

AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Eleven 2009

focusing on Health



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Eleven of my 2009 Report.

Peter Achterstraat
Auditor-General

Sydney
December 2009

GUIDE TO USING THIS VOLUME

This volume summarises the results of a number of our financial audits.

We have attempted to adopt a 'plain English' style of writing. This is not always easy when describing technical issues, but we recognise the diversity of our readership and their needs.

This Volume has two sections. Section One contains an overview of the findings for this Volume's focus agencies. Section Two provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies. Section Three incorporates a Performance Audit review.

Each agency's comment begins with a summary of our **Audit Opinion**. This is a key result of each audit. An 'unqualified Independent Auditor's Report' means we are satisfied that the agency has prepared its financial report in accordance with Australian Accounting Standards (and other mandatory requirements). It also means we believe the report has no material misstatements and the scope of our audit has not been limited. If any of these aspects are not met we issue a 'qualified Independent Auditor's Report' and explain why we did this.

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

- recommendations to Parliament
- significant findings or outcomes of the audit
- any major developments impacting on the agency's role or activities
- key repeat findings.

The **Audit Opinion** and the **Key Issues** represent the more important findings. By targeting these, readers can quickly understand the major issues facing a particular agency, or glance through a number of reports to assess the financial health of a portfolio.

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

The next two parts of the comment contain analysis of issues we identified during our audit. While many of these will include suggestions for improvement, these are not as significant as the issues outlined in the first two parts of the agency comment.

Other Information summarises any other matters noted during the audit of the agency that warrant inclusion in this Report.

Financial Information summarises the essential information from each agency's financial report. While this is sufficient for a broad understanding of the agency's financial position, readers can access more detailed financial statements in the agency's annual report or website.

Agency Activities summarises the agency's purpose, services, structure, relevant legislation, and its web address.

While some 'agency comments' in this Volume will have all of the headings outlined here, this will vary depending on the size of the organisation and the findings of our audit.

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

Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

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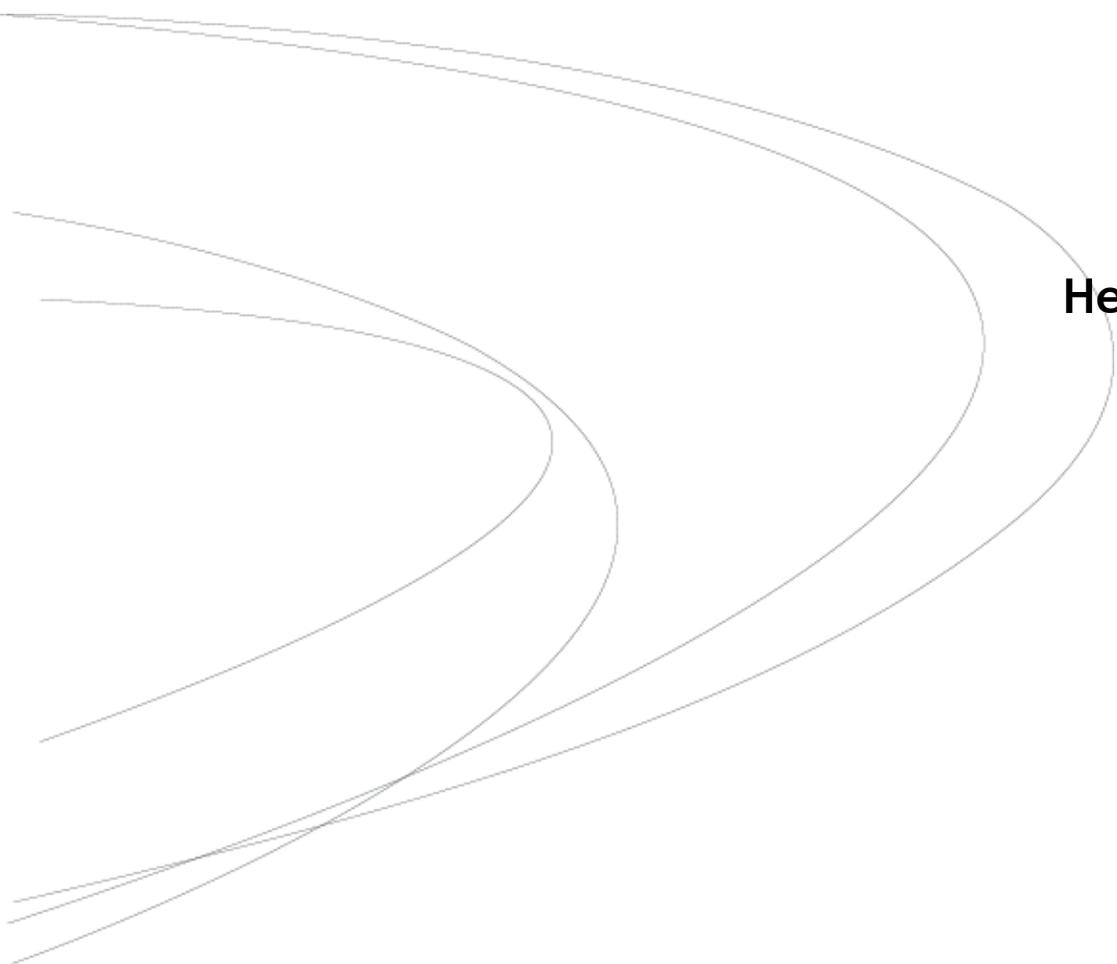
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Trade Creditors for all Area Health Services were \$269 million at 30 June 2009 compare to \$292 million at 30 June 2008.	8
Only two of the eight Area Health Services achieved the Department's benchmark of paying creditors within 45 days. Of those not achieving the benchmark, Northern Sydney and Central Coast Area Health Service had the largest level of creditors over 45 days at \$15.2 million.	9
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The Department has started a major project to address the high level of fully depreciated equipment being used by Area Health Services.	11
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Only one Area Health Service is meeting the Department's benchmark for maintenance expenditure.	15
The Department was unable to provide information of the number of contractors it engaged and the length of time they were engaged for.	16
All Area Health Services met the emergency department benchmark of 100 per cent for treating immediately life threatening situations. Three did not meet it for imminently life threatening situations, while five did not meet it for potentially life threatening situations.	21
Metropolitan Area Health Services typically record a lower emergency admission performance than rural services. Sydney West and Sydney South West recorded the lowest emergency admission performance (69 per cent and 65 per cent respectively), while Hunter New England and Greater Western recorded the highest admission performance (83 per cent).	21

For elective surgery, 93 per cent of patients in the most urgent category were admitted within the target of 30 days (92 per cent in 2007-08). Northern Sydney Central Coast Area Health Service reported the best performance with 99 per cent, compared with the lowest percentage achieved by North Coast at 84 per cent.	22
The number of patients on the surgical waiting list has increased from 58,173 as at 30 June 2008 to 64,512 as at 30 June 2009.	23
New South Wales' proportion of the total Commonwealth Health budget in 2008-09 remained constant at 33 per cent.	24
Debts written off have doubled over the past 3 years, from \$8.6 million in 2006-07 to \$17.4 million in 2008-09. A large portion of the debts written off are patient fees, particularly for overseas visitors.	24
The new Bathurst Base Hospital opened in January 2008 at a cost of \$106 million. Construction and operational problems were identified after completion resulting in remediation works costing \$6.5 million. The problems highlighted the need for clinical staff to be more involved in the design and construction phases of such projects.	24
On 28 October 2008, the Government entered into a \$721 million public private partnership project for the Royal North Shore Hospital to consolidate 53 outdated buildings into modern purpose built facilities for acute hospital care and community health. Work started in October 2009. The main property building is scheduled for completion by the end of 2012 with remaining development to be completed in 2014.	24
Phase two of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. At 30 June 2009, costs of \$98.2 million had been incurred. The forecast total cost on completion is \$396 million.	25
Health Administration Corporation	
The Corporation has not finalised Service Partnership Agreements with its customers to ensure accountabilities and responsibilities are clearly defined and understood.	104
The Corporation does not have targets against which to measure its performance and its quality of service.	105
The Corporation has not undertaken a cost benefit analysis of its shared corporate services operations to determine whether planned outcomes and savings have been achieved, and to determine where further standardisation is required to improve outcomes. It intends to complete an "end to end" review of HSS by early to mid 2010.	106
Health Care Complaints Commission	
In 2008-09, the Commission received 3,360 complaints compared to 3,128 in 2007-08. Over the last three years complaints have increased by 23.4 per cent.	110
Complaints about public hospitals fell to 620 from 763 in 2007-08, but overall there has been a 22 per cent increase over the last three years.	111

Section One



Health Overview

Health Overview

THE HEALTH GROUP AND AUDIT OPINIONS

This commentary covers the Department of Health (the Department) and the entities it controls, which are listed below.

Area Health Services	Other Entities
Greater Southern (GSAHS)	Clinical Excellence Commission
Greater Western (GWAHS)	HealthQuest
Hunter New England (HNEAHS)	Justice Health
North Coast (NCAHS)	Royal Alexandra Hospital for Children (CHW)
Northern Sydney and Central Coast (NSCCAHS)	Health Administration Corporation (HAC)
South Eastern Sydney and Illawarra (SESAHS)	comprising:
Sydney South West (SSWAHS)	- Ambulance Service of New South Wales
Sydney West (SWAHS)	- Health Support Services
	- Health Infrastructure
	- NSW Institute of Medical Education and Training

The audits of the Department and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports, other than for the CHW. An explanation for this qualification is included under the CHW's individual comment elsewhere in this Report.

The condensed financial reports for the Department and consolidated entity are included under the Department of Health comments elsewhere in this Report. Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Caring Together: The NSW Government's response to the Special Commission of Inquiry into Acute Care Services in NSW Public Hospitals (Garling Inquiry)

I recommend the Department ensures it meets the set timeframes for implementation of the Garling Inquiry recommendations.

The Department of Health has advised it is in varying stages of implementing the recommendations made by the Garling Inquiry. It has completed Stage 1 of Caring Together.

The Garling Inquiry Report into acute care services in New South Wales public hospitals was released in November 2008. The report included 139 recommendations for improvement in areas such as emergency departments, surgery, doctors, nurses, workplace reform, communication, patient safety, funding and administration and management. Caring Together was released in March 2009 and outlined the Government's response to the recommendations.

The Department provided the following information about the Garling Inquiry.

The Government has supported 134 recommendations, requires further local or national consultation to determine a way forward for another three, and has not supported two of the recommendations. The recommendations not supported are:

- refunding the net cost for medication to patients for the treatment of hospital acquired infections after the patient has been discharged from the hospital
- NSW Health develop a new category of employee in the Ambulance Service of New South Wales responsible for performing non-treatment duties, which presently a two person team attends to, such as driving and attending to radio transmissions and paperwork.

The Government has set up a three stage response to the Report supported by an additional \$485 million over four years. An Independent Panel of clinicians as well as people with expertise in cultural change systems information, trend analysis and governance administration will report to the Minister for Health every six months on the progress of implementation, for a period of three years.

The Government’s responses to some of the key recommendations in the Report are:

Garling Inquiry Recommendation	Stage	Government Response
<p>8(c) In the interests of patient safety, the Department only offer birthing facilities for low risk mothers in hospitals which:</p> <p>(i) Have an adequate number of qualified and trained health professionals to assist with the birth, and</p> <p>(ii) Have on site emergency caesarean facilities, or be able to transfer the mother to a hospital within 30 minutes travel which has these facilities.</p>	Stage Two*	Further consultation and review of this recommendation will occur as part of stage two. This matter will be referred to the Maternal and Perinatal Health Priority Taskforce and will also be considered as part of the statewide hospital review.
<p>9 (1a) Within 6 months the Department should establish a Children and Young People’s Health Authority (‘NSW Kids’) to provide all health care for children and young people throughout New South Wales.</p>	Stage Two	Consultation and review of functions will occur as part of stage two. The Department already has child health networks in place and has established MH-Kids with specific responsibilities for leading the development and supporting implementation of consistent approaches to mental health care for children and adolescents.
<p>16 The Department should review their policies and practices around recruitment of senior medical officer positions to ensure recruitment of these medical officers occurs without unnecessary or extended delays.</p> <p>A complete list of all vacancies should be maintained on the NSW Health Intranet and updated monthly</p>	Stage Two	The Department will prioritise implementation of the Information Communications Technology (ICT) program within the Health capital program with a new rostering system, planning for a community health system and improved infrastructure progressing during 2009/10 to better support patient care. The program has already started and the Department will continue to prioritise work with commencement of the entire program staged over the next five years.
<p>25 To address shortages in the nursing workforce, the Department should consider allocating more funding for nurse practitioner positions across New South Wales, particularly in rural and remote areas and places where it is hard to employ doctors.</p>	Stage One*	The Department has already introduced 82 Nurse Practitioners to provide advanced care with a further 64 nurses in transition to also perform these roles. Nurse Practitioner and advanced practice nursing positions will be further increased.

Garling Inquiry Recommendation	Stage	Government Response
<p>60 The Department encourage hospital staff to enhance communication with patients and carers by ensuring that they:</p> <ul style="list-style-type: none"> ▪ Are told who staff are and their function, ▪ The nature and purpose of treatment delivered, and ▪ Questions and concerns are addressed as soon as possible. 	Stage One	To better support patient awareness, posters identifying categories of staff and types of uniforms worn will be prominently displayed in each facility.
<p>82 An audit program of waiting lists for each hospital in New South Wales should be conducted by staff independent of the relevant area health service or hospital.</p> <p>These audits should examine the reclassification of patient's clinical urgency category and the paperwork that the hospital is required to maintain for waiting lists.</p>	Stage One	<p>The Government is already undertaking an audit program of waiting lists including selected audits by an independent body.</p> <p>Department policy requires each hospital to undertake a clerical audit of hospital waiting lists and to carry out such audits at least monthly. Routine monthly auditing of waiting lists by Hospital/Area Health Service Waiting Time Coordinators will continue to be undertaken.</p>
<p>99 Within 18 months Emergency departments should be limited to providing care for those in need of immediate or emergency care that requires the services of highly skilled emergency teams. This will ordinarily include those presently in categories 1, 2 and 3 of the Australian Triage Scale.</p>	Stage Three*	Where clinically appropriate patients not requiring emergency department assessment will be fast tracked to other care centres such as Medical Assessment Units, and Psychiatric Emergency Care Centres, with review of potential for Primary Care Centres.
<p>101 Within 18 months Primary Care centres should be established for all hospitals that have Emergency departments to provide services for patients seeking urgent or unplanned care who have been clinically determined as not in need of immediate or emergency care.</p>	Stage Three	Following formal review for effectiveness, Primary Care Centres will be established in hospitals where there are sufficient patients needing attention to support a Primary Care Centre. Consultation on establishment will include relevant general practitioners, nurse practitioners and other medical, nursing and allied health staff.
<p>117 The Department undertake a complete state-wide review which involves:</p> <ol style="list-style-type: none"> (a) Identification of set criteria relating to patient safety, necessary workforce skills, the volume and quality of services regarded as critical (b) A determination of whether each hospital is (or can become) a location for the delivery of safe patient care (c) A clear delineation of the role of each hospital - what it can and can't do (d) Clear communication of the role of a local hospital to its community (e) Reallocation of specialist medical services to hospitals in New South Wales best placed to deliver those services; and (f) The consideration of the availability of an efficient transport and retrieval system to transport patients to hospitals best placed to provide the medical service required. 	Stage One	<p>Planning for a statewide review will begin immediately and include community and workforce consultation.</p> <p>Supported by existing health service plans the review will analyse population size and distribution, ageing, level of disease, changing models of care and lifestyle to agree on services that are needed and can be provided safely. Highly Specialised Services will be considered on a statewide level.</p> <p>The issue of patient safety will be paramount and considered in light of both the availability of an appropriately qualified workforce and the provision of appropriate facilities.</p>

Garling Inquiry Recommendation	Stage	Government Response
130 The Department should ensure that each hospital performs equipment functionality assessments every 6 months to assess and predict the need for equipment replacement.	Stage Three	The Department will ensure reporting on equipment consistent with current requirements under the Australian Standards; Building Code of Australia; Therapeutic Goods Administration Accreditation and Manufacturer's warranties and maintenance contracts.

* Stage One: The action plan (Immediate) - The Action Plan is the first stage of the three staged approach
 Stage Two: a Sustainability Plan (6 months) - In the second stage the New South Wales Government will report back on progress and detail change for building a stronger health care system
 Stage Three: an Intergenerational Health Care System (18 months) - In the third stage, progress will again be reported and detail of the intergenerational plan for a sustainable health care system will be developed.

The majority of the Health Action Plan actions are being driven locally through Area Health Advisory Councils with local expert implementation teams/councils. These are supported by state-wide theme based implementation groups where required and the NSW Community and Clinical Expert Advisory Council (CCEAC).

The CCEAC was established to provide advice from a state-wide perspective to the Minister for Health and Director General on proposed and existing initiatives to implement the Health Action Plan. Reporting of progress is occurring via the Department of Health and the Senior Executive Advisory Board, with arm's-length monitoring of progress occurring through an Independent Panel.

The Independent Panel has the authority to review, audit and report directly to the Minister regarding the delivery of Caring Together commitments. As part of this process, an audit of Stage One of Caring Together: The Health Action Plan for New South Wales has been conducted. The Audit was a comprehensive assessment of the progress of specified recommendations. The scope for this audit was expanded to include sampling of all eight Area Health Services (AHS), the Clinical Excellence Commission, the Children's Hospital Westmead and Justice Health. The Audit was also to assess the completeness and accuracy of the reporting system for the Health Action Plan.

The Independent Panel has recently completed its first six monthly report which included the findings of the First Independent Audit. The report was released by the Minister in November and a response and the next Stage Government Report are expected by the end of 2009.

The Department of Health works with Health Services to track and report on the implementation of each of the Government responses to the 134 recommendations identified in the Health Action Plan.

The Department of Health has developed a reporting structure, established a secure website and assists in facilitating consultative forums to monitor and assist in the implementation of the Health Action Plan.

Examples of some achievements are as follows.

Stage One

- Allocation of funding over four years to each of the four rural AHS to employ a Country Careers Officer to assist with the recruitment and retention of health staff (Recommendation 12b).
- Provision of an information guide for patients and their carers with new application forms, in relation to the abolition of the patient co-contribution to the Isolated Patients Travel and Accommodation Assistance Scheme for pension and health care card holders (R14a).
- Auditing of Discharge Summaries included in internal audit plans and undertaken in some AHS, with achievement already across SSWAHS (R58).
- Substantial achievement or achievement by the majority of Health Services in displaying posters showing categories of staff and uniforms (R60a).

- New Hand Hygiene Policy being considered by the industrial associations for finalisation (R88).
- Release of Emergency Surgery Guidelines, defining the principles underpinning the redesign of emergency surgery and for use by AHS when initiating redesign of emergency surgery practices (R110).
- A toll free line has been established for patients or their families to raise any concerns about placement in mixed gender wards/settings. Approximately 20 calls have been received in its first month. A number of AHS are reporting improvements in compliance with policies concerning single sex rooms. A Policy, brochure and booklet are due to be released November (R124).
- Publication of budgets in all AHS, including on intranets, with fact sheets and summaries prepared for staff (R136a).
- 23 out of 26 Executive Clinical Directors have been appointed across the AHS to improve communication between clinicians and managers and strengthen adoption of improved models of care (R137).
- Allocation of funds to AHS for 500 Clinical Support Officer positions has occurred. Clinical Support Officer appointments are progressing with all appointed in GWAHS and CHW. However, some delays are being experienced with over 3,500 applications received for these positions and AHS currently completing the recruitment process (R40) by the end of 2009. These positions will assist in freeing up clinical staff to spend more time with patients (R 40).
- A Performance Audit Tool to monitor complaints regarding bullying has been sent to AHS to implement. Data will be collected by March 2010 (R 44a,b).
- A Clinical Handover Toolkit, Principles and Policy Directive was released in September. These resources will help ensure effective, concise and complete communication in clinical handover (R 56a, c).
- Appointments were made to the Bureau of Health Information in October 2009 (R 75, 76).

Stage Two

- Expressions of interest for the Agency for Clinical Innovation and Clinical Excellence Commission boards have been sought. Both organisations will play a key role in promoting the delivery of safe, high quality, patient centred care as part of implementing Caring Together (R 67).
- A State-wide recruitment campaign to attract doctors to the casual medical pool commenced on 12 September 2009. Areas have highlighted that this has assisted in filling vacancies (R 19a, b).

Receipt of Financial Report

Last year I reported the Department did not meet its statutory deadline for completing its financial report, and that there were a number of problems with the quality of working papers across the health sector. There has been a significant improvement this year, and the Department and its agencies are to be commended. I received the financial reports of all AHS, of the Health Administration Corporation, and the Department within the statutory timeframe. In addition, the majority of AHS provided adequate working papers to support their financial reports.

Budget to Actual Comparison

I recommend the Department fully implement the recommendations from the external review of its budget setting and monitoring processes.

The Department has made some improvements in its budget monitoring processes during 2008-09.

The Department had an original net cost of services budget set in the 2008-09 Budget Papers of \$11.4 billion. The actual result was \$12.0 billion, a variance of \$600 million. A large portion of this variance was covered by additional approved funding during the year including:

- Commonwealth funding of \$264 million approved under Section 26 of *Public Finance and Audit Act 1983*
- approved non-cash budget adjustments of \$253 million for leave entitlements, depreciation and superannuation
- funding of \$71.0 million approved from the Treasurer's advance predominantly for wage rises and a fall in revenue from community and dental programs.

Last year, I reported that although revised projections were prepared in early June 2008, the Department's operating deficit exceeded that projected by \$320 million, and the extent of this deterioration only became apparent after 30 June 2008. This year approvals were sought and received for the majority of variations to the original budget. An unforeseen variation was a \$119 million actuarial assessment for long service leave.

As reported last year, a consultant was engaged to review the Department's budget setting and monitoring processes. This led to 37 recommendations being made to address activity pressure, control issues and financial discipline. Of these 37 recommendations, the Department has advised that:

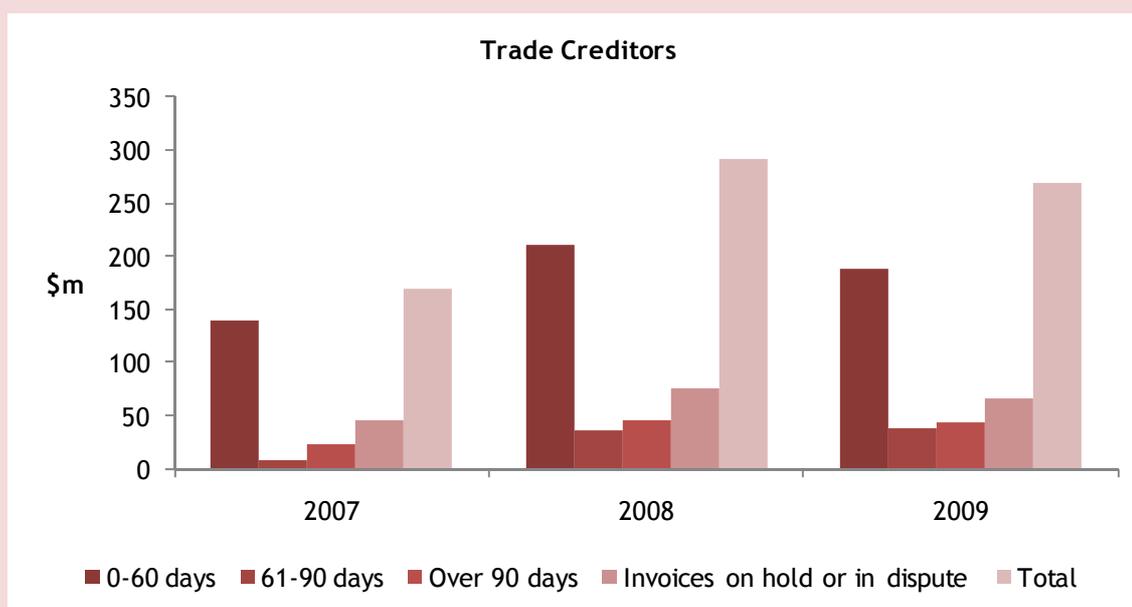
- 17 have been completed, substantially completed or deemed to require no further action
- 18 are in the process of being implemented, and
- two are being considered with the Garling Inquiry recommendations discussed previously in this report.

