

Department for Correctional Services

Financial report
for the year ended
30 June 2018



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To the Chief Executive Department for Correctional Services

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the financial report of the Department for Correctional Services for the financial year ended 30 June 2018.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Department for Correctional Services as at 30 June 2018, its financial performance and its cash flows for the then year ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chief Executive and the Executive Director, People and Business Services.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. I am independent of the Department for Correctional Services. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Conduct for Professional Accountants have been met.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issue under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

18 September 2018

Department for Correctional Services
Certification of the Financial Statements
For the year ended 30 June 2018

Certification of the Financial Statements

We certify that the attached general purpose financial statements for the Department for Correctional Services:

- comply with relevant Treasurer's Instructions issued under section 41 of the Public Finance and Audit Act 1987, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of the Department; and
- present a true and fair view of the financial position of the Department for Correctional Services as at 30 June 2018 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by the Department for Correctional Services for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



David Brown
Chief Executive

31 August 2018



Chris Sexton
Executive Director, People & Business
Services

31 August 2018

Department for Correctional Services

Financial Statements

For the year ended 30 June 2018

Department for Correctional Services
Statement of Comprehensive Income
For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Expenses			
Employee benefit expenses	3	224 474	195 223
Supplies and services	5	94 192	88 538
Depreciation and amortisation expense	6	20 681	19 830
Payments to prisoners		4 227	3 773
Accommodation and associated lease costs		12 163	13 029
Grants	7	626	671
Other expenses	8	851	731
Total expenses		357 214	321 795
Income			
Prison labour	9	5 194	4 518
Salaries and goods and services recoups		1 933	1 835
Interest revenue		1	1
Commonwealth revenue	10	767	1 102
Canteen and kitchen sales	11	1 126	1 128
Resources received free of charge	12	2 058	-
Net gain from the disposal of non-current and other assets	13	10	5
Other income	14	2 489	2 548
Total income		13 578	11 137
Net cost of providing services		343 636	310 658
Revenues from / (payments to) SA Government:			
Revenues from SA Government	15	362 041	331 874
Payments to SA Government	15	(37 368)	-
Net result		(18 963)	21 216
Other comprehensive income			
<i>Items that will not be reclassified to net result</i>			
Changes in revaluation surplus	20	11 399	11 587
Total comprehensive result		(7 564)	32 803

The net result and total comprehensive result are attributable to the SA Government as owner.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Department for Correctional Services
Statement of Financial Position
As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	16	28 063	50 907
Receivables	17	4 503	3 418
Inventories	18	1 844	1 597
Total current assets		34 410	55 922
Non-current assets			
Property, plant and equipment	20	571 768	519 987
Capital works in progress	21	52 553	48 213
Intangible assets	22	2 593	2 730
Biological assets	23	350	330
Total non-current assets		627 264	571 260
Total assets		661 674	627 182
Current liabilities			
Payables	25	23 062	23 750
Employee benefits	26	21 241	20 349
Provisions	27	3 118	2 748
Total current liabilities		47 421	46 847
Non-current liabilities			
Payables	25	3 120	2 806
Employee benefits	26	32 418	29 193
Provisions	27	25 049	7 269
Total non-current liabilities		60 587	39 268
Total liabilities		108 008	86 115
Net assets		553 666	541 067
Equity			
Retained earnings	28	66 061	85 111
Prisoner amenities reserve	28	213	126
Asset revaluation surplus	28	321 924	310 525
Contributed capital	28	165 468	145 305
Total equity		553 666	541 067

The total equity is attributable to the SA Government as owner.

Unrecognised contractual commitments	29
Contingent assets and liabilities	30

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Department for Correctional Services
Statement of Changes in Equity
For the year ended 30 June 2018

		Prisoner amenities reserve	Asset revaluation surplus	Contributed capital	Retained earnings	Total equity
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2016		1	298 938	97 638	64 020	460 597
Net result for 2016-17		-	-	-	21 216	21 216
Error Correction 2016-17	28	-	1 944	-	-	1 944
Gain on revaluation of land and buildings during 2016-17		-	9 665	-	-	9 665
Loss on revaluation of olives & citrus grove during 2016-17		-	(22)	-	-	(22)
Total comprehensive result for 2016-17		-	11 587	-	21 216	32 803
Net changes in reserves		125	-	-	(125)	-
Transactions with SA Government as owner:						
Capital contribution received		-	-	47 667	-	47 667
Balance at 30 June 2017	28	126	310 525	145 305	85 111	541 067
Net result for 2017-18		-	-	-	(18 963)	(18 963)
Gain on revaluation of land and buildings during 2017-18		-	11 394	-	-	11 394
Gain on revaluation of olives & citrus grove during 2017-18		-	5	-	-	5
Total comprehensive result for 2017-18		-	11 399	-	(18 963)	(7 564)
Net changes in reserves		87	-	-	(87)	-
Transactions with SA Government as owner:						
Capital contribution received		-	-	20 163	-	20 163
Balance at 30 June 2018	28	213	321 924	165 468	66 061	553 666

All changes in equity are attributable to the SA Government as owner.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Department for Correctional Services
Statement of Cash Flows
For the year ended 30 June 2018

		2018	2017
		(Outflows) Inflows	(Outflows) Inflows
	Note	\$'000	\$'000
Cash flows from operating activities			
Cash outflows			
Employee benefit payments		(201 473)	(190 463)
Supplies and services		(119 088)	(113 224)
Prisoner payments		(4 227)	(3 773)
Grants		(626)	(671)
Payments for Paid Parental Leave Scheme		(156)	(274)
Other payments		(826)	(731)
Cash used in operations		<u>(326 396)</u>	<u>(309 136)</u>
Cash inflows			
Receipts from prison labour		5 194	4 518
Interest received		1	1
GST recovered from the ATO		13 486	13 043
Receipts for Paid Parental Leave Scheme		163	279
Other receipts		6 627	7 575
Cash generated from operations		<u>25 471</u>	<u>25 416</u>
Cash flows from SA Government			
Receipts from SA Government		362 041	331 874
Payments to SA Government		(37 368)	-
Cash generated from SA Government		<u>324 673</u>	<u>331 874</u>
Net cash provided by operating activities	33	<u>23 748</u>	<u>48 154</u>
Cash flows from investing activities			
Cash outflows			
Purchase of property, plant and equipment		(66 802)	(51 470)
Cash used in investing activities		<u>(66 802)</u>	<u>(51 470)</u>
Cash inflows			
Proceeds from sale of property, plant and equipment		47	9
Cash generated from investing activities		<u>47</u>	<u>9</u>
Net cash used in investing activities		<u>(66 755)</u>	<u>(51 461)</u>
Cash flows from financing activities			
Cash inflows			
Capital contributions from SA Government		20 163	47 667
Cash generated from financing activities		<u>20 163</u>	<u>47 667</u>
Net cash provided by financing activities		<u>20 163</u>	<u>47 667</u>
Net (decrease) / increase in cash and cash equivalents		<u>(22 844)</u>	<u>44 360</u>
Cash and cash equivalents at the beginning of the reporting period		50 907	6 547
Cash and cash equivalents at the end of the reporting period	16	<u>28 063</u>	<u>50 907</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Department for Correctional Services

Notes to and forming part of the financial statements

1 Basis of financial statements

1.1 Reporting entity

The Department for Correctional Services (DCS/the Department) is a government department of the State of South Australia, established pursuant to the *Public Sector Act 2009*. The Department is an administrative unit acting on behalf of the Crown.

The financial statements and accompanying notes include all the controlled activities of the Department (refer to the disaggregated schedule for details of the Department's controlled activities).

The Department does not control any other entity and has no interests in unconsolidated structured entities.

Transactions and balances relating to administered resources are not recognised as departmental income, expenses, assets and liabilities. As administered items are insignificant in relation to the Department's overall financial performance and position, they are disclosed in Note 36. Except as otherwise disclosed, administered items are accounted for on the same basis and using the same accounting policies as for departmental items.

1.2 Statement of compliance

These financial statements have been prepared in compliance with section 23 of the *Public Finance and Audit Act 1987* (PFAA).

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

The Department has applied Australian Accounting Standards that are applicable to not-for-profit entities, as the Department is a not-for-profit entity. Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Department for the period ending 30 June 2018.

1.3 Basis of preparation

The financial statements have been prepared based on a 12 month period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, the Department has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

Significant accounting policies are set out in the notes.

Department for Correctional Services

Notes to and forming part of the financial statements

1.4 Taxation

The Department is not subject to income tax. The Department is liable for payroll tax, fringe benefits tax (FBT), goods and services tax (GST), emergency services levy (ESL) and other tax equivalents.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Tax Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

2 Objectives and activities

2.1 Objectives

The Department's objectives are:

- to contribute to a safer community by working in partnership with other criminal justice organisations and the community to prevent crime and reduce repeat offending; and
- to safely, securely and humanely manage people ordered by the courts to serve a community based or prison sanction and provide them with opportunities to lead law-abiding productive lives.

2.2 Activities

The Department undertakes the following activities:

- **Custodial Services** - The Department provides secure containment and supervision for adults on remand and those sentenced by the courts to serve a custodial sanction. The Custodial Services program includes costs associated with operating the State's prison system, the humane treatment of prisoners while in custody and the secure movement of prisoners.
- **Community Based Services** - The Department case manages and supervises offenders in the community on probation, parole or under home detention and bailees on supervised bail.
- **Rehabilitation and Reparation Services** - The Department provides a range of educational, vocational and rehabilitative activities designed to assist offenders to address their offending behaviour and provide them with opportunities to lead law abiding and productive lives.

