars.

2. Directions of the Treasurer

Pursuant to section 15 of the *State Bank of South Australia Act 1983* (as amended), the Treasurer of South Australian has directed the Corporation to pay to the Attorney-General's Department the costs associated to the Bank Litigation Section of his department. The costs paid for the period of 1 July 1999 to 30 June 2000 were $174 000 ($338 000).

Section 22 of the *State Bank of South Australia Act 1983* (as amended), provides that any surplus of funds remaining after the costs of the Bank have been met in any financial year, must be paid into the Consolidated Account or otherwise dealt with as the Treasurer of South Australia may determine.

The Treasurer of South Australia has directed that $nil ($Nil) be paid into the Consolidated Account and that the Corporation is to retain its remaining surplus of $243.3 million until such time as final determination is made.

3. Operating Income

	SAAMC		Consolidated	
Operating Profit (Loss) before Abnormal Items and Income Tax has been Determined After Crediting as Revenue:	**2000 $'000**	1999 $'000	**2000 $'000**	1999 $'000
Interest Income:				
South Australian Government Financing Authority	**13 245**	25 763	**13 245**	25 763
Other interest income	**107 049**	97 053	**107 049**	97 193
Total Interest Income	**120 294**	122 816	**120 294**	122 956
Commission and Other Income:				
Fee and rental income:				
Rental	**1 562**	-	**1 562**	-
Foreign exchange income	**149**	1 376	**149**	1 376
Dividends	**-**	12	**-**	12
Profit (loss) from sale of:				
Investments	**-**	-	**-**	-
Other assets	**-**	-	**-**	-
Mark-to-market gain (loss)	**10 292**	13 610	**10 292**	13 610
Other sundry income	**2 043**	371	**2 043**	747
Total Commission and Other Income	**14 046**	15 369	**14 046**	15 745
Operating Profit (Loss) before Abnormal Items and Income Tax has been Determined after Debiting:				
Interest Expense:				
South Australian Government Financing Authority	**-**	-	**-**	-
Other interest expense	**113 298**	115 849	**113 298**	115 849
Total Interest Expense	**113 298**	115 849	**113 298**	115 849

4. Non-Interest Expenses

	SAAMC		Consolidated	
Operating Profit (Loss) before Income Tax has been Determined after Charging as Expense	**2000**	1999	**2000**	1999
Staff Costs:				
Fringe benefits tax	**(1)**	-	**(1)**	-
Long service leave and annual leave	**6**	(22)	**6**	(22)
Payroll tax	**4**	22	**4**	22
Salaries and wages	**376**	548	**376**	548
Seminars, courses and training	**-**	1	**-**	1
Superannuation and retiring allowances	**21**	15	**21**	15
Other staff expenses	**3**	387	**3**	387
Staff Costs	**409**	951	**409**	951
Occupancy Costs:				
Depreciation on plant and equipment	**-**	-	**-**	-
Depreciation on property	**-**	-	**-**	-
Operating lease rental expenses	**-**	(316)	**-**	(545)
Rates and taxes	**14**	2	**14**	2
Rent, cleaning, fuel, light and power	**-**	1	**-**	1
Repairs and maintenance	**56**	10	**56**	10
Other occupancy expenses	**-**	4	**-**	4
Occupancy Costs	**70**	(299)	**70**	(528)
Administration and General Costs:				
Advertising	**-**	-	**-**	-
Amounts due or received for audit services by:				
Auditor-General of South Australia	**-**	104	**-**	104
Insurance	**(46)**	329	**(46)**	329
Management and service fees paid to SAFA	**700**	700	**700**	700
Legal fees	**1 126**	1 470	**1 126**	1 420
Other Professional fees	**295**	165	**295**	165
Provision for diminution in value of:				
Investments in controlled entities	**-**	14 474	**-**	-
Telephones	**5**	8	**5**	8
Travel	**20**	17	**20**	17
Other expenses	**210**	844	**210**	984
Administration and General Costs	**2 310**	18 111	**2 310**	3 727
Total Non-Interest Expenses	**2 789**	18 763	**2 789**	4 150

		SAAMC		Consolidated	
5.	**Bad and Doubtful Debts**				
	Operating Profit before Abnormal Items and Income Tax has been Determined after Charging as an Expense (refer to Note 1d):	**2000 $'000**	1999 $'000	**2000 $'000**	1999 $'000
	Net charge (credit) for bad debts written off:				
	Bad debts charge (credits) - Other	**(472)**	(4 283)	**(506)**	(4 383)
	Less: Recoveries net of recovery costs - Controlled entities	**-**	(20 202)	**-**	-
	Net loss on vesting of controlled entities after write back of provision for diminution of $128 647 000	**(58)**	-	**-**	-
	Less: Recoveries net of recovery costs - Other	**(9 084)**	(29 110)	**(9 050)**	(29 313)
	Net charge (credit) for bad debts written off	**(9 614)**	(53 595)	**(9 556)**	(33 696)
	Charge for provision for doubtful debts:				
	General provision for doubtful debts (Note 9)	**(2 306)**	220	**(2 306)**	220
	Specific provision for doubtful debts - Controlled entities	**-**	7 596	**-**	-
	Specific provision for doubtful debts - Other (Note 9)	**(119)**	1 301	**(119)**	1 301
	Charge (credit) for provision for doubtful debts	**(2 425)**	9 117	**(2 425)**	1 521
	Charge (credit) for Bad and Doubtful Debts	**(12 039)**	(44 478)	**(11 981)**	(32 175)
6.	**Income Tax**				
	The amount provided in respect of income tax differs from the amount prima facie payable on operating profit:				
	Prima facie income tax expense (benefit) calculated at 36 percent (36 percent) on operating profit	**10 905**	17 297	**10 884**	18 316
	Increase in income tax expense (benefit) due to non-tax deductible items:				
	Sundry items	**-**	-	**-**	-
		-	-	**-**	-
	Decrease in income tax expense (benefit) due to non-tax assessable items:				
	Tax exempt income - SAAMC	**10 512**	17 397	**10 511**	18 020
	Sundry items	**-**	65	**(20)**	65
		10 512	17 462	**10 491**	18 085
	Income tax expense (benefit) on operating profit (loss) adjusted for permanent differences:	**393**	(165)	**393**	231
	Income tax under (over) provided in prior year	**-**	(57)	**(238)**	4 197
	Exchange rate fluctuations on future income tax benefit not brought to account	**-**	-	**-**	-
	Tax rate differential on overseas income	**(33)**	12	**(33)**	12
	Future income tax benefit not brought to account	**(360)**	141	**(122)**	(4 509)
	Total Income Tax Expense (Benefit)	**-**	(69)	**-**	(69)
	Total income tax expense (benefit) is made up of:				
	Current income tax provision	**-**	(69)	**-**	(69)
	Deferred income tax provision	**-**	-	**-**	-
	Future income tax benefit	**-**	-	**-**	-
		-	(69)	**-**	(69)
	Provision for current income tax				
	Movements during the year were as follows:				
	Balance at 1 July	**-**	74	**-**	74
	Income tax paid	**-**	-	**-**	-
	Under (over) provision in prior year	**-**	(74)	**-**	(74)
	Balance at 30 June	**-**	-	**-**	-
	Future income tax benefit not brought to account:				
	The potential future income tax benefit calculated at 36 percent arising from tax losses and timing differences has not been recognised as an asset because recovery is not virtually certain:				
	Tax losses carried forward	**710**	-	**710**	2 54 313
	Timing differences	**-**	1 097	**-**	(43 685)
	Capital timing differences - Realised	**-**	-	**-**	114 451
	Capital timing differences - Unrealised	**-**	-	**-**	126
		710	1 097	**710**	325 205

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the Consolidated Entity in accordance with division 170 of the *Income Tax Assessment Act 1997*; as of 1 July 2000 there are no other companies in the Consolidated Entity other than the Corporation. Refer to notes 1 and 24.

(ii) the relevant company and/or the Consolidated Entity continues to comply with the conditions for deductibility imposed by the law, and

(iii) no changes in tax legislation adversely affect the relevant company and/or the Consolidated Entity in realising the benefit.

The tax benefit of timing differences includes unrealised items of a capital nature. These benefits will only be realised if these items are realised and then offset by capital gains in the relevant company and/or Consolidated Entity.

The tax losses of $710 000 carried forward in SAAMC reflect losses in the NZ branch, which will be held for another year pending the settlement of an outstanding claim by SAAMC under NZ jurisdiction.

		SAAMC		Consolidated	
7.	**Segmental Reporting**				
	Geographic Segments	**2000**	1999	**2000**	1999
	REVENUE:	**$'000**	$'000	**$'000**	$'000
	Australia	**134 241**	137 986	**134 241**	138 502
	New Zealand	**86**	124	**86**	124
	United Kingdom	**12**	72	**12**	72
	United States of America	**1**	3	**1**	3
	Total Revenue	**134 340**	138 185	**134 340**	138 701
	OPERATING PROFIT (LOSS) AFTER TAX:				
	Australia	**29 000**	42 396	**28 942**	45 222
	New Zealand	**1 162**	347	**1 162**	347
	United Kingdom	**133**	5 340	**133**	5 340
	United States of America	**(3)**	37	**(3)**	37
	Total Operating Profit (Loss) After Tax	**30 292**	48 120	**30 234**	50 946
	TOTAL ASSETS:				
	Australia	**2 138 899**	2 356 685	**2 138 899**	2 174 190
	New Zealand	**112**	11 222	**112**	11 222
	United Kingdom	**-**	1 060	**-**	1 060
	United States of America	**-**	147	**-**	147
	Total Assets	**2 139 011**	2 369 114	**2 139 011**	2 186 619

Industry segments

The Consolidated Entity has operated predominantly in the financial services industry during the course of the year comprising investing, recovery of outstanding debts and management of treasury risks.