Accounts Payable

I recommend the Department ensures AHS pay creditors within agreed payment terms. AHS need to improve cash flow management, to ensure purchases are supported by authorised orders, and disputed invoices are followed up in a timely manner.

Total trade creditors amounted to \$269 million at 30 June 2009 (\$292 million in 2007-08) for all eight AHS, a 7.9 per cent decrease. During the same period other operating expenditure (excluding Visiting Medical Officers) increased by \$145 million.

Trade Creditors for the past three years are shown in the following graph:



Note: the Total column is comprised of the 3 ageing columns, as they include the amounts for invoices on hold or in dispute.

Commentary on individual AHS's trade creditor levels and ageing is included elsewhere in this Volume.

Total trade creditors for five of the AHS decreased during the year, while the remaining three increased. Total trade creditors decreased significantly compared to the prior year for South Eastern Sydney and Illawarra, but still remained at the highest level of all AHS. SWAHS also experienced an increase in trade creditors and was second highest.

Ageing of Trade Creditors

A review of trade creditors' ageing shows five AHS' trade creditors over 90 days (NSCCAHS, SWAHS, HNEAHS, GSAHS and NCAHS) increased over the prior year.

Last year, I recommended the Minister and Treasurer consider requiring AHS to comply with clause 15 of the Public Finance and Audit Regulation 2005, which allows interest to be paid to creditors when payment terms are not met. This does not appear to have occurred. The Minister and Treasurer should revisit this matter and take appropriate action to allow interest to be charged on overdue accounts (also see comments later in this section on Treasurer's Directions).

The Department requires creditors to be paid within contract terms and it monitors performance against a benchmark target of 45 days. The performance statistics are for general trade creditors and do not include visiting medical officers or other government agencies. According to information provided by the Department, two AHS achieved this target for 2008-09 (SSWAHS and HNEAHS). This is consistent with the prior year.

For those AHS that did not achieve the target, general creditors over 45 days (excluding those in dispute) decreased slightly from \$75.2 million in 2007-08 to \$69.3 million in 2008-09. However, this was after the Department provided cash assistance of \$298 million to AHS during the year to assist with liquidity management. The Department information shows that NSCCAHS had the largest level of creditors over 45 days at \$15.2 million, followed by SWAHS at \$14.3 million.

Although most AHS showed a decrease in creditors at year end, creditor balances were consistently higher throughout the year. In some cases this drop is the result of the Department providing year end funding to assist AHS in paying their creditors.

Disputed or On Hold Invoices

For several AHS, we found the value of disputed or on hold creditor amounts made up a significant proportion of total creditors. At 30 June 2009, the largest of these was South Eastern Sydney and Illawarra, with disputed or on hold creditors of around \$20.0 million (approximately 33 per cent of total creditors).

A large number of invoices were placed on hold because a purchase order was not raised for the invoices. Three AHS did not have purchase orders for more than 40 per cent of purchases. This is significant and the Department, in consultation with AHS, needs to address this issue urgently. The Department reminded AHS during the year of the need to ensure purchases are supported by valid orders, but this does not seem to have been effective at all Services. The use of purchase orders is an important internal control designed to ensure expenditure is approved before it is incurred. A lack of action on this issue may also give the impression that purchasing without orders is simply a means of deferring payment to suppliers.

The Department advised that it has implemented key performance indicators to identify and classify, on a monthly basis, reasons for invoices being placed on hold or in dispute. It is also improving systems to monitor the creation of valid purchase orders.

Measures Taken to Address Overpayment of Accounts

Health Support Services (HSS) implemented a Continuous Control Monitoring tool in April 2009 as a preventive and detective control procedure to limit overpayment of accounts payable invoices it processes for AHS. HSS advised this tool was successful in identifying a significant number of overpayments, which have been or are being recovered, as well as identifying duplicate supplier invoices.

Working Capital

A working capital ratio is a measure of an entity's liquidity and its ability to meet its short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts as they fall due.

The working capital position for the past four years, based on the Department's consolidated financial report, is shown below:

At 30 June	2009	2008	2007	2006
Current assets (\$m)	1,417	1,333	1,307	1,238
Current liabilities* (\$m)	2,327	2,224	1,830	1,743
Working capital deficit (\$m)	910	891	523	505
Working capital (%)	60.9	59.9	71.4	71.0
Number of times current liabilities exceed current assets	1.6	1.7	1.4	1.4

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis, we have excluded long service leave liabilities expected to be settled later than 12 months from year-end.

AHS are able to operate at a low ratio due to continuous cash contributions from the Department. However, they need sufficient working capital to pay creditors within agreed payment terms and to avoid other operational problems. More commentary on working capital is included in the individual AHS comments elsewhere in this Volume.

Non-compliance with Treasurer's Directions (Repeat Issue)

I recommend the Department finalise its review of the applicability of Treasurer's Directions to AHS.

I also recommended the Minister and Treasurer consider requiring AHS to comply with clause 15 of the Public Finance and Audit Regulation 2005, which allows interest to be paid to creditors when payment terms are not met.

In prior years we reported instances of apparent non-compliance with the *Public Finance and Audit Regulation 2005*, Treasurer's Directions and annual reporting legislation. Several years ago, the Department came to the view that Treasurer's Directions do not apply to AHS, and at the time undertook to obtain legal advice to clarify the matter. The Department has still not resolved the issue.

Last year, I reported that regardless of any legal advice relating to the Treasurer's Directions in my view the Directions should be applied as a matter of good practice. In response, the Department reviewed the Treasurer's Directions against Departmental policies applicable to AHS and identified only a few minor variations.

Treasurer's Directions stipulate that the Minister may award penalty interest where suppliers are not paid on time. The Department has not included this measure in its policies, but advised that it has developed appropriate measures for handling creditor inquiries to mitigate this. The Department should consider penalty interest provisions when AHS do not pay creditors on time.

Fully Depreciated Plant and Equipment (Repeat Issue)

I recommend the Department finalise its review of the continued use of fully depreciated plant and equipment, and in particular the safety implications. Recommendations from the review should be implemented at AHS where appropriate.

AHS' plant and equipment contain a significant number of fully depreciated items:

Plant and Equipment	2009	2008	2007
Total Plant and Equipment at cost (\$'000)	1,556,089	1,538,513	1,603,510
Fully Depreciated Plant and Equipment at cost (\$'000)	562,742	579,226	668,210
Fully depreciated Plant and Equipment as a percentage of total (%)	36.2	37.6	41.7

At 30 June 2009, the original cost of fully depreciated plant and equipment for the AHS was \$562.7 million. This represents 36.2 per cent of the total cost of plant and equipment, with a large portion relating to medical equipment.

In my report for 2007, I recommended the Department review the useful lives of fully depreciated assets, which continue to be used. The Department advised that it was developing a medical equipment strategic framework to handle the procurement and management of such equipment at hospitals.

Last year, I again reported on the high level of fully depreciated assets and recommended the Department commission an independent expert to help review the useful lives of assets, in particular critical plant and equipment. In response, the Department advised it would:

- (a) develop a medical equipment strategic framework and introduce future strategies, including continued development of the HAC Rental Facility, which involves the Department purchasing equipment and leasing it to the AHS.

The Department has now advised it is giving high priority to finalising this major project through the following programs:

- 'Options for the Implementation of a Medical Equipment Asset Management' program. The aim of this program is to evaluate options and establish a finance model to target better long term financial and asset management practice with improved cash flow and organisational controls. A successful tenderer for this program has been engaged and is due to report by January/February 2010.
- 'Medical Equipment Asset Management' AHS pilot program. The purpose of this program is to test the market for a potential private partnership targeted at improving the whole of lifecycle management of equipment at two AHS. This is expected to be completed by June 2010.

The programs are interrelated and focus on managing medical equipment for whole of life cycle ownership, including financial management, procurement, maintenance, replacement, allied services and reporting. The outcomes of the first program will inform the rollout of the broader asset management strategy pilot program across the Department.

- (b) provide funding to the AHS in 2008-09 for the specific purpose of replacing obsolete plant and equipment.

The Department has advised it provided some \$32 million to AHS specifically for the replacement of medical equipment.

- (c) review 2008-09 priorities with Health Support Services to identify state wide procurement opportunities.

The Department advised it has established procedures between AHS and Health Support Services to co-ordinate the purchase of medical equipment on a state-wide basis.

- (d) provide the AHS with instructions for reviewing fully depreciated assets.

The Department has advised this was done as part of (c) above.

- (e) plan the implementation of the Health Asset Management and Maintenance System, which would assist AHS in the effective management and maintenance of their facilities, biomedical equipment and associated services.

The Department has advised it has established a project on Medical Equipment Services to develop models for funding, procurement, management, maintenance, and end of life strategies for medical equipment (as outlined above).

Although progress on some of these actions has been made, there is still some way to go. It is now very important that the two programs referred to under (a) are completed on time, and that any recommendations are implemented effectively across AHS.

During the year some AHS undertook internal reviews of their fully depreciated plant and equipment (including bio-medical engineering equipment), while others did not do a review. Where reviews were done, we were not provided with documented results in some cases, and therefore could not form a view on whether continuing use of these assets posed safety risks and other concerns.

More detailed comments on fully depreciated assets, including the results of internal reviews, are included in individual AHS comments in this Volume.

Trust Funds (Repeat Issue)

I recommend the Department, in conjunction with the AHS, review all special purpose and trust funds to confirm the nature and intended purpose of each fund. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Department, in conjunction with AHS, review all special purpose and trust funds to confirm their nature and intended purpose, as the nature and intended use of some funds was not apparent.

The Department, in a letter dated May 2009, requested a report from each AHS confirming :

- whether documentation was on hand to support the current classification of trust accounts, and that moneys are only applied in accordance with the terms of the donation. To the extent that documentation could not be located, details were to be provided of actions proposed by the AHS
- that no account is overdrawn (any exceptions and the circumstances involved were to be reported) as the Department considered this constitutes a serious breach of trust requirements
- that interest had been duly apportioned to each account
- any conditions attached to donations, which cannot be reasonably satisfied, and the actions proposed by the AHS.

Based on responses received by the Department, only one of the eight AHS completed this review during the year. Three AHS are in the process of undertaking the review; four have either undertaken some preliminary work or have not started; and one failed to provide the Department with a status of its review.

The AHS that completed a full review, found that only a few funds had been dormant for a number of years.

Other findings from our review of these trust funds are included in individual AHS comments.

Asset Stock Take

I recommend the Department, in consultation with AHS, significantly improve its policies and procedures for plant and equipment stock takes. Accountability for this activity should reside with senior officers.

We reviewed the results of plant and equipment stock takes across all AHS and found:

- one had only counted medical equipment over \$250,000
- one did not advise the Department whether a stock take had been performed
- the remaining seven either performed only a partial stocktake or did not perform a stocktake at all.

This is an unsatisfactory situation. The risk of theft or misappropriation of assets increases significantly if appropriate controls, including asset stock takes, are not in place to safeguard these assets. The Department’s policy is for AHS to complete stocktakes of plant and equipment each year. The Department should ensure all AHS comply with this policy and that accountability for this resides with relevant senior officers.

Swine Flu Pandemic

The Department advised that winter resulted in the largest number of patients diagnosed with influenza-like symptoms since electronic record keeping of such information began in 1996. In the seven days to 22 July 2009, the peak of the pandemic, 7,433 patients presented to emergency departments with respiratory and viral infections or fever. This represented an increase of 75 per cent on the average number of presentations in recent years.

In addition, intensive care unit patients with influenza symptoms increased to 35 per cent compared to only 15 per cent in previous years. The Department advised the cost of managing the swine flu pandemic for the winter of 2009 was approximately \$36.2 million.

Overtime

I recommend the Department investigate the extent of overtime being worked at AHS and look at options, where appropriate, for reducing the amount of overtime.

We attempted to obtain overtime statistics for AHS from the payroll system at Health Support Services. The information obtained, at first glance, contained some unusually large amounts of overtime worked by individual officers, as well as in total. The Department advised the statistics contained anomalies that would prevent us from relying on the information. It has undertaken to do a detailed assessment and review of overtime during 2009-10. I will report on the results next year. The Department’s review should assist it assess the risks or issues associated with:

- occupational health and safety
- rostering processes
- staffing issues
- sick and other leave.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

I recommend more detailed coverage be given by the Health internal auditors to costs incurred on VMOs, given the high proportion this constitutes of total AHS medical costs.

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years for the eight AHS.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007* \$'000	2006* \$'000
Total medical staff	1,245,073	1,067,381	967,860	873,673
VMOs	510,757	455,710	358,846	340,306

* 2006 and 2007 exclude the amounts for GWAHS as these were not available.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by AHS. At other times they work in private practice.

VMO costs are a substantial part of overall medical costs for AHS.

We found that limited coverage has been given by AHS internal auditors to VMOs over recent years and believe the area requires greater coverage.

Long-term maintenance benchmarking

I recommend maintenance of the Department's assets be improved so benchmark maintenance levels are met. This should be done in conjunction with the reviews being performed on fully depreciated plant and equipment referred to earlier.

The table below shows the percentage of actual maintenance expenditure compared to gross asset values.

Year ended 30 June Area Health Service	2008 %	2007 %	2006 %
Sydney South West	2.1	1.7	1.4
South Eastern Sydney and Illawarra	0.8	0.6	0.8
Sydney West	1.5	1.5	1.5
Northern Sydney Central Coast	0.4	0.5	0.4
Hunter New England	1.0	1.0	1.1
North Coast	0.8	0.9	0.9
Greater Southern	1.3	1.1	2.0
Greater Western	0.2	0.1	0.2
Children's Hospital	0.7	0.8	0.8
State-wide total (a)	1.1	1.0	1.1

Key: Data is provided by the Department of Health, and was the latest available (unaudited)

(a) State-wide total includes Justice Health and Health Administration Corporation (Ambulance and Health Support Services)

The Department has determined that an overall benchmark of two per cent of gross asset values is an appropriate long-term benchmark for maintenance spending. It compiled data for the three years to 30 June 2008 to enable it to review past spending levels and to guide it in developing its view on future levels of maintenance spending across the health sector.

The state-wide percentage has been below the benchmark for the three years. SSWAHS was the only AHS to meet or exceed the benchmark in 2008, while GWAHS had the lowest maintenance spending at 0.2 per cent.

In conjunction with the Medical Equipment Services program, discussed earlier, the Department should implement procedures to ensure AHS assets are appropriately maintained.

Contract Staff (Repeat Issue)

I recommend the Department determines the number of contractors who provide it with personal or professional services and the length of time they have done so. The review should identify contractors whose service is no longer required and ensure compliance with taxation legislation. A similar exercise should be performed at AHS for non-medical contractors.

Last year, I reported that the Department was unable to provide information on the number of contractors it engaged compared to established staffing positions and the length of time they had been with the Department. We requested this information for the parent entity again this year, but the Department was still unable to provide it.

Without such information, it is unclear how the Department is able to effectively manage its contract staff and how it ensures that it is complying with taxation legislation.

The Department has advised it believes it complies with Premier's Memorandum 2009-15 relating to the engagement and retention of agency and contract staff.

The Department also advised it is currently undertaking an internal review of the use of contract staff for relief and non-project based functions. We will review the results of this review in 2009-10.

PERFORMANCE INFORMATION

The Director-General has entered into performance agreements with individual AHS, which incorporate performance indicators, some of which have targets. The indicators are also measured and reported for benchmarking purposes. The Department holds monthly meetings with each AHS's executive team to review performance against targets, strategies to achieve targets and progress towards benchmarks.

The indicators cover different aspects of AHS performance including:

- quality and safety of services
- access to services
- activity against agreed targets (including planned surgery)
- provision of mental health services
- progress of key state wide strategic initiatives
- workforce development
- financial performance.

While the Department has established overall benchmarks and targets, targets may vary from the benchmark. The Department reviews and evaluates the performance of AHS against these targets.

The Department provided the following information on the financial and operational performance of AHS for the year ended 30 June 2009.

	Area Health Service					
	Greater Southern		Greater Western		Hunter New England	
	2009	2008	2009	2008	2009	2008
Abridged Consolidated Operating Statements (Year ended 30 June) - \$million						
Employee related	440.6	429.1	409.3	391.3	994.4	905.0
Other expenses	473.8	422.5	380.5	343.1	722.0	694.0
Total expenses	914.4	851.6	789.8	734.4	1,716.4	1,599.0
Total revenues	137.2	119.1	85.5	89.2	306.4	249.9
Other (losses)/gains	(1.5)	(4.0)	(1.5)	(0.2)	(0.2)	(1.9)
Net cost of services	778.7	736.5	705.8	645.4	1,410.2	1,351.0
Government contributions	758.6	747.2	715.4	622.4	1,358.3	1,244.0
Surplus/(deficit)	(20.1)	10.7	9.6	(23.0)	(51.9)	(107.0)
Abridged Consolidated Balance Sheets (at 30 June) - \$million						
Total assets	620.7	591.1	574.1	544.0	1,291.4	1,183.9
Total liabilities	210.4	204.4	214.4	213.1	590.0	444.9
Net assets	410.3	386.7	359.7	330.9	701.4	739.0
Performance Indicators - unaudited						
Average available beds (June)	2,023	2,009	1,852	1,910	3,202	3,195
Bed occupancy (%) (June)	72.8	71.0	70.2	71.9	81.7	75.8
Average length of stay (days)	2.7	2.8	3.0	3.1	3.8	3.8
Staff numbers (FTE) at 30 June	4,628	5,128	4,863	4,936	11,771	10,950
Emergency triage treatment categories (a)						
T1 (%)	100	100	100	100	100	100
T2 (%)	81	86	83	80	85	84
T3 (%)	76	80	78	77	75	76
T4 (%)	76	76	82	83	77	80
T5 (%)	90	89	93	91	92	94
Emergency admission performance (b)	81	87	83	83	83	85
Elective surgery categories (c)						
Category 1 (%)	93	94	95	95	88	88
Category 2 (%)	83	79	85	78	86	73
Category 3 (%)	90	94	94	94	93	96

Key: Unless otherwise indicated all data is based on statistics provided by the Department of Health (unaudited).

(a) Percentage of patients treated within clinically appropriate timeframes

T1 Immediately life threatening - treatment required within two minutes - benchmark = 100 per cent.

T2 Imminently life threatening - treatment required within 10 minutes - benchmark = 80 per cent.

T3 Potentially life threatening - treatment required within 30 minutes - benchmark = 75 per cent.

T4 Potentially serious - treatment required within one hour - benchmark = 70 per cent.

T5 Less urgent - treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment - target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes

Category 1 Admission recommended within 30 days

Category 2 Admission recommended within 90 days

Category 3 Admission recommended within 365 days

	Area Health Service					
	North Coast		Northern Sydney and Central Coast		South Eastern Sydney and Illawarra	
	2009	2008	2009	2008	2009	2008
Abridged Consolidated Operating Statements (Year ended 30 June) - \$million						
Employee related	534.4	519.5	1,053.8	1,034.2	1,322.9	1,232.0
Other expenses	467.6	411.9	696.2	623.4	1,004.0	964.7
Total expenses	1,002.0	931.4	1,750.0	1,657.6	2,326.9	2,196.7
Total revenues	132.2	138.9	342.5	324.2	566.2	530.6
Other (losses)/gains	(1.4)	(1.1)	(2.9)	(2.8)	(6.9)	(2.4)
Net cost of services	871.2	793.6	1,410.4	1,336.2	1,767.6	1,668.5
Government contributions	846.0	753.4	1,402.9	1,319.7	1,702.8	1,603.2
Surplus/(deficit)	(25.2)	(40.2)	(7.5)	(16.5)	(64.8)	(65.3)
Abridged Consolidated Balance Sheets (at 30 June) - \$million						
Total assets	649.2	704.5	1,544.3	1,542.2	1,600.8	1,643.3
Total liabilities	232.9	211.7	486.2	462.4	609.1	571.7
Net assets	416.3	492.8	1,058.1	1,079.8	991.7	1,071.6
Performance Indicators - unaudited						
Average available beds (June)	1,625	1,587	2,771	2,771	3,501	3,505
Bed occupancy (%) (June)	83.8	85.4	88.3	87.9	93.3	90.9
Average length of stay (days)	3.7	3.4	4.4	4.3	3.6	3.7
Staff numbers (FTE) at 30 June	5,987	6,526	11,443	12,162	14,205	14,709
Emergency triage treatment categories (a)						
T1 (%)	100	100	100	100	100	100
T2 (%)	77	83	75	78	88	93
T3 (%)	61	65	67	71	72	76
T4 (%)	65	67	70	72	74	78
T5 (%)	88	88	86	88	91	91
Emergency admission performance (b)	75	77	70	72	74	76
Elective surgery categories (c)						
Category 1 (%)	84	85	99	94	91	92
Category 2 (%)	75	70	85	72	83	73
Category 3 (%)	90	91	96	95	94	96

Key: Unless otherwise indicated all data is based on statistics provided by the Department of Health (unaudited).

(a) Percentage of patients treated within clinically appropriate timeframes

T1 Immediately life threatening - treatment required within two minutes - benchmark = 100 per cent.

T2 Imminently life threatening - treatment required within 10 minutes - benchmark = 80 per cent.

T3 Potentially life threatening - treatment required within 30 minutes - benchmark = 75 per cent.

T4 Potentially serious - treatment required within one hour - benchmark = 70 per cent.