General / Not Attributable: Certain assets and liabilities of the department are unable to be allocated reliably to activities.

The disaggregated disclosures schedules present expenses, income, assets and liabilities information attributable to each of the activities for the years ended 30 June 2018 and 30 June 2017.

Department for Correctional Services
Notes to and forming part of the financial statements

Expenses and income by activity

For the year ended 30 June

	Custodial Services		Community Based Services	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Expenses				
Employee benefit expenses	163 765	140 728	31 791	29 010
Supplies and services	71 671	71 189	9 628	6 610
Depreciation and amortisation expense	19 339	18 243	608	699
Payments to prisoners	3 486	3 106	-	-
Accommodation and associated lease costs	8 610	9 392	3 514	3 616
Grants	-	-	-	-
Other expenses	643	663	117	55
Total expenses	267 514	243 321	45 658	39 990
Income				
Prison labour	-	-	-	-
Salaries and goods and services recoups	245	297	1 604	1 501
Interest revenue	1	1	-	-
Commonwealth revenue	-	-	100	101
Canteen and kitchen sales	1 126	1 128	-	-
Resources received free of charge	1 526	-	271	-
Net gain/(loss) from the disposal of non-current and other assets	(25)	-	-	-
Other income	2 370	1 300	47	7
Total income	5 243	2 726	2 022	1 609
Net cost of providing services	262 271	240 595	43 636	38 381
Revenues from / (payments to) SA Government				
Revenues from SA Government	273 625	256 863	47 417	41 090
Payments to SA Government	(28 242)	-	(4 894)	-
Net result	(16 888)	16 268	(1 113)	2 709

Department for Correctional Services
Notes to and forming part of the financial statements

Expenses and income by activity

For the year ended 30 June

	Rehabilitation and Reparation Services		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Expenses				
Employee benefit expenses	28 918	25 485	224 474	195 223
Supplies and services	12 893	10 739	94 192	88 538
Depreciation and amortisation expense	734	888	20 681	19 830
Payments to prisoners	741	667	4 227	3 773
Accommodation and associated lease costs	39	21	12 163	13 029
Grants	626	671	626	671
Other expenses	91	13	851	731
Total expenses	44 042	38 484	357 214	321 795
Income				
Prison labour	5 194	4 518	5 194	4 518
Salaries and goods and services recoups	84	37	1 933	1 835
Interest revenue	-	-	1	1
Commonwealth revenue	667	1 001	767	1 102
Canteen and kitchen sales	-	-	1 126	1 128
Resources received free of charge	261	-	2 058	-
Net gain/(loss) from the disposal of non-current and other assets	35	5	10	5
Other income	72	1 241	2 489	2 548
Total income	6 313	6 802	13 578	11 137
Net cost of providing services	37 729	31 682	343 636	310 658
Revenues from / (payments to) SA Government				
Revenues from SA Government	40 999	33 921	362 041	331 874
Payments to SA Government	(4 232)	-	(37 368)	-
Net result	(962)	2 239	(18 963)	21 216

Department of Correctional Services
Notes to and forming part of the financial statements

Assets and liabilities by activity

As at 30 June

	Custodial Services		Community Based Services		Rehabilitation and Reparation Services	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Current assets						
Cash and cash equivalents	19	22	3	3	1	1
Receivables	339	182	-	-	-	-
Inventories	327	300	-	-	1 187	947
Total current assets	685	504	3	3	1 188	948
Non-current assets						
Property, plant and equipment	546 324	494 539	9 294	9 767	13 338	13 674
Capital works in progress	52 058	47 496	20	41	5	-
Intangible assets	2 593	2 593	-	-	-	-
Biological assets	-	-	-	-	350	330
Total non-current assets	600 975	544 628	9 314	9 808	13 693	14 004
Total assets	601 660	545 132	9 317	9 811	14 881	14 952
Current liabilities						
Payables	16 389	11 435	554	4 789	716	80
Employee benefits	16 210	14 677	3 167	3 019	1 864	2 653
Provisions	2 262	1 982	448	408	408	358
Total current liabilities	34 861	28 094	4 169	8 216	2 988	3 091
Non-current liabilities						
Payables	2 217	1 351	75	566	97	9
Employee benefits	22 879	21 056	4 995	4 332	4 544	3 805
Provisions	20 697	5 242	2 279	1 080	2 073	947
Total non-current liabilities	45 793	27 649	7 349	5 978	6 714	4 761
Total liabilities	80 654	55 743	11 518	14 194	9 702	7 852
Net assets	521 006	489 389	(2 201)	(4 383)	5 179	7 100

Department for Correctional Services
Notes to and forming part of the financial statements

Assets and liabilities by activity

As at 30 June

	General / Not Attributable		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Current assets				
Cash and cash equivalents	28 040	50 881	28 063	50 907
Receivables	4 164	3 236	4 503	3 418
Inventories	330	350	1 844	1 597
Total current assets	32 534	54 467	34 410	55 922
Non-current assets				
Property, plant and equipment	2 812	2 007	571 768	519 987
Capital works in progress	470	676	52 553	48 213
Intangible assets	-	137	2 593	2 730
Biological assets	-	-	350	330
Total non-current assets	3 282	2 820	627 264	571 260
Total assets	35 816	57 287	661 674	627 182
Current liabilities				
Payables	5 403	7 446	23 062	23 750
Employee benefits	-	-	21 241	20 349
Provisions	-	-	3 118	2 748
Total current liabilities	5 403	7 446	47 421	46 847
Non-current liabilities				
Payables	731	880	3 120	2 806
Employee benefits	-	-	32 418	29 193
Provisions	-	-	25 049	7 269
Total non-current liabilities	731	880	60 587	39 268
Total liabilities	6 134	8 326	108 008	86 115
Net assets	29 682	48 961	553 666	541 067

Department for Correctional Services
Notes to and forming part of the financial statements

3 Employee benefits

Employee benefits expenses

	2018	2017
	\$'000	\$'000
Salaries and wages	155 756	149 829
Employment on-costs - superannuation ⁽¹⁾	16 408	15 083
Employment on-costs - payroll tax	9 692	9 177
Annual leave	16 394	16 129
Long service leave	5 564	3 360
Skills and experience retention leave	605	581
Workers compensation ⁽²⁾	9 588	1 064
Injury and income protection policy ⁽³⁾	10 467	-
Total employee benefit expenses	224 474	195 223

⁽¹⁾ The superannuation employment on-cost charge represents the Department's contributions to superannuation plans in respect of current services of current employees.

⁽²⁾ Includes the movement in workers compensation liability of \$7.68 million (\$-0.48 million) resulting from the annual actuarial assessment (refer also to Note 27).

⁽³⁾ Injury and income protection policy was introduced in 2018, therefore no comparatives are available.

Targeted voluntary separation packages

The number of employees who received a TVSP during the reporting period was nil (1).

	2018	2017
	\$'000	\$'000
Amount paid to separated employees:		
Target Voluntary Separation Packages	-	113
Leave paid to those employees	-	7
Net cost to the Department	-	120

Key management personnel

Key management personnel of the Department include the Minister, the Chief Executive and the five members of the Executive Team who have responsibility for the strategic direction and management of the Department.

Total compensation for key management personnel was \$1.47 million in 2017-18 and \$1.39 million in 2016-17.

The compensation disclosed in this note excludes salaries and other benefits the Minister for Correctional Services receives. The Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 the *Parliamentary Remuneration Act 1990*.

	2018	2017
	\$'000	\$'000
Compensation		
Salaries and other short term employee benefits	1 315	1 258
Post-employment benefits	156	135
Total compensation	1 471	1 393

Department for Correctional Services

Notes to and forming part of the financial statements

Remuneration of employees

	Executive		Employees		Total	
	2018 Number	2017 Number	2018 Number	2017 Number	2018 Number	2017 Number
The number of employees whose remuneration received or receivable falls within the following bands:						
\$147 000 to \$149 000*	N/A	-	N/A	1	N/A	1
\$149 001 to \$159 000	-	-	9	10	9	10
\$159 001 to \$169 000	-	1	6	3	6	4
\$169 001 to \$179 000	4	2	3	2	7	4
\$179 001 to \$189 000	-	2	-	-	-	2
\$189 001 to \$199 000	2	-	-	1	2	1
\$199 001 to \$209 000	-	1	-	1	-	2
\$209 001 to \$219 000	1	-	-	-	1	-
\$229 001 to \$239 000	-	1	-	-	-	1
\$249 001 to \$259 000	1	1	-	-	1	1
\$259 001 to \$269 000	2	-	-	-	2	-
\$339 001 to \$349 000	-	1	-	-	-	1
\$349 001 to \$359 000	1	-	-	-	1	-
Total	11	9	18	18	29	27

* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2016-17.

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by these employees for the year was \$5.33 million (\$4.86 million).

4 Remuneration of board and committee members

Members during the 2018 financial year were.