8.	**Short Term Investments**				
	Loans to dealers in the Australian short term money market	**-**	73 000	**-**	73 000
	Total Short Term Investments	**-**	73 000	**-**	73 000
9.	**Loans, Advances and Receivables**				
	South Australian Government Financing Authority	**20 779**	260 707	**20 779**	260 707
	Other term lending	**39 463**	299 068	**39 463**	299 100
	Total Loans, Advances and Receivables (Gross)	**60 242**	559 775	**60 242**	559 807
	Less: General provision for doubtful debts	**-**	(2 306)	**-**	(2 306)
	Less: Specific provision for doubtful debts	**-**	(5 972)	**-**	(6 006)
	Total Loans, Advances and Receivables (Net)	**60 242**	551 497	**60 242**	551 495
	GENERAL PROVISION:				
	Balance at 1 July	**2 306**	2 086	**2 306**	2 086
	Charged (credited) against operating profit (Notes 1d, 5)	**(2 306)**	220	**(2 306)**	220
	General Provision at 30 June	**-**	2 306	**-**	2 306
	SPECIFIC PROVISION:				
	Balance at 1 July	**5 972**	34 885	**6 006**	45 619
	Charged (credited) against operating profit (Notes 1d, 5)	**(5 619)**	1 301	**(5 619)**	1 301
	Exchange rate fluctuations	**-**	-	**-**	-
	Bad debts written back	**(353)**	(30 214)	**(387)**	(40 914)
	Specific Provision at 30 June	**-**	5 972	**-**	6 006
	ASSET QUALITY:				
	Non-accrual loans:				
	Loans subject to provisioning for loss of principal	**-**	5 972	**-**	6006
	Loans where no loss of principal is anticipated but full recovery of interest is doubtful	**-**	-	**-**	-
	Total Non-Accrual Loans	**-**	5 972	**-**	6 006
	Less: Specific provision for doubtful debts	**-**	(5 972)	**-**	(6 006)
	NET NON-ACCRUAL LOANS	**-**	-	**-**	-
10.	**Liquid and Trading Securities**				
	Listed:				
	Local/semi government securities	**14 100**	13 817	**14 100**	13 817
	Total Listed	**14 100**	13 817	**14 100**	13 817
	Unlisted:				
	Interbank, corporate and other securities (gross)	**1 896 405**	1 364 949	**1 896 405**	1 364 949
	Less: Specific provision for doubtful debts	**(5 500)**	-	**(5 500)**	-
	Total Unlisted (Net)	**1 890 905**	1 364 949	**1 890 905**	1 364 949
	Total Liquid and Trading Securities	**1 905 005**	1 378 766	**1 905 505**	1 378 766
	Specific Provision:				
	Balance at 1 July	**-**	-	**-**	-
	Charged (credited) against operating profit (Notes 1d, 5)	**5 500**	-	**5 500**	-
	Specific Provision at 30 June	**5 500**	-	**5 500**	-

11. Property, Plant and Equipment

	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
Land and Buildings:				
At cost	**6 600**	-	**6 600**	-
Less: Provision for building depreciation	**-**	-	**-**	-
Total Land and Buildings	**6 600**	-	**6 600**	-

12. Investments in Controlled Entities

	SAAMC 2000	SAAMC 1999	Consolidated 2000	Consolidated 1999
Shares - At cost	**-**	2 33 601	**-**	-
Less: Provision for diminution in value	**-**	(128 647)	**-**	-
Total Investments in Controlled Entities	**-**	104 954	**-**	-

13. Other Assets

	SAAMC 2000	SAAMC 1999	Consolidated 2000	Consolidated 1999
Loans to controlled entities net of provisions	**-**	77 540	**-**	-
Prepayments	**-**	-	**-**	-
Receivables on swap or hedge transactions	**153 795**	161 174	**153 795**	161 174
Other sundry debtors	**765**	11 380	**765**	11 380
Total Other Assets	**154 560**	250 094	**154 560**	172 554

14. Borrowings

	SAAMC 2000	SAAMC 1999	Consolidated 2000	Consolidated 1999
Deposits	**377 362**	374 165	**377 362**	374 165
Capital markets raisings	**1 457 474**	1 495 858	**1 457 474**	1 495 858
Other borrowings	**-**	38 674	**-**	38 674
Total Borrowings	**1 834 836**	1 908 697	**1 834 836**	1 908 697

Capital market raisings present public, listed or private note issues by the Corporation. The Australian dollar equivalent of the face value payable at maturity for public and listed note issues are as follows:

Currency	**Original Face Value**	**Description**	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
AUD	125.0m	6.5% notes due 2000	**119 000**	119 000	**119 000**	119 000
AUD	125.0m	7.25% notes due 2000	**-**	125 000	**-**	125 000
AUD	100.0m	14.5% notes due 2000	**-**	44 475	**-**	44 475
AUD	442.0m	6% deep discount due 2001	**195 170**	195 170	**195 170**	195 170
AUD	200.0m	11% notes due 2002	**86 588**	86 588	**86 588**	86 588
NZD	40.3m	9% notes due 2002	**31 590**	32 375	**31 590**	32 375
AUD	125.0m	9.5% notes due 2002	**59 027**	59 027	**59 027**	59 027
AUD	125.0m	10.5% notes due 2003	**67 666**	67 666	**67 666**	67 666

Exchange Rates

The Australian dollar values of the above note issues were determined using the following exchange rates:

	2000	1999
Australian Dollars (AUD)	**1.00000**	1.00000
New Zealand Dollars (NZD)	**1.27572**	1.24477

15. Provisions

	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
Employee entitlements, including on-costs (Note 19)	**667**	910	**667**	910
Self insurance	**-**	1 055	**-**	1 055
Total Provisions	**667**	1 965	**667**	1 965

16. Other Liabilities

	SAAMC 2000	SAAMC 1999	Consolidated 2000	Consolidated 1999
Due to controlled entities	**-**	182 551	**-**	-
Sundry creditors and accruals	**6 533**	9 218	**6 533**	9 218
Total Other Liabilities	**6 533**	191 769	**6 533**	9 218

17. Capital

	SAAMC 2000	SAAMC 1999	Consolidated 2000	Consolidated 1999
Subscribed by the South Australia Government:				
Balance at 1 July	**52 716**	52 716	**52 755**	52 716
Transfer from (to) reserves	**-**	-	**(39)**	39
Balance at 30 June	**52 716**	52 716	**52 716**	52 755
Total Subscribed Capital	**52 716**	52 716	**52 716**	52 755

18. Reserves

	SAAMC 2000	SAAMC 1999	Consolidated 2000	Consolidated 1999
Asset revaluation:				
Balance at 1 July	**-**	-	**326**	326
Transfer to retained profits	**-**	**-**	**(326)**	-
Balance at 30 June	**-**	-	**-**	326
Asset realisation:				
Balance at 1 July	**2 261**	2 261	**2 261**	2 261
Transfer to retained profits	**(2 261)**	**-**	**(2 261)**	-
Balance at 30 June	**-**	2 261	**-**	2 261

18. Reserves (continued)

	SAAMC		Consolidate	
	2000	1999	**2000**	1999
Capital redemption:	**$'000**	$'000	**$'000**	$'000
Balance at 1 July	**-**	-	**-**	39
Transfer (to) from capital	**-**	-	**39**	(39)
Transfer to retained profits	**-**	-	**(39)**	-
Balance at 30 June	**-**	-	**-**	-
Property:				
Balance at 1 July	**-**	-	**-**	-
Transferred from retained profits	**972**	-	**972**	-
Balance at 30 June	**972**	-	**972**	-
Total Reserves	**972**	2 261	**972**	2 587

Property Reserve

As detailed in Note 21 'Contingent Liabilities', the Corporation entered into a property put option in 1993-94 as part of the sale of the Australis property. If the purchaser of the Australis property exercises the put option in 2008, the Corporation will be required to purchase the property for $39.5 million.

Should this event occur, the Corporation will be required to fund the full acquisition cost of $39.5 million. In the event that the property is subsequently sold, the Corporation may need to fund the difference between the acquisition cost of $39.5 million and the net proceeds from the sale of the property.

In recognition of these financial management considerations, the Directors have resolved to transfer a portion of retained profits to a Property Reserve as part of a strategic objective of building up a reserve that may be required to fund either the partial or full acquisition of the Australis property in 2008.

19. Employee Entitlements (Refer Note 15)

	SAAMC		Consolidated	
	2000	1999	**2000**	1999
Aggregate employee entitlements, including on-costs:	**$'000**	$'000	**$'000**	$'000
Current	**667**	586	**667**	586
Non-current	**-**	324	**-**	324
	667	910	**667**	910

Superannuation Commitments

The Corporation contributes to an accumulation benefit employee fund, which is administered by Super SA. Employer contributions to the fund are made in accordance with the funds requirements.

20. Commitments

Lease Commitments	SAAMC		Consolidated	
	2000	1999	**2000**	1999
Concurrent leases payable or contracted for at balance date but not provided for in the financial statements:	**$'000**	$'000	**$'000**	$'000
Not later than one year	**5 090**	4 884	**5 090**	4 884
Later than one year but not later than two years	**5 309**	5 090	**5 309**	5 090
Later than two years but not later than five years	**17 314**	16 609	**17 314**	16 609
Later than five years	**22 256**	28 470	**22 256**	28 470
	49 969	55 053	**49 969**	55 053

These commitments are offset by a lease receivable, which is estimated to be $50 595 000 ($55 402 000).

21. Contingent Liabilities

Guarantees

Guarantees, warranties and indemnities	**2 269**	4 236	**2 269**	4 846

There are corresponding contingent assets in respect of the major portion of these contingent liabilities.

Claims against the Consolidated Entity

In the ordinary course of business, the Consolidated Entity is involved in litigation which, at the date of adoption of these financial statements, has not been resolved. Acting on legal advice, the Directors are of the opinion that no material losses are likely to arise other than the amounts provided for in the financial statements.

Warranties and Indemnities on Disposal of Controlled Entities

The Consolidated Entity as vendor had granted certain warranties and indemnities to the respective purchasers as part of the negotiations for disposal of controlled entities. The Consolidated Entity has provided for any material claim where it is considered a loss may be crystallised. No material financial impact is expected in respect of other such warranties and indemnities.

Support to Controlled Entities

The Corporation resolved in the past to support its controlled and associated entities as it was necessary to ensure that those entities were able to pay debts in their respective balance sheets, as at 30 June 1999, and otherwise incurred in the ordinary course of business from 1 July 1999, as and when they fall due.

These entities were dissolved effective from 1 July 2000, pursuant to section 23 of the *State Bank (Corporatisation) Act 1994* and with the advice and consent of the Executive Council. The assets and the liabilities of these controlled entities as at balance date were vested in the parent entity (South Australian Asset Management Corporation) on 30 June 2000. The resolution of support was terminated on the 1 July 2000. Any liability that could arise from this resolution of support prior to its revocation is adequately provided for in the financial statements of the Corporation.

Support to Controlled Entities (continued)
By a Deed dated 1 July 1994, the indemnity provided by the Treasurer of South Australia to South Australian Asset Management Corporation (SAAMC) was revoked, with both parties acknowledging that no claims were outstanding. The effect of the Deed was to terminate the South Australian Treasurer's obligation to grant indemnity in respect of losses that had not yet been claimed as at 1 July 1994.

The Corporation has guaranteed the performance of certain entities in meeting specified obligations. The known obligations have been recorded as a liability in these accounts. To the extent that any increases in these obligations arise in the future, they will be met by the Corporation.

Set Off and Extinguishment of Debt
The Corporation entered into a transaction in 1990 and maturing in 2005 for financial assets and liabilities with face values of $542 million. These assets and liabilities are not recognised in the financial statements because the Corporation:

(a) has a legally recognised right to set off the asset and liability;
(b) intends to realise the asset and settle the liability simultaneously.

Deed of Cross Guarantee
Pursuant to a class order, relief has been granted to certain controlled entity as shown below from the Corporations Law requirements for preparation, audit and publication of financial statements. It is a condition of the Class Order that the respective Company (as indicated below) and its wholly owned controlled entity enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of the controlled entity under certain provisions of the Corporations Law. If a winding up occurs under other provisions of the Law, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entity has given a similar guarantee in the event that the Company is wound up.

Southstate Corporate Holdings Ltd (Company)
Campbell Capital Ltd

At balance date the respective Company and controlled entity which are party to the respective Deeds had no assets or liabilities and their contribution to the consolidated operating result and abnormal items after income tax for the year was $nil.

Put Option
A property put option was entered into in 1993-94 as part of the sale arrangements of the Australis property.