T5 Less urgent - treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment - target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes

Category 1 Admission recommended within 30 days

Category 2 Admission recommended within 90 days

Category 3 Admission recommended within 365 days

	Area Health Service					
	Sydney South West		Sydney West		Total	
	2009	2008	2009	2008	2009	2008
Abridged Consolidated Operating Statements (Year ended 30 June) - \$million						
Employee related	1,560.5	1,449.7	1,186.2	1,116.9	7,502.1	7,077.7
Other expenses	992.7	944.7	827.0	715.5	5,563.8	5,119.8
Total expenses	2,553.2	2,394.4	2,013.2	1,832.4	13,065.9	12,197.5
Total revenues	553.3	498.5	329.5	313.9	2,452.8	2,264.3
Other (losses)/gains	(5.9)	(5.5)	(16.5)	(3.7)	(36.8)	(21.6)
Net cost of services	2,005.8	1,901.4	1,700.2	1,522.2	10,649.9	9,954.8
Government contributions	2,029.2	1,840.2	1,639.7	1,508.6	10,452.9	9,638.7
Surplus/(deficit)	23.4	(61.2)	(60.5)	(13.6)	(197.0)	(316.1)
Abridged Consolidated Balance Sheets (at 30 June) - \$million						
Total assets	2,067.9	1,922.6	1,663.4	1,685.8	10,011.8	9,817.4
Total liabilities	653.9	623.7	549.2	509.0	3,546.1	3,240.9
Net assets	1,414.0	1,298.9	1,114.2	1,176.8	6,465.7	6,576.5
Performance Indicators - unaudited						
Average available beds (June)	3,958	3,985	2,888	2,946	22,311(e)	22,397(e)
Bed occupancy (%) (June)	90.7	88.9	92.8	87.7	87.4(d)	85.1(d)
Average length of stay (days)	3.7	3.8	3.5	3.7	3.7(e)	3.7(e)
Staff numbers (FTE) at 30 June	17,459	17,515	13,422	13,411	83,778	85,337
Emergency triage treatment categories (a)						
T1 (%)	100	100	100	100	100(d)	100(d)
T2 (%)	79	80	81	78	81(d)	83(d)
T3 (%)	63	62	65	67	68(d)	70(d)
T4 (%)	72	73	70	70	73(d)	75(d)
T5 (%)	89	90	88	89	89(d)	90(d)
Emergency admission performance (b)	65	75	69	75	73(d)	77(d)
Elective surgery categories (c)						
Category 1 (%)	95	93	96	95	93(d)	92(d)
Category 2 (%)	90	79	91	82	85(d)	76(d)
Category 3 (%)	97	99	96	97	94(d)	96(d)

Key: Unless otherwise indicated all data is based on statistics provided by the Department of Health (unaudited).

(a) Percentage of patients treated within clinically appropriate timeframes

T1 Immediately life threatening - treatment required within two minutes - benchmark = 100 per cent.

T2 Imminently life threatening - treatment required within 10 minutes - benchmark = 80 per cent.

T3 Potentially life threatening - treatment required within 30 minutes - benchmark = 75 per cent.

T4 Potentially serious - treatment required within one hour - benchmark = 70 per cent.

T5 Less urgent - treatment required within two hours - benchmark = 70 per cent.

(b) Percentage of patients transferred to an inpatient bed within eight hours of treatment - target = 80 per cent.

(c) Percentage of patients admitted for booked surgery within clinically appropriate timeframes

Category 1 Admission recommended within 30 days

Category 2 Admission recommended within 90 days

Category 3 Admission recommended within 365 days

(d) Statistics include CHW.

(e) Statistics include CHW and Justice Health.

Financial Performance

The two key indicators used by the Department to monitor the financial performance of AHS are net cost of services (adjusted to exclude special purpose and specific project funds) and general creditor levels. The Department advised that only SSWAHS achieved both benchmarks in 2009 (SSWAHS in 2008). The general creditors benchmark was achieved by only two AHS in 2009 (two AHS in 2008). Achievement of creditors' benchmarks was discussed in detail earlier under Key Issues.

Net Cost of Services

The adjusted net cost of services for six (seven in 2008) of the eight AHS were higher than the budget approved by the Department. The over-runs ranged from \$13.0 million for SESIAHS to \$40.7 million for SWAHS. The Department's analysis identified that SWAHS's unfavourable result was mainly due to the Area's failure to deliver required savings.

Other AHS with significant unfavourable results against budget were GWAHS and North Sydney and Central Coast, with over-runs of \$34.9 million and \$34.5 million respectively. The Department advised that savings identified by these AHS in their approved Financial Plans were not met including reductions in staff numbers. The Department needs to continue to closely monitor all AHS' financial performance during 2009-10 and implement processes to ensure excessive budget overruns do not continue to occur.

The actual to budget net cost of services results for the AHS are detailed below:

Area Health Service Year ended 30 June	Budget 2009 \$m	Actual 2009 \$m	(Over)/Under Budget \$m
Greater Southern	762.9	778.7	(15.8)
Greater Western	670.9	705.8	(34.9)
Hunter New England	1,413.4	1,410.2	3.2
North Coast	844.5	871.2	(26.7)
Northern Sydney and Central Coast	1,375.9	1,410.4	(34.5)
South Eastern Sydney and Illawarra	1,754.6	1,767.6	(13.0)
Sydney South West	2,026.3	2,005.8	20.5
Sydney West	1,659.5	1,700.2	(40.7)

Operational Performance and Activity Levels

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

Bed Occupancy Rate

The bed occupancy rate is the percentage of available beds that are occupied during the reporting period. It measures the use of hospital resources by inpatients and is based on major facilities.

The bed occupancy rate ranged from a high of 93.3 per cent (South Eastern Sydney and Illawarra) to a low of 70.2 per cent (Greater Western). It also indicates the metropolitan bed occupancy rate is significantly higher than most rural areas.

Average Length of Stay

The State wide average length of stay for acute separations is consistent with the prior year at 3.7 days. Generally, metropolitan areas registered a slightly higher average length of stay than rural areas.

Average Available Beds

The average number of available beds has remained almost constant across the majority of AHS, with the number of available beds in June being 22,311 (22,397).

Emergency Department Patients

▪ **Triage**

Triage is a mechanism used to assess emergency department patients for urgency to be seen by a clinician. Correct triaging of patients ensures they are treated in a timely manner according to clinical urgency of their condition.

The Department sets triage targets that align with those recommended by the Australasian College of Emergency Medicine (ACEM).

Critical care triage categories T1 to T3 relate to life threatening situations (see previous table for explanations of T1 to T3). All AHS met the T1 benchmark. Three AHS did not meet the T2 benchmark and five AHS did not meet the other life threatening category (T3) in 2008-09.

The following table indicates how many of the eight AHS achieved the individual triage benchmarks.

Triage Category Year ended 30 June	Target %	2009	2008
Triage Category 1	100	8	8
Triage Category 2	80	5	6
Triage Category 3	75	3	4
Triage Category 4	70	7	7
Triage Category 5	70	8	8

▪ **Emergency Admission Performance**

Emergency Admission Performance measures the time it takes for patients who require a hospital admission to be admitted from the emergency department to an inpatient bed. It is expressed as a percentage of patients admitted to an inpatient bed within eight hours of the commencement of treatment in the emergency department.

Metropolitan AHS typically record a lower emergency admission performance than rural services. SWAHS and SSWAHS recorded the lowest emergency admission performance at 69 per cent and 65 per cent respectively. The highest were HNEAHS and GWAHS at 83 per cent.

Elective Surgery Waiting Times

Elective Surgery is defined by the Department as planned or scheduled, non-emergency surgical procedures generally performed in an operating theatre, by a surgeon, under some form of anaesthesia. The Department is increasingly using the term 'planned surgery' to describe this type of surgical activity.

Three categories are currently used to classify planned surgical patients according to their clinical priority.

- Category One - where it is desirable for the surgical procedure to occur within 30 days from the date of the patient being booked for surgery. In these cases, the condition has the potential to deteriorate quickly to the point that it may become an emergency.
- Category Two - where it is desirable for the surgical procedure to occur within 90 days from the date of the patient being booked for surgery. Typically, these are conditions that cause some pain, dysfunction or disability, but are not likely to deteriorate quickly or become an emergency.
- Category Three - where it is desirable for the surgical procedure to occur within 365 days from the date of the patient being booked for surgery. Typically, these are conditions that cause lower degree of pain, dysfunction or disability, and are unlikely to deteriorate quickly or become an emergency.

In terms of performance, the Department tracks the median waiting times for each category of patients, the percentage of patients within each category who have received their treatment within the desirable timeframes and the number of patients ready for care that have waited longer than the benchmark waiting time.

Category One remained consistent while Category Two improved during 2008-09. The Department advised that 93 per cent of patients in the most urgent category were admitted within the target of 30 days (92 per cent. Category Two patients admitted within the target of 90 days were 85 per cent (76 per cent).

NSCCAHS reported the best performance in Category One with 99 per cent, compared with the lowest percentage achieved by NCAHS at 84 per cent. For Category Two, SWAHS had the best percentage at 91 per cent compared to 75 per cent achieved by NCAHS.

For Category Three, SSWAHS had the highest percentage of admissions within the recommended 12 month timeframe with 97 per cent, compared to NCAHS and GSAHS who both achieved the lowest at 90 per cent.

The Department advised there was a slight decrease in the median waiting times for Category Three patients, who waited an average of 134 days in the April to June 2009 quarter (136 days for April to June 2008). The median waiting time for Category One patients remained constant at ten days for the April to June 2009 quarter (10). Category Two patients waited an average of 51 days (52).

As advised by the Department, the number of patients on the surgical waiting list has increased from 58,173 as at 30 June 2008 to 64,512 as at 30 June 2009. The Department advised that the number of surgical urgent overdue patients in Category One increased to 74 at 30 June 2009 (30). However, the Category Two overdue waiting list has decreased significantly to 839 at 30 June 2009 (2,083).

At 30 June	No of patients on surgical waiting list		Number overdue	
	2009	2008	2009	2008
Surgical Waiting List				
Category One	2,210	2,141	74	30
Category Two	11,407	12,849	839	2,083
Category Three	50,895	43,183	674	58
Total	64,512	58,173	1,587	2,171

Source: Department of Health (unaudited)

Interstate Comparisons

The following information, based on 2007-08 statistics compares performance indicators for public acute hospitals for New South Wales with other jurisdictions. Each jurisdiction has different complexities, salary structures and accounting mechanisms. The data should be considered in this context.

2007-08 Statistics		NSW*	National
Average available beds per 1,000 population		2.9	2.7
Average length of stay (including day surgery)		3.6	3.3
Emergency department waiting times by Triage category (percentage of patients treated within benchmark time)	T1	100	100
	T2	80	74
	T3	66	60
	T4	72	62
	T5	87	85

Source: Australian Institute of Health and Welfare (AIHW) - Australian Hospital Statistics 2007-08.

* These statistics differ from the Department's statistics, partly because they are based on a selection of hospitals only.

The AIHW continues to maintain that 'the concept of an available bed is also becoming less important, particularly in the light of increasing same-day hospitalisations and the provision of hospital-in-the-home care'. AIHW also believes that different case mixes in hospitals affect the comparability of bed numbers.

Both nationally and in New South Wales there tends to be more beds per 1,000 people in rural areas than in metropolitan areas.

The New South Wales average length of stay increased to 3.6 days (3.5), while the national average remained constant at 3.3 days.

New South Wales triage performance is equal to or better than the national average in all of the five categories.

New South Wales Budgeted Health Expenditure - State and Commonwealth

The budgeted expenditure for the New South Wales Department of Health has increased steadily over the past five years from \$10.3 billion in 2004-05 to \$13.8 billion in 2008-09. As a percentage of total budgeted New South Wales State spending, health expenditure increased from 27 per cent in 2004-05 to 27.5 per cent in 2008-09, but is down from 27.8 per cent in 2007-08.

A review of Commonwealth Budget Papers showed that the New South Wales proportion of the total Commonwealth Health budget in 2008-09 remained constant at 33 per cent (33 per cent).

Debts - Doubtful and Write-offs

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years at the eight AHS.

At 30 June	2009	2008	2007
Total debtors (\$'000)	293,324	338,711	295,416
Recovery Doubtful (\$'000)	23,523	24,446	19,493
Proportion of doubtful debts to total debtors (%)	8.0	7.2	6.6
Debts written off (\$'000)	17,388	12,495	8,632

The proportion of debtors considered doubtful has increased slightly over the past three years to eight per cent of total debtors. The amount written off has more than doubled from \$8.6 million in 2006-07 to \$17.4 million in 2008-09. The Department has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by AHS are patient fees, particularly ineligible patients. Ineligible patients are overseas visitors who are not part of the Australian Medicare system.

New Bathurst Base Hospital

GWAHS constructed a new Bathurst Base Hospital with 149 beds, a ten bed mental health unit and emergency department that opened in January 2008. The project cost was \$106 million (budget \$100 million). A number of construction and operational issues have been identified since opening the hospital. The remediation works have been estimated by the Health Service to be \$6.5 million.

Royal North Shore Redevelopment Project

On 28 October 2008, the Government entered into a \$721 million public private partnership project to consolidate 53 outdated buildings into modern purpose built facilities for acute hospital care and community health.

Work commenced in October 2009, with the completion of the community health building expected in the first quarter of 2011. The new main property building is scheduled for completion by the end of 2012 with remaining development to be finalised in 2014.

Liverpool Hospital Redevelopment

Phase two of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. The redeveloped Liverpool Hospital will feature 855 beds, 23 operating rooms, 60 intensive care beds, extended cancer treatment facilities, a major new ambulatory care centre, an additional rooftop helipad, additional parking, new education facilities, and an elevated road and separate pedestrian bridge over the railway linking the eastern and western campuses.

At 30 June 2009, \$98.2 million of project costs had been incurred. The forecast total cost on completion is \$396 million. This is in line with the budget.

PUBLIC HEALTH SECTOR ACTIVITIES

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

The *Health Administration Act 1982* empowers the Department's Director-General as a Corporation Sole (Health Administration Corporation) to enter into various legal contracts such as the purchase, sale or lease of property. This Act also enables the Director-General to determine that the Health Administration Corporation (HAC) may exercise any of the Director-General's functions. These functions include the provision of ambulance services to the New South Wales community and the provision of health support services to the public health system.

AHS are Public Health Organisations constituted under the *Health Services Act 1997*. They are subject to the control and direction of the Director-General. They provide health services for the residents of New South Wales within their respective geographical areas.

Justice Health and the Clinical Excellence Commission are board governed Statutory Health Corporations (SHC), subject to the control and direction of the Minister and (by delegation) the Director-General. The CHW is a chief executive governed statutory health corporation, subject to the direction and control of the Director-General. SHCs are also Public Health Organisations constituted under the *Health Services Act 1997*.

The Ambulance Service of New South Wales is an administrative unit of the Health Administration Corporation which carries out the Director-General's functions to provide ambulance services under the *Health Services Act 1997*.

The Director-General also established other units to provide various services to the public health sector as part of HAC. These include:

- Health Support Services (HSS), formed on 24 April 2007 from the merger of the HealthTechnology and HealthSupport business units. HSS provides financial, payroll, linen, food and other health support services to public health organisations
- NSW Institute of Medical Education and Training was established on 1 September 2005 to provide medical education and educational support to the health sector
- Health Infrastructure, established 1 July 2007 to undertake major capital projects in connection with public health organisations.

Section Two



Commentary on Government Agencies

Minister for Health

Department of Health

Area Health Services:

Greater Southern

Greater Western

Hunter New England

North Coast

Northern Sydney and Central Coast

South Eastern Sydney and Illawarra

Sydney South West

Sydney West

***Aus Health International Pty Limited**

Cancer Institute NSW

Health Administration Corporation

Health Care Complaints Commission

***Justice Health**

New South Wales Health Foundation

Registration of Health Professionals

Royal Alexandra Hospital for Children

Refer to Appendix 1 for:

New South Wales Institute of Psychiatry

* The audit was incomplete at the time of compiling this Volume.
The comment will be included in a 2010 Volume.

Department of Health

AUDIT OPINION

The audits of the Department and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise indicated, the commentary on the financial information is for the consolidated entity.

A listing of the entities the Department controls is included later in this comment under the 'Controlled Entities' section. Separate comment is included in this Volume for each of the controlled entities other than Clinical Excellence Commission and HealthQuest.

Comment on certain aspects of the consolidated entity's financial and operating performance is included in the Health Overview section earlier in this Report.

KEY ISSUES

Intra Health Receivables and Payables

I recommend the Department, in conjunction with Area Health Services, confirm all inter agency balances regularly during the year, and in particular at year end to ensure eliminations are accurate. The Department should have a policy for resolving disputed receivables and payables balances, and should clear them prior to finalising the consolidated accounts.

We were unable to confirm some receivable and payable balances between controlled entities, including Area Health Services (AHS). On consolidation, the Department eliminates controlled entities' intra health receivables and payables. At year end, there was a \$23.0 million unexplained variance between these balances. The Department has indicated balances will be reconciled regularly during the year, so problems are addressed in a timely manner.

Management Letter Repeat Issues

I have reported the following matters to the Department for at least the past two years and believe they should be addressed as a matter of priority.

- instances of non-compliance by Health entities with Treasurer's Directions. This matter is discussed in the Health Overview.
- some employees within the Department continue to have recreation leave balances in excess of 40 days at 30 June 2009. The Department advised it has implemented policy changes to enhance monitoring and control of leave balances in excess of 40 days, and will largely eliminate excess leave balances by the end of January 2010.
- the Department has improved the clearing of payroll suspense accounts, however some old uncleared items still exist. The Department expects to clear these by the end of the 2010 financial year.

OTHER INFORMATION

We identified other opportunities for improvement to the Department's accounting and internal control procedures and will report them to management.

FINANCIAL INFORMATION

Key Income and Expense Recognised for the year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	8,546,559	7,959,424	127,243	121,938
Grants and subsidies	957,980	1,026,945	11,283,779	10,404,775
Other expenses	4,336,891	4,131,013	466,904	494,903
OPERATING EXPENSES	13,841,430	13,117,382	11,877,926	11,021,616
OPERATING REVENUE	1,864,206	1,869,982	172,239	212,017
Other losses	64,408	50,853	3,042	7,735
NET COST OF SERVICES	12,041,632	11,298,253	11,708,729	10,817,334
Government contributions	11,886,145	10,918,259	11,735,501	10,763,082
(DEFICIT)/SURPLUS	(155,487)	(379,994)	26,772	(54,252)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Net increase/(decrease) in Reserves	121,585	429,100	(2,277)	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	(33,902)	49,106	24,495	(54,252)

The increase in employee related expenses is mainly due to higher award rates and employee entitlements.

Government contributions increased largely in response to the increasing demand for, and rising costs of the New South Wales health care system. Government contributions included Commonwealth assistance of \$3.8 billion (\$3.6 billion in 2007-08), the major component being the \$3.4 billion (\$3.1 billion) paid under the Australian Health Care Agreement.

For the parent entity, the increase in grants and subsidies predominantly comprises an increase of \$912 million paid to controlled entities, mainly the AHS.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	1,416,781	1,332,673	233,782	260,985
Non-current assets	9,991,673	9,716,154	209,086	188,252
TOTAL ASSETS	11,408,454	11,048,827	442,868	449,237
Current liabilities	3,526,185	3,316,607	124,582	153,564
Non-current liabilities	420,454	242,485	2,083	2,395
TOTAL LIABILITIES	3,946,639	3,559,092	126,665	155,959
NET ASSETS	7,461,815	7,489,735	316,203	293,278

The increase in non-current assets is largely the result of a reassessment of the fair value of land, buildings and infrastructure systems, as well as additions during the year.

The increase in current liabilities is largely due to an increase in employee benefit provisions, partially offset by a reduction in creditors.

The increase in non-current liabilities is mainly because of an increase in finance lease liabilities related to financing of construction costs for the Long Bay Forensic Hospital redevelopment.

Abridged Service Group Information

Department of Health net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget \$'000	2009 Actual \$'000	2008 Actual \$'000	2009 Actual \$'000	2008 Actual \$'000
Overnight acute inpatient services	4,486,354	4,805,199	4,540,018	3,376,585	3,299,021
Outpatient services	1,265,781	1,306,730	1,174,602	953,626	953,418
Rehabilitation and extended care services	881,493	923,444	812,436	528,513	546,411
Primary and community based services	954,756	852,930	886,539	432,335	413,519
Aboriginal health services	61,689	52,759	52,109	18,182	16,960
Emergency services	1,228,992	1,398,246	1,277,800	643,580	666,502
Same day acute inpatient services	716,609	683,514	687,660	482,828	509,510
Mental health services	1,024,470	1,058,519	971,661	491,289	587,083
Population health services	377,751	465,586	490,031	151,792	142,124
Teaching and research	373,798	494,705	405,397	383,085	355,187
Total all programs	11,371,693	12,041,632	11,298,253	7,461,815	7,489,735

The budget figures are as shown in the 2008-09 Budget Papers and do not include additional supplementations approved throughout the year.

The Department provided the following explanations for variances between budget and actual net cost of services for the programs.

Primary and community based services was under budget as a result of AHS improving their reporting processes after the budget was set, to more accurately assign revenues and expenses to the program.

Aboriginal health services was less than budget, also mainly because of better reporting processes. In addition, expenditure was impacted by issues including recruitment difficulties and the rolling over of protected funds to the following year.

Emergency services was over budget principally because of award increases, variations in superannuation stemming from award increases, the pro rata effect of actuarial leave adjustments and new moneys provided specifically for faster emergency care.

Population health services was over budget as a result of the injection of additional moneys for the National Immunisation Program.

Teaching and research exceeded budget due to a number of factors such as variations in leave provisions, depreciation, superannuation and capital expensing. The variation also reflects an improvement in the allocation of expenses as previously mentioned.

DEPARTMENT ACTIVITIES

For further information on the Department of Health, refer to www.health.nsw.gov.au.

CONTROLLED ENTITIES

Separate comment is included in this Volume for each of the following controlled entities:

Area Health Services (AHS)	Other Entities
Greater Southern Greater Western Hunter New England North Coast Northern Sydney and Central Coast South Eastern Sydney and Illawarra Sydney South West Sydney West	Justice Health* Royal Alexandra Hospital for Children Health Administration Corporation comprising: - Ambulance Service of New South Wales - Health Support Services - NSW Institute of Medical Education and Training (IMET) - Health Infrastructure

* The audit was incomplete at the time of compiling this Volume. The comment will be included in a 2010 Volume.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
Clinical Excellence Commission	www.cec.health.nsw.gov.au
Clinical Excellence Commission Special Purpose Service Entity	*
HealthQuest	www.healthquest.gov.au
HealthQuest Special Purpose Service Entity	*

* This entity does not have a website.

Greater Southern Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

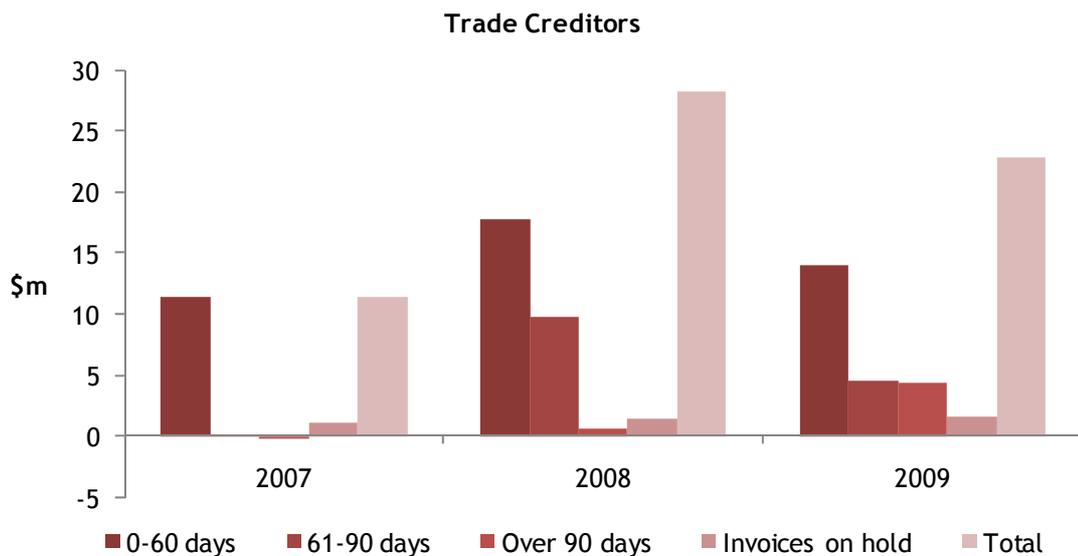
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows the ageing of trade creditors for the past three years and the amounts on hold or in dispute. The information was provided by the Service and is unaudited.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: Greater Southern Area Health Service (unaudited).