Parole Board of South Australia

Frances Nelson (Presiding Member)

Timothy Bourne (Deputy Presiding Member)

Terence Groom (Deputy Presiding Member)

Nora Bloor

Garth Dodd

Denis Edmonds

David Haebich

Andrew Kyprianou

Susan MacDonald *

Katherine McLachlan

Dr Kenneth O'Brien

Serious Offender Committee

Vanessa Swan (Chair) *

Carmen Bryan *

Danielle Hamann *

Joanne Leonello *

Hayley Mills *

Alicia Murphy *

Jon Oliver *

Robert Richardson *

Emma Roesch *

Jodie Sloan

Paul Taggart *

David Oates * (Appointed 30/3/2017)

Kit Wong * (Appointed 20/7/2017)

Department for Correctional Services
Notes to and forming part of the financial statements

DCS Audit and Risk Management Committee

Joe Ullianich (Independent Chairperson)

Michael Reynolds *

Jacqui Casey *

Vanessa Swan *

Angela Gransden *

* In accordance with the Premier and Cabinet Circular No.016, government employees did not receive any remuneration for board/committee duties during the financial year.

The number of members whose remuneration received/receivable falls within the following bands:

	2018	2017
\$0 - \$9 999	18	23
\$10 000 - \$19 999	2	7
\$20 000 - \$29 999	1	1
\$30 000 - \$39 999	5	5
\$40 000 - \$49 999	2	2
\$60 000 - \$69 999	1	1
Total number of members	29	39

Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, salary sacrifice benefits and fringe benefits and any FBT paid or payable in respect of those benefits. The total remuneration received or receivable by members, was \$350 000 (\$427 000).

Amounts paid to a superannuation plan for Board Members was \$30 000 (\$37 000).

5 Supplies and services

	2018	2017
	\$'000	\$'000
Contracts ⁽¹⁾	37 305	34 972
Offender related costs	10 827	10 599
Utilities	9 752	7 787
Works and equipment costs	6 031	5 343
Cost of goods sold - prison industries	5 343	5 207
IT costs	5 043	4 618
Workers compensation	2 275	2 408
Staff related costs	2 113	2 189
Shared Services SA processing ⁽²⁾	2 077	2 471
Travel expenses	1 516	1 735
Cost of goods sold - canteen and kitchen sales	1 114	1 115
Insurance charges	1 710	1 616
Materials and consumables	724	639
Contracted staff	541	450
Board and committee fees	320	390
Consultants	102	283
WHS expenses	273	283
Sundry other expenses ⁽³⁾	7 126	6 433
Total supplies and services	94 192	88 538

⁽¹⁾ The main contracts for the Department include the Mount Gambier prison management, prisoner movement and in-court management and Electronic Monitoring System South Australia.

⁽²⁾ Includes resources provided free of charge \$2.058 million (\$0) expensed at fair value.

⁽³⁾ Audit fees paid/payable to the Auditor-General's Department relating to work performed under the PFAA were \$129,000 (\$126,000). No other services were provided by the Auditor-General's Department.

Department for Correctional Services

Notes to and forming part of the financial statements

The total supplies and services amount disclosed includes GST amounts not recoverable from the Australian Taxation Office due to the Department not holding a tax invoice or payments relating to third party arrangements.

Consultants

The number of consultancies and the dollar amount paid/payable (included in supplies and services expense) to consultants that fell within the following bands:

	No.	2018 \$'000	No.	2017 \$'000
Above \$10 000	3	102	2	283
Total paid / payable to the consultants engaged	3	102	2	283

6 Depreciation and amortisation expense

	2018 \$'000	2017 \$'000
Depreciation		
Buildings	19 171	18 224
Plant and equipment	331	333
Total depreciation	19 502	18 557
Amortisation		
Leasehold improvements	1 042	997
Intangibles assets	137	276
Total amortisation	1 179	1 273
Total depreciation and amortisation	20 681	19 830

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to leasehold improvements and intangible assets such as software licences, while depreciation is applied to tangible assets such as property, plant and equipment.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Land is not depreciated.

Useful life

Depreciation/amortisation is calculated on a straight-line basis over the estimated useful life of the following classes of assets as follows:

Class of asset	Useful life (years)
Plant and equipment	4-20
Buildings (including prisons)	Up to 60
Intangibles	3-5
Leasehold improvements	Life of lease

The useful lives of intangible assets are assessed to be either finite or indefinite. Assets' residual values and useful lives are reviewed and adjusted if appropriate, on an annual basis. The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

Department for Correctional Services

Notes to and forming part of the financial statements

Change in depreciation due to revaluation

The Department revalued its buildings upward during 2018. As a result of the revaluation, depreciation on these assets has increased in the current reporting period. Depreciation expense increased by \$2.55 million as a result of the revaluation.

Revision of accounting estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

During the year, the Department reassessed the useful life of its assets and determined that no change was necessary.

7 Grants

	2018	2017
	\$'000	\$'000
Recurrent grants	626	671
Total grants	626	671

8 Other expenses

	2018	2017
	\$'000	\$'000
Bad debts expense	14	-
Bank charges	23	17
Fringe benefits tax	426	432
Other	388	282
Total other expenses	851	731

Department for Correctional Services
Notes to and forming part of the financial statements

9 Net income / (loss) from prison labour

	Yatala Labour Prison		Mobilong Prison		Cadell Training Centre		Adelaide Women's Prison/ Adelaide Pre-Release Centre	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Sales income								
Internal sales	426	508	783	746	866	875	507	346
External sales	527	432	421	460	331	190	2 419	2 127
Total sales income	953	940	1 204	1 206	1 197	1 065	2 926	2 473
Cost of goods sold	(440)	(419)	(661)	(644)	(528)	(561)	(2 359)	(2 259)
Gross profit	513	521	543	562	669	504	567	214
Other income	(4)	-	2	2	40	82	-	9
Other expenses	(2 101)	(2 084)	(2 395)	(1 939)	(1 475)	(1 351)	(1 082)	(1 017)
Net income / (loss)	(1 592)	(1 563)	(1 850)	(1 375)	(766)	(765)	(515)	(794)

	Port Augusta Prison		Port Lincoln Prison		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Sales income						
Internal sales	43	279	4	8	2 629	2 762
External sales	1 255	1 047	241	262	5 194	4 518
Total sales income	1 298	1 326	245	270	7 823	7 280
Cost of goods sold	(1 161)	(1 141)	(194)	(183)	(5 343)	(5 207)
Gross profit	137	185	51	87	2 480	2 073
Other income	1	1	18	9	57	103
Other expenses	(2 110)	(1 651)	(572)	(472)	(9 735)	(8 514)
Net income / (loss)	(1 972)	(1 465)	(503)	(376)	(7 198)	(6 338)

Internal sales include \$42 000 (\$285 000) resulting from work undertaken by prisoners for projects that are part of the capital works program.

Internal sales have been eliminated from consolidated income and are therefore not included in the Statement of Comprehensive Income.

Other expenses include employee benefits, supplies and services, offender related costs and depreciation associated with industry operations at each location.

Department for Correctional Services
Notes to and forming part of the financial statements

10 Commonwealth revenue

	2018	2017
	\$'000	\$'000
Commonwealth revenue	767	1 102
Total Commonwealth revenue	767	1 102

Commonwealth revenue is for the Remote Areas Program and the Women's Safety Package.

11 Canteen and kitchen sales

	2018	2017
	\$'000	\$'000
Canteen and kitchen sales	1 126	1 128
Cost of goods sold	(1 114)	(1 115)
Net result of canteen and kitchen sales	12	13

12 Resources received free of charge

	2018	2017
	\$'000	\$'000
Services received free of charge – Shared Services SA	2 058	-
Total resources received free of charge	2 058	-

On the 21 November 2016, approval was given by Cabinet to cease the intra-government charging model for services provided by Shared Services SA (SSSA) to general government sector agencies. As a result of this change, effective from 2017-18, SSSA is directly appropriation funded for the services provided to general government agencies.

Under AASB 1004 *Contributions*, the contribution of services provided by SSSA to government agencies are disclosed in the financial statements as income because the fair value of the services can be reliably measured and the services would have been purchased if they had not been donated. A corresponding expense is recognised in the financial statements (refer to Note 5).

13 Net gain from the disposal of non-current assets

	2018	2017
	\$'000	\$'000
Plant and equipment		
Proceeds from disposal	47	9
Less net book value of assets disposed	(37)	(4)
Net gain from disposal of plant and equipment	10	5
Total assets		
Proceeds from disposal	47	9
Less net book value of assets disposed	(37)	(4)
Total net gain from disposal of non-current assets	10	5

Gains/losses on disposal are recognised at the date at which control of the asset is passed to the buyer and are determined after deducting the cost of the asset from the proceeds at that time. When revalued assets are sold, the revaluation surplus is transferred to retained earnings.

Department for Correctional Services
Notes to and forming part of the financial statements

14 Other income

	2018	2017
	\$'000	\$'000
Other income received from SA Government entities		
Grants received	384	375
Revenue from recoveries	342	188
Internally generated assets	58	285
Total other income - SA Government entities	784	848
Other income received from entities external to the SA Government		
Prisoner telephone receipts	1 551	1 514
Other	154	186
Total other income - Non-SA Government entities	1 705	1 700
Total other income	2 489	2 548

Revenue is recognised on receipt.

15 Revenues from / (payments to) SA Government

	2018	2017
	\$'000	\$'000
Revenues from SA Government		
Appropriations from the Consolidated Account Pursuant to the <i>Appropriation Act</i>	321 338	331 874
Other revenues from the Consolidated Account	40 703	-
Total revenues from SA Government	362 041	331 874
Payments to SA Government		
Return of surplus cash pursuant to the cash alignment policy	(37 368)	-
Total payments to SA Government	(37 368)	-

Appropriations are recognised on receipt.