At the time of sale, Group Asset Management Division (GAMD) (as head lessee) entered into a 15 year lease with the purchaser in relation to a substantial portion of the building, which was backed in cash flow terms against a pre-existing 15 year lease between GAMD and the Minister for Public Infrastructure (as sub lessee) over the same portion of the building. In addition, GAMD undertook to purchase the building for $39.5 million in 2008, at the current purchaser's option, if the value of the building at the time is lower than the agreed $39.5 million. (Refer Note 1(d)).

The risk that the value of the building in 2008 will be less that $39.5 million is considered low on the basis of an assessment of the property by Richard Ellis in March 1997.

22. Financial Instruments

	SAAMC		Consolidated	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Foreign exchange, interest rate and other market related transactions	**4 515 000**	4 542 000	**4 515 000**	4 542 000

These are transactions in which SAAMC and other parties agreed to exchange a stream of cash flows based on notional principal amounts totalling $4 515 000 where one stream is calculated with reference to rate or index (eg floating interest rate) and the other stream is calculated based on a different rate or index (eg fixed rate).

Derivatives are mainly used to hedge risk. They allow the entity to manage various degrees and types of risk, the most significant being market, credit and liquidity risk.

Market Risk
Market risk is the risk associated with changes in the streams of cash flows from one party to another due to changes in the market value of the asset which the derivative is used to protect.

Mark-to-Market
The Corporation currently has one portfolio of underlying assets where mark-to-market accounting is used. This portfolio was a trading portfolio in the Corporation prior to 30 June 1994.

All positions, including derivatives held in the mark-to-market portfolio, are revalued on a daily basis to reflect market movements, with gains and losses, whether realised or unrealised, being recognised immediately in the profit and loss account.

The following table summarises the notional value of derivatives as at 30 June 2000, which are accounted for on a mark-to-market basis. The amounts disclosed are notional contract amounts only, which do not represent amounts exchanged by the parties (except in the case of cross-currency swaps and forward exchange contracts) and, as such, are not a measure of the exposure of the Corporation through its use of derivatives.

	SAAMC		Consolidated	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Interest rate swaps and forward rate agreements	**1 567 000**	1 739 000	**1 567 000**	1 739 000
Forward foreign exchange contracts	**-**	-	**-**	-
Futures	**122 000**	103 000	**122 000**	103 000
Cross-currency swaps	**548 000**	541 000	**548 000**	541 000
	2 237 000	2 383 000	**2 237 000**	2 383 000

22. Financial Instruments (continued)

Accrual

The Corporation holds derivatives for hedging purposes. Cross-currency swaps and forward rate agreements are used to hedge foreign currency bond issues and deposits. Interest income and expense on these derivative instruments are brought to account on an accrual basis.

The following table summarises the notional value of derivatives accounted for on an accruals basis:

	SAAMC		Consolidated	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Forward foreign exchange contracts	**-**	8 000	**-**	8 000
Cross-currency swaps	**965 000**	792 000	**965 000**	792 000
Interest rate swaps	**1 413 000**	1 359 000	**1 413 000**	1 359 000
	2 378 000	2 159 000	**2 378 000**	2 159 000

In the financial statements of the Corporation the revaluation of the cross currency swaps has been netted against the borrowings, as the purpose of these swaps is to hedge the foreign currency borrowings.

Credit Risk

Credit risk arises on derivative financial instruments because of the possibility that the counterparty to the derivative contract will be unable to settle when it is due.

Derivative transactions, such as futures and exchange traded options where the trades are booked through a recognised futures exchange, are considered to have minimal credit risk.

For other derivative transactions, credit risk is monitored by the marking of both the exchange rate and the interest rates to market against predetermined Board approved limits.

The Corporation also assesses the credit risk of derivatives on a market replacement risk basis using a formula that takes into account the interest rate or exchange rate movements over the life of the derivative. As a condition of a novation of a large proportion of the Corporation's swaps entered into during the year ended 30 June 1997, a Bilateral Security Agreement was entered into which allowed the Corporation to limit its credit exposure on certain transactions. This agreement ensures that credit exposures on the transactions subject to this agreement are kept within pre agreed mark-to-market parameters through a margining procedure.

The Corporation has a number of credit exposure to several counter parties, including government and semi-government instrumentalities.

Interest Rate Risk Management

The Corporation enters into various types of interest rate contracts in managing its interest rate risk as indicated in the following table. The amounts disclosed are notional contract amounts only which do not represent amounts exchanged by the transaction and are not a measure of the exposure of the Corporation through its use of derivatives.

	SAAMC		Consolidated	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Interest rate swaps	**2 780 000**	3 098 000	**2 780 000**	3 098 000
Interest rate futures	**122 000**	103 000	**122 000**	103 000
	2 902 000	3 201 000	**2 902 000**	3 201 000

Interest Rate Risk Exposures

				2000			
		Floating	Fixed Interest Maturing In			Non-	
		Interest	One Year	Over 1 year	More than	Interest	
		Rate	or Less	to 5 Years	5 Years	Bearing	**Total**
Financial Assets:	Note	$'000	$'000	$'000	$'000	$'000	**$'000**
Cash		12 604	-	-	-	-	**12 604**
Short term investments		-	-	-	-	-	**-**
Loans, advances and receivables	9	55 929	4 313	-	-	-	**60 242**
Liquid and trading securities	10	1 905 005	-	-	-	-	**1 905 005**
Other financial assets:							
Net swap receivables	13	-	-	-	-	153 795	**153 795**
Other sundry debtors	13	-	-	-	-	765	**765**
		1 973 538	4 313	-	-	154 560	**2 132 411**
Weighted average interest rate percent		5.62	6.08				
Financial Liabilities:							
Borrowings:							
Deposits	14	3 77 362	-	-	-	-	**3 77 362**
Capital market raisings	14	1 457 474	-	-	-	-	**1 457 474**
Other financial liabilities	16	-	-	-	-	6 533	**6 533**
		1 834 836	-	-	-	6 533	**1 841 369**
Weighted average interest rate percent		5.43					

The table above shows the interest rate exposure of financial assets and liabilities net of interest rate swaps. Interest rate swaps are used to manage interest rate risk exposure. The maturity profile of the Corporation's swaps is shown later on in this Note.

Interest Rate Risk Exposures (continued)

		1999					
		Floating	Fixed Interest Maturing In			Non-	
		Interest	One Year	Over 1 year	More than	Interest	
		Rate	or Less	to 5 Years	5 Years	Bearing	Total
Financial Assets:	Note	$'000	$'000	$'000	$'000	$'000	$'000
Cash		10 804	-	-	-	-	10 804
Short term investments	8	73 000	-	-	-	-	73 000
Loans, advances and receivables	9	543 230	8 265	-	-	-	551 495
Liquid and trading securities	10	1 348 504	30 262	-	-	-	1 378 766
Other financial assets:							
Net swap receivables	13	-	-	-	-	161 174	161 174
Other sundry debtors	13	10 919	-	-	-	461	11 380
		1 986 457	38 527	-	-	161 635	2 186 619
Weighted average interest rate percent		5.21	5.11				
Financial Liabilities:							
Borrowings:							
Deposits	14	374 165	-	-	-	-	374 165
Capital market raisings	14	1 495 858	-	-	-	-	1 495 858
Other borrowings	14	38 674	-	-	-	-	38 674
Other financial liabilities	16	-	-	-	-	9 218	9 218
		1 908 697	-	-	-	9 218	1 917 915
Weighted average interest rate percent		5.02					

The Board has set limits and the Corporation uses derivatives to manage its interest rate risks within those limits on the dollar-per-point exposure within set maturity pools. Basis risk is also managed within limits set by the Board.

Foreign Exchange Risk Management

The Corporation enters into cross-currency swaps and forward exchange contracts to hedge foreign currency borrowings, principally Japanese Yen, as the following table indicates. These amounts are converted at the balance date exchange rates:

	SAAMC		Consolidated	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Cross-currency swaps	**1 513 000**	1 333 000	**1 513 000**	1 333 000
Forward foreign exchange contracts	**-**	8 000	**-**	8 000
	1 513 000	1 341 000	**1 513 000**	1 341 000

The Corporation has borrowed in a number of currencies and it uses cross-currency swaps and forward foreign exchange contracts to hedge principal and interest.

The Corporation's foreign currency borrowings in Australian dollar equivalent as at 30 June:	SAAMC		Consolidated	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Japanese Yen (YEN)	**712 271**	563 917	**712 271**	563 917
New Zealand Dollar (NZD)	**31 590**	32 376	**31 590**	32 376
European Currency Units (ECU)	**146 808**	144 124	**146 808**	144 124

Liquidity Risk

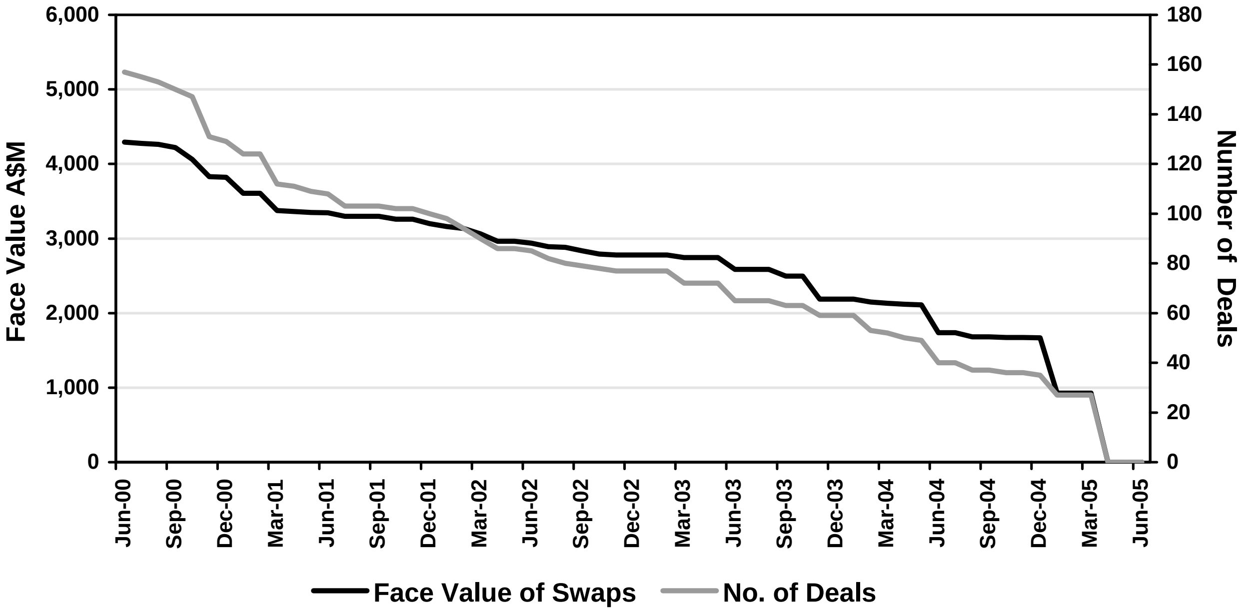
Liquidity risk arises from the possibility that the Corporation could, theoretically some time in the future either be forced to sell a derivative position at a value that is below its underlying worth, or that it may be unable to exit the position at all.