The timely payment of invoices continues to be an issue for the Service. Although total trade creditors have decreased from \$28.2 million to \$22.9 million, the balance is still high.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	29,703	27,891	32,447	29,840
Current liabilities* (\$'000)	129,452	128,908	101,935	92,097
Working capital deficit (\$'000)	99,749	101,017	69,488	62,257
Working capital (%)	22.9	21.6	31.8	32.4
Number of times current liabilities exceed current assets	4.4	4.6	3.1	3.1

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year end.

The Service is able to operate at a low working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, its working capital needs to be closely monitored to ensure it has sufficient funds to pay creditors, and to avoid other operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$20.1 million, was a \$22.3 million deterioration against the budgeted surplus of \$2.2 million. The Service advised this was mainly due to the transfer of hospital hotel services to Health Support Services, which resulted in a significant increase in operating expenses. The actual result being worse than budget has continued the trend from the prior year and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat issue)

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of “whole of lifecycle” management of equipment across a selection of Health Services (refer to Health Overview section of this Report).

The table below shows the extent of the Service’s fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	57,840	75,558	73,526
Fully depreciated Plant and Equipment - at cost (\$'000)	15,654	34,992	32,031
Fully depreciated Plant and Equipment as a percentage of total (%)	27.1	46.3	43.6

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 46.3 per cent in 2007-08 to 27.1 per cent in 2008-09, it is still significant.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety
- the remaining useful life of the equipment.

The review identified \$19.0 million of assets for write-off. Further consideration is to be given to the appropriateness of continuing to use fully depreciated assets.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund’s intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund’s intended purpose. The nature and intended use of some funds was not apparent. The Service advised that it reviews the intended purpose of the trust funds when the trusts are established. However, there has been no subsequent review to assess the intended purpose of these funds. The Service had \$2.0 million of these funds at 30 June 2009 (\$2.1 million).

PERFORMANCE INFORMATION

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

The average length of stay in acute hospitals in the Greater Southern area was 2.7 days (2.8 days). This was the lowest in the State.

The Service's bed occupancy rate was 72.8 per cent (71.0 per cent). It is the second lowest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007-08.

The Service's emergency admissions performance decreased from 87 per cent in 2007-08 to 81 per cent in 2008-09. However, this still exceeded the Department's benchmark of 80 per cent.

OTHER INFORMATION

Comparison of Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the last four years.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	42,959	**	**	**
VMOs	55,835	**	**	**

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

** Figures are not readily available for 2006, 2007 and 2008 as the Service was using a number of different payroll systems during those years.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

The above table shows that VMO costs substantially exceed medical staff costs.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	11,557	16,171	16,579
Recovery doubtful (\$'000)	1,106	1,160	735
Proportion of doubtful debts to total debtors (%)	9.6	7.1	4.4
Debts written off (\$'000)	1,607	1,303	--

The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly for patients who are overseas visitors who are not part of the Australian Medicare system.

Internal Controls

We identified some opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	440,582	429,151	--	--
Personnel services	--	--	440,582	429,151
Visiting medical officers	55,835	54,816	55,835	54,816
Other expenses	418,015	367,640	418,015	367,640
OPERATING EXPENSES	914,432	851,607	914,432	851,607
OPERATING REVENUE	137,195	119,133	144,746	128,390
Loss on disposal of non-current assets	1,445	4,072	1,445	4,072
NET COST OF SERVICES	778,682	736,546	771,131	727,289
Government contributions	758,617	747,236	751,066	737,979
(DEFICIT)/SURPLUS	(20,065)	10,690	(20,065)	10,690
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	43,930	--	43,930	--
Administrative transfers of assets to Health Support Services	(277)	--	(277)	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	23,588	10,690	23,588	10,690

The increase in other expenses is mainly due to a rise in the food services expense of \$13.4 million and an increase in inter-area and inter-state patient outflows by \$17.7 million.

Food services, previously provided in-house by Service employees, were outsourced to Health Support Services during the year.

Inter-area/inter-state patient outflows are recognised when patients who reside within the Greater Southern area are treated outside this area/state. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs.

The significant movement in income and expense recognised directly in equity is due to the revaluation increment in the current year of \$43.9 million.

Abridged Balance Sheet

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	29,703	27,890	29,703	27,890
Non-current assets	591,044	563,250	591,044	563,250
TOTAL ASSETS	620,747	591,140	620,747	591,140
Current liabilities	185,994	190,174	185,994	190,174
Non-current liabilities	24,429	14,229	24,429	14,229
TOTAL LIABILITIES	210,423	204,403	210,423	204,403
NET ASSETS	410,324	386,737	410,324	386,737

Non-current liabilities increased mainly due to an increase in borrowings from the NSW Health Department and the Sustainable Energy Development Authority.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Southern area through the following hospitals:

- Albury Base Hospital
- Albury Mercy Hospital
- Barham Koondrook Soldiers' Memorial Hospital
- Batemans Bay District Hospital
- Batlow District Hospital
- Bega District Hospital
- Berrigan War Memorial Hospital
- Bombala Hospital
- Boorowa District Hospital
- Bourke Street Health Service
- Braidwood Hospital
- Coolamon-Ganmain Health Service
- Cooma Hospital
- Cootamundra Hospital
- Corowa Hospital
- Crookwell District Hospital
- Culcairn Health Service
- Delegate Multi Purpose Service
- Deniliquin District Hospital
- Finley Hospital
- Goulburn Hospital
- Griffith Base Hospital
- Gundagai District Hospital
- Hay Hospital
- Henty District Hospital
- Hillston District Hospital
- Holbrook Hospital
- Jerilderie District Hospital
- Junee District Hospital
- Kenmore Psychiatric Hospital
- Leeton District Hospital
- Lockhart and District Hospital
- Mercy Care Hospital
- Moruya District Hospital
- Murrumburrah-Harden District Hospital
- Narrandera District Hospital
- Pambula District Hospital
- Queanbeyan Hospital
- Temora and District Hospital
- Tocumwal Hospital
- Tumbarumba Health Service
- Tumut Hospital
- Urana Health Service
- Wagga Wagga Base Hospital
- West Wyalong District Hospital
- Yass District Hospital
- Young District Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.gsahs.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

Greater Southern Area Health Service Special Purpose Service Entity

Greater Western Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable

The Service needs to pay its creditors within agreed payment terms and follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: Greater Western Area Health Service (unaudited).

The timely payment of creditors continues to be an issue for the Service, although the amount over 90 days has reduced from last year. Total creditors at 30 June 2009, \$31.7 million, were lower when compared to the prior year, \$37.4 million. Creditors over 90 days old have reduced by 50 per cent in that time. During the year, the Service needed special funding of \$21.0 million from the Department of Health (the Department) to pay creditors.

At 30 June 2009 \$1.2 million or 3.8 per cent of total creditors were either on hold or in dispute (\$99,000 in 2007-08).

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	33,090	33,038	19,841	19,966
Current liabilities* (\$'000)	133,561	150,470	93,625	81,643
Working capital deficit (\$'000)	100,471	117,432	73,784	61,677
Working capital (%)	24.8	22.0	21.2	24.5
Number of times current liabilities exceed current assets	4.0	4.6	4.7	4.1

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from the year-end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to pay creditors within agreed payment terms and to avoid other operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a surplus of \$9.6 million, was a \$5.6 million deterioration from the budget of \$15.2 million. Although this is a significant improvement from the prior year deficit of \$23.0 million against a budgeted surplus of \$10.6 million, this result was only achieved after the Service received additional capital allocations of \$27.8 million in excess of budget. Although there may be extenuating circumstances, this has continued a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat Issue)

The Service should liaise with the Department of Health to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment).

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	78,113	78,336	70,682
Fully Depreciated Plant and Equipment - at cost (\$'000)	27,000	28,200	26,300
Fully depreciated Plant and Equipment as a percentage of total (%)	34.6	36.0	37.2

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 36.0 per cent in 2007-08 to 34.6 per cent in 2008-09, it is still significant.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- the remaining useful life of the equipment.

The review resulted in \$6.9 million of assets being written off, generally for assets with an original cost of less than \$10,000.

The Service has advised it may seek an independent review during 2009-10 to assist it assess the safety risk of continuing to use these assets.

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service did not perform a stock take of all plant and equipment with a value of greater than \$10,000. The Service has advised that a full stock take is scheduled for 2009-10. When undertaking the stock take the Service should ensure its procedures include the following:

- assigning responsibility for the stock take process
- requiring all cost centres to complete and return their stock take sheets
- preparing a summary report detailing the results of the stock take; and
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Trust Funds (Repeat Issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The nature and intended use of some funds was not apparent. The Service has advised that a review is currently being undertaken and is targeted for completion in 2009-10. The volume of these funds at 30 June 2009 was \$6.6 million (\$7.0 million in 2007-08).

New Bathurst Base Hospital

Last year, I reported that the Service had opened a new Bathurst Base Hospital in January 2008 and that some construction and operational issues had been identified after the opening.

The problems identified and additional costs incurred, \$6.5 million, demonstrated the need and importance of adequately involving clinical staff in the design, and throughout the construction process.

PERFORMANCE INFORMATION

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

The average length of stay in acute hospitals in the Greater Western area was 3.0 days (3.1 days). This is lower than the State average of 3.7 days and is the second lowest in the State.

The Service’s bed occupancy rate reduced to 70.2 per cent (71.9 per cent). This is the lowest in the State.

The Service met or exceeded the Department’s benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007-08.

The Service’s emergency admission performance of 83 per cent exceeded the Department’s benchmark of 80 per cent and was one of the highest in the State.

OTHER INFORMATION

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years.

Year ended 30 June Category	2009 \$’000	2008 \$’000	2007 \$’000	2006 \$’000
Total medical staff*	41,677	37,818	**	**
VMOs	53,889	53,613	45,347	39,339

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

** Costs for Medical Staff were not recorded separately from those for other staff in 2006 and 2007.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMOs are a substantial part of overall medical costs for the Service.

An internal audit of the processing of claims and payments to VMOs conducted in 2006-07 revealed that procedures at that time failed to analyse whether the number of claims made by a VMO reflected a realistic workload for a clinician. Internal audit recommended a regular analysis to be performed by management to detect and monitor large volume claims and extraordinary patterns of servicing. The Service has implemented the recommendations.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	12,513	20,972	11,109
Recovery doubtful (\$'000)	862	388	923
Proportion of doubtful debts to total debtors (%)	6.9	1.9	8.3
Debts written off (\$'000)	964	748	655

The proportion of debts considered doubtful has fluctuated over the past three years increasing significantly to 6.9 per cent (1.9 per cent). The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

Internal Controls

We identified other opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	409,284	391,357	--	--
Personnel services	--	--	409,284	391,357
Visiting medical officers	53,889	53,613	53,889	53,613
Grants and subsidies	10,417	8,996	10,417	8,996
Other expenses	316,243	280,493	316,243	280,493
OPERATING EXPENSES	789,833	734,459	789,833	734,459
OPERATING REVENUE	85,525	89,241	94,032	97,347
Loss on disposal of non-current assets and other (gains)/losses	1,510	219	1,510	219
NET COST OF SERVICES	705,818	645,437	697,311	637,331
Government contributions	715,438	622,444	706,931	614,338
SURPLUS/(DEFICIT)	9,620	(22,993)	9,620	(22,993)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	19,167	43,759	19,167	43,759
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	28,787	20,766	28,787	20,766

Employee related expenses have increased mainly due to increases in award rates from 1 July 2008.

Other expenses increased due to new Private Partnership Project charges for cleaning, increased IT licensing fees, and an increase in inter area and inter-state patient outflows.

Inter-area and inter-state patient outflows are recognised when patients who reside within the Greater Western area are treated outside this area.

Total income and expense recognised directly in equity has decreased due to the revaluation increment of land and buildings in the previous financial year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	33,090	33,038	33,090	33,038
Non-current assets	540,996	510,926	540,996	510,926
TOTAL ASSETS	574,086	543,964	574,086	543,964
Current liabilities	192,322	206,785	192,322	206,785
Non-current liabilities	22,108	6,310	22,108	6,310
TOTAL LIABILITIES	214,430	213,095	214,430	213,095
NET ASSETS	359,656	330,869	359,656	330,869

The increase in non-current assets is mainly attributed to the revaluation of land and buildings and additions to infrastructure systems.

The decrease in current liabilities is predominantly due to the payment of long outstanding creditors from a loan provided by the Department of Health.

The increase in non-current liabilities is a result of the additional loan provided by the Department and an increase in employee benefits liabilities as a result of increase award rate and higher leave balances.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Greater Western area through the following hospitals:

- Balranald District Hospital
- Baradine Multi Purpose Health Service
- Bathurst Base Hospital
- Blayney Hospital & Health Service
- Bloomfield Hospital
- Bourke District Hospital & Health Service
- Brewarrina District Hospital & Health Service
- Broken Hill Base Hospital and Health Service
- Canowindra Health Service
- Cobar Health Service
- Collarenebri Hospital and Health Service
- Condobolin Health Service
- Coolah Multi Purpose Service
- Coonabarabran Health Service
- Coonamble Health Service
- Cowra Health Service
- Cudal Health Service
- Dubbo Base Hospital
- Dunedoo Health Service
- Eugowra Health Service
- Forbes Health Service
- Gilgandra Multi Purpose Health Service
- Goodooga Health Service
- Grenfell Multi Purpose Health Service
- Gulargambone Multi Purpose Health Service
- Gulgong Health Service
- Ivanhoe Health Service
- Lake Cargelligo Hospital and Health Service
- Lightning Ridge Multi Purpose Health Service
- Menindee Health Service
- Molong Health Service
- Mudgee Health Service
- Narromine Health Service
- Nyngan Health Service
- Oberon Health Service
- Orange Base Hospital
- Parkes Health Service
- Peak Hill Health Service
- Rylstone Hospital and Health Service
- Tibooburra Health Service
- Tottenham Health Service
- Trangie Multi Purpose Health Service
- Trundle Hospital and Health Service
- Tullamore Multi Purpose Service
- Walgett Health Service
- Warren Multi Purpose Health Service
- Wellington Health Service
- Wentworth Hospital and Health Service
- White Cliffs Health Service
- Wilcannia Health Service

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.gwahs.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

Greater Western Area Health Service Special Purpose Service Entity

Hunter New England Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

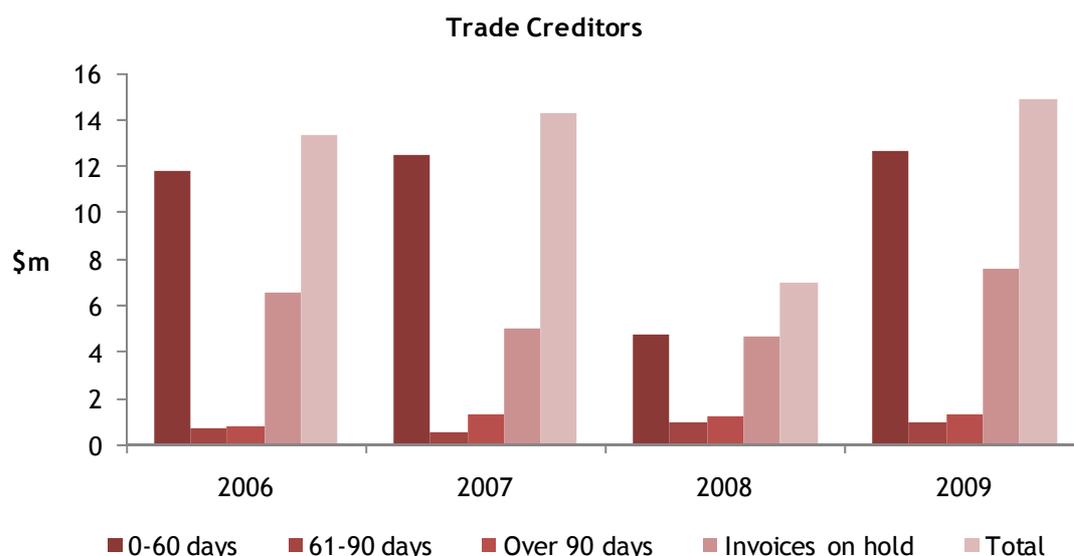
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable

The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: Hunter New England Area Health Service (unaudited).

Total creditors at 30 June 2009, \$14.9 million, were significantly higher compared to the prior year, \$7.0 million. Creditors over 90 days old, including invoices on hold, have increased by 5.8 per cent over that time. During the year, the Service received special funding of \$10.0 million from the Department of Health (the Department) for general liquidity assistance.

In each of the past four years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009 \$7.6 million or 51 per cent of total creditors were either on hold or in dispute. This percentage is a reduction on 67 per cent at 30 June 2008, but similar to the percentage at 30 June 2006. A significant amount of the 2009 on hold balance, \$1.3 million, was over 90 days old.

The Service advised that the on hold balance at 30 June 2009 includes \$3.4 million relating to capital expenditure awaiting clarification of delivery issues.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	163,630	121,509	117,240	110,142
Current liabilities* (\$'000)	251,395	217,883	187,480	165,524
Working capital deficit (\$'000)	87,765	96,374	70,240	55,382
Working capital (%)	65.1	55.8	62.5	66.5
Number of times current liabilities exceed current assets	1.5	1.8	1.6	1.5

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Service needs to maintain working capital to pay creditors within agreed payment terms and avoid operational problems.

Budget to Actual Comparison

The Service's result for the year, a deficit of \$52.0 million, was \$6.7 million better than the budgeted deficit of \$58.7 million. This is a significant improvement from the prior year when the Service's deficit of \$107 million exceeded the budgeted deficit by \$28.9 million.

Fully Depreciated Plant and Equipment (Repeat Issue)

The Service should liaise with the Department of Health to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the past three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	212,709	201,179	197,924
Fully depreciated Plant and Equipment - at cost (\$'000)	61,400	56,700	57,800
Fully depreciated Plant and Equipment as a percentage of total (%)	28.9	28.2	29.2

The Service continues to use a high proportion of fully depreciated plant and equipment.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety
- the remaining useful life of the equipment.

The review resulted in \$21.9 million of assets being removed from the general ledger and fixed assets register.

The Service has advised they have an Asset Management and Maintenance System that registers all clinical assets to schedule and record their maintenance history.

PERFORMANCE INFORMATION

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

The average length of stay in acute hospitals in the Hunter New England area remained at 3.8 days (3.8 days), slightly higher than the State average of 3.7 days.

The Service's bed occupancy rate increased to 81.7 per cent (75.8 per cent). This is still lower than the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in all five triage categories, as it did in 2007-08.

The Service's emergency admission performance of 83 per cent exceeded the Department's benchmark of 80 per cent and was one of the highest in the State.

OTHER INFORMATION

Trust Funds

Last year I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose, as the nature and purpose of some funds was not readily apparent. The Service conducted a review in 2008-09 and has advised of \$20.9 million (\$16.4 million at 30 June 2008) held in special purpose and trust funds, the nature and intended use was satisfactorily confirmed for all but \$3,000.

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09 the Service performed a stock take of plant and equipment with a value of greater than \$10,000. A listing was made available to all cost centres detailing the assets under their control. Stock takes were not performed by all cost centres. A final summary report was provided to Health Support Services to update the Fixed Assets Register for those cost centres that responded.

The Service should strengthen its procedures over stock takes of plant and equipment by:

- assigning accountability for the stock take process
- requiring all cost centres to complete and return their stock take sheets
- preparing a summary report detailing the results of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total medical staff*	160,900	144,038	128,052	103,287
VMOs	68,681	67,130	59,476	57,197

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMOs are a substantial part of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	42,586	45,247	38,671
Recovery doubtful (\$'000)	620	920	613
Proportion of doubtful debts to total debtors (%)	1.5	2.0	1.6
Debts written off (\$'000)	209	1,107	392

The proportion of debts considered doubtful has remained fairly constant over the past three years. The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

Calvary Mater Newcastle Hospital

During 2005-06, the Health Administration Corporation entered into a contract with a private sector provider for the financing, design, construction, commissioning and facilities management of a new Mater Hospital and a mental health facility. The developer was to complete the construction in three stages by 2009 and manage the facility until 2033.

Stage 1 was completed in January 2008 at a cost of \$71.3 million and transferred to the Calvary Mater Newcastle Hospital. The remaining stages were completed in 2008-09 at a cost of \$35.5 million and transferred to the Mater.

The new mental health facility and other refurbished buildings were completed in 2008-09 at a cost of \$50.4 million and retained as assets by the Service.

Internal Controls

We identified opportunities for improvement to accounting and internal control procedures for the management of excess leave balances and have reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related Personnel services	994,381	904,961	--	--
Visiting medical officers	--	--	994,381	904,961
Grants and subsidies	68,681	67,130	68,681	67,130
Other expenses	9,882	9,528	9,882	9,528
	643,476	617,378	643,476	617,378
OPERATING EXPENSES	1,716,420	1,598,997	1716,420	1,598,997
OPERATING REVENUE	306,408	249,864	326,075	270,234
Loss on disposal of non-current assets and other (gains)/losses	233	1,900	233	1,900
NET COST OF SERVICES	1,410,245	1,351,033	1,390,578	1,330,663
Government contributions	1,358,287	1,244,040	1,338,620	1,223,670
DEFICIT FOR THE YEAR	(51,958)	(106,993)	(51,958)	(106,993)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	--	111,061	--	111,061
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	(51,958)	4,068	(51,958)	4,068

Employee related expenses rose due to an increase in award rates from 1 July 2008 and higher staff levels arising from the merger of the Hunter New England, North Coast and Northern Sydney and Central Coast pathology services into the new Pathology North.

Other expenses increased due to higher interest expense for amounts relating to construction of the Calvary Mater Newcastle Hospital, an increase in inter area patient outflows and a growth in the demand for hospital services.

Inter area patient outflows are recognised when patients who reside within the Hunter New England area are treated outside this area.

The increase in revenue is attributable to higher intra health charges to the North Coast and Northern Sydney and Central Coast Area Health Services following the merger of the pathology services.

The increase in Government contributions reflects a general rise in the budget allocation and a \$45.0 million supplementation for employee award increases.

Total income and expense recognised directly in equity has decreased due to the revaluation of land and buildings in the previous financial year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	163,630	121,509	163,630	121,509
Non-current assets	1,127,758	1,062,341	1,127,758	1,062,341
TOTAL ASSETS	1,291,388	1,183,850	1,291,388	1,183,850
Current liabilities	426,389	364,768	426,389	364,768
Non-current liabilities	163,564	80,123	163,564	80,123
TOTAL LIABILITIES	589,953	444,891	589,953	444,891
NET ASSETS	701,435	738,959	701,435	738,959

The increase in current assets is mainly due to increases in cash and inventory resulting from the merger of the pathology services.

The increase in non-current assets is due to \$13.4 million owing by the North Coast and Northern Sydney and Central Coast Area Health Services for employee entitlement liabilities transferred to the Service following for the merger of the pathology services, and the finalisation of the new mental health facility.

