


AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2003

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F of the Public Finance and Audit Act 1983, I state that:

- (a) The accompanying financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Financial Reporting Code for Budget Dependent General Government Sector Agencies, the applicable clauses of the Public Finance and Audit Regulation 2000 and the Treasurer's Directions.
- (b) The statements exhibit a true and fair view of the financial position and transactions of the Department.
- (c) There are no circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.


RON WOODHAM
Commissioner
7/ October 2003



GPO BOX 12
SYDNEY NSW 2001

Tel 9285 0022

Ref Z112/JS

Mr R Woodham
Commissioner
Department of Corrective Services
Level 18, Roden Cutler House
24 Campbell Street
SYDNEY NSW 2000

13 October 2003

Dear Mr Woodham

STATUTORY AUDIT REPORT
for the Year Ended 30 June 2003

DEPARTMENT OF CORRECTIVE SERVICES

I have audited the accounts of the Department of Corrective Services as required by the *Public Finance and Audit Act 1983* (the Act). This Statutory Audit Report outlines the results of my audit for the year ended 30 June 2003, including details of any significant matters that were found during the audit. The Act requires that I send this report to the Minister and to the Treasurer.

This report is not the Independent Audit Report, which expresses my opinion on the Department's annual financial report. The Independent Audit Report, together with the Department's annual financial report, is attached.

Audit Result

I expressed an unqualified opinion on the Department's annual financial report and my audit did not identify any significant matters.

Last year I commented on the operation of the Leave Taskforce Team, which was established to review discrepancies in leave recording at Correctional Centres. In 2002-03, an Internal Audit report was critical of the operation of the Taskforce. At the request of the Commissioner, we reviewed the Internal Audit report and the status of the Taskforce. We concluded that:

- the methodology adopted by the Taskforce was not the most appropriate. The approach developed over time, rather than being adequately planned at the commencement of the project
- the Taskforce's method of testing was by manual reconciliation rather than electronic comparison of leave and roster records, and the coverage was changed from a sample basis to a 100% review without a cost benefit analysis being undertaken. The review had also extended beyond its initial scope. These factors have extended the time taken for the project
- progress reports were general in nature and were not informative enough for decision-making.

Recommendations were provided to the Commissioner, who advised that the Taskforce will operate under a new manager until the end of this calendar year. Its operation beyond that time would not be cost effective.

I also commented on the Department's lack of compliance with the requirements of the *State Records Act 1998*. The Department has made plans to remedy this situation but solutions are yet to be put in place.

My audit is continuous and I may therefore identify new significant matters before the Auditor-General next reports to Parliament on the Department's audit. If this occurs, I will write to you immediately.

Auditor-General's Report to Parliament

Comment on the Department's operations will appear in the Auditor-General's Report to Parliament, which should be tabled during December. I will send a draft of this report to you for comment before it is tabled in Parliament.

Scope of the Audit

As advised in the Engagement Letter, my audit procedures are targeted specifically towards forming an opinion on the Department's financial report. This includes testing whether the Department has complied with key legislation that may materially impact on the financial report. The results of the audit are reported in this context.

Each year, the Audit Office also selects various 'non-key' legislative requirements, government policies and practices (eg Premier's Circulars) and tests whether the Department complied with them. This year, I examined compliance with:

- requirements of the Senior Executive Service Guidelines in relation to the Chief Executive Officer's employment contract; and
- requirements of the Premier's Department document "Guidelines for the engagement and use of Consultants".

We found that the Department substantially complied with these requirements.

Acknowledgment

I thank the Department's staff for their courtesy and assistance.

Yours sincerely



J Kheir
Director of Audit

Enc

cc The Hon J Hatzistergos MLC, Minister for Justice
The Hon M R Egan MLC, Treasurer



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

DEPARTMENT OF CORRECTIVE SERVICES

To Members of the New South Wales Parliament

Audit Opinion

In my opinion the financial report of the Department of Corrective Services:

- (a) presents fairly the Department's financial position as at 30 June 2003 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 45E of the *Public Finance and Audit Act 1983* (the Act).

The opinion should be read in conjunction with the rest of this report.

The Commissioner's Role

The financial report is the responsibility of the Commissioner for Corrective Services. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows, the program statement - expenses and revenues, the summary of compliance with financial directives and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Commissioner in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Commissioner had failed in his reporting obligations.