Where money has been appropriated in the form of an equity contribution, the Treasurer has acquired a financial interest in the net assets of the Department and the appropriation is recorded as contributed equity. Refer to the Statement of Changes in Equity.

Total revenues from Government consist of \$362.0 million (\$331.9 million) for operational funding and capital projects. For details on the expenditure associated with the operational funding received refer to Notes 3 to 8. There were no material variations between the amount appropriated and the expenditure associated with this appropriation.

16 Cash and cash equivalents

	2018	2017
	\$'000	\$'000
Deposits with the Treasurer	28 027	50 871
Prison imprest accounts	27	27
Petty cash	9	9
Total cash and cash equivalents	28 063	50 907

Cash is measured at nominal amounts.

Department for Correctional Services

Notes to and forming part of the financial statements

Deposits with the Treasurer

The Department has two deposit accounts with the Treasurer: a general operating account and an Accrual Appropriation Excess Funds Account. Although the Department controls the money in the Accrual Appropriation Account, its use must be approved by the Treasurer. The Department does not earn interest on its deposits with the Treasurer.

Interest rate risk

Petty cash and deposits at call and with the Treasurer are non-interest bearing. Prison imprest accounts earn a floating interest rate based on daily bank deposit rates. The carrying amount of cash approximates fair value.

17 Receivables

	2018	2017
	\$'000	\$'000
Current:		
Receivables	889	696
Less allowance for doubtful debts	-	(4)
	<u>889</u>	<u>692</u>
Accrued revenue	160	-
GST receivable	3 378	2 687
Prepayments	76	39
Total receivables	<u><u>4 503</u></u>	<u><u>3 418</u></u>

Movement in the allowance for doubtful debts

The allowance for doubtful debts (allowance for impairment loss) is recognised when there is objective evidence that a receivable is impaired. An allowance for impairment loss has been recognised in 'other expenses' in the Statement of Comprehensive Income for specific debtors and debtors assessed on a collective basis for which such evidence exists.

	2018	2017
	\$'000	\$'000
Carrying amount at the beginning of the period	4	4
Amounts written off	(4)	-
Carrying amount at end of the period	<u><u>-</u></u>	<u><u>4</u></u>

Interest rate and credit risk

Receivables are raised for all goods and services provided for which payment has not been received.

Receivables are normally settled within 30 days. Trade receivables, prepayments and accrued revenues are non-interest bearing. Other than as recognised in the provision for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk.

The Department does not have any material interest bearing assets and liabilities and is not exposed to any interest rate risk.

Refer to Note 35 for further information on risk management.

Department for Correctional Services
Notes to and forming part of the financial statements

18 Inventories

	2018	2017
	\$'000	\$'000
Current - held for distribution:		
Stores	658	650
Total inventories held for distribution	658	650
Current - other than those held for distribution:		
Raw materials and work in progress	769	618
Finished goods	121	113
Stores	296	216
Total current inventories other than those held for distribution	1 186	947
Total inventories	1 844	1 597

Inventories include goods and other property held either for sale or distribution at nominal cost in the ordinary course of business.

Inventory in institutional stores is held for distribution at cost and is adjusted when applicable for any loss of service potential.

Inventory held in prison canteens is held for sale at nominal cost and is assigned on the basis of average cost.

Inventory held by prison industries is measured at cost.

Lock and physical security item inventory is held for distribution at cost and adjusted when applicable for any loss of service potential.

19 Non-current assets

Revaluation

All non-current tangible assets are valued at fair value and revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years.

Every three years, sites are inspected and a full revaluation of the Department's land and buildings is performed. A 'desk-top' valuation is performed for the two interim years. This involves the use of existing asset values and the application of various indices. However, if at any time management considers that the carrying amount of an asset materially differs from its fair value then a full revaluation may be undertaken and the asset will be revalued regardless of when the last full valuation took place. Non-current tangible assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value.

Any revaluation increment is credited to the revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset class previously recognised in the Statement of Comprehensive Income, in which case the increase is recognised in the Statement of Comprehensive Income.

Any revaluation decrement is recognised in the Statement of Comprehensive Income, except to the extent that it offsets a previous revaluation increase for the same asset class, in which case the decrease is debited directly to the revaluation surplus to the extent of the credit balance existing in the revaluation surplus for that asset class.

Accumulated depreciation is restated proportionately whereby the carrying amount of the asset after revaluation equals the revalued amount of the asset.

Department for Correctional Services
Notes to and forming part of the financial statements

20 Property, plant and equipment

	2018	2017
	\$'000	\$'000
Land and buildings		
Land at fair value (existing use)	90 370	88 760
Buildings at fair value	938 313	866 190
Accumulated depreciation	<u>(463 293)</u>	<u>(441 567)</u>
Total land and buildings	<u>565 390</u>	<u>513 383</u>
Leasehold improvements		
Leasehold improvements (deemed fair value)	12 529	12 083
Accumulated amortisation	<u>(8 682)</u>	<u>(7 640)</u>
Total leasehold improvements	<u>3 847</u>	<u>4 443</u>
Plant and equipment		
Plant and equipment at cost (deemed fair value)	6 203	5 867
Accumulated depreciation	<u>(3 890)</u>	<u>(3 919)</u>
Total plant and equipment	<u>2 313</u>	<u>1 948</u>
Bearer plants		
Bearer plants at cost (deemed fair value)	<u>218</u>	<u>213</u>
Total bearer plants	<u>218</u>	<u>213</u>
Total property, plant and equipment	<u>571 768</u>	<u>519 987</u>

Acquisition and recognition

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental costs involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. Non-current assets are subsequently measured at fair value less accumulated depreciation.

Since the Department controls a large number of low value items, the cost of accounting for the capitalisation of items costing less than \$10 000 is expected to outweigh the benefits that would be gained from reporting this information. As a result, items with an acquisition cost less than \$10 000 are expensed in the period in which they are acquired.

All non-current tangible assets with a value equal to or in excess of \$10,000 are capitalised.

Valuation of land and buildings

The last full valuation was performed by independent valuer, Martin Burns of Liquid Pacific as at 30 June 2016. The valuer arrived at fair value using the market approach. The valuation was based on recent market transactions for similar land and buildings (non-specialised) in the area and includes adjustment for factors specific to the land and buildings being valued such as size and location. Fair value of land classified as restricted in use was determined using an adjusted market price of surrounding unrestricted land.

The valuer used depreciated replacement cost for specialised buildings, due to there not being an active market. The depreciated replacement cost considered the need for ongoing provision of government services; specialised nature and restricted use of the assets; their size, condition and location. The valuation was based on an assessment of useful life and asset condition.

A desktop valuation, through the use of existing asset values and the application of various indices, was performed by an independent valuer, Martin Burns of Liquid Pacific as at 30 June 2018.

Department for Correctional Services

Notes to and forming part of the financial statements

Bearer plants

The olive and citrus groves are measured at cost plus any gains arising from changes in fair value less estimated point-of-sale costs attributable to physical changes.

The olive grove is situated on approximately 32 hectares of land at the Cadell Training Centre. The grove has been developed to produce commercially viable olive oil.

The citrus grove is situated on approximately 19 hectares of land at the Cadell Training Centre. The current plantation comprises 6.23 hectares of existing trees that are currently productive.

Impairment

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss. The recoverable amount is determined as the higher of the asset's fair value less costs of disposal and depreciated replacement cost.

For revalued assets, an impairment loss is offset against the revaluation surplus.

Reconciliation of property, plant and equipment during 2017-18

	Land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Bearer plants \$'000	Total \$'000
Carrying amount at the beginning of the period	513 383	4 443	1 948	213	519 987
Acquisitions	50	-	637	-	687
Transfers from capital works in progress	59 734	446	96	-	60 276
Disposals	-	-	(37)	-	(37)
Revaluation increment	11 394	-	-	5	11 399
Depreciation and amortisation	(19 171)	(1 042)	(331)	-	(20 544)
Carrying amount at the end of the period	565 390	3 847	2 313	218	571 768

Reconciliation of property, plant and equipment during 2016-17

	Land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Bearer plants \$'000	Total \$'000
Carrying amount at the beginning of the period	495 839	5 197	1 968	235	503 239
Acquisitions	18	-	23	-	41
Transfers from capital works in progress	24 141	243	294	-	24 678
Disposals	-	-	(4)	-	(4)
Revaluation increment/(decrement)	11 609	-	-	(22)	11 587
Depreciation and amortisation	(18 224)	(997)	(333)	-	(19 554)
Carrying amount at the end of the period	513 383	4 443	1 948	213	519 987

Department for Correctional Services

Notes to and forming part of the financial statements

21 Capital works in progress

	2018	2017
	\$'000	\$'000
Capital works in progress	52 553	48 213
Total capital works in progress	52 553	48 213

Reconciliation of capital works in progress during 2017-18

	2018	2017
	\$'000	\$'000
Carrying amount at the beginning of the period	48 213	15 320
Additions	64 616	57 571
Transfers to property, plant and equipment	(60 276)	(24 678)
Carrying amount at the end of the period	52 553	48 213

Capital works in progress are recognised as the cumulative costs of capital projects to balance date. Projects completed during the year have been recognised as buildings, plant or equipment and are valued at cost.

The increase in the carrying amount in 2017-18 mainly reflects expenditure on additional accommodation projects at Mount Gambier Prison of \$35.7 million, Port Augusta Prison of \$15 million and Mobilong Prison of \$4 million offset by the completion of additional accommodation projects at Port Augusta Prison of \$47.7 million, and the Adelaide Women's Prison of \$3.8 million.