The increase in current liabilities is mainly due to higher trade creditors as a result of the timing of payment of outstanding creditors by Health Support and the recognition of entitlements for employees transferred as part of the pathology services merger.

The increase in non-current liabilities is mainly attributable to the recognition of interest bearing liabilities owing to Nova Care for construction of the Calvary Mater Newcastle Hospital.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Hunter New England area through the following hospitals:

- Armidale Hospital
- Barraba District Hospital
- Belmont Hospital
- Bingara Community Hospital
- Boggabri District Hospital
- Bulahdelah Community Hospital
- Calvary Mater Newcastle
- Cessnock District Hospital
- Denman Hospital
- Dungog Community Hospital
- Glenn Innes District Hospital
- Gloucester Soldier's Memorial Hospital
- Gunnedah District Hospital
- Guyra Community Hospital
- Inverell District Hospital
- James Fletcher Mental Health Hospital
- John Hunter Children's Hospital
- John Hunter Hospital
- Kurri Kurri District Hospital
- Maitland Hospital
- Manilla District Hospital
- Manning Hospital - Taree
- Merriwa Community Hospital
- Moree District Hospital
- Morisset Mental Health Hospital
- Muswellbrook District Hospital
- Narrabri District Hospital
- Quirindi Hospital
- Royal Newcastle Centre
- Scott Memorial Hospital - Scone
- Singleton District Hospital
- Tamworth Hospital
- Tenterfield Community Hospital
- Tingha Hospital
- Tomaree Community Hospital
- Vegetable Creek Hospital - Emmaville
- Walcha Multipurpose Service
- Warialda District Hospital
- Wingham Community Hospital
- Wee Waa District Hospital
- Werris Creek District Hospital
- Wilson Memorial Hospital - Murrurundi

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.hnehealth.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

Hunter New England Area Health Service Special Purpose Service Entity

North Coast Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

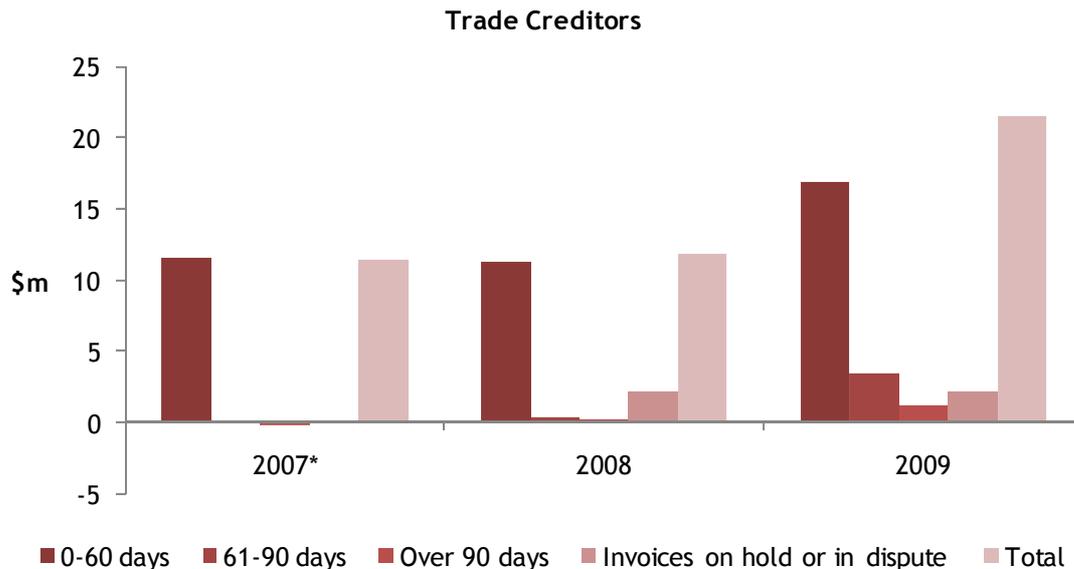
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows the ageing of trade creditors for the past three years, and amounts on hold or in dispute*. The information was provided by the Service and is unaudited.



* Amount 'on hold or in dispute' not disclosed for 2007 as this information is not available.

Note: the Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: North Coast Area Health Service (unaudited).

The timely payment of creditors continues to be an issue for the Service. Total trade creditors rose significantly to \$21.5 million at 30 June 2009 from \$11.9 million in the prior year.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	34,272	33,203	41,958	49,936
Current liabilities* (\$'000)	150,788	136,843	110,630	101,865
Working capital deficit (\$'000)	116,516	103,640	68,672	51,929
Working capital (%)	22.7	24.3	37.9	49.0
Number of times current liabilities exceed current assets	4.4	4.1	2.6	2.0

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, the declining trend should be addressed to ensure sufficient funding is on hand for the timely payment of creditors, and to avoid operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$25.1 million, was a deterioration of \$24.6 million against the budgeted deficit of \$544,000. The Service advised this was mainly due to activity increases including a 3.3 per cent rise in admissions from the previous year and the Service's inability to achieve identified expenditure and revenue savings strategies. The actual result exceeding the budget has continued to be a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of 'whole of lifecycle' management of equipment across a selection of Health Services (refer to Health Overview section of this report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	70,360	76,272	77,248
Fully depreciated Plant and Equipment - at cost (\$'000)	20,141	24,247	25,517
Fully depreciated Plant and Equipment as a percentage of total (%)	28.6	31.8	33.0

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 31.8 per cent in 2007-08 to 28.6 per cent in 2008-09, it is still significant.

Last year I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety, and
- the remaining useful life of the equipment.

The review resulted in \$7.8 million of assets being written off in 2008-09. No assets were found to pose a risk to either patient or staff safety.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The nature and intended use of some funds was not apparent. The Service advised it has commenced a review in June 2009, but it has not been completed to date. The Service had \$3.1 million of these funds at 30 June 2009 (\$1.8 million at 30 June 2008).

PERFORMANCE INFORMATION

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

The average length of stay in acute hospitals in the North Coast area increased to 3.7 days (3.4 days). This is equal to the State average.

The Service's bed occupancy rate decreased to 83.8 per cent (85.4 per cent). This is below the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in only two of the five triage categories. However, the reported performance of the Service failed to meet three benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service had a slight decrease in its emergency admissions performance from 77 per cent in 2008 to 75 per cent in 2009. This is below its target of 80 per cent.

A progressive state-wide upgrade of software used in the extraction and transmission of data relating to triage performance and emergency admissions is currently being undertaken. As a result of this upgrade, the Department advised that data for 2008-09 may not be directly comparable with previous periods for a number of hospitals and may understate their actual performance against benchmarks.

Hospitals in the Service affected by the upgrade include Lismore Base Hospital, the Tweed Hospital and Murwillumbah District Hospital. The Department advised that performance reported may not be reflective of the Service's actual emergency department performance.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service performed a stock take of plant and equipment with a value greater than \$10,000 at some hospitals.

A final summary report on the results of the stock take was not prepared because all hospitals did not complete the stock take.

The Service should strengthen its stock take procedures over plant and equipment by:

- assigning accountability for the stock take process
- ensuring all cost centres complete and return stock take sheets
- preparing a summary report detailing the results of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Comparison of Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	59,472	52,640	46,737	39,262
VMOs	87,732	77,941	71,453	67,314

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

The above table shows VMO costs are higher than expenses for staff specialists employed directly by the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	16,102	17,746	17,654
Recovery doubtful (\$'000)	1,093	1,536	756
Proportion of doubtful debts to total debtors (%)	6.8	8.7	4.3
Debts written off (\$'000)	1,777	992	--

The proportion of debtors considered doubtful has fluctuated over the past three years decreasing slightly to 6.8 per cent at 30 June 2009 (8.7 per cent). The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly for patients who are overseas visitors and not part of the Australian Medicare system.

Internal Controls

We identified some opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	534,369	519,469	--	--
Personnel services			534,369	519,469
Visiting medical officers	87,732	77,941	87,732	77,941
Grants and subsidies	7,652	8,021	7,652	8,021
Other expenses	372,277	325,992	372,277	325,992
OPERATING EXPENSES	1,002,030	931,423	1,002,030	931,423
OPERATING REVENUE	132,228	138,923	140,712	147,941
Loss on disposal of non-current assets	44	6	44	6
Other losses	1,335	1,135	1,335	1,135
NET COST OF SERVICES	871,181	793,641	862,697	784,623
Government contributions	846,032	753,369	837,548	744,351
DEFICIT	(25,149)	(40,272)	(25,149)	(40,272)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	(50,739)	65,917	(50,739)	65,917
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	(75,888)	25,645	(75,888)	25,645

The increase in other expenses is mainly due to a rise in the food services expense of \$14.3 million and an increase in inter-area patient outflows by \$11.7 million.

Food services, previously provided in-house by Service employees, were outsourced to Health Support Services during the year.

Inter-area patient outflows are recognised when patients who reside within the North Coast area are treated at outside this area. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs.

The significant movement in income and expense recognised directly in equity is due to a revaluation decrement for land and building assets in the current year of \$50.7 million compared to an increment of \$65.9 million in 2008.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	34,272	33,203	34,272	33,203
Non-current assets	614,896	671,294	614,896	671,294
TOTAL ASSETS	649,168	704,497	649,168	704,497
Current liabilities	220,898	207,143	220,898	207,143
Non-current liabilities	11,977	4,566	11,977	4,566
TOTAL LIABILITIES	232,875	211,709	232,875	211,709
NET ASSETS	416,293	492,788	416,293	492,788

Overall, net assets decreased primarily due to a revaluation decrement of \$50.7 million on land and buildings and increase in non-current borrowings by \$7.8 million.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the North Coast area through the following hospitals:

- Ballina District Hospital
- Bellingen River District Hospital
- Bonalbo Hospital
- Byron District Hospital
- Campbell Hospital (Coraki)
- Casino and District Memorial Hospital
- Coffs Harbour Base Hospital
- Dorrigo Multi Purpose Service
- Grafton Base Hospital
- Kempsey District Hospital
- Kyogle Memorial Hospital
- Lismore Base Hospital
- Macksville Health Campus
- Maclean District Hospital
- Mullumbimby and District War Memorial Hospital
- Murwillumbah District Hospital
- Nimbin Multi Purpose Service
- Port Macquarie Base Hospital
- The Tweed Hospital
- Urbenville Health Service
- Wauchope District Memorial Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations.

For further information on the Service, refer to www.ncahs.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

North Coast Area Health Service Special Purpose Service Entity

Northern Sydney and Central Coast Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

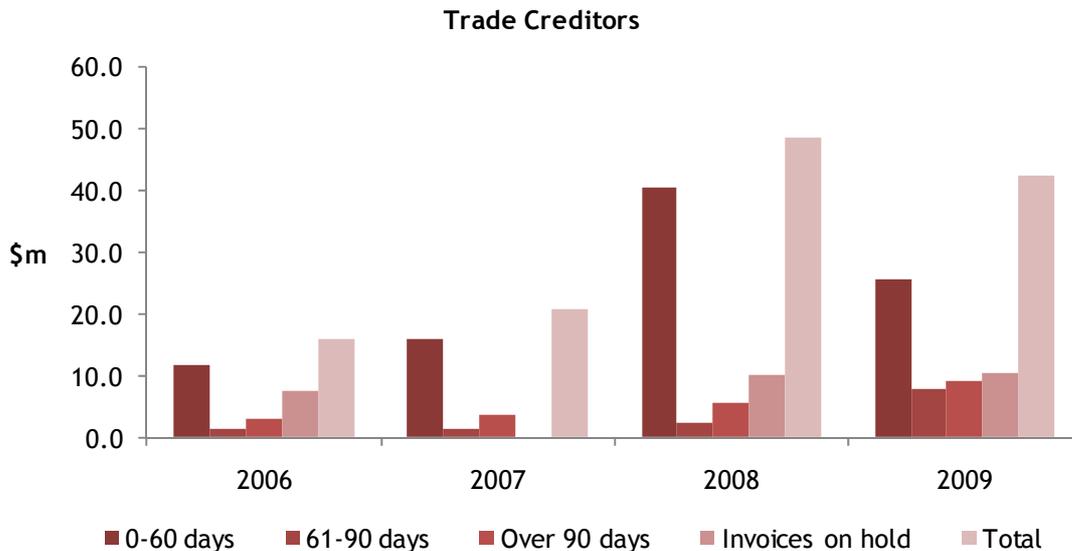
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable

The Service needs to pay its creditors within agreed payment terms and to follow up disputed invoices in a timely manner.

The following chart shows the ageing of trade creditors for the past four years and the amounts on hold or in dispute:



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute

Source: Northern Sydney and Central Coast Area Health Service (unaudited).

The timely payment of creditors continues to be an issue for the Service. Creditors older than 90 days have increased by 66 per cent. Total creditors of \$42.3 million at balance date were lower than previous year's balance of \$48.4 million. During the year, the Service received \$34.1 million in additional funding from the Department of Health (the Department) to help pay some of its outstanding creditors.

In each of the past four years, the amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009, \$10.4 million, 25 per cent of total creditors were either on hold or in dispute. This percentage was slightly lower at 30 June 2008, 21 per cent. A significant amount of the on hold balance, \$5.0 million, was older than 90 days, with some invoices dating back more than two years.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	133,120	135,787	135,144	153,992
Current liabilities* (\$'000)	277,030	279,050	223,113	221,507
Working capital deficit (\$'000)	143,910	143,263	87,969	67,515
Working capital ratio (%)	48.1	48.7	60.6	69.5
Number of times current liabilities exceed current assets	2.1	2.1	1.7	1.4

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year-end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, the declining trend should be addressed to ensure sufficient funding is on hand for the timely payment of creditors, and to avoid other operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$7.5 million, was a deterioration of \$39.7 million than the budget of \$32.2 million. In comparison, the 2007-08 result was \$47.7 million deterioration from the budget of \$31.3 million.

The Service advised this was due in part to the deferring of some capital works projects resulting in reduced revenue from government grants being received. The variance between budget and actual has continued a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat issue)

The Service should liaise with the Department of Health to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer to Health Overview section of this Report).

The table below shows the extent of the Service's fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	204,940	221,961	199,510
Fully Depreciated Plant and Equipment - at cost (\$'000)	92,000	83,600	101,000
Fully depreciated Plant and Equipment as a percentage of total (%)	45	38	51

The Service continues to use a high proportion of fully depreciated plant and equipment.

Last year, I recommended the Service, in conjunction with the Department, review the useful lives of fully depreciated assets. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety
- the remaining useful life of the equipment.

The review resulted in \$20.0 million of assets being written off, generally for assets with an original cost of less than \$10,000. Although the Service has advised it provides biomedical engineering checks on its equipment, the report provided by the Service did not include a biomedical engineering assessment of the equipment. As a result, we are unable to draw a conclusion on matters of safety to patients and staff of continued use of the equipment

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The Service advised it has commenced a review of trust funds however some of its special purpose and trust funds were established a number of years ago and that the source documentation was not available. The review is expected to be completed in early 2010. The Service had \$6.3 million of these funds at 30 June 2009 (\$6.5 million).

PERFORMANCE INFORMATION

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

The average length of stay in acute hospitals in the Northern Sydney and Central Coast area increased slightly to 4.4 days (4.3 days). This is well above the state average of 3.7 days and the highest in the state.

The Service's bed occupancy rate increased to 88.3 per cent (87.9 per cent). This was higher than the State average of 87.4 per cent.

The Service has met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories (met or exceeded three of the five triage categories in 2008). However, the Service failed to meet two benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance reduced to 70 per cent (72 percent). This was less than its 80 per cent target.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service performed a stock take of all plant and equipment with a value of greater than \$10,000. A listing was made available to all cost centres detailing the assets under their control. Of the 232 cost centres, only 194 returned completed stock take sheets.

A final summary report on the results of the stock take was not prepared.

The Service should strengthen its stock take procedures over plant and equipment by:

- assigning accountability for the stock take process
- ensuring all cost centres complete and return their stock take sheets
- preparing a summary report detailing the results of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	190,039	174,491	160,951	141,929
VMOs	58,884	57,629	49,363	46,685

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Northern Sydney and Central Coast Area Health Service (unaudited)

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service at other times they work in private practice.

VMO costs are a substantial part of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	39,805	39,671	33,901
Recovery doubtful (\$'000)	2,510	4,032	2,753
Proportion of impairment to total trade debtors (%)	6.3	10.2	8.1
Debts written off (\$'000)	3,040	1,522	1,101

The proportion of debtors considered doubtful has fluctuated over the past three years decreasing to 6.3 per cent in 2008-09 (10.2 per cent). The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly ineligible patients. Ineligible patients are overseas visitors who are not part of the Australian Medicare system.

Internal Controls

We identified other opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters included:

- Joint Venture - the Service has entered into a joint venture with the University of Sydney to form the Kolling Institute of Medical Research. We have yet to receive evidence of Ministerial and/of Treasurer's approval to enter into this joint venture
- identification of weaknesses in the maintenance of suppliers, debtors and payroll master files
- bank reconciliation review process needs improving
- payable balances not regularly reconciled to the suppliers' statements, and
- salaries and wages reconciliation process needs improving.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	1,053,759	1,034,244	--	--
Personnel services	--	--	1,053,759	1,034,244
Visiting medical officers	58,884	57,629	58,884	57,629
Other expenses	637,287	565,790	637,287	565,790
TOTAL EXPENSES	1,749,930	1,657,663	1,749,930	1,657,663
TOTAL REVENUE	342,491	324,220	359,944	344,227
Loss on disposal of non-current assets and other gains	2,965	2,767	2,965	2,767
NET COST OF SERVICES	1,410,404	1,336,210	1,392,951	1,316,203
Total government contributions	1,402,860	1,319,751	1,385,407	1,299,744
DEFICIT	(7,544)	(16,459)	(7,544)	(16,459)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
(Decrease) in net assets from Administrative Restructure	(14,097)	--	(14,097)	--
Asset revaluation	(30)	111,147	(30)	111,147
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	(21,671)	94,688	(21,671)	94,688

Employee related expenses rose due to a four per cent award increase. Other expenses have increased mainly due to higher inter area patient outflows and the increased cost of food, pathology and radiology services. Inter area and interstate patient outflows are recognised when patients who reside within the Northern Sydney and Central Coast area are treated outside this area.

The increase in revenue reflects a rise in patient's fees and activities.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	133,120	135,787	133,120	135,787
Non-current assets	1,411,184	1,406,382	1,411,184	1,406,382
TOTAL ASSETS	1,544,304	1,542,169	1,544,304	1,542,169
Current liabilities	395,645	405,796	395,645	405,796
Non-current liabilities	90,573	56,613	90,573	56,613
TOTAL LIABILITIES	486,218	462,409	486,218	462,409
NET ASSETS	1,058,086	1,079,760	1,058,086	1,079,760

The increase in non-current assets is mainly due to the additions of land and buildings, and plant and equipment.

The increase in non-current liabilities is mainly due to an increase in borrowings for the construction of new buildings

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Northern Sydney and the Central Coast through the following hospitals:

- Gosford Hospital
- Hornsby Ku-ring-gai Hospital
- Long Jetty Hospital
- Macquarie Hospital
- Manly Hospital
- Mona Vale Hospital
- Royal North Shore Hospital
- Ryde Hospital
- Woy Woy Hospital
- Wyong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service's activities, refer to www.nsccahs.health.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity
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South Eastern Sydney and Illawarra Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

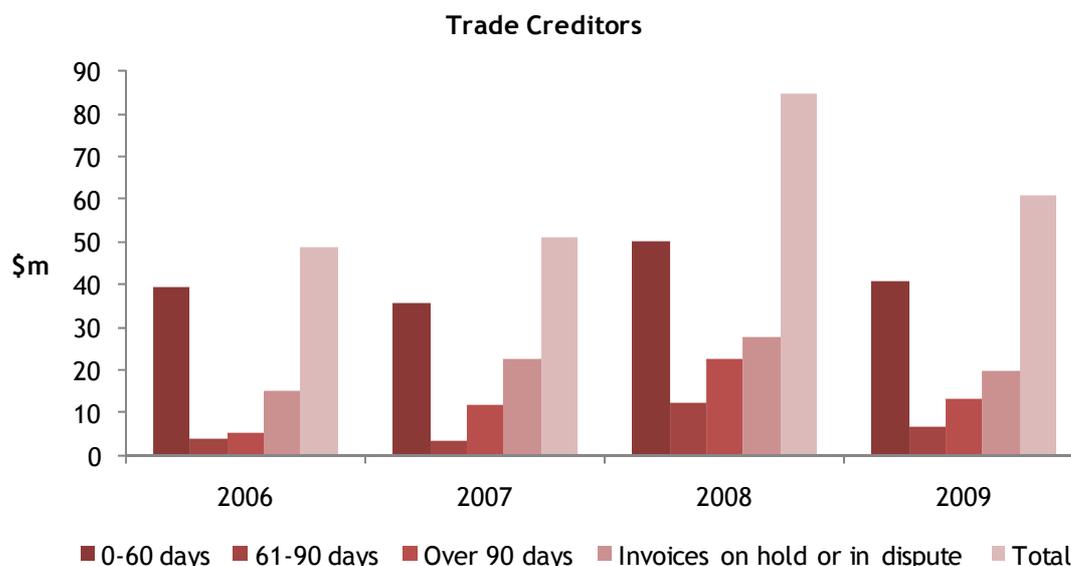
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

The Service needs to ensure all purchases are supported by authorised orders, pay its creditors within agreed payment terms, and to follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: South Eastern Sydney and Illawarra Area Health Service (unaudited)

The timely payment of creditors continues to be an issue for the Service. Total trade creditors at 30 June 2009, \$60.7 million, were significantly lower compared to the prior year, \$84.8 million. Trade creditors over 90 days old have reduced by 41 per cent in that time. During the year, the Service received one off funding of \$5.5 million from the Department of Health (the Department) to pay creditors.

In each of the past four years, invoices on hold or in dispute have constituted a material portion of total trade creditors. At 30 June 2009 around \$20 million or 33 per cent of total trade creditors were either on hold or in dispute. This percentage was the same for 2008, but a decrease on 44 per cent in 2007.

A significant amount of the 2009 on hold balance, \$7.7 million, was over 90 days old, and in some cases amounts on hold were more than two years old. The Service advised that invoices can be placed on hold for a number of reasons, including the lack of a Service purchase order in support of the invoice. We have reported this for the last two years, and recommended that purchases need to be accompanied by valid orders. The lack of action on this issue could give the impression, perhaps mistakenly, that this is being used as a means of deferring payments to suppliers.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years based on the Service's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	167,497	174,768	166,948	171,144
Current liabilities* (\$'000)	383,424	366,809	320,084	312,141
Working capital deficit (\$'000)	215,927	192,041	153,136	140,997
Working capital (%)	43.7	47.6	52.2	54.8
Number of times current liabilities exceed current assets	2.3	2.1	1.9	1.8

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, the declining trend should be addressed to ensure sufficient funding is on hand for the timely payment of creditors, and to avoid operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year, a deficit of \$64.8 million, was \$23.3 million worse than the budgeted deficit of \$41.5 million. In comparison, the 2008 result was \$7.0 million worse than the budgeted deficit of \$65.3 million.

The Service advised this was due in part to the deferring of some capital works projects resulting in reduced revenue from government grants being received. Although there may have been extenuating circumstances, the variance between budget and actual has continued a trend from the prior year, and should be appropriately addressed.