My opinion does *not* provide assurance:

- about the future viability of the Department of Corrective Services,
- that the Department has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



J Kheir BEc FCPA
Director of Audit

SYDNEY
13 October 2003

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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	NOTES	ACTUAL 2003 \$'000	BUDGET 2003 \$'000	ACTUAL 2002 \$'000
Expenses				
Operating expenses				
Employee related	2(a)	452,236	439,769	406,589
Other operating expenses	2(b)	133,333	125,785	127,397
Maintenance		18,428	17,383	15,524
Depreciation	2(c)	36,309	24,800	25,088
Grants and subsidies	2(d)	3,760	3,743	3,017
Other expenses	2(e)	309	615	298
Total Expenses		644,375	612,095	577,913
Less:				
Retained Revenues				
Sales of goods and services	3(a)	24,917	27,315	30,715
Investment income	3(b)	1,351	1,328	817
Grants and contributions	3(c)	5,143	1,589	4,834
Other revenue	3(d)	427	74	5,254
Total Retained Revenues		31,838	30,306	41,620
Gain/(loss) on sale of non- current assets	4	2,159	-	(2,260)
Net Cost of Services	20	610,378	581,789	538,553
Government Contributions				
Recurrent appropriation	6(a)	501,923	515,362	465,742
Capital appropriation	6(b)	120,008	117,122	75,316
Asset sale proceeds transferred to the Crown Entity		-	-	(108)
Acceptance by the Crown Entity of employee benefits and other liabilities	7	55,273	46,548	37,232
Total Government Contributions		677,204	679,032	578,182
SURPLUS FOR THE YEAR		66,826	97,243	39,629
NON-OWNER TRANSACTION CHANGES IN EQUITY				
Net increase/(decrease) in Asset Revaluation Reserve		(9,594)	-	283,971
TOTAL REVENUE, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		(9,594)	-	283,971
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	16	57,232	97,243	323,600

The accompanying notes form part of these statements

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2003

	NOTES	ACTUAL 2003 \$'000	BUDGET 2003 \$'000	ACTUAL 2002 \$'000
ASSETS				
Current Assets				
Cash	9	17,940	23,484	19,213
Receivables	10	14,479	12,199	12,049
Inventories	11	5,640	5,627	5,627
Total Current Assets		38,059	41,310	36,889
Non- Current Assets				
Land & Buildings		1,104,731	1,108,718	1,038,785
Plant & Equipment		48,499	65,372	42,983
Total Non- Current Assets	12	1,153,230	1,174,090	1,081,768
Total Assets		1,191,289	1,215,400	1,118,657
LIABILITIES				
Current Liabilities				
Payables	13	31,868	18,056	26,728
Provisions	14	32,979	39,057	29,453
Other	15	-	-	1,432
Total Current Liabilities		64,847	57,113	57,613
Non-Current Liabilities				
Provisions	14	29,082	20,916	20,916
Total Non-Current Liabilities		29,082	20,916	20,916
Total Liabilities		93,929	78,029	78,529
Net Assets		1,097,360	1,137,371	1,040,128
EQUITY				
Reserves		358,744	367,475	367,475
Accumulated funds		738,616	769,896	672,653
Total Equity	16	1,097,360	1,137,371	1,040,128

The accompanying notes form part of these statements

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

	NOTES	ACTUAL 2003 \$'000	BUDGET 2003 \$'000	ACTUAL 2002 \$'000
CASH FLOW FROM OPERATING ACTIVITIES				
Payments				
Employee related		(410,459)	(410,995)	(375,130)
Grants and subsidies		(3,760)	(3,743)	(3,017)
Other		(166,574)	(164,230)	(167,614)
Total Payments		(580,793)	(578,968)	(545,761)
Receipts				
Sale of goods and services		22,000	27,291	28,767
Interest received		945	1,202	1,055
Other		33,270	21,610	30,990
Total Receipts		56,215	50,103	60,812
Cash Flows from Government				
Recurrent appropriation		501,923	515,362	466,549
Capital appropriation		120,008	117,122	75,941
Asset sale proceeds transferred to the Crown Entity		-	-	(108)
Cash Transfer to the Consolidated Fund		(1,432)	-	-
Cash reimbursement from the Crown Entity		18,012	17,774	14,817
Net Cash Flows from Government		638,511	650,258	557,199
NET CASH FLOWS FROM OPERATING ACTIVITIES	20	113,933	121,393	72,250
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale of land and buildings, plant and equipment		5,470	-	44
Purchases of land and buildings, plant & equipment		(120,676)	(117,122)	(76,180)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(115,206)	(117,122)	(76,136)
NET INCREASE \ (DECREASE) IN CASH		(1,273)	4,271	(3,886)
Opening cash and cash equivalents		19,213	19,213	23,099
CLOSING CASH AND CASH EQUIVALENTS	9	17,940	23,484	19,213