22 Intangible assets

	2018	2017
	\$'000	\$'000
Software licences		
Software licences	1 167	1 167
Accumulated amortisation	(1 167)	(1 030)
Total software licences	-	137
Water licences		
Water licences	2 593	2 593
Total water licences	2 593	2 593
Total intangibles	2 593	2 730

An intangible asset is an identifiable non-monetary asset without physical substance. The useful lives of intangible assets are assessed to be either finite or indefinite.

Software licences

Software is an intangible asset with a finite life and is measured at cost. Following initial recognition, software is carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation period and the amortisation method for software are reviewed on an annual basis.

The acquisition of software is capitalised only when the expenditure meets the definition criteria (identifiability, control and the existence of future economic benefits), the recognition criteria (probability of future economic benefits and cost can be reliably measured) and when the amount of expenditure is greater than or equal to \$10,000.

Department for Correctional Services
Notes to and forming part of the financial statements

Water licences

The South Australian Government has issued water licences to the Department under the *Natural Resources Management Act 2004*. The Department acquired the licences on 1 July 2009. The licences were subsequently revalued on 1 July 2014 by independent valuer, Martin Burns of Liquid Pacific. The licences allow access to water from River Murray for stock, domestic and irrigation purposes at the Cadell Training Centre.

The water licences have an indefinite useful life and as such are not subject to amortisation.

Reconciliation of intangible assets during 2017-18

	Software licences	Water licences	Total
	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	137	2 593	2 730
Amortisation	(137)	-	(137)
Carrying amount at the end of the period	-	2 593	2 593

Reconciliation of intangible assets during 2016-17

	Software licences	Water licences	Total
	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	413	2 593	3 006
Amortisation	(276)	-	(276)
Carrying amount at the end of the period	137	2 593	2 730

23 Biological assets

	2018	2017
	\$'000	\$'000
Livestock	350	330
Total biological assets	350	330

Biological assets such as cattle are measured at fair value less estimated point-of-sales costs. The fair value is determined based on current market values of the biological assets.

Reconciliation of biological assets (livestock)

	2018	2017
	\$'000	\$'000
Carrying amount at the beginning of the period	330	259
Increases due to purchases	4	36
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes	50	63
Loss arising from changes in fair value less estimated point-of-sale costs attributable to price changes	-	(6)
Decreases due to sales	(34)	(22)
Carrying amount at the end of the period	350	330

Currently there are 220 (229) cattle held at Cadell Training Centre and Port Lincoln Prison for the purpose of milk and meat production for internal use within the prison system. The cattle are at various stages of life. As at reporting date there are no commitments for the development or acquisition of livestock.

Financial risk is considered to be extremely low with any losses being absorbed in the year of exposure. No government grants have been issued in relation to the livestock.

Department of Correctional Services

Notes to and forming part of the financial statements

24 Fair value measurement

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

The Department classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- Level 1 - traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2 - not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.
- Level 3 - not traded in an active market and are derived from unobservable inputs.

The valuation processes and fair value changes are reviewed by the Department at each reporting date.

In determining fair value, the Department has taken into account the characteristic of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset); and the asset's highest and best use (i.e. physically possible, legally permissible, financially feasible).

The Department's current use is the highest and best use of the asset unless other factors suggest an alternative use is feasible. As the Department did not identify any factors to suggest an alternative use, fair value measurement was based on current use.

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than \$1 million or had an estimated useful life that was less than three years are deemed to approximate fair value.

The Department does not recognise any financial assets or financial liabilities at fair value.

Fair value hierarchy

The fair value of non-financial assets must be estimated for recognition and measurement or for disclosure purposes. The Department categorises non-financial assets measured at fair value into hierarchy based on the level of inputs used in measurement as follows:

Fair value measurements at 30 June 2018

	Level 2	Level 3	Total
	\$'000	\$'000	\$'000
Recurring fair value measurements			
Buildings - specialised	-	473 607	473 607
Buildings - non-specialised	1 413	-	1 413
Land	90 370	-	90 370
Leasehold improvements	-	3 847	3 847
Plant and equipment	-	2 313	2 313
Bearer plants	218	-	218
Biological assets	350	-	350
Total recurring fair value measurements	92 351	479 767	572 118
Total fair value measurements	92 351	479 767	572 118

Department for Correctional Services
Notes to and forming part of the financial statements

Fair value measurements at 30 June 2017

	Level 2	Level 3	Total
	\$'000	\$'000	\$'000
Recurring fair value measurements			
Buildings - specialised	-	423 144	423 144
Buildings - non-specialised	1 479	-	1 479
Land	88 760	-	88 760
Leasehold improvements	-	4 443	4 443
Plant and equipment	-	1 948	1 948
Bearer plants	213	-	213
Biological assets	330	-	330
Total recurring fair value measurements	90 782	429 535	520 317
Total fair value measurements	90 782	429 535	520 317

The citrus and olive groves have been recorded as a separate class of assets under AASB 116 *Property, Plant and Equipment* and not accounted for under AASB 141 *Agriculture*.

The Department's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. Valuation techniques and inputs used to derive Level 2 and 3 fair values is described in Note 20.

During 2018 and 2017, the Department had no valuations categorised into Level 1; there were no transfers of assets between Level 1 and 2 fair value hierarchy levels and there were no changes in valuation technique.

Reconciliation of level 3 recurring fair value measurements at 30 June 2018

Unobservable inputs used in determining the fair value of plant and equipment and leasehold improvements are cost, useful lives and assessed condition as described in Note 20.

The following table is a reconciliation of fair value measurements using significant unobservable inputs (Level 3):

	Specialised buildings	Leasehold improvements	Plant and equipment	Total
	\$'000	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	423 144	4 443	1 948	429 535
Additions	50	-	637	687
Disposals	-	-	(37)	(37)
Transfer from work in progress	59 714	446	96	60 256
Losses for the period recognised in net result:				
Depreciation and amortisation	(19 071)	(1 042)	(331)	(20 444)
Total losses recognised in net result	(19 071)	(1 042)	(331)	(20 444)
Gains for the period recognised in other comprehensive income (OCI)				
Revaluation increments	9 770	-	-	9 770
Total gains recognised in OCI	9 770	-	-	9 770
Carrying amount at the end of the period	473 607	3 847	2 313	479 767

Department for Correctional Services

Notes to and forming part of the financial statements

Reconciliation of level 3 recurring fair value measurements at 30 June 2017

	Specialised buildings	Leasehold improvements	Plant and equipment	Total
	\$'000	\$'000	\$'000	\$'000
Carrying amount at the beginning of the period	407 297	5 197	1 968	414 462
Additions	17	-	23	40
Disposals	-	-	(4)	(4)
Transfer from work in progress	24 038	243	294	24 575
Losses for the period recognised in net result:				
Depreciation and amortisation	(18 112)	(997)	(333)	(19 442)
Total losses recognised in net result	<u>(18 112)</u>	<u>(997)</u>	<u>(333)</u>	<u>(19 442)</u>
Gains for the period recognised in other comprehensive income (OCI)				
Revaluation increments	9 904	-	-	9 904
Total gains recognised in OCI	<u>9 904</u>	<u>-</u>	<u>-</u>	<u>9 904</u>
Carrying amount at the end of the period	<u>423 144</u>	<u>4 443</u>	<u>1 948</u>	<u>429 535</u>

25 Payables

	2018	2017
	\$'000	\$'000
Current		
Creditors ⁽¹⁾	15 628	15 997
Accruals	3 550	4 045
Employment on-costs	3 856	3 687
Paid Parental Leave Scheme payable	28	21
Total current payables	<u>23 062</u>	<u>23 750</u>
Non-current		
Employment on-costs	3 120	2 806
Total non-current payables	<u>3 120</u>	<u>2 806</u>
Total payables	<u>26 182</u>	<u>26 556</u>

⁽¹⁾ Creditors include \$9.6 million (\$8.8 million) for additional prisoner accommodation projects.

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or the date the invoice is first received.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Department.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

Employment benefit on-costs include superannuation contributions, workers compensation levies and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave, annual leave and skills and experience retention leave.

The Department makes contributions to several State Government superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the South Australian Superannuation Board. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board.

Department for Correctional Services

Notes to and forming part of the financial statements

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave has changed from the 2017 rate (40%) to 41% and the average factor for the calculation of employer superannuation on-costs has also changed from the 2017 rate (10.1%) to 9.9%. These rates are used in the employment on-cost calculation.

The Paid Parental Leave Scheme payable represents amounts which the Department has received from the Commonwealth Government to forward onto eligible employees via the Department's standard payroll processes. That is, the Department is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

Interest rate and credit risk

Creditors and accruals are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefits that they relate to are discharged. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand.

26 Employee benefits liability

	2018	2017
	\$'000	\$'000
Current		
Annual leave	14 768	13 707
Accrued salaries and wages	3 582	3 323
Long service leave	2 318	2 746
Skills and experience retention leave	569	569
Unclaimed salaries and wages	4	4
Total current employee benefits	21 241	20 349
Non-current		
Long service leave	30 802	27 761
Annual leave	1 359	1 148
Skills and experience retention leave	257	284
Total non-current employee benefits	32 418	29 193
Total employee benefits	53 659	49 542

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave and sick leave

The liability for salaries and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

Unclaimed salaries and wages have been included as a current liability for employee benefits.

The annual leave liability and the skills and experience retention leave liability is generally expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability.