Fully Depreciated Plant and Equipment (Repeat issue)

The Service should liaise with the Department to ensure that it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program, including a pilot review of ‘whole of lifecycle’ management of equipment across a selection of Health Services (refer Health Overview section of this Report).

The table below shows the extent of the Service’s fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	226,677	214,814	234,079
Fully depreciated Plant and Equipment - at cost (\$'000)	68,503	73,200	56,700
Fully depreciated Plant and Equipment as a percentage of total (per cent)	30.2	34.1	24.2

The Service continues to use a high proportion of plant and equipment which has been fully depreciated. Although this reduced from 34.1 per cent in 2008 to 30.2 per cent in 2009, it is still very significant.

Last year I recommended the Service, in conjunction with the Department, review the useful lives of assets that have been fully depreciated. The Service advised it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- whether continued use of the equipment posed a risk to either patient or staff safety, and
- the remaining useful life of the equipment.

The review resulted in \$12.6 million of assets being written off, generally for assets with an original cost of less than \$10,000. The Service was not able to provide documentary evidence to support the results of the review and we were therefore unable to assess whether sufficient work was done to conclude on the safety of the equipment for continued use.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund’s intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended the Service review all special purpose and trust funds to confirm each fund’s intended purpose. The nature and intended use of some funds was not apparent. The Service advised it commenced a review of trust funds in June 2009 which found that further investigative work is required. The review is expected to be completed by March 2010. The value of these funds at 30 June 2009 was \$48.5 million (\$53.5 million in 2007-08).

PERFORMANCE INFORMATION

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

The average length of stay in acute hospitals in the South Eastern Sydney and Illawarra areas decreased to 3.6 days (3.7 days) and is slightly lower than the State average of 3.7 days.

The Service's bed occupancy rate increased to 93.3 per cent (90.9 per cent). This is the highest in the State and above the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded all five triage categories in 2007-08).

The Service's emergency admissions performance has reduced to 73 per cent (76 per cent). This is lower than its 80 per cent target.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09 the Service performed a stock take of items of plant and equipment with a value greater than \$10,000. A listing was made available to all cost centres detailing the assets under their control. Of the 924 cost centres, only 404 returned completed stock take sheets.

A final summary report on the results of the stock take was not prepared.

The Service should strengthen its stock take procedures over plant and equipment by:

- assigning accountability for the stock take process
- requiring all cost centres to complete and return their stock take sheets
- preparing a summary report detailing the results of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to VMOs and Medical Staff for the last four years.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total medical staff*	251,636	238,092	211,174	201,749
VMOs	67,273	67,005	60,577	58,529

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMO costs comprise a substantial part of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	50,410	50,422	50,774
Recovery doubtful (\$'000)	4,329	3,881	3,841
Proportion of doubtful debts to total debtors (per cent)	8.6	7.7	7.6
Debts written off (\$'000)	1,299	1,451	1,568

The proportion of debts considered doubtful has remained fairly constant over the past three years. The Service has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

Internal Controls

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters included:

- Joint Ventures - the Service has entered into a joint venture with the University of Wollongong to form the Illawarra Health and Medical Research Institute. We have yet to receive evidence of Ministerial and/or Treasurer's approval to enter into this joint venture
- identification of a weakness in the maintenance of suppliers and payroll master files data
- a material part of the Service's expenditure on goods and services was not supported by approved purchase orders
- salaries and wages reconciliations need improving
- some accounting journals were not supported by appropriate documentation.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	1,322,930	1,231,965	--	--
Personnel services	--	--	1,322,930	1,231,965
Visiting medical officers	67,274	67,005	67,274	67,005
Grants and subsidies	27,484	48,406	27,484	48,406
Other expenses	909,238	849,338	909,238	849,338
OPERATING EXPENSES	2,326,926	2,196,714	2,326,926	2,196,714
OPERATING REVENUE	566,200	530,561	566,200	530,561
Loss on disposal of non-current assets and other losses	6,939	2,416	6,939	2,416
NET COST OF SERVICES	1,767,665	1,668,569	1,767,665	1,668,569
Government contributions	1,702,847	1,603,247	1,702,847	1,603,247
DEFICIT	(64,818)	(65,322)	(64,818)	(65,322)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	(13,424)	47,700	(13,424)	47,700
Administrative transfers of assets to Health Support Services	(1,203)	267	(1,203)	267
Financial asset revaluation (Decrease)	(447)	0	(447)	0
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	(79,892)	(17,355)	(79,892)	(17,355)

Employee related expenses increased primarily due to increases in actuarially assessed long service leave entitlements, annual leave entitlements, and award rate increases.

The decrease in grants and subsidies was due to the payment of a one off \$20.0 million grant in the previous year.

The increase in revenue and other expenses was due to a general rise in activity, including increased patient fees.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	167,497	174,768	167,497	174,768
Non-current assets	1,433,295	1,468,545	1,433,295	1,468,545
TOTAL ASSETS	1,600,792	1,643,313	1,600,792	1,643,313
Current liabilities	573,766	542,395	573,766	542,395
Non-current liabilities	35,304	29,304	35,304	29,304
TOTAL LIABILITIES	609,070	571,699	609,070	571,699
NET ASSETS	991,722	1,071,614	991,722	1,071,614

The increase in current liabilities is mainly due to an increase in employee entitlements.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the South Eastern Sydney and Illawarra area through the following hospitals:

- Bulli District Hospital
- Coledale District Hospital
- David Berry Hospital
- Garrawarra Centre
- Gower Wilson Memorial Hospital
- Kiama Hospital and Community Health Service
- Milton Ulladulla Hospital
- Port Kembla Hospital
- Prince of Wales Hospital and Community Health Services
- Royal Hospital for Women
- Shellharbour Hospital
- Shoalhaven District Memorial Hospital
- St George Hospital and Community Health Services
- Sutherland Hospital and Community Health Services
- Sydney Children's Hospital and Community Health Services
- Sydney Hospital and Sydney Eye Hospital
- Wollongong Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.sesiahs.health.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity

Sydney South West Area Health Service

AUDIT OPINION

The audits of the Service's and its controlled entities' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports, except for the ANZAC Health and Medical Research Foundation Trust Fund which was qualified.

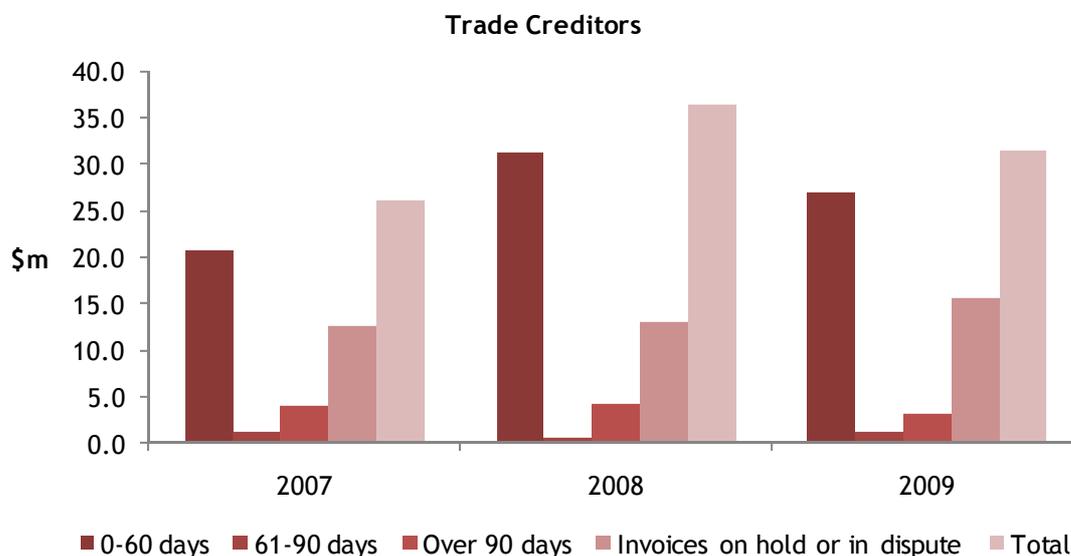
As is common for entities that have donations and fundraising as sources of revenue, it is impractical for the Trust Fund to maintain an effective system of internal control over such revenue it receives until its entry in the financial reports. This means that the audit evidence available regarding revenue from these sources is limited and our audit procedures with respect to such revenue is restricted to the amounts recorded in the financial records. This is a common issue across similar entities reliant upon discretionary revenue streams and does not represent a shortcoming by the Trust Fund's management.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Payment of Creditor Invoices

The Service's total creditors at 30 June 2009 were \$41.2 million. This is lower than the \$50.5 million in 2008 and comparable with the 2007 figure of \$41.6 million. Trade creditors are the largest component of this balance, being \$31.4 million at 30 June 2009. The following chart shows ageing of trade creditors for the past three years, and amounts on hold or in dispute.



Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: Sydney South West Area Health Service (unaudited).

In each of the past three years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009, \$15.6 million, being 49.6 per cent of total trade creditors were either on hold or in dispute (\$13.0 million and 35.7 per cent at 30 June 2008). Of this, \$3.1 million was over 90 days old and the Service advises this is the portion genuinely in dispute.

The Department of Health advised that the Service met its targets for prompt payment during 2008-09.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

In recent years, the Service has consistently operated well below this level. The situation is worse when current assets, restricted by externally imposed conditions are taken into account, as these assets are unavailable for working capital purposes.

The working capital position based upon the Service's financial reports is shown below.

At 30 June	2009	2008	2007	2006
Current assets ('000)	280,728	268,011	242,989	204,087
Current liabilities* ('000)	406,417	400,045	348,554	335,746
Working capital deficit ('000)	125,689	132,034	105,565	131,659
Working capital (%)	69.1	67.0	69.7	60.8
Number of times current liabilities exceed current assets	1.4	1.5	1.4	1.6

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave expected to be settled later than 12 months from year-end.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Service needs sufficient working capital to avoid operational problems, including its ability to pay creditors within agreed payment terms.

Budget to Actual Comparison

The Service's consolidated result for the year, a surplus of \$23.5 million, was \$16.9 million above the budgeted surplus of \$6.6 million. This is consistent with the prior year when the deficit of \$61.1 million was less than the budgeted deficit of \$70.5 million.

The Service's expenditure was consistent with budget, but it achieved higher than expected levels of revenue, creating the favourable result. Revenue from the sale of goods and services and grants and contributions received were higher than budgeted.

Fully Depreciated Plant and Equipment

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of life cycle management of medical equipment.

The Department advised it has engaged an independent expert to conduct a pilot review on fully depreciated assets across a selection of Health Services (refer Health Overview section of this Report).

The Service continues to use a high proportion of fully depreciated plant and equipment. Details of the extent of fully depreciated plant equipment appear in the table below.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	454,758	453,014	447,231
Fully Depreciated Plant and Equipment - at cost (\$'000)	240,197	230,443	225,298
Percentage of Fully depreciated Plant and Equipment to total (%)	52.9	50.9	50.4

The Service advised that fully depreciated plant and equipment at 30 June 2009 includes \$121 million of medical equipment. This is comparable with the prior year. The Service has a policy of conducting regular inspections of equipment to ensure the safety of equipment used on patients.

The Service conducts annual stocktakes of all medical equipment with a cost over \$250,000. Items not located or no longer in service are written off. The service has commenced stocktakes of other items, both medical and non-medical in 2009-10.

Trust Funds

I recommend the Service review all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended that the Department, in conjunction with the Area Health Services, review all special purpose and trust funds to confirm their intended purpose.

The Service's special purpose and trust funds were last reviewed in August 2004. Since then, funds are monitored on an ongoing basis. The Service plans to perform a full review in the 2009-10 year. At 30 June 2009, the Service and its controlled entities held more than \$200 million in special purpose and trust funds (more than \$185 million in 2008).

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume. The Department advised the following performance information.

The average length of stay in acute hospitals in the Sydney South West Area was 3.7 days (3.8 days). This is equal to the State average.

The Service's bed occupancy rate was 90.7 per cent (88.9 per cent). This is higher than the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories (four triage categories in 2008). However, the Service failed to meet two benchmarks including the requirement to treat 80 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance reduced from 75 per cent in 2007-08 to 65 per cent in 2008-09. This is lower than the target of 80 per cent and was one of the lowest in the State.

OTHER INFORMATION**Overtime**

Overtime paid to staff in 2008-09 was \$55.7 million (\$56.8 million). Approximately eighty per cent of this figure was paid to medical and nursing staff. This is consistent with the prior year. The number of employees paid overtime in 2008-09 is detailed below:

Year end 30 June	Staff numbers 2009
Overtime	
\$150,001 to \$170,000	2
\$110,001 to \$150,000	13
\$80,001 to \$110,000	26
\$50,001 to \$80,000	82
\$20,001 to \$50,000	582
\$0 to \$20,000	8,924
Total	9,629
Total \$'000	55,701

Source: Sydney South West Area Health Service (unaudited).

Overtime costs represent only 3.6 per cent of total employee related expenditure (3.9 per cent). An analysis of the overtime paid shows that:

- 40 staff received more than 100 per cent of their current salary in overtime
- 123 staff earned more than \$50,000 in overtime, with 18 earning in excess of \$100,000.

The Service should examine the reasons for the high levels of overtime paid to these staff, to assess:

- occupational health and safety implications
- the adequacy of rostering processes
- the nature and prevalence of staffing issues
- the impact on sick and other leave.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	282,872	262,453	243,777	226,529
VMOs	84,167	84,815	77,628	73,951

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

Source: Sydney South West Area Health Service (unaudited).

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMO costs are a substantial portion of medical costs. However, there is a reducing trend in VMO costs in comparison to medical staff.

Major Capital Projects

Phase two of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. The redeveloped Liverpool Hospital will feature 855 beds, 23 operating rooms, 60 intensive care beds, extended cancer treatment facilities, a major new ambulatory care centre, an additional rooftop helipad, additional parking, new education facilities, and an elevated road and separate pedestrian bridge over the railway linking the eastern and western campuses.

At 30 June 2009, \$98.2 million of project costs had been incurred. The forecast total cost on completion is \$396 million. This is in line with the budget.

This project is being managed by Health Infrastructure Services.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors at 30 June (\$'000)	54,527	59,122	49,841
Recovery doubtful (\$'000)	9,478	9,460	9,344
Proportion of doubtful debts to total trade debtors (%)	17.4	16.0	18.8
Debts written off during the year (\$'000)	5,520	4,811	4,432

The proportion of debtors considered doubtful has remained consistent over the past three years. The Service has a policy that debts are only written off once a debt collection agency advises that all action has been taken to recover the debt and it is irrecoverable or not economic to pursue.

A large portion of the debts written off by the Service are patient debts, particularly for patients who are overseas visitors who are not part of the Australian Medicare system.

INTERNAL CONTROLS

We identified opportunities to improve internal control and will shortly report them to management.

FINANCIAL INFORMATION

Key Income and Expenses recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	1,560,517	1,449,670	--	--
Personnel services	--	--	1,556,877	1,446,676
Visiting medical officers	84,167	84,816	84,167	84,816
Other expenses	908,556	859,894	905,628	857,178
OPERATING EXPENSES	2,553,240	2,394,380	2,546,672	2,388,670
OPERATING REVENUE	553,283	498,521	566,382	517,819
Other losses	5,861	5,506	5,861	5,506
NET COST OF SERVICES	2,005,818	1,901,365	1,986,151	1,876,357
Add government contributions	2,029,282	1,840,177	2,004,116	1,814,728
SURPLUS/(DEFICIT)	23,464	(61,188)	17,965	(61,629)
INCOME RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	91,169	4,450	91,165	4,384
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	115,163	(58,738)	109,130	(57,245)

The increase in employee related expenses was largely due to a four per cent award rate increase and increases in staff numbers. The increase in visiting medical officers expense is also largely due to an increase in the remuneration rate.

The Service revalued its land and buildings during 2008-09. This accounts for the significant income recognised directly in equity during the year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	280,728	268,011	261,704	253,945
Non-current assets	1,787,228	1,654,630	1,777,890	1,648,763
TOTAL ASSETS	2,067,956	1,922,641	2,039,594	1,902,708
Current liabilities	620,900	595,232	619,553	594,291
Non-current liabilities	33,015	28,521	30,972	28,478
TOTAL LIABILITIES	653,915	623,753	650,525	622,769
NET ASSETS	1,414,041	1,298,888	1,389,069	1,279,939

The increase in non-current assets is mainly due to the revaluation of land and buildings during the year. Increases in employee entitlements account for the growth in liabilities.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of the Sydney South West area through the following hospitals:

- Balmain Hospital
- Bankstown Hospital
- Bowral and District Hospital
- Camden Hospital
- Campbelltown Hospital
- Canterbury Hospital
- Concord Repatriation General Hospital
- Fairfield Hospital
- Liverpool Hospital
- Royal Prince Alfred Hospital
- Sydney Dental Hospital
- Thomas Walker Hospital.

The Service also incorporates and manages the operating activities of various community health services, and is associated with several affiliated health organisations.

For further information on the Service, refer to www.sswahs.nsw.gov.au.

CONTROLLED ENTITIES

The Service has three controlled entities, including two research institutes.

ANZAC Health and Medical Research Foundation

The Foundation should obtain approval for a loan entered into in 2009.

During 2008-09, the Foundation entered into long term leasing arrangements for additional facilities within the new Bernie Banton Centre located on the Concord Hospital campus. The arrangements provide additional research facilities for the Foundation.

To secure the long term lease, the Foundation contributed to the construction of Centre. This contribution was partly funded via a loan. Under the *Public Authorities (Financial Arrangements) Act 1987*, New South Wales Government agencies require approval to borrow funds.

Ingham Health Research Institute

During the year the Commonwealth Government announced that it will provide \$46.9 million of funding in coming years to the Ingham Health Research Institute to construct a new research facility located at Liverpool Hospital.

For further financial and other information on these entities we have listed the entities' websites.

Entity Name	Website
ANZAC Health and Medical Research Foundation and ANZAC Health and Medical Research Foundation Trust Fund	www.anzac.edu.au
Ingham Health Research Institute	*
Sydney South West Area Health Service Special Purpose Service Entity	www.sswahs.nsw.gov.au

* This entity does not have a website.

Sydney West Area Health Service

AUDIT OPINION

The audits of the Service and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

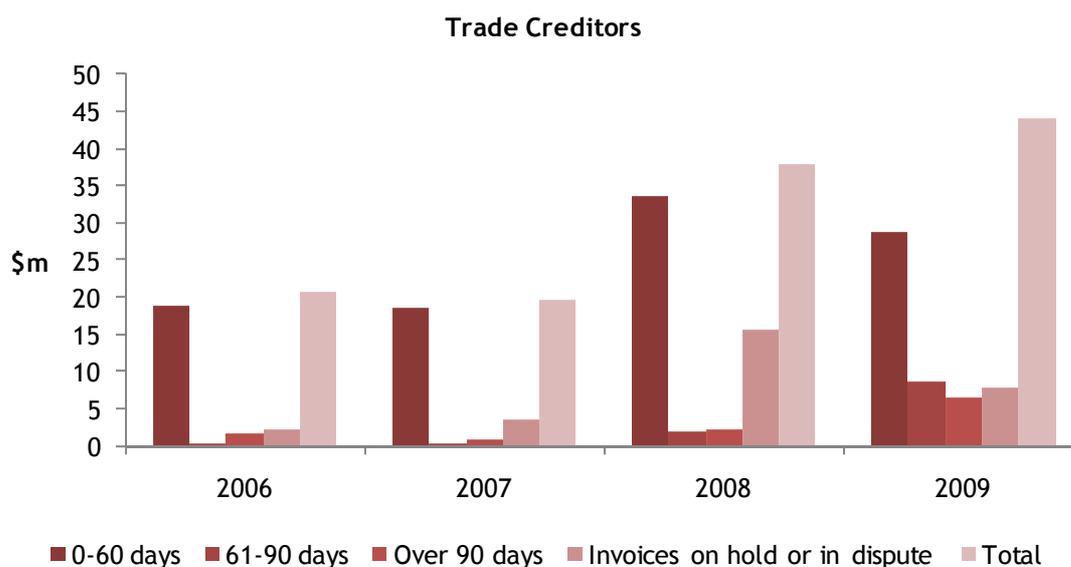
Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Accounts Payable (Repeat issue)

The Service needs to pay its creditors within agreed payment terms, ensures purchases are supported by authorised purchase orders and to follow up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past four years, and amounts on hold or in dispute.



Note: the Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute.

Source: Sydney West Area Health Service (unaudited).

The timely payment of accounts continues to be an issue for the Service. Total trade creditors increased by 15.9 per cent from \$37.9 million at 30 June 2008 to \$43.9 million at 30 June 2009. The Service advised that the increase was reflective of the increased levels of activity across the Service. The Service managed to clear the backlog of invoices on hold or in dispute resulting in a 50.4 per cent reduction in these accounts from 2008 to 2009.

The Service advised that invoices can be placed on hold for a number of reasons, including the lack of a Service purchase order in support of the invoice.

Working Capital

The working capital ratio is a measure of an entity's liquidity and its ability to meet short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts when they fall due.

The working capital position for the last four years, based on the Service's financial reports, is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	187,641	213,013	213,814	222,236
Current liabilities* (\$'000)	320,672	302,761	238,755	221,882
Working capital deficit (\$'000)	133,031	89,748	24,941	354
Working capital (%)	58.5	70.4	89.6	100.2
Number of times current liabilities exceed current assets	1.7	1.4	1.1	1.0

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities to be settled later than 12 months from year-end.

Working capital has reduced in the current financial year to 58.5 per cent (70.4 per cent in 2007-08). The reasons for this reduction include a decrease in receivables and an increase in employee entitlements due to wage increases.

The Service is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. Although the Service is funded by grants from the Department, the declining trend should be addressed to ensure sufficient funding is on hand for the timely payment of creditors and to avoid operational problems.

Budget to Actual Comparison

I recommend the Service improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.

The Service's result for the year is a deficit of \$60.5 million. This is a deterioration of \$43.0 million than the budgeted deficit of \$17.5 million. Total expenditure increased by \$49.4 million mainly due to increases in employee expenses of \$8.6 million, Visiting Medical Officers' expenses of \$7.6 million and other operating expenses of \$34.3 million. The trend of budget over-runs during the last three years should be appropriately addressed, even if there are extenuating circumstances.

Fully Depreciated Plant and Equipment (Repeat Issue)

The Service should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of ‘whole of lifecycle’ management of equipment across a selection of Health Services (refer to Health Overview section of this report).

The table below shows the extent of the Service’s fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	250,692	217,379	303,310
Fully Depreciated Plant and Equipment - at cost (\$'000)	37,850	47,844	143,564
Fully depreciated Plant and Equipment to total (%)	15.1	22.0	47.3

The Service continues to use fully depreciated plant and equipment. Although this reduced from 22 per cent in 2007-08 to 15.1 per cent in 2008-09, it is still significant.

Last year I recommended the Service, in conjunction with the Department, review the appropriateness of continued use of fully depreciated plant and equipment. The Service advised that it conducted an internal review this year, which looked at:

- whether the equipment was still in use
- the remaining useful life of the equipment.

The review resulted in fully depreciated assets of \$19.5 million being written off.

The Service advised that it conducts routine reviews to ensure that the use of equipment does not pose a risk to either patient or staff safety.