The accompanying notes form part of these statements

PROGRAM STATEMENT—EXPENSES AND REVENUE FOR THE YEAR ENDED 30 JUNE 2003

AGENCY'S EXPENSES & REVENUES	PROGRAM 22.1.1#		PROGRAM 22.2.1#		PROGRAM 22.3.1#		NOT ATTRIBUTABLE		TOTAL	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses										
Operating expenses										
Employee related	325,943	293,321	74,984	67,478	51,309	45,790			452,236	406,589
Other operating expenses	90,598	82,511	30,837	30,053	11,898	14,833			133,333	127,397
Maintenance	14,883	12,528	3,424	2,882	121	114			18,428	15,524
Depreciation	29,200	20,127	6,718	4,630	391	331			36,309	25,088
Grants and subsidies	-	-	1,515	3,017	2,245	-			3,760	3,017
Other expenses	270	260	33	38	6	-			309	298
Total expenses	460,895	408,748	117,510	108,097	65,970	61,068	-	-	644,375	577,913
Retained Revenues										
Sale of goods and services	11,335	14,085	13,494	16,220	88	410			24,917	30,715
Investment Income	1,351	817	-	-	-	-			1,351	817
Grants and contributions	1,369	1,618	2,844	2,808	930	408			5,143	4,834
Other Revenue	225	4,136	202	1,118	-	-			427	5,254
Total Retained Revenues	14,280	20,656	16,402	20,146	1,018	818	-	-	31,838	41,620
Gain / (loss) on sale of non-current assets	1,750	(1,842)	402	(424)	7	6			2,159	(2,260)
NET COST OF SERVICES	444,865	389,934	100,568	88,375	64,945	60,244	-	-	610,378	538,553
Government Contributions*							677,204	578,182	677,204	578,182
NET EXPENDITURE / (REVENUE)	444,865	389,934	100,568	88,376	64,945	60,244	(677,204)	(578,182)	(66,826)	(39,629)
	Program 22.1.1#		Program 22.2.1#		Program 22.3.1#		Not Attributable		Total	
ADMINISTERED EXPENSES & REVENUES	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Expenses										
Transfer payments									-	-
Other									-	-
Total Administered Expenses									-	-
Administered Revenues										
Transfer receipts									-	-
Consolidated Fund									-	-
Taxes, fees and fines									-	-
Other									-	-
Total Administered Revenues									-	-
Administered Revenues less Expenses									-	-

#The name and purpose of each program is summarised in Note 8 * Appropriations are made on an agency basis and not to individual programs, consequently Government contributions must be included in the 'Not Attributable' column.

SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES FOR THE YEAR ENDED 30 JUNE 2003

	2003				2002			
	Recurrent Appropriation \$'000	Expenditure / Net Claim on Consolidated Fund \$'000	Capital Appropriation \$'000	Expenditure / Net Claim on Consolidated Fund \$'000	Recurrent Appropriation \$'000	Expenditure / Net Claim on Consolidated Fund \$'000	Capital Appropriation \$'000	Expenditure / Net Claim on Consolidated Fund \$'000
Original Budget Appropriation / Expenditure								
Appropriation Act	515,362	501,135	117,122	117,122	461,126	460,289	85,941	75,316
	515,362	501,135	117,122	117,122	461,126	460,289	85,941	75,316
Other Appropriations / Expenditure								
Treasurer's Advance	255	255	-	-	5,404	5,404	-	-
Section 25 - transfers from other agencies	533	533	2,886	2,886	49	49	-	-
	788	788	2,886	2,886	5,453	5,453	-	-
Total Appropriations / Expenditure / Net Claim on Consolidated Fund (includes transfer payments)	516,150	501,923	120,008	120,008	466,579	465,742	85,941	75,316
Amount drawn down against Appropriation		501,923		120,008		466,549		75,941
Liability to Consolidated Fund		-		-		807		625

The Summary of Compliance is based on the assumption that Consolidated Funds moneys are spent first (except where otherwise identified or prescribed). The Liability to Consolidated Fund represents the difference between the Amount Drawn down against Appropriation and the Total Expenditure/Net Claim on Consolidated Fund.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Department of Corrective Services, as a reporting entity, comprises all the entities under its control, including Corrective Services Industries. The Department is responsible for the protection of the community by managing offenders in a safe, secure, fair and humane environment and to actively encourage personal development of offenders through correctional programs in preparation for their return into the community as law-abiding citizens.