In order to counter such risk, the Corporation has concentrated its derivative activities in highly liquid markets. Approximately 64 percent (70 percent) of notional principal outstanding as at 30 June 2000 was represented by forward foreign exchange contracts, interest rate swaps and exchange traded futures and options. The remainder of the portfolio is mainly cross-currency swaps, which are hedging foreign currency borrowings. As the Corporation's balance sheet contracts, the liquidity risk of the portfolio is increasing. The Corporation however maintains the risks on a continuous basis using the services of SAFA.

Maturity Profile of Swaps

Interest rate and cross-currency swaps are responsible for 97 percent (97 percent) of the off-balance sheet exposures. The remaining exposures are short term. The following graph summarises the run off of swaps by number and by value.

Maturity Profile of Swaps as at 30 June 2000



Net Fair Value of Financial Instruments

The Corporation records derivatives other than cross-currency swaps and interest rate swaps held in the accrual book, at a net fair value (mark-to-market) in the financial statements. Net fair value is defined as the amount at which the instrument could be exchanged in a market transaction between willing parties. For those derivatives where market prices are unavailable, the cash flows have been discounted using the mid rate of the appropriate yield curve to arrive at a net fair value, as at 30 June 2000.

23. Acquisition and Disposal of Controlled Entities

2000

The 1991 Investment Trust was the only entity wound up in the year. It was wound up for Nil consideration on the 14 April 2000. It had no tangible assets at the disposal date. The consolidated profit (loss) on disposal was Nil.

1999

The following controlled entities were disposed of in 1999:

	Date of Disposal	Consideration	Net Tangible Assets at Date of Disposal	Consolidated Profit (Loss) on Disposal	Holding Percent
Disposals:		$	$	$	
Beacon Credit Corporation Ltd*	15/4/99	-	-	-	100
Brinim Ltd*	15/4/99	-	-	-	100
The Kabani Pty Ltd Ordinary	30/10/98	-	-	-	100
Shares Settlement:					
The Kabani Pty Ltd Redeemable	30/10/98	-	-	-	100
Preference Shares Settlement					
Kabani Pty Ltd*	15/4/99	-	-	-	100
Biddenham Pty Ltd*	15/4/99	-	-	-	100
Gumflower Pty Ltd*	15/4/99	-	-	-	100
Ninety Seven King William Street No. 1 Pty Ltd*	15/4/99	-	-	-	100

* The above companies dissolved by proclamation in exercise of the powers contained in section 23 of the *State Bank (Corporatisation) Act 1994*.

24. Controlled Entities

Entities		Place of Incorporation	Contributions to Consolidated Result 2000 $'000	Contributions to Consolidated Result 1999 $'000	Book Value 2000 $'000	Book Value 1999 $'000
South Australian Asset Management Corporation Ltd			**30 292**	48 120	**-**	-
Beneficial Finance Corporation Ltd	(c)	Aust	**11 943**	343	**-**	104 954
Collins Street Properties Pty Ltd	(c)	Aust	**-**	655	**-**	(a)
Mindarie Keys Pty Ltd	(c)	Aust	**-**	-	**-**	(a)
Mortgage Acceptance Nominees Ltd	(c)	Aust	**-**	100	**-**	100
Pegasus Leasing Ltd	(c)	Aust	**-**	-	**-**	(a)
Westralian Finance Corporation Ltd	(c)	Aust	**-**	-	**-**	(a)
Southstate Corporate Holdings Ltd	(c)	Aust	**-**	-	**-**	(a)
Campbell Capital Ltd	(b) (c)	Aust	**-**	-	**-**	(a)
The 1991 Investment Trust (wound up April 2000)			**-**	655		
			42 235	49 873		
Elimination of inter entity transactions			**(12 001)**	1 073		
Operating Profit after tax attributable to the South Australia Government			**30 234**	50 946		

(a) Rounding to the nearest thousand dollars has eliminated these amounts.
(b) This entity has entered into a Deed of Cross Guarantee with another entity within its consolidated entity and is relieved from the requirement to prepare audited financial statements under an ASC Class Order.
(c) These entities were dissolved, effective from 1 July 2000, pursuant to section 23 of the *State Bank (Corporatisation) Act 1994* and with the advice and consent of the Executive Council. The remaining assets and liabilities of these controlled entities as at 30 June 2000 (where applicable) have been vested in the parent entity (South Australian Asset Management Corporation) and included in the financial statements of the Corporation for the year ended 30 June 2000.

25. Notes to the Statements of Cash Flows

(a) Reconciliation of Cash

	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
Cash as at 30 June as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheet as follows:				
Cash on hand and at bank	**12 604**	10 803	**12 604**	10 804
Short term investments	**-**	73 000	**-**	73 000
Cash at 30 June in the Statement of Cash Flows	**12 604**	83 803	**12 604**	83 804

(b) Entities and Businesses Acquired and Disposed of

During the year the Consolidated entity did not dispose any of the net assets of the controlled entities neither did it acquire any new businesses.

(c) Reconciliation of Net Cash Flows from Operating Activities to Operating Profit (Loss) after income tax

	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
Operating profit after income tax	**30 292**	48 120	**30 234**	50 946
Add (Less): Non-cash items:				
Amounts credited to provisions against assets	**(119)**	(1 802)	**(119)**	(9 398)
Bad debts charge (credit)	**(11 920)**	(27 703)	**(11 920)**	(7 601)
Non-cash effect of mark-to-market adjustments	**(10 055)**	(13 610)	**(10 055)**	(13 610)
Net Cash provided by (used in) Operating Activities before change in Assets and Liabilities	**8 198**	5 005	**8 140**	20 337
Changes in assets and liabilities net of effects of acquisitions and disposals of entities:				
(Increase) Decrease in other sundry debtors	**-**	-	**-**	-
(Increase) Decrease in prepayments	**-**	471	**-**	471
(Decrease) Increase in net interest accrued	**7 015**	(34 430)	**7 015**	(34 430)
(Decrease) Increase in sundry creditors and accruals	**(2 686)**	12 028	**(2 686)**	(3 672)
(Decrease) Increase in employee entitlements	**(243)**	(435)	**(243)**	(435)
(Decrease) Increase in provisions	**(1 055)**	288	**(1 055)**	288
Net Cash Flows provided by (used in) Operating Activities	**11 229**	(17 073)	**11 171**	(17 441)

26. Directors' Remuneration

Directors' Income

	SAAMC 2000 Number of Members	SAAMC 1999 Number of Members	Consolidated 2000 Number of Members	Consolidated 1999 Number of Members
The number of directors on the Corporation's board whose income (including superannuation) from the Corporation or related entities falls within the following bands:				
$150 000 - $159 999	**1**	1	**1**	1

	SAAMC 2000 $'000	SAAMC 1999 $'000	Consolidated 2000 $'000	Consolidated 1999 $'000
Total income paid or payable, or otherwise made available to all directors of the Corporation from the Corporation or related entities	**155**	150	**-**	-
Total income paid or payable, or otherwise made available to all directors of each entity in the Consolidated Entity from the Corporation or related entities	**-**	-	**155**	150

In addition to the above, fees were paid to the Department of Treasury and Finance, and the Attorney-General's Department for services provided as Directors by Mr J J Ullianich, Mr J T Hill, Ms K A Moore and Mr T C Evans.

Superannuation and Retirement Payments

All superannuation and retirement payments are disclosed as part of directors remuneration as required by the Australian Accounting Standards Board AASB 1017 'Related Party Disclosures'.

27. Executives' Remuneration

	SAAMC	
	2000	1999
	Number of Executives	Number of Executives
The number of executive officers of the Corporation whose income (including superannuation and redundancy payments) from the Corporation or related entities falls within the following bands:		
$150 000 - $159 999	**1**	1

	SAAMC	
	2000	1999
	$'000	$'000
Total income paid or payable or otherwise made available by the Corporation or related entities to executive offices of the Corporation whose income exceeds $100 000	**155**	150

	Consolidated	
	2000	1999
	Number of Executives	Number of Executives
The number of executive officers of the Consolidated Entity whose income (including superannuation and redundancy payments) from the Corporation, entities in the Consolidated Entity, or related entities falls within the followings bands:		
$150 000 - $159 999	**1**	1

	Consolidated	
	2000	1999
	$'000	$'000
Total income paid or payable or otherwise made available by the Corporation, entities in the Consolidated Entity, or related entities to executive officers of the Consolidated Entity whose income exceeds $100 000	**155**	150

28. Related Party Disclosures

Directors

The names of each person holding the position of Director of South Australian Asset Management Corporation (SAAMC) during the financial year ended 30 June 2000 are as follows:

Mr Joseph J Ullianich (appointed 15 August 1999)
Mr John T Hill
Mr Terence C Evans
Ms Kathryn A Moore
Mr Andrew G Anastasiades

Details of directors' remuneration, superannuation and retirement payments are set out in Note 26, Directors' Remuneration.

Directors' Other Transactions

Directors of SAAMC

No other transaction took place between the directors of SAAMC and related entities and their related parties, including director related entities.

Directors of Controlled Entities

No other transaction took place between the directors of controlled entities, including their related parties, and SAAMC and related entities.

Employees' Remuneration	SAAMC		Consolidated	
	2000	1999	**2000**	1999
	Number of Employees	Number of Employees	**Number of Employees**	Number of Employees
The number of employees during the year whose income (including superannuation and redundancy payments) from the Corporation and its controlled entities falls within the following bands:				
$150 000 - $159 999	**1**	1	**1**	1

	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Total income paid or payable, or otherwise made available by the Corporation and its controlled entities to employees whose income exceeds $100 000	**155**	150	**155**	150

	SAAMC		Consolidated	
Transactions with Entities within the Consolidated Entity	**2000**	1999	**2000**	1999
Items of income and expense brought to account in relation to loans with related parties during the year:	**$'000**	$'000	**$'000**	$'000
Provision for diminution in value of investments	**-**	14 474	**-**	-
Recoveries net of recovery costs	**-**	(20 202)	**-**	-
The aggregate amounts receivable from, and payable to, related parties at balance date are:				
Total other assets	**-**	77 540	**-**	-
Total other liabilities	**-**	182 551	**-**	-

These amounts include trade debtors and creditors as well as loans.

Controlled Entities

A list of controlled entities is contained in Note 24, to the financial statements, Controlled Entities. Inter-entity transactions and balances are eliminated as disclosed in Note 1(c).

Other Related Parties

Included in loans, advances and receivables are amounts receivable from associated entities. All loans and advances are made on normal terms and conditions. These loans are not material individually and in aggregate.

Directors of Related Parties

From time to time directors of related parties may enter into transactions with the Consolidated Entity. These transactions are on the same terms and conditions as those entered into by Consolidated Entity customers and are trivial or domestic in nature.

28. Related Party Disclosures (continued)

South Australian Government Financing Authority (SAFA)

Related party transactions with SAFA as disclosed in Note 3, Operating Income and Note 9, Loans, Advances and Receivables. In addition, the Consolidated Entity and SAFA participate in the same financial markets and enter into transactions on market terms and conditions.

Treasurer of South Australia

Related party transactions with the Treasurer of South Australia are disclosed in Note 1(a) and Note 17, Capital.

29. Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any items, transactions or events of a material and unusual nature likely in the opinion of the Directors of the Consolidated Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in subsequent financial years.