Department of Correctional Services

Notes to and forming part of the financial statements

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds is unchanged from 2017 (2.5%) to 2018 (2.5%).

The net financial effect of the changes to actuarial assumptions in the current financial year is an increase in the long service leave liability of \$0.768 million and employee benefits expense of \$0.768 million. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions – including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability and 3% for annual leave and skills, experience and retention leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

The long service leave provision is classified as current or non-current using the average leave pattern history of previous years. The unconditional portion of the long service leave provision is classified as current as the Department does not have an unconditional right to defer settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after 10 years of service.

27 Provisions

	2018	2017
	\$'000	\$'000
Current		
Workers' compensation - medical and other costs	1 958	2 202
Workers' compensation - income maintenance	951	546
Additional compensation	209	-
Total current provisions	3 118	2 748
Non-current		
Workers' compensation - medical and other costs	9 252	4 351
Workers' compensation - income maintenance	5 539	2 918
Additional compensation	10 258	-
Total non-current provisions	25 049	7 269
Total provisions	28 167	10 017
Movement In Provisions	2018	2017
	\$'000	\$'000
Workers' compensation:		
Carrying amount at the beginning of the period	10 017	9 744
Workers' compensation payments	(3 142)	(1 949)
Increase in provision	10 825	2 222
Carrying amount at the end of the period	17 700	10 017
Additional compensation:		
Carrying amount at the beginning of the period	-	-
Increase in provision	10 467	-
Carrying amount at the end of the period	10 467	-

Department for Correctional Services

Notes to and forming part of the financial statements

The Department is responsible for the payment of workers' compensation claims.

A liability has been reported to reflect unsettled workers' compensation claims. The workers' compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2018 provided by a consulting actuary engaged through the Office for the Public Sector. The liability was calculated in accordance with Australian Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as the present value of the expenditures expected to be required to settle obligations incurred as at 30 June 2018. No risk margin is included in this estimate.

The increase in the workers' compensation liability in 2018 was impacted by an increase in the:

- number of known claims,
- assumed medical costs for known claims, and
- the Department's relative share of incurred but not yet reported claims estimated by the actuary at a whole of government level.

There is a significant degree of uncertainty associated with estimating future claim and expense payments. The liability is impacted by agency claim experience relative to other agencies, average claim sizes and other economic and actuarial assumptions.

Additional Compensation for Certain Work-Related Injuries or Illnesses (Additional Compensation provision)

Following changes to relevant Public Sector Enterprise Agreements, the Department has recognised an Additional Compensation provision as at 30 June 2018.

The new Additional Compensation provision provides continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the statutory workers compensation scheme. Eligible injuries are non-serious injuries sustained in circumstances which involved, or appeared to involve, the commission of a criminal offence, or which arose from a dangerous situation.

The Additional Compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2018 provided by a consulting actuary engaged by the Office for the Public Sector. The liability was calculated in accordance with Australian Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as the present value of the expenditures expected to be required to settle obligations incurred as at 30 June. The liability comprises an estimate for known claims and an estimate of incurred but not reported (IBNR) applications. No risk margin is included in the estimate.

Key assumptions in the estimate include:

- application frequency
- the probability of applications becoming successful claims
- projections of annual claim payments
- rates of benefit continuance
- retirement age and mortality rates.

There is a significant degree of uncertainty associated with this estimate. In addition to the general uncertainties associated with estimating future claim and expense payments, the Additional Compensation provision is impacted by the absence of claims history and the evolving nature of the interpretation of, and evidence required to meet, eligibility criteria.

Given these uncertainties, the actual cost of Additional Compensation claims may differ materially from the estimate. The assumptions used will continue to be refined to reflect emerging experience.

Department for Correctional Services

Notes to and forming part of the financial statements

28 Equity

The revaluation surplus is used to record increments and decrements on the revaluation of non-current assets to the extent that they offset one another.

The Prisoner Amenities Reserve reflects the funds available to purchase amenities, such as gym equipment, for the specific benefit and use of prisoners. Proceeds from the sale of canteen goods to prisoners net of the cost of certain direct expenses less any associated prisoner amenities expenditure incurred during the financial year is transferred to or from the prisoner amenities reserve at year end.

Contributed capital received represents equity contribution from the SA Government under the Appropriation Act to fund the investing activities of the Department.

Error correction

The following prior period adjustments occurred in 2017-18:

An adjustment of \$1.94 million relating to a revaluation error for buildings in 2016-17. This was corrected by decreasing the accumulated depreciation balance of land and buildings as at 30 June 2017 by \$1.94 million and increasing the asset revaluation surplus balance by \$1.94 million as at 30 June 2017.

29 Unrecognised contractual commitments

Commitments include operating and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Unrecognised contractual commitments are disclosed net of the amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO). If GST is not payable to, or recoverable from, the ATO the commitments and contingencies are disclosed on a gross basis.

Contract service commitments

	2018	2017
	\$'000	\$'000
Within one year	35 401	25 660
Later than one year but not later than five years	92 987	45 182
Later than five years	16 085	17 897
Total contract service commitments	144 473	88 739

The prisoner movement and in-court management contract was extended for a further 5 years from 1 February 2016 and is due to expire on 31 January 2021.

The electronic monitoring system contract was renewed on 20 January 2017 for a 2 year period. This contract is due to expire on 19 January 2019.

The management of the Mount Gambier prison contract was awarded for a period of 5 years from 1 December 2017 and is due to expire on 30 November 2022.

The new contract for the provision of vocational training and employment opportunities through Work Ready Release Ready, commenced 1 January 2018 and is due to expire on 30 June 2021.

The new contract for the supply of Home Detention Integrated Support Services to further support offenders on Court Ordered and Release Ordered Home Detention commenced on 1 November 2017 and is due to expire 31 October 2020.

The new contract for the 'Arches' bail accommodation support program commenced on 15 May 2017 and will expire 14 May 2032.

Department for Correctional Services

Notes to and forming part of the financial statements

The above contracts have provisions for termination by the Crown without penalty to the Crown. However, a termination for convenience by the Crown would attract variable payments and reimbursements specified in the contract depending on the circumstance and amount of the termination notice. The ongoing cancellable commitments (which have not been recognised as liabilities) are noted above.

The above figures:

- are subject to an escalation based on indices not yet published by the Australian Bureau of Statistics, and as a result are not adjusted for inflation and where applicable are based on 2017-18 prisoner populations.
- are exclusive of GST.

Operating lease commitments

	2018 \$'000	2017 \$'000
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:		
Within one year	5 450	5 095
Later than one year but not later than five years	7 258	9 513
Later than five years	1 292	1 719
Total operating lease commitments	14 000	16 327

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement. The Department has assessed whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments (less any lease incentives) are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis is representative of the pattern of benefits derived from the leased assets.

The Department's operating leases are for office accommodation and motor vehicles. Office accommodation is leased from Building Management - Accommodation and Property Services, a branch of the Department of Planning, Transport and Infrastructure. Motor vehicles are leased from the South Australian Government Financing Authority (SAFA) through its agent Leaseplan Australia. The leases are non-cancellable and are payable monthly in advance.

The Department does not have any finance lease arrangements.

30 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contingencies are disclosed net of the amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO). If GST is not payable to, or recoverable from, the ATO, then the commitments and contingencies are disclosed on a gross basis.

The Department has a number of common law claims made against it by various claimants. The maximum exposure facing the Department in respect of these claims is \$120 000 (\$140 000).

These contingent liabilities are not actual liabilities and have therefore not been included in the financial statements. They represent a potential financial obligation in circumstances which have been deemed to be possible but not probable.

Department for Correctional Services

Notes to and forming part of the financial statements

31 Related party transactions

The Department for Correctional Services is a government administrative unit and is wholly owned and controlled by the Crown.

Related parties of the Department include all key management personnel and their close family members; all Cabinet Ministers and their close family members; and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.

Significant transactions with government related entities

The Department had no significant transactions with government related entities except with the Department of Treasury and Finance for appropriation funding received and surplus cash returned (refer to Note 15).

Transactions with key management personnel and other related parties

Compensation of Key Management Personnel is disclosed in Note 3.

32 Trust funds

The Department holds prisoner monies in a trustee capacity. These monies are excluded from the financial statements as the Department cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account:

	2018	2017
	\$'000	\$'000
Balance at the beginning of the period	740	654
Prisoner monies receipts	8,801	7 351
Prisoner monies payments	(8 474)	(7 265)
Balance at the end of the period	1 067	740

Department for Correctional Services
Notes to and forming part of the financial statements

33 Cash flow reconciliation

	2018	2017
	\$'000	\$'000
Reconciliation of cash and cash equivalents at the end of the reporting period		
Cash and cash equivalents disclosed in the Statement of Financial Position	28 063	50 907
Balance as per the Statement of Cash Flows	<u>28 063</u>	<u>50 907</u>
Reconciliation of net cash provided by operating activities to net cost of providing services		
Net cash provided by operating activities	23 748	48 154
Less revenues from SA Government	(362 041)	(331 874)
Add payments to SA Government	37 368	-
Add / (less) non-cash Items		
Net gain from the disposal of non-current and other assets	10	5
Depreciation and amortisation expense	(20 681)	(19 830)
Movement in assets and liabilities		
Increase in receivables	1 085	232
Increase in inventories	247	107
Increase in biological assets	20	71
(Increase) in payables	(1 125)	(3 390)
(Increase) in employee benefits	(4 117)	(3 860)
(Increase) in provisions	(18 150)	(273)
Net cost of providing services	<u>(343 636)</u>	<u>(310 658)</u>

Department for Correctional Services

Notes to and forming part of the financial statements

34 Budgetary reporting

Budget information refers to the amounts presented to Parliament in the original budgeted financial statements in respect of the reporting period (2017-18 Budget Paper 4). Budget information has been included for the Statement of Comprehensive Income and for Investment Expenditure. Budget information has not been included for the Statement of Financial Position or Statement of Cash Flows as the information in these statements are not budgeted for on the same basis and/or determined in a different manner to financial statement information. These original budgeted amounts have been presented and classified on a basis that is consistent with line items in the financial statements. However, these amounts have not been adjusted to reflect revised budgets or administrative restructures/machinery of government changes. The budget process is not subject to audit.