The Department provides offenders with work experience and trade skills through Corrective Services Industries and also a range of community based offender programs through the Community Offenders Service.

In the process of preparing the consolidated financial statements for the economic entity consisting of the controlling and controlled entities, all inter-entity transactions and balances have been eliminated.

The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

(b) Basis of Accounting

The Department's financial statements are a general-purpose financial report, which has been prepared on an accrual basis and in accordance with:

- applicable Australian Accounting Standards;
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- Urgent Issues Group (UIG) Consensus Views;
- the requirements of the Public Finance and Audit Act and Regulations; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the Act.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

In the absence of a specific Accounting Standard, other authoritative pronouncements of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

Except for land and buildings and plant and equipment, which are recorded at valuation, the financial statements are prepared in accordance with the historical cost convention.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Revenue Recognition

Revenue is recognised when the Department has control of the good or right to receive, it is probable that the economic benefits will flow to the Department and the amount of revenue can be measured reliably. Additional comments regarding the accounting policies for recognition of revenue are discussed below:

(i) Parliamentary Appropriations and Contributions from Other Bodies

Parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as revenues when the Department obtains control over the assets comprising the appropriations/contributions. Control over appropriations and contributions is normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year-end. In this case, the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are accounted for as liabilities rather than revenue.

The liability is disclosed in Note 15 as part of 'current liabilities – other'. The amount will be repaid and the liability will be extinguished next financial year.

(ii) Sale of Goods and Services

Revenue from the sale of goods and services comprises revenue from the provision of products or services, ie user charges. User charges are recognised as revenue when the Department obtains control of the assets that result from them.

(iii) Investment Income

Interest revenue is recognised as it accrues.

(d) Employee Benefits and other provisions

(i) Salaries and Wages, Annual Leave, Sick Leave and On-Costs

Liabilities for salaries and wages (including non-monetary benefits), annual leave and vesting sick leave are recognised and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the entitlements accrued in the future.

The outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee entitlements to which they relate have been recognised.

(ii) Accrued salaries and wages - reclassification

As a result of the adoption of accounting standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets", accrued salaries and wages and on-costs have been reclassified to "payables" instead of "provisions" in the Statement of Financial Position and the related note disclosures, for the current and comparative period. On the face of the Statement of Financial Position and in the notes, reference is now made to "provisions" in place of "employee entitlements and other provisions". Total employee benefits (including accrued salaries and wages) are reconciled in Note 14 "Provisions".

(iii) Long Service Leave and Superannuation

The Department's liabilities for long service leave and superannuation are assumed by the Crown Entity. The Department accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of employee benefits and other liabilities".

Long service leave is measured on a present value basis. The present value method is based on the remuneration rates at year-end plus an actuarial assessment of increases for all employees with five or more years of service

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (ie Basic Benefit and First State Super) is calculated as a percentage of employees' salary. For other superannuation schemes (ie State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of employees' superannuation contributions.

(iv) Other Provisions

Other provisions exist when the Department has a present legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. These provisions are recognised when it is probable that a future sacrifice of economic benefits will be required and the amount can be measured reliably.

Any provisions for restructuring are recognised either when a detailed formal plan has been developed or will be developed within prescribed time limits and where the Department has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring.

(e) Insurance

The Department's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience.

(f) Accounting for the Goods and Services tax (GST)

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

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

(g) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Department. Cost is determined as the fair value of the assets given as consideration plus the costs incidental to the acquisition.

Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair value at the date of acquisition.

Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the acquisition date. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained.

(h) Plant and Equipment

Plant and equipment costing \$5000 and above individually are capitalised.

(i) Revaluation of Physical Non-Current Assets

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 03-02) This policy adopts fair value in accordance with AASB1041 from financial years beginning on or after 1 July

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

2002. There is no substantive difference between the fair value valuation methodology and the previous valuation methodology adopted in the NSW public sector.

Where available, fair value is determined having regard to the highest and best use of the asset on the basis of current market selling prices for the same or similar assets. Where market selling price is not available, the asset's fair value is measured as its market buying price ie the replacement cost of the asset's remaining future economic benefits. The Department is a not for profit entity.

Each class of physical non-current assets is valued at least every five years and with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation was completed on 30 June 2002 and was based on an independent assessment.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation is separately restated.