Although not material in relation to the financial statements for the year ended 30 June 2000 certain controlled entities of the Corporation were dissolved effective from 1 July 2000. Refer Note 24 to the financial statements.

SOUTH AUSTRALIAN METROPOLITAN FIRE SERVICE

FUNCTIONAL RESPONSIBILITY

The South Australian Metropolitan Fire Service (SAMFS), a Corporation constituted of the Minister, was established under the *South Australian Metropolitan Fire Service Act 1936*. It is primarily responsible for the provision of: efficient fire fighting services; services to prevent the outbreak of fires in fire districts; and services to deal with other emergencies.

CHANGES TO AGENCY ORGANISATIONAL STRUCTURE FROM 1 JULY 1999

During 1999-2000 there were certain factors that influenced the financial operations and management of the SAMFS.

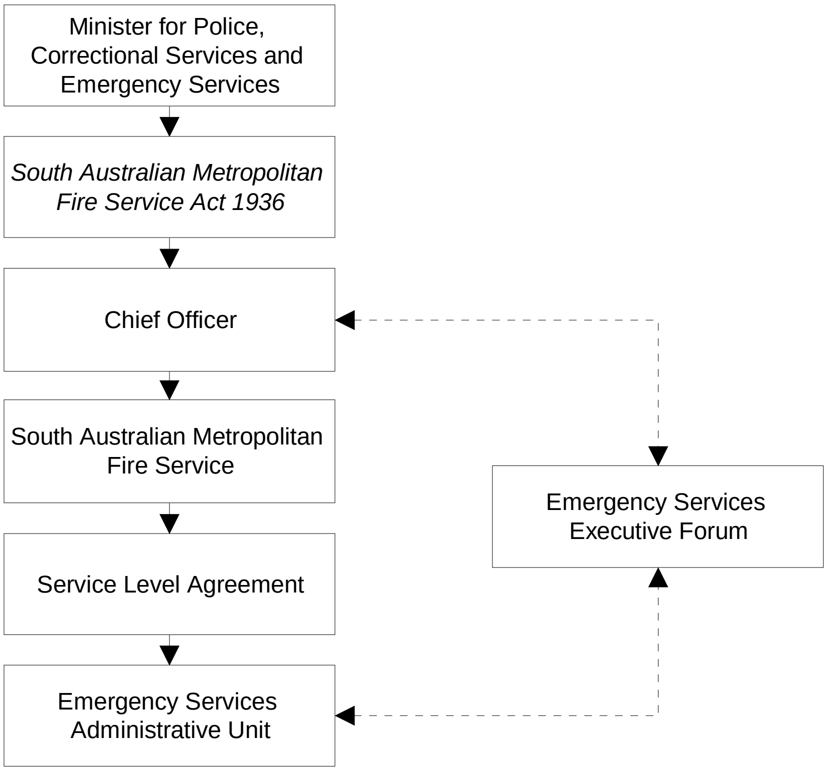
Principal among these was the establishment of the Emergency Services Administrative Unit (ESAU) from 1 July 1999 (refer comments included under that agency elsewhere in this Report). On that date there was an effective transfer of non-operations staff from the SAMFS to ESAU, with the financial effect disclosed in the financial statements as an adjustment arising from restructuring (refer Note 25 to the financial statements for further details).

The concept was that ESAU would provide various services to the SAMFS in support of its primary functions, including strategic risk management, financial management and accounting services. These were subject to corporate service level agreements that existed in draft form during the latter months of the financial year, and were formally ratified by the Chief Officer of the SAMFS in July 2000. A Memorandum of Understanding, which preceded the service level agreements, was ratified by the SAMFS.

The advent of ESAU and the service level agreements resulted in a significant shift in the nature of control that the SAMFS had over its financial management as it became reliant on information and reporting provided by ESAU.

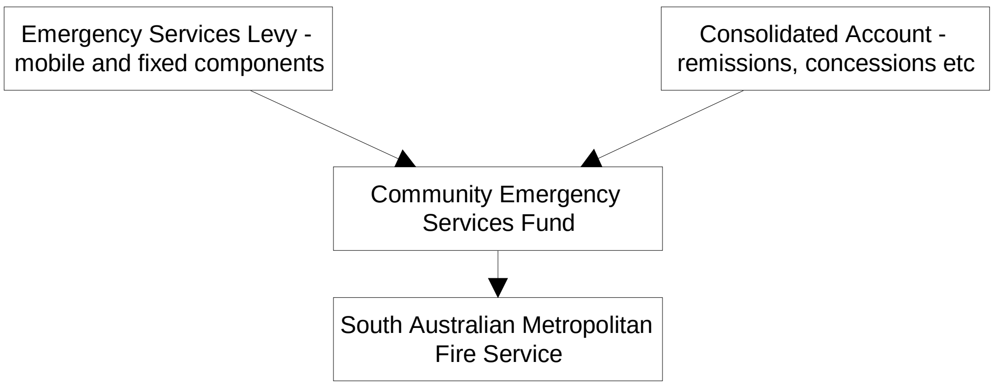
The Emergency Services Executive Forum (the Forum) was established in response to the new agency interrelationships. The Forum comprised the chief executive officers of the SAMFS, ESAU, the Country Fire Service and the Director, State Emergency Services (now a division of ESAU). Some of the key roles of the Forum were to ensure that emergency services operated in an integrated manner and that appropriate strategic and business plans consistent with the Government's priorities were established, maintained and implemented.

The Forum, through the Chief Executive Officer of ESAU, reported to a (Department of) Justice Leadership Team. There was in turn a lineage of reporting responsibilities from the Justice Leadership Team to the Minister for Police, Correctional Services and Emergency Services.



CHANGES TO AGENCY FUNDING ARRANGEMENTS FROM 1 JULY 1999

The other major development impacting on the SAMFS operations during the year was the revised funding for operations arising from the introduction of the Emergency Services Levy (refer to Note 1(b) to the financial statements). The Community Emergency Services Fund (the Fund) was established pursuant to section 28 of the *Emergency Services Funding Act 1998* (the Act). The relationship between the SAMFS and the Fund is shown in the diagram hereunder:



SIGNIFICANT FEATURES

- The Change in Net Assets after Restructuring was $6.7 million ($3.5 million).
- Accumulated Surplus at 30 June 2000 was $33.5 million ($26.8 million).

AUDIT MANDATE AND COVERAGE

Audit Authority

Subsection 11(2) of the *South Australian Metropolitan Fire Service Act 1936* provides for the Auditor-General to audit the accounts of the Corporation (SAMFS) in respect of each financial year.

Scope of Audit

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

The audit approach was necessarily modified following the establishment of ESAU from 1 July 1999. In addition to the transfer of non-operations personnel, there was a transfer of all major financial and administrative systems to ESAU, with the expectation that services would be delivered consistent with underlying service level agreements, albeit that these were not formulated until late in the financial year and not ratified until July 2000.

The audit of the SAMFS during 1999-2000 required Audit to direct much of its focus to the audit of the 'centralised accounting' structure maintained by ESAU and to test transactions at this level.

During 1999-2000 specific areas of audit attention included:

- expenditure systems, including accounts payable and salaries and wages
- general ledger
- management reporting and budgetary control
- plant and equipment, including the adequacy of asset register maintenance
- revenue, including debtors and cash receipting
- investments.

Audit Communications to Management

The major issues arising from the audit were included in management letters forwarded to the Chief Executive of ESAU. The issues focused on weaknesses in internal controls identified in respect of ESAU systems. These matters are subject to more detailed discussion under that agency, elsewhere in this Report. The audit primarily identified issues with respect to the general ledger and funding arrangements through the Community Emergency Services Fund.

The aspect of public governance remains a major consideration. Audit recognised that the SAMFS retained ultimate responsibility for governance, notwithstanding that ESAU was primarily responsible for maintaining the key financial and management reporting systems, together with the provision of other corporate services.

The essential links between the SAMFS and ESAU are corporate service level agreements. The responsibility for exercising appropriate controls, including adherence with the prescribed elements of the Financial Management Framework, remains shared between the two entities. While ESAU has the most direct influence over many policies and processes, it is equally important that these be monitored in terms of compliance and quality by the SAMFS. The dichotomous nature of the SAMFS control framework is subject to further discussion in the section 'Commentary on General Financial Controls' hereunder.

AUDIT FINDINGS AND COMMENTS

Commentary on General Financial Controls

The results of the 1999-2000 audit of the SAMFS identified weaknesses in the control framework, as administered by ESAU. Detailed discussion on the nature of the control weaknesses and background to these are included under that agency. The result is that the 'Controls Opinion' is qualified for the SAMFS.

While the Controls Opinion has been qualified, Audit transactional testing did not reveal evidence of material misstatement in the financial report. There were, however, other items, including areas of departure from relevant statutory requirements, that have resulted in the Independent Audit Report being qualified for the year ended 30 June 2000.

Loan of Funds to the Emergency Services Administrative Unit

On 5 July 1999 the SAMFS applied monies from its reserves to make what was subsequently characterised as a loan to ESAU for an amount of $21 million. The amount was credited to the ESAU Operating Account (a Special Deposit Account established pursuant to section 8 of the *Public Finance and Audit Act 1987*).

This application of the SAMFS reserves effectively provided a source of working capital for the newly established ESAU, an administrative unit created under the *Public Sector Management Act 1995*. The $21 million was subsequently repaid to the SAMFS by ESAU, together with interest of $1.6 million. Interest was calculated by reference to what the SAMFS would have otherwise received had the monies remained in its Deposit Account (Section 21) lodged with the Treasurer throughout the term of the loan. Essentially, it brought about a restitution of the SAMFS' original funds position and ensured that there was no financial disadvantage to the SAMFS as a result of this transaction.

While the transaction is disclosed within the SAMFS financial report for the reporting period ending 30 June 2000, the initial application of funds made by the SAMFS is considered to be unlawful in terms of section 9 of the *South Australian Metropolitan Fire Service Act 1936*. The following outlines the reasoning for this view.

The SAMFS is a Corporation constituted of the Minister and the functions of the Corporation, as set out in section 9 of the *South Australian Metropolitan Fire Service Act 1936*, are as follows:

> *a) to provide efficient services in fire districts for the purpose of fighting fires and of dealing with other emergencies; and*
> *b) to provide services with a view to preventing the outbreak of fire in fire districts.*

In connection with this, section 83 of the Act states:

> *The money required for the purposes of this Act shall be paid by the Corporation out of the monies received by it under this Act, and the sums to be contributed and paid to the Corporation by the Treasurer shall be paid out of monies voted by Parliament for that purpose.*

The Crown Solicitor commented in an opinion on this same matter dated 11 December 1998, that

> *… a body corporate created by statute can only use its powers for the purpose of carrying out the functions conferred upon it by its incorporating Act. One of the powers conferred upon the Corporation [SAMFS] by the Act is undoubtedly the power to expend the money contributed to it under Part 6 of its Act for the carrying out of its fire fighting function … it follows that any excess funds standing to the credit of the accounts of the Corporation on 1 July 1999 can only be applied towards those same functions.*

In consideration of these provisions of the Act, I am of the opinion that the payment for the stated purposes of a loan to ESAU could not be considered to be consistent with the purposes outlined in the Act. It is also relevant to note that while the transaction was characterised as a loan, there is no formal documentation giving effect to a loan agreement.