	Note	Original budget	Actual	Variance
		2018 \$'000	2018 \$'000	\$'000
Statement of Comprehensive Income				
Expenses				
Employee benefit expenses	(a)	187 735	224 474	(36 739)
Supplies and services	(b)	110 913	94 192	16 721
Depreciation and amortisation expense		21 119	20 681	438
Payments to prisoners		3 076	4 227	(1 151)
Accommodation and associated lease costs		6 841	12 163	(5 322)
Grants		690	626	64
Other expenses		558	851	(293)
Total expenses		330 932	357 214	(26 282)
Income				
Prison labour		5 104	5 194	90
Salaries and goods and services recoups		692	1 933	1 241
Interest revenue		-	1	1
Commonwealth revenue		434	767	333
Canteen and kitchen sales		1 247	1 126	(121)
Resources received free of charge		-	2 058	2 058
Net gain from the disposal of non-current and other assets		-	10	10
Other income		2 647	2 489	(158)
Total income		10 124	13 578	3 454
Net cost of providing services		320 808	343 636	(22 828)
Revenues from / (payments to) SA Government				
Revenues from SA Government	(c)	321 616	362 041	40 425
Payments to SA Government	(d)	-	(37 368)	(37 368)
Total net revenues from SA Government		321 616	324 673	3 057
Net result		808	(18 963)	(19 771)
Other comprehensive income				
<i>Items that will not be reclassified to net results</i>				
Changes in revaluation surplus		-	11 399	11 399
Total other comprehensive income		-	11 399	11 399
Total comprehensive result		808	(7 564)	(8 372)

The following are brief explanations of variances between original budget and actual amounts. Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

Department for Correctional Services

Notes to and forming part of the financial statements

(a) The over expenditure of \$36.7 million in employee benefits expenses comprises the following:

- \$7.8 million to reflect the revised budget, predominantly relating to realignment of budget and salary EB supplementation.
- \$11 million in penalty & leave payments associated with additional unfunded surge management and prison unplanned activities
- \$6.6 million resulting from the annual workers compensation actuarial assessment
- \$10.5 million resulting from the injury and income protection policy actuarial assessment.

(b) The under expenditure of \$16.7 million is a result of the delays in internal initiatives and delays in filling the Port Augusta 128 beds and Mount Gambier 160 beds

(c) Cash received for approved capital carryovers.

(d) Return of surplus cash pursuant to the cash alignment policy.

	Note	Original budget	Actual	Variance
		2018 \$'000	2018 \$'000	\$'000
Investing expenditure summary				
Total existing projects	(e)	43 644	60 059	(16 415)
Total annual programs		3 195	5 251	(2 056)
Total investing expenditure		46 839	65 310	(18 471)

(e) The over expenditure of \$16.4 million in existing projects expenditure is primarily due to the original budget not including the carryover received for the Port Augusta Additional Accommodation project.

35 Financial risk management / financial instruments

Financial risk management

Risk management is managed by the Department's corporate services section. Departmental risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

The Department is exposed to financial risk – liquidity risk, credit risk and market risk. There have been no changes in risk exposure since the last reporting period.

Liquidity risk

Liquidity risk arises from the possibility that the Department is unable to meet its financial obligations as they fall due to be settled. The continued existence of the Department is dependent on State Government policy and on continuing appropriations by Parliament for the Department's administration and programs. The Department settles undisputed accounts within 30 days from the date of the invoice or date the invoice is first received. In the event of a dispute, payment is made 30 days from resolution. The Department's exposure to liquidity risk is insignificant based on past experience and current assessment of risk.

Credit and market risk

Credit risk arises when there is the possibility of the Department's debtors defaulting on their contractual obligations resulting in financial loss to the Department. The Department measures credit risk on a fair value basis and monitors risk on a regular basis.

Department for Correctional Services

Notes to and forming part of the financial statements

The Department has minimal concentration of credit risk. The Department has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. The Department does not engage in high risk hedging for its financial assets. No collateral is held as security and no credit enhancements relate to financial assets held by the Department.

Allowances for impairment of financial assets are calculated on past experience and current and expected changes in client credit rating. Currently the Department does not hold any collateral as security to any of its financial assets.

The following table discloses the ageing of financial assets that are past due but not impaired and impaired financial assets.

	Not past due and not impaired \$'000	Past due by			Total \$'000
		Overdue for less than 30 days \$'000	Overdue for 30-60 days \$'000	Overdue for more than 60 days \$'000	
2018					
Not impaired:					
Receivables	288	102	32	263	685
Impaired:					
Receivables	-	-	-	-	-
2017					
Not impaired:					
Receivables	391	69	17	100	577
Impaired:					
Receivables	-	-	-	4	4

Market risk for the Department is primarily through interest rate risk. The department currently holds no interest bearing financial instruments and is not exposed to any market risk.

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset / financial liability note.

A separate table for the categorisation of financial assets and liabilities has not been included. Refer to Note 16 for Cash and Cash Equivalents, Note 17 for Receivables and Note 25 for Payables. Prepayments, accrued revenue and statutory receivables and payables such as GST receivable, Paid Parental Leave payable and employment on-costs do not qualify as financial assets and liabilities.

Fair value

The Department does not recognise any financial assets or financial liabilities at fair value, but does disclose fair value in the notes. All of the resulting fair value estimates are included in level 2 as all significant inputs required are observable.

The carrying value less impairment provisions of receivables and payables is a reasonable approximation of their fair values due to the short-term nature of these. Refer to Notes 17 and 25.

Maturity analysis

All non-statutory receivables and payables are expected to be settled within 12 months.

Department for Correctional Services
Notes to and forming part of the financial statements

36 Disclosure of administered items

	2018	2017
	\$'000	\$'000
Administered expenses		
Victims of Crime Levy payments	242	214
Mobilong Inmate Charity Fund	-	1
Prisoner Compensation Quarantine Fund	49	75
Employee benefit expense	-	262
Total administered expenses	291	552
Administered income		
Revenues from Victims of Crime Levy	242	214
Mobilong Inmate Charity Fund	1	-
Prisoner Compensation Quarantine Fund	1	51
Revenues from SA Government	-	262
Total administered income	244	527
Net result	(47)	(25)
Administered current assets		
Cash	26	72
Total administered assets	26	72
Administered current liabilities		
Victims of Crime Levy payables	22	21
Total administered liabilities	22	21
Net administered assets	4	51
Administered equity		
Retained earnings	4	51
Total administered equity	4	51
Changes in equity		
Balance at 1 July	51	76
Net result	(47)	(25)
Balance at 30 June	4	51

Department for Correctional Services
Notes to and forming part of the financial statements

	2018 (Outflows) Inflows \$'000	2017 (Outflows) Inflows \$'000
Cash flows from operating activities		
Cash outflows		
Victims of Crime Levy payments	(241)	(209)
Mobilong Inmate Charity Fund	-	(1)
Prisoner Compensation Quarantine Fund	(49)	(75)
Employee benefit expense	-	(292)
Total administered expenses	(290)	(577)
Cash inflows		
Victims of Crime Levy	242	214
Mobilong Inmate Charity Fund	1	-
Prisoner Compensation Quarantine Fund	1	51
Revenues from SA Government	-	292
Total administered income	244	557
Net cash used in operating activities	(46)	(20)
Net decrease in cash	(46)	(20)
Cash at 1 July	72	92
Cash at 30 June	26	72

The Department administers but does not control certain resources on behalf of the Attorney-General (Victims of Crime Levy), the Mobilong Inmate Charity Fund, Prisoner Compensation Quarantine Fund and Appropriations from Special Acts for the Minister's salary. It is accountable for the transactions involving these administered resources but does not have the discretion to deploy these resources for the achievement of the Department's objectives. Transactions and balances relating to these administered resources are not recognised as Departmental income, expenses, cash inflows or cash outflows, assets or liabilities, but are recognised as administered income, expenses, cash inflows, cash outflows, assets or liabilities.

37 Impact of standards and statements not yet implemented

The Department did not voluntarily change any of its accounting policies during 2017-2018.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Department for the period ending 30 June 2018.

The Department has considered the impact of:

- new and changed Australian Accounting Standards Board Standards and Interpretations not yet implemented; and
- changes to Accounting Policy Statements issued by the Treasurer.

AASB 9 – Financial Instruments

The revision to AASB 9 *Financial Instruments* applies to reporting periods beginning on or after 1 January 2018, i.e. to financial statements as at 30 June 2019. AASB 9 *Financial Instruments* provides the principles for the classification, measurement, recognition, de-recognition and disclosure associated with financial assets and liabilities. The key changes include simplified requirements for classification and measurement of financial assets and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognised impairment only when incurred.