Trust Funds (Repeat issue)

I recommend the Service review all special purpose and trust funds to confirm each fund’s intended purpose. Where appropriate, approvals should be sought to move funds into the general purpose account where they can then be used for health services.

Last year I recommended the Service review all special purpose and trust funds to confirm each fund’s intended purpose, as the nature and purpose of some funds was not readily apparent. The value of these funds at 30 June 2009 was \$127 million (\$124 million in 2007-08).

The Service has advised the review of special purpose and trust funds by an independent authority has commenced. The review is expected to be completed early in 2010.

PERFORMANCE INFORMATION

Comparative performance data on all Area Health Services appears in the 'Health Overview' section earlier in this Volume. Unless otherwise indicated all data is based on statistics provided by Department of Health.

The average length of stay in acute hospitals in the Sydney West area was 3.5 days (3.7 days) and is lower than the State average of 3.7 days.

The Service's bed occupancy rate increased significantly to 92.8 per cent (87.7 per cent). This was above the State average of 87.4 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories. This is consistent with 2007-08.

The Service's emergency admission performance reduced to 69 per cent (75 per cent). This was less than its 80 per cent target and was one of the lowest in the State.

OTHER INFORMATION

Asset Stock Take

I recommend the Service strengthen its policies and procedures in relation to plant and equipment stock takes.

In 2008-09, the Service did not perform a stock take of all items of plant and equipment.

The Service should strengthen its stock take procedures by:

- assigning accountability for the stock take process
- requiring all cost centres to complete and return stock take sheets
- preparing a summary report detailing the result of the stock take
- ensuring the property, plant and equipment register and general ledger are adjusted for the results of the stock take.

Payments to Visiting Medical Officers (VMOs) and Medical Staff

The following table shows a comparison of payments to Visiting Medical Officers (VMOs) and Medical Staff for the last four years.

Year ended 30 June Category	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	215,520	**	177,169	160,918
VMOs	47,172	47,577	40,349	36,630

* Payments to Medical Staff include: base salary, overtime, penalties, sick and other leave, annual leave and long service leave.

** An accurate figure for the payments to medical staff for 2008 cannot be obtained due to a change in the chart of accounts that occurred part way through that year.

VMOs are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system to supplement staff specialists employed directly by the Service. At other times they work in private practice.

VMO costs are a substantial portion of overall medical costs for the Service.

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	65,824	89,360	76,887
Recovery doubtful (\$'000)	3,525	3,069	2,933
Proportion of doubtful debts to total trade debtors (%)	5.4	3.4	3.8
Debts written off (\$'000)	2,972	561	484

The proportion of debtors considered doubtful has remained consistent over the past three years, increasing slightly to 5.4 per cent at 30 June 2009 (3.4 per cent). The Service has a policy that debts are only provided for once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Service are patient debts, particularly patients who are overseas visitors who are not part of the Australian Medicare system.

Internal Controls

We identified other opportunities for improvement to accounting and internal control procedures and have reported them to management. The major matters reported relate to:

- management of excessive recreation leave balances
- weaknesses in relation to the inventory stock take at Westmead Hospital Inpatient Pharmacy
- use of fully depreciated assets
- the recognition of Justice Precinct land at Parramatta
- failure to complete an annual stock take of plant and equipment
- the reconciliation process for intra-health balances with other area health services
- the management of charitable fund raising activities.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	1,186,182	1,116,948	--	--
Personnel services	--	--	1,186,182	1,116,948
Visiting medical officers	47,172	47,577	47,172	47,577
Grants and subsidies	17,599	13,985	17,599	13,985
Other expenses	762,277	653,934	762,277	653,934
OPERATING EXPENSES	2,013,230	1,832,444	2,013,230	1,832,444
OPERATING REVENUE	329,531	313,941	351,591	336,618
Loss on disposal of non-current assets	13,064	3,025	13,064	3,025)=
Impairment of receivables	3,428)=	697	3,428	697
NET COST OF SERVICES	1,700,191	1,522,225	1,678,131	1,499,548
Government contributions	1,639,737	1,508,594	1,617,677	1,485,917
DEFICIT	60,454	13,631	60,454	13,631
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	(1,814)	15,090	(1,814)	15,090
Administrative transfers of assets to Health Support Services	(326)	(1,089)	(326)	(1,089)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	(62,594)	370	(62,594)	370

Employee related expenses increased due mainly to increases in the award rates, annual leave and long service leave expenses.

The increase in grants and subsidies is mainly due to increase in payments for mental health and research programs.

Other expenses increased due to increased expenditure on hospital ambulance transportation, special services department, medical and surgical supplies expense, general expenses, and information management. There was also an increase in inter-area patient outflows.

Inter-area patient outflows are recognised when patients who reside within the Sydney West area are treated at outside this area. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs.

The increase in revenue reflects a general rise in activity, an increase in patient fees and infrastructure fees, and an increase in use of ambulance facilities.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	187,641	213,013	187,641	213,013
Non-current assets	1,475,732	1,472,754	1,475,732	1,472,754
TOTAL ASSETS	1,663,373	1,685,767	1,663,373	1,685,767
Current liabilities	489,606	456,293	489,606	456,293
Non-current liabilities	59,592	52,705	59,592	52,705
TOTAL LIABILITIES	549,198	508,998	549,198	508,998
NET ASSETS	1,114,175	1,176,769	1,114,175	1,176,769

Current assets decreased mainly due to a reduction in debtors. The increase in current liabilities is mainly due to increases in the liabilities for employee annual leave and long service leave. This is due to staff attaining the seven year service period for long service leave and increases in the actuarial adjustment and award rates.

SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Western Sydney, including the localities of Parramatta up to the Blue Mountains through the following hospitals:

- Auburn Hospital
- Blacktown Hospital
- Blue Mountains District ANZAC Memorial Hospital
- Cumberland Hospital
- Lithgow Integrated Health Service
- Mt Druitt Hospital
- Nepean Hospital
- Portland Tabulam Health Centre
- Springwood Hospital
- Westmead Hospital.

The Service also incorporates and manages the operating activities of various community health services and is associated with several affiliated health organisations.

For further information on the Service's activities, refer to www.wsahs.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

Sydney West Area Health Service Special Purpose Service Entity

Cancer Institute NSW

AUDIT OPINION

The audits of the Institute and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

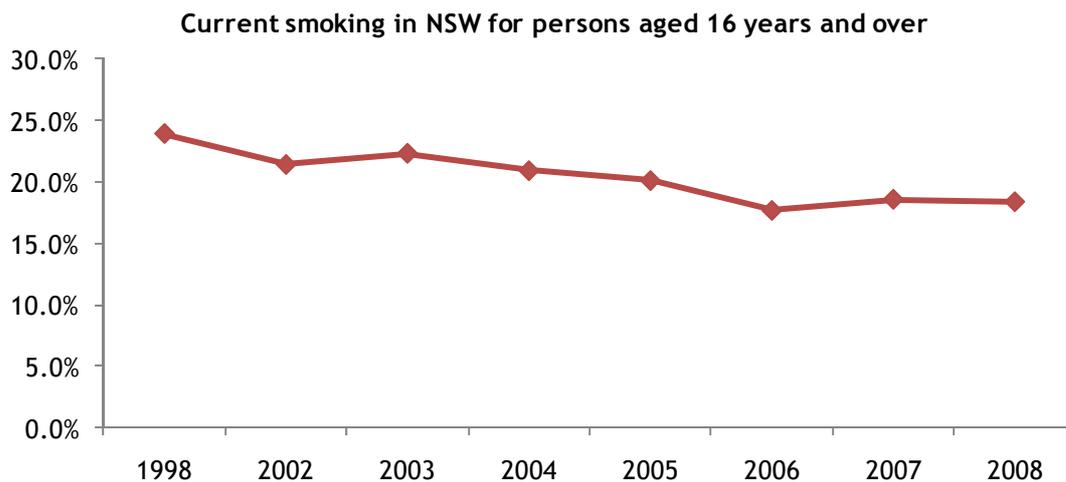
Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

The Institute provided the following information regarding its performance.

Smoking Rates

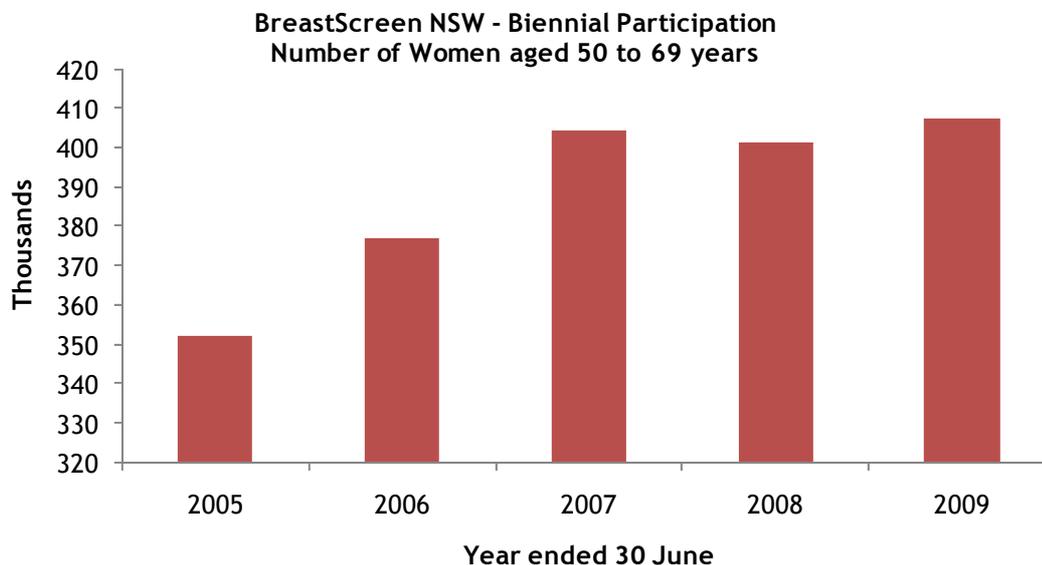
One of the strategies implemented by the Institute in preventing cancer is to contribute to the decrease in smoking rates through anti smoking campaigns. Smoking patterns over the past ten years for persons aged 16 years and over in New South Wales, as provided by Department of Health survey 2008 (unaudited), were:



The NSW State Plan, the NSW Tobacco Action Plan 2005-2009 and the NSW Cancer Plan 2007-2010 aim to reduce smoking rates by one per cent per year to 2010 and then by 0.5 per cent per year to 2016. Over the past decade, smoking prevalence has been trending downwards from 22.3 per cent in 2003 to 18.4 per cent in 2008. The forecast for 2009 is approximately 17.7 per cent based on the NSW Health Survey Program monthly estimates.

Biennial Breast Screen Participation Rates

The Institute is the program manager for the BreastScreen NSW Program, which provides free biennial screening mammograms for asymptomatic women, especially targeting women aged 50-69 years. The number of women aged 50-69 years participating in biennial breast screening in New South Wales over the past five years as provided by Breast Screen NSW (unaudited), were:



The Institute reported a participation rate of 54.7 per cent among women aged 50 to 69 years in New South Wales for 2008-09. The Institute's aim is to continue to increase the biennial participation rate to eventually achieve a 70 per cent biennial participation rate of women in mammography screening in the target age group.

OTHER INFORMATION

Internal Controls

We identified some opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
REVENUE				
Grants from New South Wales Health	146,292	134,622	146,292	134,622
Other	4,372	4,117	4,372	4,117
OPERATING REVENUE	150,664	138,739	150,664	138,739
EXPENSES				
Grants to New South Wales Area Health Services	59,675	56,810	59,675	56,810
Research grants to hospitals and institutions	26,592	24,902	26,592	24,902
Prevention campaigns and advertising	17,357	17,517	17,357	17,517
Other	41,351	36,275	42,064	36,656
OPERATING EXPENSES	144,975	135,504	145,688	135,885
SURPLUS	5,689	3,235	4,976	2,854
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Superannuation actuarial losses	713	381	--	--
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	4,976	2,854	4,976	2,854

Other expenses increased mainly due to additional capital grants of \$4.3 million paid for the digital mammography project during 2008-09.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	39,125	40,936	39,125	40,936
Non-current assets	2,929	1,706	2,929	1,706
TOTAL ASSETS	42,054	42,642	42,054	42,642
Current liabilities	8,216	13,899	8,256	13,942
Non-current liabilities	425	306	385	263
TOTAL LIABILITIES	8,641	14,205	8,641	14,205
NET ASSETS	33,413	28,437	33,413	28,437

Non-current assets increased this year due to the development of a new grants application system and preparation of new premises costing \$1.9 million.

Current liabilities decreased mainly due to a decrease in accruals for grants and subsidies.

INSTITUTE ACTIVITIES

The Institute was established by the *Cancer Institute (NSW) Act 2003*. Its principal objectives are to increase the survival rate for cancer patients; reduce the incidence of cancer in the community; improve the quality of life of cancer patients and their carers; and to operate as a source of expertise on cancer control for the government, health service providers, medical researchers and the general community.

CONTROLLED ENTITY

The controlled entity has not been reported on separately as it is not considered material by its size or nature of its operations to the consolidated entity.

Entity Name
Cancer Institute Division

Health Administration Corporation

AUDIT OPINION

The audits of the Corporation and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Timely Receipt of Financial Report

Last year we reported the Corporation had again not met its statutory deadline for completing its financial report. We noted a significant and commendable improvement in this area this year. As a result, the Corporation complied with its statutory obligations for the completion of its financial report, and there was a marked improvement in the quality of its supporting working papers.

Finalisation of Service Partnership Agreements (Repeat Issue)

Health Support Services (HSS) should finalise its new framework for developing Service Partnership Agreements (SPAs) with its customers as soon as possible.

HSS provides financial, payroll, linen, food, information systems and other support services to the health sector.

For the last two years we have noted that not all SPAs had been finalised with HSS customers, and this is also the case as at 30 June 2009. SPAs should be finalised as early as possible, to ensure accountabilities and responsibilities between HSS and its customers are clearly defined and understood. HSS has advised that it is reviewing the SPA structure and terms with input from customer Health Services, to develop a document that can be more readily agreed between the parties. It anticipates revised agreements will be in place for 2010-11.

Management Letter Repeat Issues

I have reported the following control deficiencies to the Corporation for the past two years which have not been addressed. They should be actioned as a matter of priority.

The following control weaknesses have been identified either at one or both of the HSS service centres for at least the past two years:

- insufficient controls to ensure all customer transactions are processed
- HSS does not always ensure payment approvals comply with customer delegations
- payroll master file changes are not reviewed on a regular basis and are not always reviewed by an independent officer
- final termination payments are not being made in a timely manner to terminated customer employees.

HSS advises it is standardising processes and controls across its service centres to address these issues.

PERFORMANCE INFORMATION

Key Performance Measures

HSS should further develop its Key Performance Indicators (KPIs) to ensure they include qualitative indicators as well as quantitative indicators. It needs to measure these indicators against appropriate targets.

Below are a number of KPIs HSS identified and monitored for Service Centre operations.

Key Performance Indicators - June 2009 Statistics	Parramatta Service Centre (%)	Newcastle Service Centre (%)
Payroll inquiries resolved on the same business day	*	97
Employee services inquiries resolved on the same business day	94	100
New starters established in system within 2 business days	89	99
Purchase orders raised within 2 business days	89	86
Invoices raised within 2 business days	61	100
Journals received by 4 pm posted on the same day	100	100
Vendor cheques despatched within 2 business days	100	100
Vendor EFT payments made within 1 business day following approval	100	100

Source: HSS internal reports (unaudited).

* Parramatta Service Centre does not have a resolution rate, as all calls were not logged into the Payroll Service desk tool.

HSS does not currently have targets against which it measures its performance. It needs to develop targets that it believes are realistic and achievable. The Service Centres are now monitoring the percentage and dollar value of overpayments that have occurred in payroll as a result of HSS error.

It is important that HSS report further on KPIs that measure outcomes and quality of service, for example even though processes referred to in the SPAs are being performed within agreed timeframes, there should also be some measurement of, say:

- number of errors made in processing of accounts payable transactions
- time taken to recover overpayments to suppliers and customer employees
- number of complaints in a month made by customers, and how long it took to satisfactorily address those complaints.

We understand that the development of a new SPA framework will incorporate more qualitative KPIs.

Cost benefit analysis for HSS

I recommend that a cost benefit analysis be performed to assess whether efficiencies and cost savings expected from the introduction of HSS have been realised.

HSS was set up to centralise services including information systems support, financial transaction processing, payroll processing and food and linen services. HSS has been performing these activities for a number of Health Services for some years. Linen services have been performed for all health services for three years. Financial transaction and payroll services have transitioned from Health Services over the past two years, except for one Health Service as at 30 June 2009.

HSS is progressively standardising its processes and systems for service delivery to its customers, to maximise the benefits and savings that can be achieved from the shared services arrangement. Nevertheless, it is appropriate for HSS to now undertake a cost benefit analysis to determine whether the planned outcomes and savings have been achieved, and to determine where further standardisation is required to improve outcomes.

The Department has advised it intends to complete an 'end to end' review of HSS by early to mid 2010.

OTHER INFORMATION

Measures Taken by HSS to Address Overpayment of Accounts

HSS implemented a Continuous Control Monitoring (CCM) tool in April 2009 as a preventive and detective control procedure to limit overpayment of invoices. HSS advised this tool was successful in identifying a significant number of overpayments which have been or are being recovered, as well as identifying duplicate supplier invoices.

Ambulance Service Employee Benefit Provisions

Provisions were raised in the Ambulance Service's accounts that did not comply with accounting standards, including an amount of \$6.2 million ostensibly for a long service leave provision, and an amount of \$2.0 million for a health and wellness provision. These transactions related to an under spend in the Ambulance Service budget, and did not meet the definition of liabilities. The transactions were corrected in the financial report.

Control deficiencies identified

We identified other opportunities for improvement to the Corporation's accounting and internal control procedures and will report them to management. These included:

- a number of receivables and payables balances between divisions of the Corporation and Area Health Services (AHS) could not be confirmed
- inadequate review and lack of segregation of duties for certain journals
- inappropriate system access levels for some HSS staff (HSS has advised that access levels have now been reduced where appropriate, and that a periodical review will occur in the future)
- an excessive number of purchase orders were raised by HSS without a customer purchase requisition
- manual timesheet approvals were not always checked at HSS to ensure they are approved by delegated officers.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	581,232	443,923	--	--
Personnel services	--	--	581,232	443,923
Other expenses	387,751	295,291	387,751	295,291
OPERATING EXPENSES	968,983	739,214	968,983	739,214
OPERATING REVENUE	489,793	324,126	503,505	335,132
Other losses	23,588	20,204	23,588	20,204
NET COST OF SERVICES	502,778	435,292	489,066	424,286
Government contributions	542,000	435,108	528,288	424,102
(DEFICIT)/SURPLUS	39,222	(184)	39,222	(184)
INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY				
Net Increase in Property, Plant and Equipment Asset Revaluation Reserve	11,800	6,954	11,800	6,954
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	51,022	6,770	51,022	6,770

The increase in expenses, revenues and government contributions is mainly due to the transfer of more customer health entities and operations to HSS during the year.

Abridged Consolidated Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	247,496	120,813	247,496	120,813
Non-current assets	434,891	365,621	434,891	365,621
TOTAL ASSETS	682,387	486,434	682,387	486,434
Current liabilities	358,124	217,037	358,124	217,037
Non-current liabilities	12,782	11,295	12,782	11,295
TOTAL LIABILITIES	370,906	228,332	370,906	228,332
NET ASSETS	311,481	258,102	311,481	258,102

Current assets increased mainly due to an increase in cash and cash equivalents, and an increase in receivables as a result of more customers during the year.

Non-current assets increased mainly because of an increase in assets associated with IT projects, including the Human Resource Information System (HRIS) system.

Current liabilities increased as a result of an increase in staff, and an increase in Health Infrastructure payables for major projects.

The following table provides a summary of financial information for 2008-09 by business unit:

Year ended 30 June	Ambulance Service		Other business units*	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Expenses	587,520	523,532	381,463	215,682
Revenue	176,351	157,599	313,442	166,527
Net cost of services	432,206	383,911	70,572	51,381
Government contributions	416,841	366,000	125,159	69,108
(Deficit)/surplus	(15,365)	(17,911)	54,587	17,727
Total assets	282,072	249,222	400,315	237,212
Total liabilities	182,426	145,745	188,480	82,587
Net assets	99,646	103,477	211,835	154,625

* Ambulance Service is reported separately as it is the largest Corporation unit, and provides an individual service to the health sector. Other business units comprise Health Support Services, Health Infrastructure, and the NSW Institute of Medical Education and Training.

CORPORATION ACTIVITIES

Health Administration Corporation consists of a number of units established under the Public Health System Support Division, in accordance with the provisions of the *Health Services Act 1997*. These units are as follows:

- Health Support Services, which provides financial, payroll, linen, food, information systems and other support services to the health sector
- NSW Institute of Medical Education and Training, which provides medical education and training support to the health sector
- Ambulance Service of New South Wales, transferred to Health Administration Corporation on 17 March 2006 after the *Ambulance Service Act 1990* was repealed
- Health Infrastructure, established 1 July 2007 to undertake major capital projects in connection with public health organisations.

For further information on the Health Administration Corporation, refer to the Department of Health website at www.health.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name

Health Administration Corporation Special Purpose Service Entity
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Health Care Complaints Commission

AUDIT OPINION

The audit of the Health Care Complaints Commission and its controlled entity's financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

Formal Complaints and Investigations

In 2008-09, the Commission received 3,360 complaints (3,128 in 2007-08) and finalised 3,462 (2,986). Of the 3,360 complaints received, 1,270 (1,357) related to Health Organisations and 2,090 (1,771) related to individual health practitioners.

In the same period, 270 (260) complaints were referred for investigation and 261 (338) investigations were finalised.

The following table provides a summary of the total complaints received and finalised by the Commission during the last three financial years.

	2009		2008		2007	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Total	3,360	3,462	3,128	2,986	2,722	3,164

Source: Health Care Complaints Commission (unaudited).

* Includes complaints received in previous years.

Average Time to Finalise all Complaints Received

The following table shows the days taken to finalise complaints.

	Actual Days		
	2009	2008	2007
Non-investigative	86	86	85
Investigative	354	339	314

Source: Health Care Complaints Commission (unaudited).

The number of complaints about Public Hospitals received and finalised follows.

	2009		2008		2007	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Greater Southern AHS	45	54	47	35	28	27
Greater Western AHS	35	48	63	49	24	25
Hunter New England AHS	84	102	102	79	59	66
North Coast AHS	38	62	81	55	36	31
Northern Sydney and Central Coast AHS	84	99	121	102	73	66
South Eastern Sydney and Illawarra AHS	115	122	137	130	106	106
Sydney South West AHS	122	119	106	89	92	91
Sydney West AHS	97	94	104	91	90	93
Other	--	--	2	2	--	--
Total	620	700	763	632	508	505

Source: Health Care Complaints Commission (unaudited).

* Includes complaints received in prior years.

AHS: Area Health Service.

The number of complaints about Public Hospitals fell in 2008-09. Management advised the large number of complaints in 2007-08 followed media coverage of matters such as the Special Commission of Inquiry into Acute Care in New South Wales Public Hospitals.

The complaints received about Public Hospitals, as a percentage of total complaints about Health Organisations, decreased from 56.2 per cent in 2007-08 to 48.8 per cent in 2008-09.