The original transfer of the $21 million followed a request from the Chief Executive of the Department of Justice to the Chief Officer of the SAMFS on 5 July 1999. The request made reference that the Chief Officer had received a presentation of the proposed arrangements that '… clarified several matters which were of concern to [the Chief Officer of the SAMFS at that time]'.

Payment of Corporate Services Charges to the Emergency Services Administrative Unit

During the reporting period the SAMFS made a payment to ESAU for various strategic and support services delivered pursuant to a draft service level agreement between ESAU and the SAMFS (refer Note 10 to the financial statements).

There was no authorisation by the SAMFS management for the payment of $3.5 million, nor documentation indicating a review of the elements of the charge. Subsequent Audit enquiry with the SAMFS and ESAU management revealed that a formula for calculating the charges had been agreed and that the SAMFS Chief Officer had reviewed the charges made.

Financial Management Framework

The Financial Management Framework (FMF) represents a fundamental element of the Control Opinion issued by Audit. A consideration of how well the SAMFS has progressed the implementation of the FMF must consider the influence of the Emergency Service Administrative Unit (ESAU). In this context, 1999-2000 was a transition year during which there was an evolvement in the relationship between the SAMFS and ESAU.

This observation is important in consideration of the assessment of the SAMFS' adherence to the prescribed principles of the FMF as required by the Treasurer's Instructions. The chief executive of each public authority must ensure that the relevant authority develops, implements and documents policies, procedures and systems which will assist accountability to be discharged in relation to:

- reporting of financial information to users of financial reports;
- application of accounting policies;
- financial management;
- internal control systems;
- business policies and practices;
- compliance with applicable laws and regulations;
- monitoring and controlling risk.

Each of these areas was subject to the service level agreements that were ultimately agreed with ESAU in July 2000. Where weaknesses arise in respect of the control framework and other prescribed principles that govern the FMF, it is sometimes difficult to specifically attribute responsibility to either of the entities participating in a service level agreement. In reality, the responsibility for public governance is shared between the entities. The SAMFS, as the receiver of services, has its primary role in the monitoring and control over the deliverables emanating out of these service level agreements.

A high level review of the SAMFS role suggests that there were appropriate structures in place during the year notwithstanding the evolving relationship between the two entities. This was evidenced by:

- the establishment of appropriate consultative processes, such as the Emergency Services Executive Forum (referred to in preceding discussion);

- the development of a corporate plan, key performance indicators and approved budgets;

- the move towards formal service level agreements, notwithstanding that this occurred relatively late in the financial year and that they were not ratified until July 2000;

- monitoring of performance of deliverables pursuant to the service level agreements, such as the provision and scrutiny of monthly financial reports, including operating and capital expenditure summaries.

Similarly, ESAU had adequately defined its service level definitions and provided these to the SAMFS in an accepted format. It would be responsible for managing a number of disparate information systems, controls, policies and procedures. These emigrated not only from the SAMFS but from other emergency service organisations.

This presented a difficult challenge for ESAU and various control weaknesses became evident in respect of administering these financial management systems. These systems were diverse in terms of their software platforms, business processes, controls and degrees of data integrity. Further discussion on these matters is provided under the Emergency Services Administrative Unit elsewhere in this Report.

Extract from Independent Audit Report

Independent Audit Report

With respect to my Independent Audit Report I have issued a qualified audit opinion. I have also included an 'Emphasis of Matter' in my Report with respect to the Notes to the financial statements relating to non-current asset useful lives adopted for the purposes of calculating depreciation expense.

Relevant extracts from the Independent Audit Report are provided hereunder:

> ***Qualification***
>
> *The South Australian Metropolitan Fire Service applied monies from its section 21 Deposit Account on 5 July 1999 for the purposes of making a loan of funds to the Emergency Services Administrative Unit for the amount of $ 21 million. The loan was subsequently repaid by the Emergency Services Administrative Unit on 30 June 2000.*
>
> *I am of the opinion that the loan made by the South Australian Metropolitan Fire Service was not consistent with the functions of the Corporation as set out in section 9 of the South Australian Metropolitan Fire Service Act 1936, being:*
>
> a) *to provide efficient services in fire districts for the purposes of fighting fires and dealing with other emergencies; and*
> b) *to provide services with a view to preventing the outbreak of fire in fire districts.*
>
> *In connection with this, section 83 of the same Act states:*
>
> *…the money required for the purposes of this Act shall be paid by the Corporation out of the monies received by it under this Act, and the sums to be contributed and paid to the Corporation by the Treasurer shall be paid out of monies voted by Parliament for that purpose.*
>
> *The substance of the transaction was to apply funds to the credit of the Emergency Services Administrative Unit Special Deposit Account, for the purposes of providing working capital to that agency. As such the transaction departs from relevant statutory requirements and is unlawful to that extent. The original funds position of the South Australian Metropolitan Fire Service was restored on 30 June 2000, with the principal amount being repaid together with interest of $1.6 million, representing the amount that would otherwise have been earned by the latter, had the initial loan transaction not occurred.*
>
> ***Emphasis of Matter***
>
> *Without further qualification to the opinion expressed, attention is drawn to the disclosures in Note 2(b). Note 2 (b) comments on the uncertainties surrounding the adoption of useful lives for the South Australian Metropolitan Fire Service's major assets. Notwithstanding that useful lives have been reviewed by senior management on an annual basis, it is indicated that there will be a further detailed assessment during 2000-2001 of useful lives of major assets. An important element of this will be to analyse the basis of variations existing between the useful lives adopted by management, compared with the assessments reported by independent valuers.*
>
> *The Note comments that uncertainties existing with respect to the useful lives adopted can significantly impact upon the calculation of depreciation expense, net written down values for non-current assets and the increments credited to the Asset Revaluation Reserve.*

CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the South Australian Metropolitan Fire Service 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. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Audit formed the opinion that the controls exercised by the South Australian Metropolitan Fire Service 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 'Audit Findings and Comments', were sufficient to provide reasonable assurance that the financial transactions of the organisation were conducted properly and in accordance with the law.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Results of Operations

The Change in Net Assets after Restructuring increased by 95 percent to $6.7 million. Revenues increased to $68.1 million ($60 million).

Operating expenses increased by $5.3 million or 9 percent, to $61.9 million. This increase equates approximately to the total of charges levied by the Emergency Services Administrative Unit of $3.5 million and Government radio network costs of $1.4 million. While it is reasonable to expect that savings would have occurred in other employee related costs due to the existence of service level agreements with ESAU, the effect of industrial bargaining and higher than expected overtime costs contributed to an effective increase in these costs.

Statement of Financial Position

As at 30 June 2000, the SAMFS had net assets of $64.6 million, 48 percent of which was represented in the form of an Asset Revaluation Reserve of $31.1 million ($26.9 million). Revaluations of non-current assets were undertaken on the basis of deprival value consistent with the Treasurer's Accounting Policy Statements.

Cash held at 30 June 2000 was $27.6 million ($22 million) and represented 32 percent (29 percent) of total assets. It remained at these high levels due primarily to the delays in the capital expenditure program, partly affected by difficulties encountered with a large commercial contract (refer 'Further Commentary on Operations' below).

FURTHER COMMENTARY ON OPERATIONS

Supply of Fire Appliances

Last year's general purpose financial report included a note disclosure regarding an after balance date event, relating to an agreement that the State Supply Board had signed with Lowes Industries (North Island) Limited (Lowes) for the supply of 16 fire appliances to the SAMFS at a cost of $5.5 million.

It was reported that Lowes had appointed a liquidator for the purposes of winding up the affairs of the Company and distributing the Company's assets. At the time the SAMFS had a financial exposure to Lowes through non-completion of the contract.

The legal proceedings that followed in relation to the contract reflected a complex set of arrangements involving mediation and the participation of a number of related parties.

The SAMFS received delivery of 4 fire appliances in February 1999 with a further two fire appliances delivered in June 1999. The total payments made to Lowes was approximately $4 million.

A recent High Court decision decided in favour of the State Supply Board in relation to legal title with respect to further appliances. Audit notes that this decision is being contested by a third party which has an outstanding claim for title for those two appliances together with a further 8 appliances. Ongoing oversight of the status of the contract has been established to minimise the State's exposure to this contract. The maximum potential financial exposure to the State at balance date relating to this contract of $1.85 million has been disclosed as a Contingent Liability (refer Notes 18 and 26).

Operating Statement for the year ended 30 June 2000

	Note	2000 $'000	1999 $'000
OPERATING EXPENSES:			
Employee entitlements	6	**48 098**	47 643
Operational, administration and general expenses	7	**5 145**	5 502
Government radio network costs	9	**1 392**	-
Emergency Services Administrative Unit costs	10	**3 541**	-
Depreciation	8	**3 703**	3 429
Total Operating Expenses		**61 879**	56 574
OPERATING REVENUES:			
Contributions from insurers	4	**-**	55 345
Interest on investments		**1 534**	1 342
Grant from Commonwealth Government		**537**	425
Cost recoveries	5	**2 125**	2 512
Other revenue		**350**	350
Total Operating Revenues		**4 546**	59 974
NET (COST OF) SURPLUS FROM SERVICES		**(57 333)**	3 400
REVENUES FROM GOVERNMENT:			
Contributions from the Community Emergency Services Fund		**63 507**	-
CHANGE IN NET ASSETS BEFORE ASSET DISPOSAL		**6 174**	3 400
NET REVENUES FROM DISPOSAL OF NON-CURRENT ASSETS	11	**1**	50
CHANGE IN NET ASSETS BEFORE RESTRUCTURING		**6 175**	3 450
NET REVENUES FROM RESTRUCTURING	25	**543**	-
CHANGE IN NET ASSETS AFTER RESTRUCTURING		**6 718**	3 450

Statement of Financial Position as at 30 June 2000

	Note	2000 $'000	1999 $'000
CURRENT ASSETS:			
Cash on hand and at bank	19(i)	**27 556**	21 980
Receivables	12	**1 117**	843
Inventories		**41**	34
Other		**15**	7
Total Current Assets		**28 729**	22 864
NON-CURRENT ASSETS:			
Property, plant and equipment	13	**56 685**	52 362
Total Non-Current Assets		**56 685**	52 362
Total Assets		**85 414**	75 226
CURRENT LIABILITIES:			
Payables	14	**3 559**	4 232
Employee entitlements	15	**5 067**	5 106
Total Current Liabilities		**8 626**	9 338
NON-CURRENT LIABILITIES:			
Borrowings	16	**5 226**	5 226
Employee entitlements	15	**6 924**	6 991
Total Non-Current Liabilities		**12 150**	12 217
Total Liabilities		**20 776**	21 555
NET ASSETS		**64 638**	53 671
EQUITY:			
Accumulated surplus		**33 508**	26 790
Asset revaluation reserve	17	**31 130**	26 881
TOTAL EQUITY		**64 638**	53 671
Commitments and Contingent Liabilities	18		

Statement of Cash Flows for the year ended 30 June 2000

	Note	**2000 Inflows (Outflows) $'000**	1999 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
STATUTORY CONTRIBUTIONS:			
State Government		**63 507**	6 690
Insurance companies etc		**-**	48 655
		63 507	55 345
RECEIPTS:			
Cost recoveries and other receipts		**2 193**	2 841
Interest		**1 534**	1 344
Grants from Commonwealth Government		**537**	-
PAYMENTS:			
Employee entitlements		**(47 661)**	(46 815)
Suppliers		**(10 758)**	(5 402)
Net Cash provided by Operating Activities	19(ii)	**9 352**	7 313
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of non-current assets		**1**	219
Payments for non-current assets		**(3 777)**	(5 284)
Net Cash used in Investing Activities		**(3 776)**	(5 065)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of loan		**21 000**	-
Loan funds provided		**(21 000)**	(1 624)
Net Cash used in Financing Activities		**-**	(1 624)
NET INCREASE IN CASH HELD		**5 576**	624
CASH AT 1 JULY		**21 980**	21 356
CASH AT 30 JUNE	19(i)	**27 556**	21 980

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The SA Metropolitan Fire Service (the Corporation) is a statutory authority under the *South Australian Metropolitan Fire Service Act 1936* (the Act).