Otherwise, any balances of accumulated depreciation existing at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the surplus/deficit, the increment is recognised immediately as revenue in the surplus/deficit.

Revaluation decrements are recognised immediately as expenses in the surplus / deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

(j) Depreciation of Non-Current Physical Assets

Except for a limited number of heritage assets, depreciation is provided for on a straight line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the entity.

All material separately identifiable component assets are recognised and depreciated over their shorter useful lives, including those components that in effect represent major periodic maintenance.

Land is not a depreciable asset. Certain heritage assets have an extremely long life, including original artworks and collections and heritage buildings. Depreciation for these items cannot be reliably measured because the useful life and the net amount to be recovered at the end of the useful life cannot be reliably measured. In these cases, depreciation is not recognised. The decision not to recognise depreciation for these assets is reviewed annually.

Depreciation rates applicable are as follows: -

Buildings depreciation varies in accordance with construction type and remaining useful life of each structure and on average are depreciated over 40 to 50 years. Residences 2.5%, Plant & Equipment – general 10%, motor vehicles 33.3 % computer hardware 33.3%, major computer software 20% and office fitouts depending on the term of the lease (10%, 20% & 50%).

(k) Maintenance and repairs

The costs of maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated.

(l) Leased Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases under which the lessor effectively retains all such risks and benefits.

The Department has no finance leases.

Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred.

(m) Receivables

Receivables are recognised and carried at cost based on the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is calculated using the weighted average cost or "first in first out" method.

(o) Inmate Funds

Funds are held in public money accounts on behalf of inmates as set out in note 21. As the Department performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Department's own objectives, these funds are not recognised in the financial statements.

(p) Payables

These amounts represent liabilities for goods and services provided to the Department and other amounts, including interest. Interest is accrued over the period it becomes due.

(q) Budgeted amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s 21A, s 24 and/or s 26 of the Public Finance and Audit Act 1983.

The budgeted amounts in the Statement of Financial Performance and the Statement of Cash Flows are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Statement of Financial Position, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts ie per the audited financial statements (rather than carried forward estimates).

(r) Treasury Managed Fund

TMF normally calculates hindsight premiums each year. However in regard to workers compensation the final hindsight adjustment for the 1997/1998 fund year and an interim adjustment for the 1999/2000 fund year have not yet been calculated. The basis for calculating the hindsight premium is currently being reviewed and will not be resolved until next financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$'000	\$'000
2 EXPENSES		
(a) Employee related expenses comprise the following specific items:		
Salaries and wages (including Recreation Leave)	357,801	329,810
Superannuation	33,912	28,091
Long service leave	19,492	7,422
Workers' compensation insurance	15,720	17,605
Payroll tax and fringe benefits tax	25,311	23,661
	452,236	406,589
Labour Costs of \$480,000 (\$784,000, 2001/02) have been capitalized		
(b) Other operating expenses:		
Auditor's remuneration—audit of the financial reports	236	225
other services	19	-
Bad and doubtful debts	101	31
Operating lease rental expense (minimum lease payments)	7,013	6,988
Insurance	8,244	7,712
Property & plant outgoings	17,990	14,748
Motor vehicles running	12,398	11,544
Inmate Catering	14,955	14,202
Inmate Education and Welfare	16,799	13,895
Correctional centre management	21,028	19,388
Corrective Services Industries - Direct Cost of Goods Sold*	9,816	11,872
General administration	24,734	26,792
	133,333	127,397
* Total Cost of Goods Sold is as follows:		
Direct Cost as reported above	9,816	11,872
Indirect Costs—determined on a prorata basis comprising salaries and wages, property outgoings, repairs and maintenance and depreciation	1,933	2,674
	11,749	14,546
(c) Depreciation and amortisation expense		
Depreciation		
Buildings at Fair Value	23,403	13,785
Plant & equipment at Fair Value	12,906	11,303
	36,309	25,088

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$'000	\$'000
(d) Grants and subsidies		
Religious attendance on inmates	1,468	1,360
Prisoner after care activities (including community grants)	2,292	1,657
	<u>3,760</u>	<u>3,017</u>
(e) Other expenses		
Other	309	298

3 REVENUES**(a) Sales of goods and services**

Sale of goods		
Corrective Services Industries	12,641	15,232
Canteen sales	878	797
Rendering of Services		
ACT Inmates—recovered from the ACT Government	7,748	9,125
Illegal Immigrants—recovered from the Commonwealth Government	91	1,259
Rent	392	395
Minor user charges	3,167	3,907
	<u>24,917</u>	<u>30,715</u>

(b) Investment Income

Interest from NSW Treasury	1,351	817
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(c) Grants and contributions

Department of Health	1,680	2,402
Corrections Health Service	554	-
Department of Public Works	-	637
Premiers Department	300	-
Department of Education and Training	1,085	1,345
Attorney General's Department	1,428	300
Other	96	150
	<u>5,143</u>	<u>4,834</u>

There are no conditions attached to this funding, which is subject only to annual acquittance.