FINANCIAL INFORMATION

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Personnel related expenses	7,662	7,359	7,662	7,359
Other expenses	3,754	3,439	3,754	3,439
OPERATING EXPENSES	11,416	10,798	11,416	10,798
OPERATING REVENUE	402	590	402	590
NET COST OF SERVICES	11,014	10,208	11,014	10,208
Government contributions	10,043	9,966	10,043	9,966
DEFICIT	971	242	971	242
NET ASSETS	1,067	2,038	1,067	2,038

The 2008-09 deficit is mainly attributed to:

- two unusual and complex prosecution cases lasting over a two year period
- lower than anticipated awarded legal costs recovered.

Abridged Service Group Information

The Commission's net cost of services on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2009 Budget \$'000	2009 Actual \$'000	2008 Actual \$'000	2009 Actual \$'000	2008 Actual \$'000
Complaints Assessment and Resolution	4,271	6,057	5,614	531	996
Investigation and Prosecution of Serious Cases	6,175	4,957	4,594	536	1,042
Total all service groups	10,446	11,014	10,208	1,067	2,038

The Commission has identified that it needs to review its methodology for producing the Service Group information. This review will be conducted in 2009-10.

COMMISSION ACTIVITIES

The Commission aims to protect the public from substandard health services provided by health organisations or individual health practitioners in New South Wales by assessing and trying to resolve complaints. The Commission also investigates complaints that raise serious issues of public health and safety and prosecutes the most serious complaints about registered health practitioners.

The Commission was established under the *Health Care Complaints Act 1993*.

For further information on the Commission, refer to www.hccc.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Office of the Health Care Complaints Commission

New South Wales Health Foundation

AUDIT OPINION

The audit of the Foundation's financial report for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

FINANCIAL INFORMATION

Year ended 30 June	2009 \$'000	2008 \$'000
Revenue	628	374
Expenses	976	442
Deficit	348	68
Net assets (at 30 June)	50,086	47,146

The increase in revenue is mainly a result of an increase in grants.

The increase in expenses related mainly to a grant of \$340,576 provided to the Ambulance Service of New South Wales.

Net assets have increased as a result of a \$3.3 million revaluation of land and buildings.

FOUNDATION ACTIVITIES

The Foundation was established under the *Health Administration Act 1982*. It is managed by the Department of Health on behalf of the Minister. The Foundation accepts bequests and provides financial and other support for any purpose connected with providing health services. Through the *Walker Trusts (Amendment) Act 1983*, the Foundation owns and has a custodial role over the Thomas Walker Convalescent Hospital.

Registration of Health Professionals

REGISTRATION BOARDS

The following Boards are currently responsible for administering the registration of health professionals in New South Wales:

- Chiropractors Registration Board
- Dental Board of New South Wales
- Dental Technicians Registration Board
- New South Wales Medical Board
- Nurses and Midwives Board
- Optical Dispensers Licensing Board
- Optometrists Registration Board
- Osteopaths Registration Board
- Pharmacy Board of New South Wales
- Physiotherapists Registration Board
- Podiatrists Registration Board
- Psychologists Registration Board.

In March 2008, the Council of Australian Governments (COAG) signed an Intergovernmental Agreement to create a single national health professionals' registration and accreditation system.

AUDIT OPINIONS

The audits of the Boards' financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

The Dental Board of New South Wales and the Pharmacy Board of New South Wales prepare financial reports for the year ended 30 September. These audits have not been finalised at this time. Results of these audits will be included in a later Volume of the Auditor-General's Report to Parliament.

The Optical Dispensers Licensing Board's Independent Auditor's Report drew attention to the fact that the Optical Dispensers Licensing Board will be wound up on 30 June 2010.

The other Boards' Independent Auditor's Reports drew attention to significant uncertainty that existed at the time about the future of the Boards. The significant uncertainty arose because aspects of the transition to the National Registration Scheme for health professionals, due to occur on 1 July 2010, were still unresolved.

KEY ISSUES

Future of the Boards

Ten health professions will be included in the national registration scheme due to commence from 1 July 2010. These are: chiropractors, dentists (including dental hygienists, dental prosthetists and dental therapists), medical practitioners, nurses and midwives, optometrists, osteopaths, pharmacists, physiotherapists, podiatrists, and psychologists.

Four more professions will be added to the national scheme from 1 July 2012: Aboriginal and Torres Strait Islander health practice, Chinese medicine, medical radiation practice and occupational therapy. The optical dispenser's profession will not be included in the national registration scheme. From 1 July 2010, there is no requirement for optical dispensers to be licensed.

The national registration boards will not deal with complaints about matters occurring in New South Wales. New South Wales will substantially retain its current health complaints system.

BOARDS' ACTIVITIES

Each Board operates under its own legislation and maintains a register of health care professionals qualified to practise in New South Wales. The Minister for Health has administrative control and direction of the Boards.

For further information on the Boards, refer to:

Entity Name	Website	Year Ended
Chiropractors Registration Board	www.chiroreg.health.nsw.gov.au	30 June 2009
Dental Board of New South Wales	www.dentalboardnsw.org.au	30 September 2009
Dental Technicians Registration Board	www.dtechreg.health.nsw.gov.au	30 June 2009
New South Wales Medical Board	www.nswmb.org.au	30 June 2009
Nurses and Midwives Board	www.nmb.nsw.gov.au	30 June 2009
Optical Dispensers Licensing Board	www.opticalreg.health.nsw.gov.au	30 June 2009
Optometrists Registration Board	www.optomreg.health.nsw.gov.au	30 June 2009
Osteopaths Registration Board	www.osteoreg.health.nsw.gov.au	30 June 2009
Pharmacy Board of New South Wales	www.pbns.w.gov.au	30 September 2009
Physiotherapists Registration Board	www.physioreg.health.nsw.gov.au	30 June 2009
Podiatrists Registration Board	www.podreg.health.nsw.gov.au	30 June 2009
Psychologists Registration Board	www.psychreg.health.nsw.gov.au	30 June 2009

Royal Alexandra Hospital for Children

AUDIT OPINION

The audits of the Hospital and its controlled entity's financial reports for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report for the Hospital and an unqualified Independent Auditor's Report for the controlled entity. It is impractical for the Hospital to maintain an effective system of internal controls over fundraising revenue and voluntary donations it receives until the initial entry in the financial records. Accordingly, I was unable to express an opinion as to whether all fundraising revenue and voluntary donations received by the Hospital were recorded.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Working Capital

The working capital position for the last four years based on the Hospital's financial report is shown below.

At 30 June	2009	2008	2007	2006
Current assets (\$'000)	82,485	56,814	56,606	53,757
Current liabilities* (\$'000)	60,443	57,313	52,103	51,998
Working capital/(deficit) (\$'000)	22,042	(499)	4,503	1,759
Working capital (%)	136.5	99.1	108.6	103.4
Number of times current assets exceed current liabilities	1.4	1.0	1.1	1.0

* Australian Accounting Standards require all unconditional employee entitlement liabilities to be reported as current liabilities irrespective of when they are expected to be settled. For our analysis we have excluded long service leave liabilities expected to be settled later than 12 months from year-end.

Working capital has increased in the current financial year to 136.5 per cent (99.1 per cent at 30 June 2008). However, working capital is negative when assets of \$62.4 million whose use is restricted by externally imposed conditions, is taken into account as these assets are unavailable for working capital purposes.

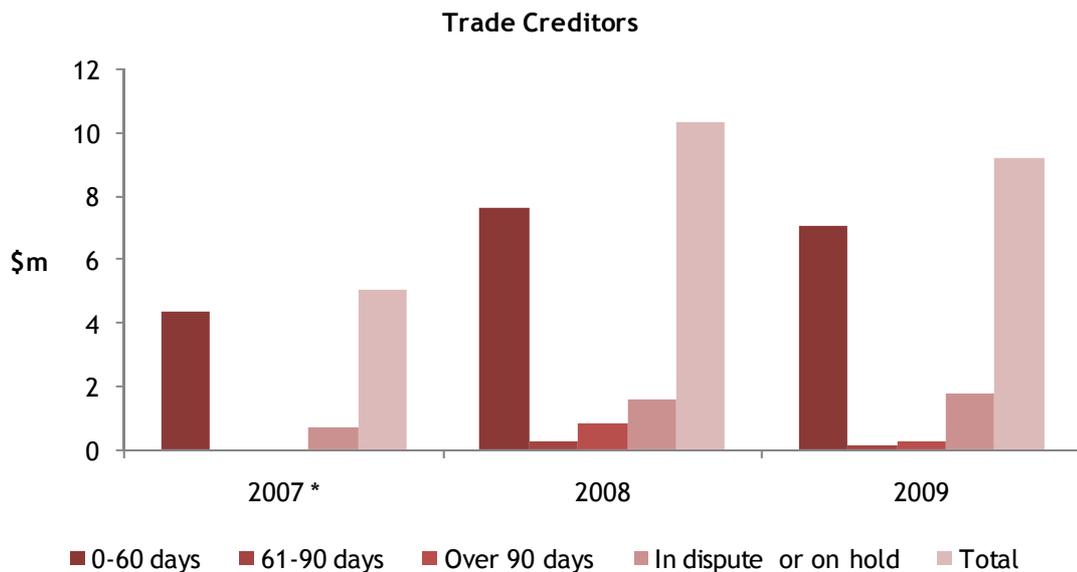
The working capital ratio is a measure of an entity's liquidity and its ability to meet its short term debt obligations. It is calculated by dividing current assets by current liabilities. A working capital ratio of 100 per cent or more is generally considered desirable to ensure an entity can meet its debts as they fall due. Negative working capital means that current liabilities exceed current assets (i.e. working capital is less than 100 per cent).

The Hospital is able to operate at a lower working capital ratio due to continuous cash contributions from the Department. However, the Hospital needs sufficient working capital to avoid operational problems and to ensure it is able to pay its creditors within agreed payment terms.

Accounts Payable

I recommend the Hospital pay its creditors within agreed payment terms ensure purchases are supported by authorised purchase orders and follow up disputed invoices in a timely manner.

The following chart shows total trade creditors for the last three years; ageing of creditors; and amounts on hold or in dispute.



* There were no outstanding creditors aged over 60 days in the 2007.

The timely payment of creditors continues to be an issue for the Hospital, although the amount over 90 days has reduced from last year. Total creditors at 30 June 2009, \$9.2 million, was significantly lower than the prior year, \$10.6 million. Creditors over 90 days old have reduced to \$274,000 in 2009. During the year, the Hospital received one-off funding of \$5.3 million from the Department of Health (the Department) to pay creditors.

In each of the past three years, amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2009, \$1.8 million of invoices were either on hold or in dispute (\$1.6 million). The Hospital has advised that invoices can be placed on hold for a number of reasons, including the lack of a Hospital purchase order in support of the invoice.

Asset Management

The Hospital should liaise with the Department to ensure it implements recommendations from a pilot review the Department is conducting into whole of lifecycle management of medical equipment.

The Department advised it has engaged an independent expert to advise on options for the implementation of a Medical Equipment Asset Management program including a pilot review of “whole of lifecycle” management of equipment across a selection of Health Services (refer to Health Overview section of this Report).

The table below shows the extent of the Hospital’s fully depreciated plant and equipment over the last three years.

At 30 June	2009	2008	2007
Total Plant and Equipment - Cost value (\$'000)	105,418	118,624	133,981
Fully Depreciated Plant and Equipment - Cost value (\$'000)	56,066	72,219	79,058
Fully depreciated Plant and Equipment to total (%)	53.2	60.9	59.0

In prior years, I reported that the Hospital continued to use a significant number of items of fully depreciated plant and equipment. The Hospital conducted an internal review of these assets to determine the appropriateness of continued use. Adjustments flowing from the review, such as the write off of obsolete assets, have been reflected in the Hospital’s asset and accounting records.

We will continue to monitor and review the extent of fully depreciated assets held by the Hospital in the future.

Special Purpose and Trust Funds

I recommend the Hospital complete its review of all special purpose and trust funds to confirm each fund’s intended purpose.

Last year, I recommended the Department of Health and its controlled entities review all special purpose and trust funds to confirm each fund’s intended purpose. The nature of some funds and what they can be used for is not readily apparent.

At the time of my recommendation, the Hospital had already commenced a review of its Special Purpose and Trust Funds, which is still ongoing. The Hospital expects to complete the review in 2009-10.

PERFORMANCE INFORMATION

Treatment of Patients

The average length of stay in the Hospital for 2009 decreased to 3.3 days (3.4 days). This is below the State average of 3.7 days.

The bed occupancy rate for the Hospital was 89.1 per cent (91.0 per cent). This is above the State average of 87.4 per cent.

The Hospital met or exceeded benchmarks for timeliness in treating the two most urgent triage categories of emergency patients in 2009 (T1 and T2), as well as the less urgent cases T4 and T5 category benchmark. The Hospital was below the benchmark for the remaining triage category (T3).

The Hospital's emergency admission performance was 80 per cent, which equalled the State target.

OTHER INFORMATION

Debt Write-Offs and Provisions

The table below shows the proportion of debtors considered doubtful and the value of debts that have been written off for the past three years.

At 30 June	2009	2008	2007
Total debtors (\$'000)	9,359	12,108	8,811
Recovery doubtful (\$'000)	655	1,830	871
Proportion of doubtful debts to total trade debtors (%)	7.0	15.1	9.9
Debts written off (\$'000)	1,328	413	278

The proportion of doubtful debts has decreased in the current year to seven per cent (15.1 per cent). The prior year's impairment was higher as a result of a significant doubtful debt that has been written off in the current year. The Hospital has a policy that debts are only written off once they are older than 120 days and have been sent to a debt collection agency.

A large portion of the debts written off by the Hospital are patient fees, particularly for patients who are overseas visitors and are not part of the Australian Medicare system.

FINANCIAL INFORMATION

Key Income and Expenses Recognised for the Year

Year ended 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee related	236,918	218,053	--	--
Personnel services	--	--	236,918	218,053
Visiting medical officers	5,538	4,913	5,538	4,913
Grants and Subsidies	1,181	564	1,181	564
Other expenses	99,427	90,247	99,427	90,247
OPERATING EXPENSES	343,064	313,777	343,064	313,777
OPERATING REVENUE	293,181	216,992	296,707	220,936
Loss on disposal on non-current assets	275	402	275	402
Other losses	140	1,504	140	1,504
NET COST OF SERVICES	50,298	98,691	46,772	94,747
Total government contributions	40,594	78,855	37,068	74,911
DEFICIT	(9,704)	(19,836)	(9,704)	(19,836)
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY				
Asset revaluation	17,807	28,867	17,807	28,867
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	8,103	9,031	8,103	9,031

Employee related expenses rose because of an increase in the number of employees and an annual award wage increase of 3.9 per cent in July 2008.

Operating revenue rose predominantly because of an increase in inter-area patient flows from \$143 million in the prior year to \$203 million in the current year. Inter-area patient flows are revenues recognised for the treatment of patients who reside in other Health Service areas. These flows have increased as a result of a rise in the number of patients treated and an increase in the associated costs. There was also a significant increase of \$10.9 million in research grants and fundraising revenue from industry contributions and donations received in the current year.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	82,485	56,814	82,485	56,814
Non-current assets	390,204	398,367	390,204	398,367
TOTAL ASSETS	472,689	455,181	472,689	455,181
Current liabilities	99,059	90,412	99,059	90,412
Non-current liabilities	5,389	4,631	5,389	4,631
TOTAL LIABILITIES	104,448	95,043	104,448	95,043
NET ASSETS	368,241	360,138	368,241	360,138

Current assets increased as a result of increased donations and contributions received, and from a change in investment management strategy that resulted in \$14.1 million moving out of long-term investments into short-term deposits.

Non-current assets decreased largely for the same reason, but this was partially offset by a net increase in land, buildings and infrastructure assets of \$7.3 million.

The increase in current liabilities is mainly due to an increase in employee benefits provisions resulting from increases in actuarial adjustments, the number of employees and award rates.

HOSPITAL ACTIVITIES

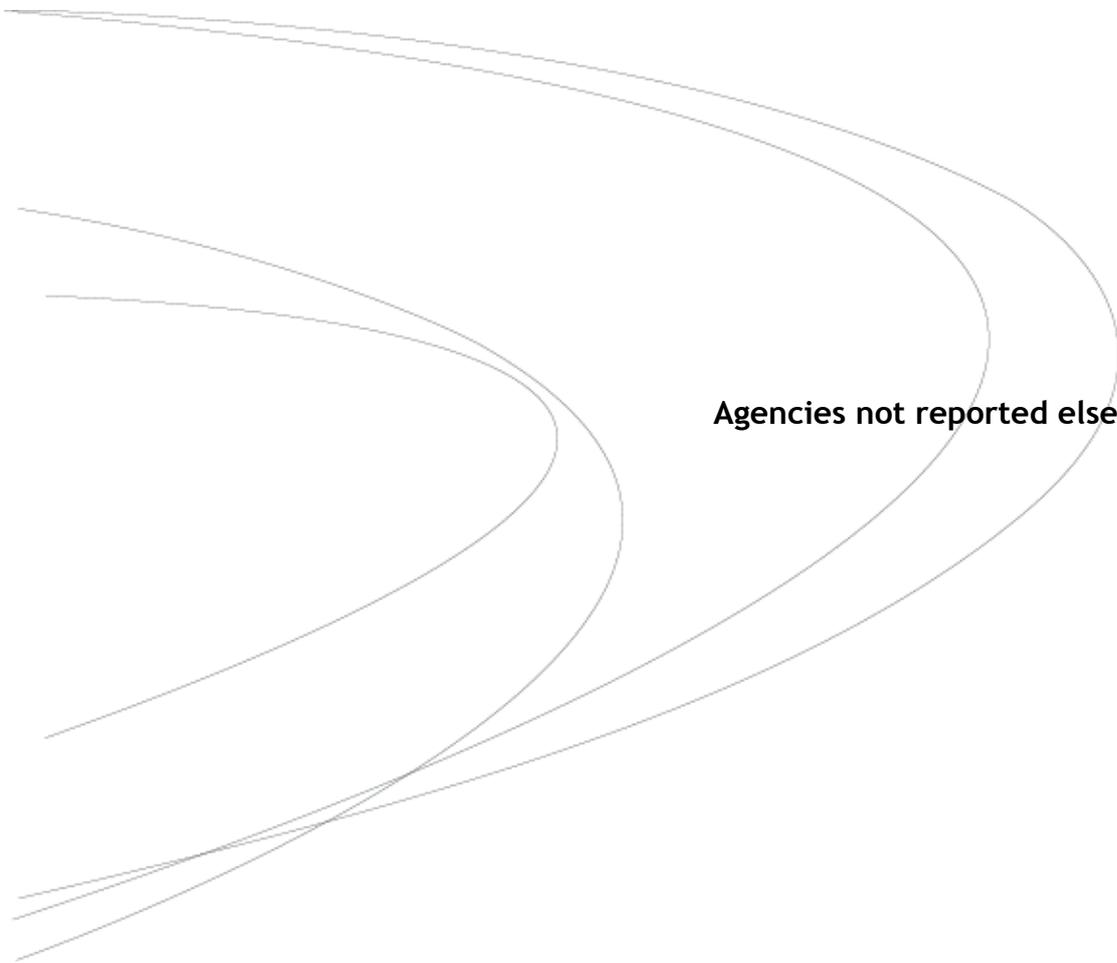
For further information on the Hospital, refer to www.chw.edu.au.

CONTROLLED ENTITIES

The following controlled entity has not been reported separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
Royal Alexandra Hospital for Children Special Purpose Service Entity

Appendix

A decorative graphic consisting of several thin, curved lines that sweep from the left side of the page towards the right, creating a sense of motion and depth. The lines are light gray and vary in curvature and length.

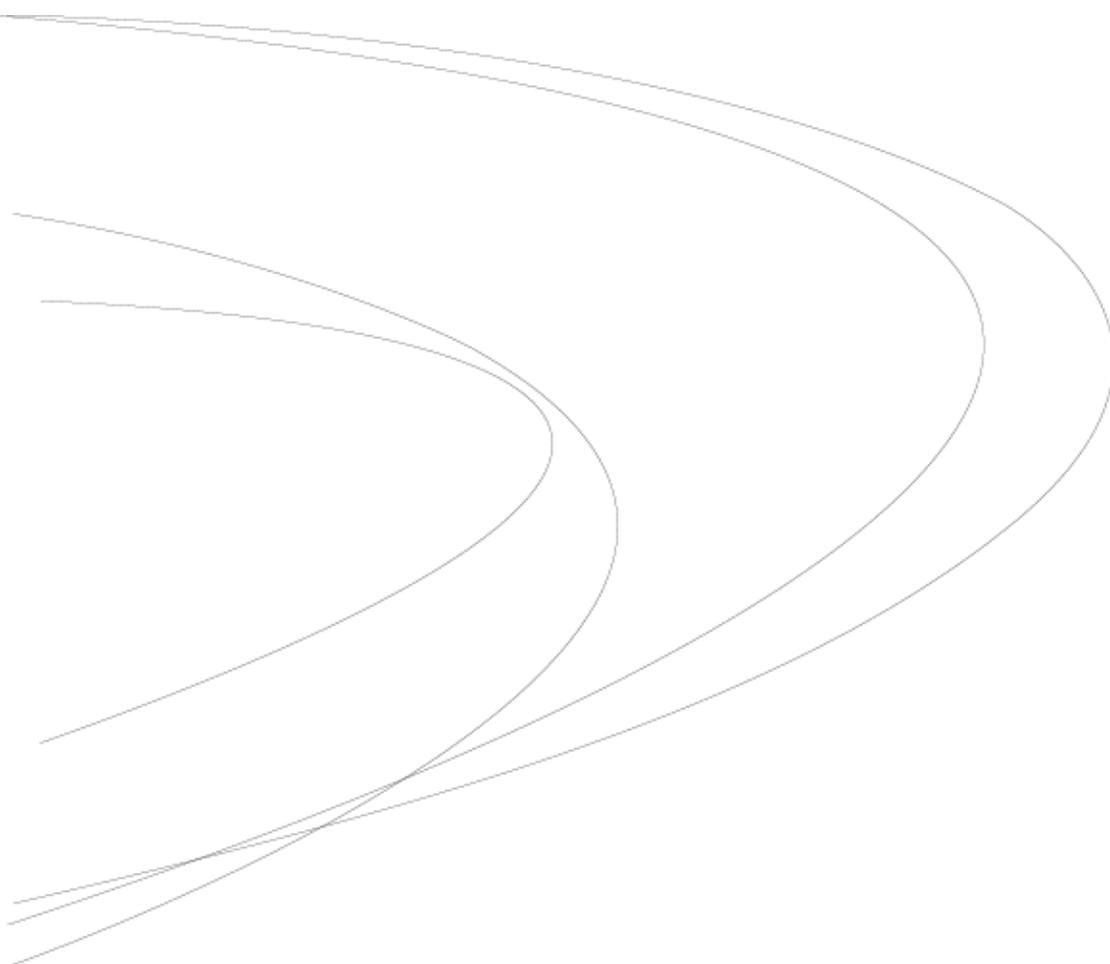
Appendix 1 Agencies not reported elsewhere in this Volume

Appendix 1 - Agencies not reported elsewhere in this Volume

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity Name	Website	Period/Year Ended
New South Wales Institute of Psychiatry	www.nswiop.nsw.edu.au	30 June 2009

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