(a) Objectives

The Corporation's objectives are to provide for the fighting and prevention of fires in its fire districts, and to provide for the protection of life, property and the environment threatened by other emergencies.

(b) Funding

The source of funding of the Corporation changed as from 1 July 1999.

Funding up to 30 June 1999

The Corporation was funded in accordance with Part 6 of the *South Australian Metropolitan Fire Service Act 1936* (the Act).

Statutory Contributions

Contributions for the estimated net cost of administering the Act were levied in the following proportions:

	Percent
Insurance companies	75.0
Corporations and District Councils	12.5
State Government	12.5

Funding from 1 July 1999

The funding of the South Australian Metropolitan Fire Service (SAMFS) is derived from the Community Emergency Services Fund (the Fund), which was established by the *Emergency Services Funding Act 1998* (the Act), assented to in September 1998.

The Act replaces the former arrangements for funding the emergency services agencies through insurance premiums and State and Local Government contributions, with a new system that provides for the collection of a levy on fixed and mobile property, which applied from 1 July 1999. The funds collected in payment of the levy are credited to the Fund.

The SAMFS is directly funded from the Fund for the cost of its operational services in the protection of South Australian citizens and their property. The SAMFS also receives funds from the same source for the cost of strategic and administrative services delivered to it by the Emergency Services Administrative Unit (ESAU).

The strategic and administrative services delivered by ESAU include financial, human resources, asset management and procurement, risk management, volunteer management, occupational health, safety and prevention and strategic and knowledge management services. These deliverables are subject to service level agreements with ESAU.

Cost Recoveries

Charges for a number of services, including Fire Safety, Brigade Attendance and Private Fire Alarms, are made on a fee-for-service basis. These charges are reviewed and approved by the State Government annually.

(b) Funding (continued)

Grant

The Commonwealth Government provides assistance to the State for the provision of emergency services to protect Commonwealth properties. Under a South Australia Department of Treasury and Finance formula, this grant is apportioned between the Country Fire Service Board and the Corporation. The grant reported as revenue is the portion received by the Corporation.

Other Revenue

An arrangement is in place for the Defence Science and Technology Organisation (DSTO) to contribute to the fire protection of its properties that are located within the State.

Section 60a Contributions (See Note 4)

Under this section, which does not have effect from 1 July 1999, the Corporation was empowered to receive contributions from entities not carrying on business in the State, but who insure property located in a South Australian Fire District.

2. Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statement of Accounting Concepts, applicable Australian Accounting Standards and mandatory professional reporting requirements (Urgent Issues Group Consensus Views). It has been prepared on the accrual basis of accounting using the historical cost accounting method, with the exception of certain major non-current assets which have been revalued to their current deprival value.

(b) Accounting for Non-Current Assets

Property, plant and equipment are carried at cost or deprival value.

The Corporation revalues all land, buildings, fire appliances and rescue classes of equipment to deprival value. On an ongoing basis, revaluations are made in accordance with a regular policy whereby independent valuations are obtained every three years and carrying amounts adjusted accordingly.

Items acquired since the last valuation are valued at cost. During 1999-2000, in accordance with a management plan, land and buildings comprising metropolitan fire stations were revalued, as well as the Emergency Response Vessel 'Gallantry'. The amount transferred to the Asset Revaluation Reserve was $4.2 million (refer Note 17).

Depreciation on property, plant and equipment, excluding freehold land, is calculated on a straight-line basis, based on the expected useful lives of the assets, and using rates which are reviewed annually. Major depreciation periods are:

	Years
Fire appliances	15
Plant and equipment	10
Buildings	20

Notwithstanding that useful lives have been reviewed by senior management on an annual basis, it is intended that there will be a further detailed assessment undertaken during 2000-01 of the useful lives of major assets. An important element of this will be to analyse the basis of variations existing between the useful lives adopted by management, compared with the assessments reported by the independent valuers (refer Note 13(a) for details), as at 30 June 2000. The variations have the effect of creating significant uncertainty in respect of the calculation of depreciation expenses, net written down values for non-current assets and the increments credited to the Asset Revaluation Reserve.

(c) Employee Entitlements

(i) Wages and Salaries, Annual Leave and Sick Leave

Liabilities reflect employee entitlements to accrued wages and salaries and annual leave. These liabilities are calculated on current wage rates. Relevant employment on-costs are shown under 'Payables' (see Note 14). Sick leave is not provided for as it is non-vesting. However, entitlements are accumulated, and sick leave taken is deducted from the employee entitlement.

(ii) 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. The liability has been based on current salaries and wages rates. Relevant employment on-costs are shown under 'Payables' (see Note 14). The Department of Treasury and Finance have advised that a benchmark of eight years can be used for a shorthand estimation of long service leave liability in accordance with Australian Accounting Standard AAS 30 'Accounting for Employee Entitlements'. This advice has been adopted and the long service leave liability has been calculated on that basis.

(iii) Superannuation

Contributions are made by the Corporation to the SA Metropolitan Fire Service Superannuation Fund and to the South Australian Superannuation Board, Superannuation Benefit Scheme (see Note 24). These contributions are treated as an expense when they occur. The Corporation has no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

(iv) Workers Compensation

To reflect the liability for outstanding workers compensation claims the Corporation has raised a provision as at balance date. The Corporation fully funds this provision, as well as lump sum payments, medical costs, legal costs and all other workers compensation related expenses.

(c) Employee Entitlements (continued)

(v) Targeted Voluntary Separation Packages (TVSPs)

Two non-operational positions were identified as surplus. The incumbents of both positions accepted Targeted Voluntary Separation Packages in accordance with the direction of the Commissioner for Public Employment in respect of TVSPs. The packages totalled $78 000 including outstanding leave accruals. Reimbursement for the packages has been accrued at 30 June 2000.

3. Outputs of the Corporation

In accordance with the Budget Reform process initiated by the State Government for the year 1998-99, the Corporation reports its operational activities in the following output classes:

Incident Response Services

Provision of a service for the suppression of fires and other emergency situations in metropolitan Adelaide and regional country centres.

Preventative Services

Provision of a service for the minimising of the incidence and degree of impact of emergency incidents by focus on building fire safety, fire cause investigation and training of the community in fire and hazardous substance safety.

Allocation of Revenues and Expenses

Statutory contributions and interest have been allocated as operating revenues to output classes in proportion to total operating expenses for the respective output classes.

	Incident Response Services		Preventative Services		Total	
	2000	1999	**2000**	1999	**2000**	1999
Operating Revenues:	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Contribution from insurers	**-**	53 485	**-**	1 860	**-**	55 345
Interest on investments	**1 483**	1 297	**51**	45	**1 534**	1 342
Grant from Commonwealth Government	**537**	425	**-**	-	**537**	425
Cost recoveries	**1 838**	1 996	**287**	516	**2 125**	2 512
Other revenue	**350**	350	**-**	-	**350**	350
Total Operating Revenues	**4 208**	57 553	**338**	2 421	**4 546**	59 974
Operating Expenses:						
Employee entitlements	**(46 463)**	(46 139)	**(1 635)**	(1 504)	**(48 098)**	(47 643)
Operational, administrative and general expenses	**(4 954)**	(5 130)	**(191)**	(372)	**(5 145)**	(5 502)
Government radio network costs	**(1 392)**	-	**-**	-	**(1 392)**	-
ESAU administration costs	**(3 420)**	-	**(121)**	-	**(3 541)**	-
Depreciation	**(3 686)**	(3 404)	**(17)**	(25)	**(3 703)**	(3 429)
Total Operating Expenses	**(59 915)**	(54 673)	**(1 964)**	(1 901)	**(61 879)**	(56 574)
Net (Cost of) Surplus from Services	**(55 707)**	2 880	**(1 626)**	520	**(57 333)**	3 400
Contributions from the Community Emergency Services Fund	**61 469**	-	**2 038**	-	**63 507**	-
Change in Net Assets before Asset Disposal	**5 762**	2 880	**412**	520	**6 174**	3 400
Net Revenues from Asset Disposal	**1**	25	**-**	25	**1**	50
Change in Net Assets before Restructuring	**5 763**	2 905	**412**	545	**6 175**	3 450
Net Revenues from Restructuring	**521**	-	**22**	-	**543**	-
Change in Net Assets after Restructuring	**6 284**	2 905	**434**	545	**6 718**	3 450

4. Statutory Contributions

	2000	1999
	$'000	$'000
Insurance companies	**-**	41 668
Corporations and District Councils	**-**	6 656
State Government:		
Contribution	**-**	6 481
Subsidy towards contributions for Corporations of Port Pirie and Port Adelaide/Enfield	**-**	209
Section 60a receipts (see Note 1(b))	**-**	331
	-	55 345

5. Cost Recoveries

Fire alarm monitoring fees	**931**	901
Fire attendance fees	**372**	439
Computer aided despatch project	**97**	353
Commercial training fees	**144**	208
Fire safety fees	**135**	170
Marine commercial operations	**114**	123
Other recoveries	**332**	318
	2 125	2 512

6. Employee Entitlements

Salaries and wages	**38 927**	38 773
Payroll tax and superannuation	**6 564**	6 620
Long service leave	**1 382**	1 262
Other employee related expenses	**1 225**	988
	48 098	47 643

7. Operational, Administration and General Expenses

	2000 $'000	1999 $'000
Consumables and minor purchases	**920**	982
Repairs and maintenance	**1 032**	801
Rates, taxes and rent	**705**	702
Uniforms	**415**	589
Communication expenses	**430**	439
Energy	**321**	316
Light vehicle expenses	**332**	300
Travel and training	**258**	286
Other expenses	**732**	1 087
	5 145	5 502

8. Depreciation

Depreciation was charged in respect of:

	2000	1999
Buildings	**1 705**	1 901
Computer equipment	**242**	207
Plant and equipment	**318**	230
Communications equipment	**177**	149
Fire appliances	**1 261**	942
	3 703	3 429

9. Government Radio Network Costs

The Corporation has been charged by the Department for Administrative and Information Services for costs associated with the provision of emergency communication services, including voice, paging and data transmission using the Government Radio Network (GRN).