(d) Other Revenue

Workers Compensation Insurance hindsight adjustment received—refer note 1(r)	-	5,054
Other miscellaneous	427	200
	<u>427</u>	<u>5,254</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$'000	\$'000
4 GAIN / (LOSS) ON DISPOSAL OF NON-CURRENT ASSETS		
Gain / (Loss) on disposal of land and buildings, plant and equipment		
Proceeds from sale	5,489	44
Less:		
Written down value of assets disposed	(3,330)	(2,239)
Other disposal costs	-	(65)
Net gain / (loss) on disposal of land and buildings, plant and equipment	2,159	(2,260)

5 CONDITIONS ON CONTRIBUTIONS

- a) There were contributions of \$229,000 (2002 nil) recognised as revenue during the financial year, which were provided specifically for expenditure over a future period.
- b) There were no contributions recognised as revenues in a previous financial year, which were obtained for expenditure in respect of the current financial year.

6 APPROPRIATIONS**a) Recurrent appropriations**

Total recurrent drawdowns from Treasury (per Summary of Compliance)	501,923	466,549
Less: Liability to Consolidated Fund (per Summary of Compliance)	-	807
Total	501,923	465,742
Comprising:		
Recurrent appropriations (per Statement of Financial Performance)	501,923	465,742
Transfer Payments	-	-
Total	501,923	465,742

b) Capital appropriations

Total capital drawdowns from Treasury (per Summary of Compliance)	120,008	75,941
Less: Liability to Consolidated Fund (per Summary of Compliance)	-	625
	120,008	75,316
Comprising:		
Capital appropriations (per Statement of Financial Performance)	120,008	75,316
Transfer Payments	-	-
Total	120,008	75,316

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$'000	\$'000
7 ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE ENTITLEMENTS AND OTHER LIABILITIES		
The following liabilities and/or expenses have been assumed by the Crown Entity or other government agencies:		
Superannuation	33,892	28,068
Long Service Leave	19,492	7,422
Payroll Tax	1,889	1,742
	55,273	37,232

8 PROGRAMS / ACTIVITIES OF THE DEPARTMENT**(a) Program 22.1.1 Containment and Care of Inmates**

Objectives: To protect society by confining sentenced inmates and others legally detained in an appropriately secure, safe environment and meet individual care needs.

(b) Program 22.2.1 Assessment, Classification and Development of Inmates

Objectives: To classify inmates to the lowest appropriate security level and to deliver developmental programs and specialised care services that provide an opportunity for inmates to successfully return to the community.

(c) Program 22.3.1 Alternatives to Custody

Objectives: To provide pre-sentence assessment and advice to the Courts to assist in appropriately sentencing offenders. To prepare pre-release reports for releasing authorities. To provide sentencers with alternatives to full-time custody. To provide a state wide range of community-based offender management programs.

9 CURRENT ASSETS - CASH

Cash at Bank	17,754	19,013
Cash on Hand	186	200
	17,940	19,213

10 CURRENT ASSETS-RECEIVABLES

Sale of goods and services	10,024	7,610
Prepayments	1,774	1,793
Goods and Services Tax recoverable	2,969	2,864
	14,767	12,267
Less: Provision for doubtful debts	288	218
	14,479	12,049

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below.

	2003	2002
	\$'000	\$'000
11 CURRENT ASSETS-INVENTORIES		
All inventories are shown at cost with the exception of Livestock, which is shown at net realisable value.		
Current Inventories		
Stores	-	70
Raw Materials	2,938	3,190
Work in Progress	709	161
Finished goods	1,667	1,741
Livestock	726	865
	6,040	6,027
Less: Provision for obsolescence	375	375
Provision for livestock loss	25	25
	5,640	5,627

12 NON-CURRENT ASSETS-PROPERTY, PLANT AND EQUIPMENT**Land and Buildings**

At Fair Value	1,459,542	1,420,266
Less Accumulated Depreciation	524,274	501,940
	935,268	918,326
Work In Progress	169,463	120,459
	1,104,731	1,038,785

Plant and Equipment

At Fair Value	124,528	114,871
Less Accumulated Depreciation	76,029	71,888
	48,499	42,983
Total Property, Plant and Equipment at Net Book Value	1,153,230	1,081,768

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below.