Department for Correctional Services

Notes to and forming part of the financial statements

The Department has reviewed the impact of AASB 9 *Financial Instruments* on the classification and measurement of its financial assets. The following summarises the estimated impact to the categorisation and valuation of the amounts reported:

Trade receivables and loan receivables will be classified and measured at amortised cost, similar to the current classification of loans and receivables. However, new impairment requirements will result in a provision being applied to all receivables rather than only on those receivables that are credit impaired. The Department will be adopting the simplified approach under AASB 9 *Financial Instruments* and measure lifetime expected credit losses on all trade receivables and contract assets using a provision matrix approach as a practical expedient to measure the impairment provision. Applying this approach, the Department has estimated the opening provision for impairment for trade receivables on 1 July 2018 to be \$94,000, an increase of \$94,000 compared to the amount reported at 30 June 2018, resulting in net receivables of \$795,000 on transition.

The value of impairment for trade receivables owing from other government agencies of \$181,000 is insignificant and immaterial due to the low credit risk (high quality credit rating) for the State of South Australia. No additional impairment provision will be raised for these amounts on transition.

All financial liabilities listed in Note 35 Financial risk management / financial instruments will continue to be measured at amortised cost. The Department does not expect a material change in the reported value of financial liabilities.

These changed amounts will form the opening balance of those items on the date AASB 9 *Financial Instruments* is adopted. However, the Department will not restate comparative figures for financial instruments on adopting AASB 9 *Financial Instruments* as from 2018-19. Aside from a number of one-off disclosures in the 2018-19 financial statements to explain the impact of adopting AASB 9 *Financial Instruments*, a number of new or changed ongoing disclosure requirements will apply from that time. Assuming no change in the types of financial instruments that the Department enters into, the most likely ongoing disclosure impacts are expected to relate to the credit risk of financial assets subject to impairment.

AASB 15 – Revenue from Contracts with Customers and AASB 1058 – Income of Not-for-Profit Entities

These standards will apply for the first time to reporting periods beginning on or after 1 January 2019, i.e. to financial statements as at 30 June 2020. The Department has commenced analysing the new revenue recognition requirements under these standards and is yet to form conclusions about significant impacts.

Under the new standards, other grants presently recognised as revenue upfront may be eligible to be recognised as revenue progressively as the associated performance obligations are satisfied, but only if the associated performance obligations are enforceable and sufficiently specific. The Department has commenced evaluating the existing grant arrangements with the Commonwealth of Australia, the Attorney-General's Department and the Department for Communities and Social Inclusion to determine whether revenue from those grants could be deferred under the new requirements – however no conclusion or the potential impact, if any, has been determined at the present time.

Grants that are not enforceable and/or not sufficiently specific will not qualify for deferral, and continue to be recognised as revenue as soon as they are controlled. The Department receives several grants from the Australian Government for which there are no sufficiently specific performance obligations – the total of these grants in the 2017-18 year were \$1.151 million and are expected to continue being recognised as revenue upfront assuming no change to the current grant arrangements.

Depending on the respective contractual terms, the new requirements of AASB 15 *Revenue from Contracts with Customers* may potentially result in a change to the timing of revenue from sales of the Department's goods and services such that some revenue may need to be deferred to a later reporting period to the extent that the Department has received cash but has not met its associated performance obligations (such amounts would be reported as a liability in the meantime). The Department is yet to complete the analysis of existing arrangements for sale of its goods and services and the impact, if any, on revenue recognition has not yet been determined.

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AASB 16 – Leases

This standard will apply for the first time to reporting periods beginning on or after 1 January 2019, i.e. to financial statements as at 30 June 2020. The standard supersedes AASB 117 *Leases* and unlike AASB 117 *Leases*, AASB 16 *Leases* introduces a single lease accounting model for lessees, eliminating the distinction between operating and finance leases. Lessees will be required to recognise a right-of-use asset (representing rights to use the underlying leased asset) and a liability (representing the obligation to make lease payments) for all leases with a term of more than 12 months, unless the underlying assets are of low value.

The right-of-use asset will be initially recognised at cost, consisting of the initial amount of the associated lease liability, plus any lease payments made to the lessor at or before the effective date, less any lease incentive received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. The right-of-use asset will give rise to a depreciation expense.

The lease liability will be initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid. Current operating lease rental payments will no longer be expensed in the Statement of Comprehensive Income. They will be apportioned between a reduction in the recognised lease liability and the implicit finance charge (the effective rate of interest) in the lease. The finance cost will also be recognised as an expense.

AASB 16 *Leases* allows a 'cumulative approach' rather than full retrospective application to recognising existing operating leases. The Department will apply the 'cumulative approach', and will not need to restate comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of accumulated surplus (or other component of equity, as appropriate) at the date of initial application.

The Department has not yet quantified the exact impact on the Statement of Comprehensive Income or the Statement of Financial Position of applying AASB 16 *Leases* to its current operating leases, including the extent of additional disclosures required. The exact impact will not be known until the year of transition.

It is anticipated that there will be a marginal impact each year on net result due to recognition of depreciation and interest on lease liabilities as expenses. There will be no impact on the total net result over the life of the lease.

The classification of cash flows will be affected as operating lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively. Currently, operating lease payments are presented as operating cash flows and recorded as commitments, which are not captured in the Statement of Financial Position.

The Department's current operating lease commitments note (refer to Note 29) provides an indication of the amounts to be recognised 'on-balance sheet' at transition (an expected increase in lease liabilities with a corresponding right-of-use asset). The reclassification between supplies and services expense and depreciation/interest has not yet been estimated.

All other Australian accounting standards and interpretations with future effective dates are either not applicable or have no material impact on the Department.

38 Events after the reporting period

There are no known events after balance date that affect these financial statements.

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39 Transactions with SA government

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

	Note	SA Government		Non-SA Government		Total	
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Expenses							
Employee benefits expenses	3	9 692	9 177	214 782	186 046	224 474	195 223
Supplies and services	5						
Contracts		191	9	37 114	34 963	37 305	34 972
Offender related costs		1 446	144	9 381	10 455	10 827	10 599
Utilities		2 761	2 508	6 991	5 279	9 752	7 787
Works and equipment costs		2 646	2 016	3 385	3 327	6 031	5 343
Cost of goods sold - prison industries		-	2	5 343	5 205	5 343	5 207
IT costs		2 973	2 924	2 070	1 694	5 043	4 618
Workers compensation		97	543	2 178	1 865	2 275	2 408
Staff related costs		177	70	1 936	2 119	2 113	2 189
Shared Services SA processing (2)		2 077	2 471	-	-	2 077	2 471
Insurance charges		1 703	1 607	7	9	1 710	1 616
Travel expenses		4	18	1 512	1 717	1 516	1 735
Cost of goods sold - canteen and kitchen sales		-	-	1 114	1 115	1 114	1 115
Consultants		2	-	100	283	102	283
Contracted staff		18	-	523	450	541	450
WHS expenses		2	5	271	278	273	283
Materials and consumables		6	1	718	638	724	639
Board and committee fees		-	-	320	390	320	390
Sundry other expenses		712	507	6 414	5 926	7 126	6 433
Depreciation and amortisation expenses	6	-	-	20 681	19 830	20 681	19 830
Payments to prisoners		-	-	4 227	3 773	4 227	3 773
Accommodation and associated lease costs		10 677	10 588	1 486	2 441	12 163	13 029
Grants	7	25	12	601	659	626	671
Other expenses	8						
Bad debts expense		-	-	14	-	14	-
Bank charges		-	-	23	17	23	17
Fringe benefits tax		-	-	426	432	426	432
Other		12	18	376	264	388	282
Payments to SA Government	15	37 368	-	-	-	37 368	-
Total expenses		72 589	32 620	321 993	289 175	394 582	321 795

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	Note	SA Government		Non-SA Government		Total	
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Income							
Prison labour	9	104	64	5 090	4 454	5 194	4 518
Salaries and goods and services recoups		1 060	797	873	1 038	1 933	1 835
Interest		-	-	1	1	1	1
Commonwealth revenues	10	-	-	767	1 102	767	1 102
Canteen and kitchen sales	11	1	2	1 125	1 126	1 126	1 128
Resources received free of charge	12	2 058	-	-	-	2 058	-
Net gain from the disposal of non-current and other assets	13	-	-	10	5	10	5
Other income	14						
Grants received		384	375	-	-	384	375
Revenue from recoveries		6	4	336	184	342	188
Internally generated assets		43	284	15	1	58	285
Prisoner telephone receipts		-	-	1 551	1 514	1 551	1 514
Other		-	-	154	186	154	186
Revenues from SA Government	15	362 041	331 874	-	-	362 041	331 874
Total income		365 697	333 400	9 922	9 611	375 619	343 011
Financial assets							
Receivables	17						
Receivables		116	128	773	564	889	692
Accrued revenue		105	-	55	-	160	-
GST receivable		-	-	3 378	2 687	3 378	2 687
Prepayments - other		-	-	76	39	76	39
Total financial assets		221	128	4 282	3 290	4 503	3 418
Financial liabilities							
Payables	25						
Creditors		11 435	12 799	4 193	3 198	15 628	15 997
Accruals		1 472	1 696	2 078	2 349	3 550	4 045
Employment on-costs		3 625	3 371	3 351	3 122	6 976	6 493
Paid Parental Leave Scheme payable		-	-	28	21	28	21
Total financial liabilities		16 532	17 866	9 650	8 690	26 182	26 556