Contribution towards GRN:	2000 $'000	1999 $'000
Voice	**930**	-
Paging	**38**	-
Data	**424**	-
	1 392	-

10. Emergency Services Administrative Unit Costs

On 1 July 1999 the Emergency Services Administrative Unit (ESAU) was established to provide strategic and support services to the SA Metropolitan Fire Service, the Country Fire Service and the State Emergency Service. ESAU delivers services defined in service level agreements and recovers the cost from these organisations. In the reporting period the Corporation made the following payment for services:

	2000 $'000	1999 $'000
ESAU administration charge	**3 541**	-
	3 541	-

11. Net Revenues from Disposal of Non-Current Assets

	2000	1999
Proceeds from disposal of non-current assets	**1**	219
Less: Written down value of non-current assets	**-**	(169)
Net Revenues from Disposal of Non-Current Assets	**1**	50

12. Receivables

	2000	1999
Sundry debtors	**1 116**	745
Less: Provision for doubtful debts	**(3)**	(3)
	1 113	742
Accrued interest receivable	**4**	101
	1 117	843

13. Property, Plant and Equipment

Land and Buildings

	2000	1999
Freehold Land:		
At cost	**239**	173
At independent valuation (a)	**8 084**	7 899
Total Freehold Land	**8 323**	8 072
Buildings:		
At cost	**2 211**	878
Accumulated depreciation	**(421)**	(241)
Buildings at Cost	**1 790**	637
At independent valuation (a)	**30 416**	31 907
Accumulated depreciation	**(674)**	(4 286)
Buildings at Valuation	**29 742**	27 621
Total Buildings	**31 532**	28 258
Total Freehold Land and Buildings	**39 855**	36 330

Plant and Equipment

	2000	1999
At cost	**20 454**	20 275
Accumulated depreciation	**(12 546)**	(11 741)
Plant and Equipment at Cost	**7 908**	8 534
At independent valuation (a)	**13 811**	12 337
Accumulated depreciation	**(8 034)**	(6 941)
Plant and Equipment at Valuation	**5 777**	5 396
Total Plant and Equipment	**13 685**	13 930

		2000	1999
13.	**Property, Plant and Equipment (continued)**		
	Work in Progress	**$'000**	$'000
	Lowes Industries (North Island) Ltd - Supply of fire appliances	**2 798**	1 972
	Other	**347**	130
	Total Work in Progress	**3 145**	2 102
	Total Property, Plant and Equipment	**56 685**	52 362

(a) The valuations of freehold land, buildings, fire appliances and rescue equipment were based upon their written-down deprival value as at balance date. These valuations were performed by the following qualified officers of Valcorp Australia Pty Ltd:

Andrew J Lucas, MBA, B.App.Sc., (Val.), AVLE (Val.), ASA
Fred Taormina, B.App.Sc., (Val.), AVLE (Val & Econ.), RV (Fiji)
Martin Stansfeld Burns, MBA, B.App.Sc., (Val.), AVLE (Val.)

The revaluations commenced from 3 June 1997.

14.	**Payables**		
	Payables comprise the following:		
	Accrued employee entitlements	**1 121**	1 491
	On-costs re employee entitlement provisions and accruals	**1 709**	1 970
	Creditors	**729**	771
		3 559	4 232
15.	**Employee Entitlements**		
	Current Liabilities:		
	Annual leave	**3 121**	3 381
	Long service leave	**600**	600
	Workers compensation	**1 346**	1 125
		5 067	5 106
	Non-Current Liability:		
	Long service leave	**6 924**	6 991
16.	**Borrowings**		
	Borrowings comprise:		
	Financing of building	**5 226**	5 226
	Due for repayment:		
	Within one year	**-**	-
	Later than five years	**5 226**	5 226
		5 226	5 226
17.	**Asset Revaluation Reserve**		
	Balance at 1 July	**26 881**	23 560
	Revaluation of non-current assets (refer Note 2(b))	**4 249**	3 321
		31 130	26 881

18. Commitments and Contingent Liabilities

Commitments

As at the reporting date the Corporation has commitments for capital expenditure contracted but not expended totalling $4.493 million ($nil), comprised of $1.351 million for fire appliances and $3.142 million for fire stations and other equipment. These projects are due for completion by 30 June 2001.

Contingent Liabilities

At year end, the Corporation had possible material exposures in respect of claims arising from the supply of fire appliances in connection with the Lowes Industries (North Island) Limited contract. The maximum potential exposure to the Corporation arising out of the liquidation of Lowes Industries (North Island) Limited is estimated to be $1.85 million. Refer to Note 26 for further details.

19. Notes to the Statement of Cash Flows

(i) Reconciliation of Cash

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

	2000	1999
Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:	**$'000**	$'000
Cash at bank	**27 552**	21 976
Cash on hand	**4**	4
	27 556	21 980

(ii) Reconciliation of Net (Cost of) Surplus from Services to Net Cash provided by Operating Activities

Net cash provided by operating activities	**9 352**	7 313
Contributions from the Community Emergency Services Fund	**(63 507)**	-
Decrease in employee entitlements	**106**	167
Decrease (Increase) in payables	**673**	(905)
Depreciation	**(3 703)**	(3 429)
Increase in prepayments	**8**	4
Increase in inventories	**7**	4
Increase in receivables	**274**	246
Income from restructuring	**(543)**	-
Net (Cost of) Surplus from Services	**(57 333)**	3 400

20.	**Remuneration of Auditors**	**2000**	1999
		$'000	$'000
	The amount due and payable for audit services provided by the Auditor-General's Department	**15**	40

21. Consultancy Payments

The Corporation paid a total of $190 000 ($118 000) in consultancy fees. Of this amount, major consultancy assignments were:

	2000
	$'000
Year 2000 project management and professional services	**59**
Crown Law advice	**22**

22. Remuneration of Employees

Employees received remuneration in the year in the following remuneration bands:

	2000 Number of Employees	1999 Number of Employees
$100 001 - $110 000	**-**	1
$110 001 - $120 000	**-**	1
$120 001 - $130 000	**-**	-
$130 001 - $140 000	**1**	-

The aggregate of the remuneration referred to in the above table was $139 000 ($219 000).

23. Financial Instruments

(a) Terms and Conditions

Financial Instrument	**Note**	**Accounting Policies and Methods**	**Nature of Underlying Instrument**
Financial Assets			
Cash at bank	19	Cash at bank comprises cash held in a Department of Treasury and Finance Deposit Account. Interest revenue is recorded on an accrual basis.	Interest on cash at bank is calculated quarterly by the Department of Treasury and Finance and is based on the average daily balance of the Deposit Account. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts, which varied between 4.63 percent and 5.58 percent during 1999-2000 (4.63 percent and 5.22 percent in 1998-99).
Receivables	12	Sundry debtors are recorded at the amounts due to the Corporation, less a provision for doubtful debts. They are recorded when goods have been supplied and services completed.	Sundry debtors are due within 30 days of the rendering of an account.
Financial Liabilities			
Payables	14	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 to the Corporation.	Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.
Borrowings	16	Borrowings are recorded at the amounts equal to proceeds received, less repayments of principal made. Interest expenses is recognised on an accrual basis.	Loans are carried at the amounts borrowed. Interest on the building finance is calculated as 6.25 percent of the 1986 base 'net capital cost' adjusted by movements in the Adelaide Consumer Price Index since 1986. The term of the borrowing is 40 years from 1 July 1985 to 29 June 2025. The Corporation may exercise an option to repay the borrowing on 1 July 2005 subject to the terms of the 'underlease' agreement.

(b) Interest Rate Risk

Financial Instrument	**Effective Interest Rate at 30.6.00 Percent**	**2000 Interest Bearing $'000**	**2000 Non-Interest Bearing $'000**	**2000 Total $'000**
Financial Assets:				
Cash at bank	**5.06**	**27 552**	**4**	**27 556**
Receivables		**-**	**1 117**	**1 117**
		27 552	**1 121**	**28 673**
Financial Liabilities:				
Payables		**-**	**729**	**729**
Borrowings - Advance from State Government	**10.91**	**5 226**	**-**	**5 226**
		5 226	**729**	**5 955**

Financial Instrument	Effective Interest Rate at 30.6.99 Percent	1999 Interest Bearing $'000	1999 Non-Interest Bearing $'000	1999 Total $'000
Financial Assets:				
Cash at bank	4.63	21 976	4	21 980
Receivables		-	843	843
		21 976	847	22 823
Financial Liabilities:				
Payables		-	434	434
Borrowings - Advance from State Government	10.91	5 226	-	5 226
		5 226	434	5 660

23. Financial Instruments (continued)

(c) Net Fair Values of Financial Assets and Liabilities

Financial Instrument	Note	**2000 Total Carrying Amount $'000**	**2000 Net Fair Value $'000**
Financial Assets:			
Cash at bank	19	**27 556**	**27 556**
Receivables	12	**1 117**	**1 117**
		28 673	**28 673**
Financial Liabilities:			
Payables	14	**729**	**729**
Borrowings	16	**5 226**	**5 226**
		5 955	**5 955**

Financial Instrument	Note	1999 Total Carrying Amount $'000	1999 Net Fair Value $'000
Financial Assets:			
Cash at bank	19	21 980	21 980
Receivables	12	843	843
		22 823	22 823
Financial Liabilities:			
Payables	14	434	434
Borrowings	16	5 226	5 226
		5 660	5 660

(d) Credit Risk Exposure

The Corporation's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Corporation has no significant exposures to any concentrations of credit risk.

24. Superannuation

The Corporation's contributions to the SA Metropolitan Fire Service Superannuation Fund, an externally managed Fund, represent its ongoing liability to provide benefits for employee members and their dependents on retirement, disability or death. The Fund is subject to a triennial review, and the contribution level is based on recommendations by the actuary.

As at 30 June 1999, the last available reporting date, the Fund reported:	$'000
Investments	127 743
Accrued benefits (as at 1 July 1998)	88 993
Vested benefits	96 131

In addition, to comply with the Commonwealth Superannuation Guarantee legislation for employees who are not members of the Fund, the Corporation has made contributions during the year of seven percent of those employees' salaries and wages to the South Australian Superannuation Board.

25. Net Revenues from Restructuring

As a result of the restructuring of administrative arrangements that occurred upon the commencement of the Emergency Services Administrative Unit (refer Note 10), the following liabilities were transferred to ESAU from 1 July 1999.

	2000 $'000	1999 $'000
Annual leave provision	**130**	-
Long service leave provision	**347**	-
Payables	**66**	-
	543	-

26. Events Occurring after Balance Date

Supply of Fire Appliances

As reported in the financial statements of the Corporation for year ended 30 June 1999, a contract with Lowes Industries (North Island) Limited for the building of 16 fire appliances at a cost of $5.5 million failed when the shareholders of Lowes Industries (North Island) Limited appointed a liquidator on 23 July 1999. At the time six of the 16 fire appliances had been delivered to the Corporation. The Corporation had paid $2 million for work in progress at 30 June 1999.

During the reporting period the Corporation was able to reach agreement with Scania Australia Pty Limited to secure ownership of the 10 remaining cab chassis for $0.6 million, thereby enabling completion of the appliances in Australian by the winner of an open tender.

The maximum potential exposure to the Corporation arising out of the liquidation of Lowes Industries (North Island) Limited is estimated to be $1.85 million.