2003	Land and Building \$'000	Plant and Equipment \$'000	Total \$'000
Carrying amount at start of year	918,325	42,983	961,308
Additions	56,492	15,200	71,692
Transfers	(3,506)	3,506	-
Disposals	(3,046)	(284)	(3,330)
Net revaluation increments less revaluation decrements	(9,594)	-	(9,594)
Depreciation expense	(23,403)	(12,906)	(36,309)
Carry amount at end of year	935,268	48,499	983,767
Add Work in Progress	169,463	-	169,463
Total net Non Current Asset	1,104,731	48,499	1,153,230

During the financial year ended 30 June 2002, all Land and Buildings were revalued by The Department of Public Works, State Valuation Office.

Land is valued at market value having regard to current zoning and usage. Correctional centre buildings and all other buildings situated on land zoned for correctional centre use have been valued at written down replacement cost using the most appropriate building materials. Residences situated on land zoned for residential use have been valued at market value. Plant and Equipment have been valued by management at cost, items costing less than \$5,000 have been written off. A policy of only capitalising items in excess of \$5,000 or where included as part of a network, is standard throughout the Department.

	2003	2002
	\$'000	\$'000
13 CURRENT LIABILITIES-PAYABLES		
Accrued salaries and wages	11,286	10,104
Creditors	18,094	14,253
Employee Related (payroll tax payable)	2,488	2,371
	31,868	26,728

14 CURRENT / NON-CURRENT LIABILITIES-PROVISIONS**Employee benefits and related on-costs**

Recreation Leave	49,368	40,536
Sunday and Public Holidays	2,279	1,955
Annual Leave Loading	1,993	1,806
	53,640	44,297
Other provisions		
Payroll Tax	8,422	6,072
Total Provisions	62,062	50,369

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$'000	\$'000
Aggregated employee benefits and related on-costs		
Provisions—current	32,979	26,728
Provisions—non-current	29,082	20,916
Accrued salaries, wages and on-costs (note 13)	11,286	10,104
	73,347	57,748

Movements in Other provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

Carrying amount at the beginning of financial year	6,072	5,961
Additional provisions recognised, including increases to existing provisions	2,350	111
Carrying amount at end of financial year	8,422	6,072

15 CURRENT / NON-CURRENT LIABILITIES—OTHER**Liability to Consolidated Fund**

Liability to Consolidated Fund—Current	-	1,432
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16 CHANGES IN EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at the beginning of the financial year	672,653	631,860	367,475	84,668	1,040,128	716,528
Changes in equity—other than transactions with owners as owners						
Surplus / (deficit) for the year	66,826	39,629	-	-	66,826	39,629
Adjustment to Asset Revaluation Reserve on disposal of assets	-	-	(9,594)	283,971	(9,594)	283,971
on revaluation of land & buildings	(863)	1,164	863	(1,164)	-	-
Total	65,963	40,793	(8,731)	282,807	57,232	323,600
Balance end of the financial year	738,616	672,653	358,744	367,475	1,097,360	1,040,128

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$'000	\$'000
17 COMMITMENTS FOR EXPENDITURE		
(a) Capital Commitments		
Aggregate capital expenditure for the acquisition of land and buildings and plant and equipment contracted for at balance date but not provided for:		
Not later than one year	63,126	119,249
Later than one year but not later than 5 years	4,236	12,243
Later than 5 years	-	-
Total (including GST)	67,362	131,492

(b) Other Expenditure Commitments

Aggregate other expenditure for the acquisition of maintenance contracts and correctional centre management fees contracted for at balance date but not provided for:

Not later than one year	28,196	23,782
Later than one year but not later than 5 years	54,277	56,252
Later than 5 years	10,528	-
Total (including GST)	93,011	80,034

(c) Operating Lease Commitments

Future non cancellable operating lease rentals not provided for and payable

Not later than one year	12,993	9,585
Later than one year but not later than 5 years	13,673	13,474
Later than 5 years	641	239
Total (including GST)	27,307	23,298

These operating lease commitments are not recognised in the financial statements as liabilities.

The above amounts are in respect of accommodation leases, motor vehicles and computer equipment.

The commitments disclosed above include input tax credits (GST) of \$17.638 million, which is expected to be recovered from the Australian Taxation Office.

18 CONTINGENT LIABILITIES

Claims made against the Department in respect of compensation and litigation arising from normal operations are fully covered by the NSW Treasury Managed Fund. At balance date the insurer's estimate of the value of outstanding claims was \$35,000 (2002 \$43,000). The claims principally relate to personal injury and property damage. Liabilities that may arise from claims made prior to 1st July 1989 are covered by the Solvency Fund held by the Insurance Ministerial Corporation.

19 BUDGET REVIEW**Net Cost of Services**

Compared to Budget, the actual net cost of services was higher than budget by \$28.6 million with an increase in total expenses of \$32.3 million which was offset by an increase in retained revenue of \$1.5 million. Disposal of non-current assets, resulted in a loss of \$2.2 million.

The main variations in expenses, amounting to \$32.3 million, were: -

Employee related	\$12.5 million
mainly due to recognition of long service leave (\$6.9m) and over-expenditure in overtime (\$4.2m), contractors (\$2.9m), superannuation (\$1.8m) with an offset in salaries & wages of (\$4.4m).	
Insurance premium to managed funds	\$1.2 million
Motor vehicle leasing	\$1.8 million
Telephone and other related telecommunication expenses	\$1.4 million
General administration costs	\$4.3 million
Maintenance expenditure	\$1.0 million
Depreciation expense	\$11.5 million
Caused by revaluation of assets	
An offset in electricity	(\$0.9million)

The net increase in retained revenue of \$1.5 million came from: -

Income from sale of services being below budget by	(\$2.0 million)
Grants and contributions being above budget by	\$3.5 million

Assets and Liabilities**Current Assets**

Current assets were below budget by \$3.2 million. This was caused by reduction in cash of \$5.5 million, with an offset in Receivables, of \$2.3 million.

Non Current Assets

Compared to budget, non current assets decreased by \$20.8 million. The variance was mainly due to a write back of valuations \$9.6 million and increase in depreciation \$11.5 million.

Current Liabilities

Current liabilities rose by \$7.7 million against budget. This amount includes increase in payables of \$13.8 million with an offset in provisions of \$6.1 million.

Non Current Liabilities

Employee related provisions were greater than budget by \$8.0 million. This variance was caused by an adjustment to annual leave (\$5.9 million) due to the 4% and 5% Award increase, as well as adjustments to on costs (\$2.1 million) applicable to long service leave provisions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$'000	\$'000
20 CASH FLOWS		
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES		
Net cash from operating activities	113,933	72,250
Add:		
Depreciation	(36,309)	(25,088)
Decrease / (Increase) in current provisions	(3,525)	(7,631)
Decrease / (Increase) in non - current provisions	(8,166)	166
Increase / (Decrease) in Receivables	2,429	3,435
Increase / (Decrease) in Inventories	13	(367)
Decrease / (Increase) in non capital Creditors	(5,140)	(876)
Recurrent Appropriation	(501,923)	(465,742)
Capital Appropriation	(120,008)	(75,316)
Acceptance by the Crown Entity of employee entitlements and other liabilities	(55,273)	(37,232)
Repayment of Liability to Consolidated Fund	1,432	-
Asset sale proceeds to Crown	-	108
Net Gain / (Loss) on Disposal of Plant, Property and Equipment	2,159	(2,260)
Net Cost of Services	(610,378)	(538,553)

21 INMATE FUNDS

Funds are held in Public Monies Accounts on behalf of inmates. These funds are held in accordance with the Correctional Centres Act 1952 and interest earned is brought to account in the financial statements and used for the benefit of inmates.

Cash balance at the beginning of the financial year	1,848	1,539
Add: Receipts	25,896	25,800
Less: Expenditure	26,050	25,491
Cash balance at the end of the reporting period	1,694	1,848

22 CORRECTIONAL MEDICAL SERVICES

The Corrections Health Service is administered under the Public Hospitals Act through the Department of Health.

The cost of medical services provided to offenders for the year ended 30 June 2003 was \$52,528,000 (2002 \$44,705,478). This amount is not included in the Department's operating result for the year.

23 FINANCIAL INSTRUMENTS

Cash

Cash comprises cash on hand and bank balances within the Treasury banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate adjusted for a management fee to Treasury.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable, are written off. A provision for doubtful debts is raised when some doubts as to collection exist. The credit risk is the carrying amount (net of any provision for doubtful debts). No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are made on 30-day terms.

Trade Creditors and Accruals

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with policy set out in Treasurer's Directions 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment.

END OF AUDITED FINANCIAL STATEMENTS